# BAHRAIN COMMERCIAL FACILITIES COMPANY BSC

# CONSOLIDATED FINANCIAL STATEMENTS

# 31 DECEMBER 2017

**Bahrain Commercial Facilities Company BSC**

**2017 CONSOLIDATED FINANCIAL STATEMENTS**

**CONTENTS**

## 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, 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 and Tasheelat Car Leasing Company WLL was established in April 2017.

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|---|---|
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| | |
| Office | : Bahrain Credit Building, Building 290, Road 111, Tubli, Bahrain 701. |
| Branches | :13444-1, 13444-2, 13444-5, 13444-6, 13444-7, 13444-8, 13444-9, 13444-10, 13444-11, 13444-12 |
| | |
| Board of Directors | : Abdulrahman Yusuf Fakhro - Chairman<br>Reyadh Yusuf Hasan Sater - Vice Chairman<br>Khalid Mohammed Ali Mattar<br>Ebrahim Abdulla Buhindi<br>Mohammed Ahmed Al-Khaja<br>Abdulaziz Abdulla A.Aziz Al-Ahmed<br>Sayed Abdulghani Hamza Qarooni<br>Dr. A. Rahman Ali Saif A. Rahman<br>Abdulla Mohamed Al-Mahmood |
| | |
| 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 |
| General Manager – TCL | : Ripin Mehta |

| | | |
|---|---|---|
| Banks | : BBK BSC | National Bank of Bahrain BSC |
| | Ahli United Bank BSC | BNP Paribas |
| | Gulf International Bank | Standard Chartered Bank |
| | Arab Banking Corporation (BSC) | Arab Bank PLC |
| | Ahli United Bank SAOG | Al Salam Bank |
| | HSBC Bank | IDBI Bank Limited |
| | Mashreq Bank | Al Ahli Bank of Kuwait KSCP |
| | Ahli United Bank Limited | Canara Bank |
| | IBL Bank, Erbil, Kurdistan | Bank of Baghdad, Erbil, Kurdistan |
| | Al Baraka Bank, Erbil, Kurdistan | The National Bank of Ras Al-Khaimah |

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| Auditors | : KPMG Fakhro |

## REPORT OF THE CHAIRMAN

On behalf of the Board of Directors, it gives me immense pleasure to present to you the Annual Report of Bahrain Commercial Facilities Company B.S.C., for the financial year ended 31 December 2017. The annual report includes the consolidated financial statements of Bahrain Credit and the Company's subsidiaries: National Motor Company W.L.L., Tasheelat for General Trading and Cars W.L.L. (Kurdistan), Tasheelat Insurance Services Company W.L.L., Tasheelat Real Estate Services Company S.P.C., Tasheelat Automotive Company SPC and newly incorporated Tasheelat Car Leasing Company W.L.L.

Your Company continued its remarkable performance and yet again recorded its highest profit. These results were achieved despite the year 2017 was a challenging year for the Middle East and specifically to our beloved country. The Company has earned a net profit of BD 20.7 million for the year ended 31 December 2017, 4% ahead of last year (2016: BD 19.9 million). The results are testament of the Company's strong business model, efficient business processes, innovative approach to product offerings and fine execution of initiatives as identified in its 2016-2018 Strategic Plan. These earnings translate into an outstanding return on equity of 15% (2016: 16%). Your Board recommends a cash dividend to shareholders at the rate of 50 fils per share (50 %) (2016: 50 fils per share).

2017 would be mostly recalled as a year of stark contrast. Whereas major economies experienced growth acceleration, alongside political fragmentation, polarization, and tension, our region's economic conditions remained stressed. Oil prices continued to be lower than the breakeven points of many GCC countries. Bahrain economy was not insulated from these painful realities and had witnessed increase in country's deficit prompting reduction in its credit rating. To improve fiscal health, our Government has introduced wide range of measures which has affected household disposable income. However, the business community remained by and large resilient.

Bahrain Credit has performed remarkably well and has achieved net profits of BD 17.5 million (2016: BD 14.5 million). During 2017, the company continued its conservative underwriting policies and advanced new loans of BD 161 million (2016: BD 158 million). The Company has undertaken various initiatives focusing on refining the business operations to better enhance customer experience and introduced new products to reach wider range of customers. The Company has continued to invest to bolster the security and efficiency of its information technology environment.

During the year, new vehicle sales in Bahrain experienced a further contraction. Operating in such a difficult market, Bahrain Credit has maintained its leadership in its core product vehicle finance through strengthening its relations with auto dealers and sub dealers. The demand for mortgage loans remained strong with real estate market continue to perform well. The personal loan product continues to attract wider profiles of customers thanks to the company's strong reach through its strategically located branch network. Our Imtiaz credit card has continued its enviable growth story and registered a substantial growth in its number of cards, receivables and foreign currency spent. The introduction of new products and the addition of unique benefits and merchant tie-ups have captured the excitement of many new customers and improved the brand equity under the flagship of Imtiaz.

The Company remained extremely cautious in the current market realities and continue to enhance its risk management framework by observing and learning from customers payments patterns. The Company has continued to promote active deliberations between underwriters and recovery and collection agents to instantly create a feedback loop that spot emerging trends in the dynamics of major economic sectors and align the underwriting guidelines. The nonperforming loans were controlled at 3.49% of the total loans portfolio.

**REPORT OF THE CHAIRMAN**

National Motor Company has earned a net profit of BD 2.2 million (2016: BD 1.9 million). The results are outstanding, considering that Bahrain market has witnessed continuation of contraction in the new car sales. The reduction in sales have resulted in overall inventory built-up and erosion of margins. The Company was able to arrest this trend by taking timely decisions pertaining to inventory management. The extensive effort placed by the Company towards becoming lean and efficient has made the operations more agile and dynamic. Despite decrease in new vehicle sales volume for both General Motors and Honda, National Motor was able to retain its market share. Its encouraging to note that our customers have responded positively to the new model range of vehicle launched by both General Motors and Honda. In aftersales, the Company continued its focus on customer retention through providing superior customer service at reasonable cost to further enhance its customer base.

Tas'heelat Insurance Services Company achieved a net profit of BD 610 thousand (2016: BD 1.1 million). The year 2017 was unprecedented with respect to the dynamics of competition leading to reduction of insurance commissions. This happened at a time when the overall motor insurance declined as a result of contracting automotive sales. Despite these challenges, the Company has arranged more than twenty-three thousand motor insurance policies and maintained its leadership in motor insurance through providing unique products and strong follow up with dealers and sub dealers. The Company has also introduced new products to diversify its sources of revenue.

Tasheelat Real Estate Services Company had a challenging year and registered net profit of BD 0.4 million (2016: BD 2.6 million). The Company's performance was significantly affected due to delay in regulatory approvals on its Tasheelat Al Muharraq project. This delay has left the Company with inadequate land inventory available for sales. It is pleasing to note that the Company has received all the approvals in the last week of the year. The new project has received an encouraging response from the market and the Company has liquidated 25% of the plots in such a short period of time. All the Company's investment properties for rental income are maintaining healthy occupancy rates and have generated steady and reliable yields.

Tasheelat Automotive Company has successfully completed its second full year of operations and has reported profit for its GAC Motor business. It is pleasing to note that the seed sown two years back is developing into a full-fledged distributorship. The Company in such a short period has sold around 1000 GAC cars leading to a higher brand visibility and equity. What is of a great source of pride and encouragement is the fact that many customers switched from well-established automotive brands. This has positioned the GAC as undisputed leading brand among all the Chinese brands. GAC cars are packed with futuristic technologies, safety features, fuel efficiency and very attractive price points. Your Board will continue to invest into this business to introduce and fully optimise the value offered by the new brands.

Tasheelat Car Leasing is the youngest member in the BCFC Group formed in July 2017. The new company is expected to address emerging lifestyles and new forms of mobility. The Company since its inception has worked diligently to increase BCFC Group's footprint in the car rentals and leasing segment of the market. The new Company has already a fleet of more than 700 vehicles and an advantage of the largest branch network. Your Board is committed to expanding this business into one of the largest car leasing and rental companies in the country.

The Company continued to remain in a strong and healthy liquidity position. The Company has a well-defined maturity profile for its borrowings which is spread over years to avoid any concentration. During the year, the Company had successfully arranged a USD 125 million syndicated loan to repay maturing USD 55 million loan. Remaining USD 70 million from the new loan was used to fund the Company's business expansion. The transaction was oversubscribed and had received strong support from local and regional banks. The Group is currently operating at a low leverage of 1.7 which bodes well for the Company's future expansion and growth plans.

## REPORT OF THE CHAIRMAN

In the composition of the Board of directors during the year the only change was the resignation of Mr. Abdulkarim Ahmed Bucheery. Mr Bucheery had served initially from March 2008 to March 2016 as nominee of BBK. Later he was retired as Vice Chairman from the Board in March 2016 and was reappointed as independent, non-executive director in April 2016. The Board places on record its sincere thanks and appreciation to Mr. Bucheery for his valuable contributions over the years.

In accordance with the requirement of Bahrain's Commercial Company Law 2001, we report the aggregate amount paid to directors during 2017 was BD 625 thousand (2016: BD 527 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.

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
27 February 2018

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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 2017, 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 2017, 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 2017. 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:<br>▪ of the significance of loans and advances (representing 79% of total assets) and the related estimation of uncertainty to the financial statements; and<br>▪ 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:<br>• past due ageing of the Group's loans;<br>• the identification of impairment events;<br>• the review and approval process that the Group has in place for the outputs of the Group's impairment model.<br><br>***<u>Specific impairment provision:</u>***<br><br>Our procedures included the following where specific impairment is calculated for individual loans:<br>• 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<br>• 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. |

***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**

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.

**How the matter was addressed in our audit**

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**

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.

***How the key audit matter was addressed in our audit***

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.

KPMG

*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.

KPMG

*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 2017 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
27 February 2018

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
**as at 31 December 2017**

Bahraini dinars thousands

| | Note | **31 December 2017** | 31 December 2016 |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances with banks | | 5,637 | 2,313 |
| Loans and advances to customers | 8 | 294,718 | 270,126 |
| Trade receivables | 9 | 7,111 | 8,642 |
| Inventories | 10 | 29,716 | 35,596 |
| Investment properties | 11 | 6,939 | 7,054 |
| Property and equipment | 12 | 25,343 | 24,424 |
| Other assets | | 3,608 | 2,607 |
| **Total assets** | | **373,072** | 350,762 |
| **Liabilities and equity** | | | |
| **Liabilities** | | | |
| Bank overdrafts | | 73 | 1,073 |
| Trade and other payables | | 17,988 | 15,363 |
| Bank term loans | 13 | 177,703 | 170,204 |
| Bonds issued | 14 | 39,900 | 39,829 |
| **Total liabilities** | | **235,664** | 226,469 |
| **Equity** | | | |
| Share capital | 15 | 16,335 | 16,335 |
| Treasury shares | 15 | (599) | (599) |
| Statutory reserve | | 33,542 | 33,542 |
| Other reserves | | 25,112 | 22,854 |
| Retained earnings | | 63,018 | 52,161 |
| **Total equity** (page 12) | | **137,408** | 124,293 |
| **Total liabilities and equity** | | **373,072** | 350,762 |

The Board of Directors approved the consolidated financial statements consisting of pages 9 to 44 on 27 February 2018 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 2017**

Bahraini dinars thousands

| | Note | 2017 | 2016 |
|---|---|---|---|
| Interest income | | 34,137 | 30,020 |
| Interest expense | | (10,287) | (8,162) |
| **Net interest income** | | **23,850** | 21,858 |
| Automotive revenue | | 57,117 | 60,900 |
| Cost of sales | | (50,745) | (54,172) |
| **Gross profit on automotive revenue** | | **6,372** | 6,728 |
| Fee and commission income | 16 | 10,613 | 8,501 |
| Profit from sale of land inventory | 17 | 1,151 | 2,599 |
| Rental and evaluation income | | 751 | 710 |
| **Total operating income** | | **42,737** | 40,396 |
| Salaries and related costs | | (7,646) | (7,385) |
| Other operating expenses | 19 | (10,966) | (10,027) |
| Impairment allowance on loans and receivables, net of recoveries | | (4,394) | (4,027) |
| Other income | 18 | 983 | 953 |
| **Profit for the year** | | **20,714** | 19,910 |
| Basic and diluted earnings per 100 fils share | 24 | 129 fils | 124 fils |
| Proposed cash dividend per 100 fils share | | 50 fils | 50 fils |

**Abdulrahman Yusuf Fakhro**
*Chairman*

**Reyadh Yusuf Hasan Sater**
*Vice Chairman*

**Dr. Adel Hubail**
*Chief Executive Officer*

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
**for the year ended 31 December 2017** Bahraini dinars thousands

| | **2017** | 2016 |
|---|---|---|
| **Profit for the year** | **20,714** | 19,910 |
| **Other comprehensive income** | | |
| ***Items that are or may be reclassified to profit or loss*** | | |
| Net change in cash flow hedge reserve | 869 | 537 |
| **Total other comprehensive income for the year** | **869** | 537 |
| **Total comprehensive income for the year** | **21,583** | 20,447 |

The consolidated financial statements consist of pages 9 to 44.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
**for the year ended 31 December 2017**

Bahraini dinars thousands

| | Share capital | | Reserves and retained earnings | | | | | |
|---|---|---|---|---|---|---|---|---|
| **2017** | **Share capital** | **Treasury shares** | **Statutory reserve*** | **Cash flow hedge reserve** | **Donations reserve** | **General reserve** | **Retained earnings** | **Total equity** |
| At 1 January 2017 | 16,335 | (599) | 33,542 | 313 | 791 | 21,750 | 52,161 | 124,293 |
| **2016 appropriations (approved by shareholders):** | | | | | | | | |
| - Donation declared for 2016 | - | - | - | - | 300 | - | (300) | - |
| - Transfer to general reserve for 2016 | - | - | - | - | - | 1,500 | (1,500) | - |
| **Balance after 2016 appropriations** | **16,335** | **(599)** | **33,542** | **313** | **1,091** | **23,250** | **50,361** | **124,293** |
| **Comprehensive income for the year** | | | | | | | | |
| Profit for the year | - | - | - | - | - | - | 20,714 | 20,714 |
| Other comprehensive Income | | | | | | | | |
| - Net change in cash flow hedge reserve | - | - | - | 869 | - | - | - | 869 |
| **Total comprehensive income for the year** | **-** | **-** | **-** | **869** | **-** | **-** | **20,714** | **21,583** |
| **Transactions with equity holders, recognised directly in equity** | | | | | | | | |
| Dividend declared for 2016 | - | - | - | - | - | - | (8,057) | (8,057) |
| **Total distributions to shareholders** | **-** | **-** | **-** | **-** | **-** | **-** | (8,057) | (8,057) |
| Utilisation of donation | - | - | - | - | (411) | - | - | (411) |
| **At 31 December 2017** | **16,335** | **(599)** | **33,542** | **1,182** | **680** | **23,250** | **63,018** | **137,408** |

*Includes BD 25,292 of share premium.

The consolidated financial statements consist of pages 9 to 44.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
**for the year ended 31 December 2017**

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 44.

## CONSOLIDATED STATEMENT OF CASH FLOWS
**for the year ended 31 December 2017** Bahraini dinars thousands

| | Note | **2017** | 2016 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Loan repayments, interest received and credit card related receipts | | 273,903 | 230,566 |
| Receipts from automotive sales | | 59,573 | 60,878 |
| Insurance commission received | | 1,248 | 1,325 |
| Proceeds from sale of land inventory | | 6,162 | 9,122 |
| Rental received | | 750 | 697 |
| Loans and advances to customers disbursed | | (259,167) | (237,066) |
| Payments to automotive suppliers | | (41,325) | (58,320) |
| Payment for land held as inventory | | (4,931) | (10,500) |
| Payments for operating expenses | | (17,057) | (13,881) |
| Directors' fees paid | | (393) | (350) |
| Interest paid | | (10,998) | (8,711) |
| **Net cash generated from /(used in) operating activities** | | **7,765** | (26,240) |
| **Cash flows from investing activities** | | | |
| Capital expenditure on property and equipment | | (3,483) | (5,899) |
| Addition to / purchase of investment properties | | (226) | (1,446) |
| Proceeds from sale of property and equipment | | 829 | 769 |
| Proceeds from sale of an investment property | | - | 822 |
| **Net cash used in investing activities** | | **(2,880)** | (5,754) |
| **Cash flows from financing activities** | | | |
| Bank term loans availed | | 79,486 | 93,471 |
| Bank term loan repaid | | (71,527) | (52,829) |
| Dividends paid | | (7,994) | (7,250) |
| Donations paid | | (411) | (323) |
| **Net cash (used in) / generated from financing activities** | | **(446)** | 33,069 |
| **Net increase in cash and cash equivalents** | | **4,439** | 1,075 |
| Cash and cash equivalents at 1 January | | 917 | (158) |
| **Cash and cash equivalents at 31 December** | | **5,356** | 917 |

| | | |
|---|---|---|
| Cash and cash equivalents comprise: | | |
| Cash and balances with banks | 5,637 | 2,313 |
| *Less:* | | |
| Restricted cash | (208) | (323) |
| Bank overdrafts | (73) | (1,073) |
| | **5,356** | 917 |

The consolidated financial statements consist of pages 9 to 44.

## 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 2017 comprise the Company its subsidiaries and branches (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 Automotive Company SPC | Bahrain | 100% | Exclusive distributor for GAC vehicles |
| Tasheelat Car Leasing Company WLL | Bahrain | 100% | Car rental and leasing services |

## 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 2017
The following standards, amendments and interpretations, which became effective as of 1 January 2017, are relevant to the Group:

*2 Basis of preparation (continued)*

**a) 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 on prospective basis.

The new disclosure requirements have been included in these consolidated financial statements in note 26, where the Group has presented a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities.

**b) Annual Improvements to IFRSs 2012–2014 Cycle – various standards.**

The annual improvements to IFRSs to 2014-2016 cycles include certain amendments to various IFRSs. 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 adoption of these amendments had no significant impact on the consolidated financial statements

**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 2018 and earlier application is permitted; however; the Group has not early applied the following new or amended standards in preparing these consolidated financial statements.

The following Standards are expected to have a material impact on the Group consolidated financial statements in the period of initial application.

*(i) 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 Group will adopt IFRS 9 on 1 January 2018 and will not restate the comparative information. IFRS 9 will replace *IAS 39 Financial Instruments: Recognition and Measurement* and introduces new requirements for the classification and measurement of financial assets and financial liabilities, a new model based on expected credit losses for recognising loan loss provisions and provides for simplified hedge accounting by aligning hedge accounting more closely with an entity's risk management methodology.

The Group has assessed the estimated impact on initial application of IFRS 9 as at 1 January 2018 on its consolidated financial statements as below.

| | **Retained Earning** |
|---|---|
| **Closing balance under IAS 39 (31 December 2017)** | **63,018** |
| *Impact on recognition of Expected Credit Losses* | |
| Expected credit losses under IFRS 9 for due from banks and debt securities at amortised cost | - |
| Expected credit losses under IFRS 9 for loan and advances at amortised cost, including undrawn commitments. | (5,571) |
| Expected credit losses under IFRS 9 for debt securities at fair value through other comprehensive income | - |
| | **(5,571)** |
| **Estimated adjusted opening balance under IFRS 9 on date of initial application of 1 January 2018** | **57,447** |

2 *Basis of preparation (continued)*
*e) New standards, amendments and interpretations issued but not yet effective (continued)*

***(a.1) Classification and measurement***
IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which financial assets are managed and the underlying cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: (a) measured at Amortised Cost (AC), Fair Value through Other Comprehensive Income (FVTOCI) and Fair Value through Profit or Loss (FVTPL). Under IFRS 9, derivatives embedded in contracts where the host is a financial asset are no longer bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.
Based on the Group's assessment, the new IFRS 9 classification requirements is expected not to have a material impact on its accounting for loans and advances to customers.

***(a.2) Expected credit losses***
IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. The new impairment model will apply to financial assets measured at amortised cost or FVTOCI, except for investments in equity instruments. A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk (SICR);
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing groups of similar financial assets for the purposes of measuring ECL; and
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL.

***(a.3) Financial liabilities***
Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
No significant changes are expected for financial liabilities, other than changes in the fair value of financial liabilities designated at FVTPL that are attributable to changes in the instrument's credit risk, which will be presented in other comprehensive income.

***(a.4) Hedge accounting***
IFRS 9's hedge accounting requirements are designed to align the accounting more closely to the risk management framework; permit a greater variety of hedging instruments; and remove or simplify some of the rule-based requirements in IAS 39. The elements of hedge accounting: fair value, cash flow and net investment hedges are retained.
When initially applying IFRS 9, the Group has the option to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in IFRS 9.

***(a.5) Disclosure***
IFRS 9 also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of IFRS 9.

This assessment is preliminary because the Group is in the process of finalizing the transition work. The actual impact of adopting IFRS 9 on 1 January 2018 may change because:

- ECL Calculation model refinement and finalization is in progress
- The new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Group presents its first financial statements that include the date of initial application

*(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. Based on management assessment, implementation of IFRS 15 does not have a significant impact on the Group's consolidated financial statements.

*2 Basis of preparation (continued)*

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

*(iii) IFRS 16 Leases*

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard- i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including IAS 17 *Leases*, IFRIC 4 *Determining whether an arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.

The Group has started an initial assessment of the potential impact on its consolidated financial statements. The Group has not yet decided whether it will use the optional exemptions.

**f) Early adoption of standards**

The Group did not early adopt new or amended standards in 2017.

**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.

*3. Significant accounting policies (continued)*

*(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.

*(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.
d) rental income from car hire is recognised on a straight-line basis over the term of the lease.

*(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.

*3. Significant accounting policies (continued)*

*c. Foreign currencies transactions (continued)*

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

Foreign currency differences arising on retranslation are 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.

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.

*3. Significant accounting policies (continued)*

**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.

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.

*3. Significant accounting policies (continued)*

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

**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 |
| Owned Vehicles | 4 years |
| Leased Vehicle | 4 to 6 years |

**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.

*3. Significant accounting policies (continued)*

**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.

**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.

*3 Significant accounting policies (continued)*

**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 4% 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.

**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.

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 and Risk Management Department, 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.

*4. Financial risk management (continued)*

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

| | **31 December 2017** | 31 December 2016 |
|---|---|---|
| **Specifically provided loans** | | |
| Gross amount | 661 | 1,055 |
| Impairment allowance | (460) | (632) |
| **Net amount** | **201** | 423 |
| **Collectively provided loans and advances** | | |
| Current | 247,219 | 230,718 |
| Past due but not impaired | 47,095 | 39,412 |
| Past due and impaired | 10,543 | 7,956 |
| Impairment allowance | (10,340) | (8,383) |
| **Net amount** | **294,517** | 269,703 |
| **Net loans and advances to customers** | **294,718** | 270,126 |

**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:

| **2017** | **Past due but not impaired** | | **Past due and impaired** | | **Total past due loans 2017** |
|---|---|---|---|---|---|
| | **Retail** | **Corporate** | **Retail** | **Corporate** | |
| 1-30 days | 19,797 | 1,088 | - | - | **20,885** |
| 31-60 days | 14,531 | 883 | - | - | **15,414** |
| 61-89 days | 9,843 | 953 | - | - | **10,796** |
| 90 days – 1 year | - | - | 7,755 | 135 | **7,890** |
| 1 year – 3 years | - | - | 2,148 | 115 | **2,263** |
| More than 3 years | - | - | 683 | - | **683** |

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

*4. Financial risk management (continued)*

| **2017** | **Bahrain** | **Kurdistan** | **2017** |
|---|---|---|---|
| 1-30 days | 20,885 | - | **20,885** |
| 31-60 days | 15,414 | - | **15,414** |
| 61-89 days | 10,795 | 1 | **10,796** |
| 90 days – 1 year | 7,872 | 18 | **7,890** |
| 1 year – 3 years | 2,108 | 155 | **2,263** |
| More than 3 years | 683 | - | **683** |

| 2016 | 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 2017, the total gross amount of non-performing loans as defined by the CBB was BD 10,836 (2016: 8,501) against which BD 6,965 (2016: BD 5,438) 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 2017, the average gross credit exposure for cash and balances with banks is BD 3,918 (2016: BD 3,099), loans and advances to customers is BD 285,096 (2016: BD 257,902), trade and other receivables is BD 7,909 (2016: BD 8,747) and unutilised credit limit is BD 25,857 (2016: BD 18,625). Such amounts are calculated based on the average of last four quarterly results.

At the reporting date, the loans and advances to customers represent 51% vehicle (2016: 53%), 20% mortgage (2016: 21%), 20% unsecured lending (2016: 18%) and 9% credit card lending (2016: 8%).

The below table shows the geographic distribution of maximum exposure to credit risk without considering collateral and other credit enhancements as of 31 December:

| **2017** | Bahrain | Kurdistan | **2017** |
|---|---|---|---|
| Balances with banks | 5,607 | 9 | 5,616 |
| Loans and advances to customers | 294,545 | 173 | 294,718 |
| Trade receivables | 6,855 | 256 | 7,111 |
| Other assets | 622 | 4 | 626 |
| **Total** | **307,629** | **442** | **308,071** |
| Unutilised credit limit | 26,119 | - | 26,119 |

| 2016 | Bahrain | Kurdistan | 2016 |
|---|---|---|---|
| Balances with banks | 2,286 | 13 | 2,299 |
| Loans and advances to customers | 269,886 | 240 | 270,126 |
| Trade receivables | 8,292 | 350 | 8,642 |
| Other assets | 252 | - | 252 |
| Total | 280,716 | 603 | 281,319 |
| Unutilised credit limit | 21,303 | - | 21,303 |

*4. Financial risk management (continued)*

*Impaired loans and advances*
Impaired loans and advances are financial assets for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the agreements. The Group's exposure to credit risk from loans and trade receivables is influenced mainly by the individual characteristics of each customer. Loans which are past due 90 days are considered as non-performing.

The Group has established policies and procedures under which each customer is analyzed individually for creditworthiness. At the year end, trade receivables of BD 1,567 (2016: BD 3,230) were past due against which BD 585 (2016: BD 494) 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 2017, loans and advances amounting to BD 406 (2016: BD 1,929) 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 2017, loans amounting to BD 178,412 (2016: BD 185,986) were fully collateralized and loans amounting to BD 32,194 (2016: BD 20,274) was partly collateralized with a collateral value of BD 28,139 (2016: BD 18,285).

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 2017, the Group obtained assets of BD 1,521 (2016: 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.

4. *Financial risk management (continued)*

*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.

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.

| **2017** | **Carrying amount** | **Gross contractual cash flows** | **Within 1 Year** | **1 year to 5 years** | **Over 5 years** |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and balances with banks | 5,637 | 5,637 | 5,637 | - | - |
| Loans and advances to customers | 294,718 | 395,919 | 125,911 | 219,804 | 50,204 |
| Trade receivables | 7,111 | 7,111 | 7,111 | - | - |
| Other assets | 626 | 626 | 626 | - | - |
| | **308,092** | **409,293** | **139,285** | **219,804** | **50,204** |
| **Liabilities** | | | | | |
| Bank overdrafts | 73 | 73 | 73 | - | - |
| Trade and other payables | 14,042 | 14,042 | 14,042 | - | - |
| Bank term loans | 177,703 | 202,237 | 40,986 | 161,251 | - |
| Bonds | 39,900 | 42,647 | 21,936 | 20,711 | - |
| | **231,718** | **258,999** | **77,037** | **181,962** | **-** |
| Unutilised credit limits | 26,119 | 26,119 | 26,119 | - | - |

*4. Financial risk management (continued)*

| 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 | - | - |
| Other assets | 252 | 252 | 252 | - | - |
| | 281,333 | 376,460 | 122,557 | 206,711 | 47,192 |
| Liabilities | | | | | |
| Bank overdrafts | 1,073 | 1,079 | 1,079 | - | - |
| Trade and other payables | 12,230 | 12,230 | 12,230 | - | - |
| Bank term loans | 170,204 | 190,700 | 87,166 | 103,534 | - |
| Bonds | 39,829 | 43,969 | 1,678 | 42,291 | - |
| | 223,336 | 247,978 | 102,153 | 145,825 | - |
| Unutilised credit limits | 21,303 | 21,303 | 21,303 | - | - |

**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** | |
|---|---|---|---|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| **ASSETS** | | | | | | | | |
| Cash and balances with banks | - | - | - | - | 5,637 | 2,313 | 5,637 | 2,313 |
| Loans and advances to customers | 294,329 | 269,809 | - | - | 389 | 317 | 294,718 | 270,126 |
| Trade receivables | - | - | - | - | 7,111 | 8,642 | 7,111 | 8,642 |
| Other assets | - | - | - | - | 626 | 252 | 626 | 252 |
| | **294,329** | 269,809 | **-** | - | **13,763** | 11,524 | **308,092** | 281,333 |
| **LIABILITIES** | | | | | | | | |
| Bank overdrafts | - | - | 73 | 1,073 | - | - | 73 | 1,073 |
| Trade and other payables | - | - | - | - | 14,042 | 12,230 | 14,042 | 12,230 |
| Bank term loans | - | 2,000 | 177,703 | 168,204 | - | - | 177,703 | 170,204 |
| Bonds issued | - | - | 39,900 | 39,829 | - | - | 39,900 | 39,829 |
| | **-** | 2,000 | **217,676** | 209,106 | **14,042** | 12,230 | **231,718** | 223,336 |

*4. Financial risk management (continued)*

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 2017 interest rate risk attributable to the term loans of USD 300 million (BD: 113.1 million) (2016: USD 210 million, BD 79.2 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 2017 a change in variable rate financial instruments by 100 basis points will increase/ (decrease) net profits by BD 1,046 (2016: BD 1,299).

*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.

| | **2017** | 2016 |
|---|---|---|
| US Dollars | **178,598** | 149,813 |

The Bahraini Dinar is effectively pegged to the US Dollar.

**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 1.72 as at 31 December 2017 (2016:1.82).

## 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 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| **ASSETS** | | | | | | | | | | |
| Cash and balances with banks | 5,637 | 2,313 | - | - | - | - | - | - | 5,637 | 2,313 |
| Loans and advances to customers | 107,764 | 97,099 | 156,067 | 145,600 | 29,919 | 26,684 | 968 | 743 | 294,718 | 270,126 |
| Trade receivables | 7,111 | 8,642 | - | - | - | - | - | - | 7,111 | 8,642 |
| Other assets | 626 | 252 | - | - | - | - | - | - | 626 | 252 |
| | **121,138** | 108,306 | **156,067** | 145,600 | **29,919** | 26,684 | **968** | 743 | **308,092** | 281,333 |
| **LIABILITIES** | | | | | | | | | | |
| Bank overdrafts | 73 | 1,073 | - | - | - | - | - | - | 73 | 1,073 |
| Trade and other payables | 14,042 | 12,230 | - | - | - | - | - | - | 14,042 | 12,230 |
| Bank term loans | 33,293 | 79,149 | 144,410 | 91,055 | - | - | - | - | 177,703 | 170,204 |
| Bonds issued | 19,919 | - | 19,981 | 39,829 | - | - | - | - | 39,900 | 39,829 |
| | **67,327** | 92,452 | **164,391** | 130,884 | **-** | - | **-** | - | **231,718** | 223,336 |

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.

*6. Use of estimates and judgements (continued)*

***(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.

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 308,092 (2016: BD 281,333) are categorised under 'loans and receivables' and are measured at amortised cost. All the financial liabilities of BD 231,718 (2016: BD 223,336) 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.

*7. Fair value (continued)*

***(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 2017 is BD 1,182 (2016: 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.

| **2017** | **Level 1** | **Level 2** | **Level 3** | **Total fair value** | **Total Carrying value** |
|---|---|---|---|---|---|
| Loans and advances to customers | - | - | 294,718 | 294,718 | 294,718 |
| Bank term loans | - | 177,703 | - | 177,703 | 177,703 |
| Bonds issued | - | 39,900 | - | 39,900 | 39,900 |

| 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 |

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

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

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

***(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 2017 and 31 December 2016 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 2017 are as follows:

| **2017** | **Level 1** | **Level 2** | **Level 3** | **Total fair value** | **Total Carrying value** |
|---|---|---|---|---|---|
| Investment properties | - | 8,638 | - | 8,638 | 6,939 |

*7. Fair value (continued)*

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

## 8. LOANS AND ADVANCES TO CUSTOMERS

| | **31 December 2017** | 31 December 2016 |
|---|---|---|
| Gross loans | 305,518 | 279,141 |
| Provision for impairment | (10,800) | (9,015) |
| **Net loans and advances to customers** | **294,718** | 270,126 |

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

**Provision for impairment;**

| | **2017** | 2016 |
|---|---|---|
| **Specific allowance for impairment** | | |
| Balance at 1 January | 632 | 689 |
| Charge for the year | 98 | 19 |
| Written back during the year | (270) | - |
| Loans written off, net of recoveries | - | (76) |
| **Balance at 31 December** | **460** | 632 |
| **Collective allowance for impairment** | | |
| Balance at 1 January | 8,383 | 6,295 |
| Charge for the year | 5,411 | 4,473 |
| Loans written off, net of recoveries | (3,454) | (2,385) |
| **Balance at 31 December** | **10,340** | 8,383 |
| **Total allowance for impairment** | **10,800** | 9,015 |

The Average effective interest rates on loans and advance to customer is 11.68% p.a. (2016: 11.62% p.a.).

## 9. TRADE RECEIVABLES

| | **31 December 2017** | 31 December 2016 |
|---|---|---|
| Trade receivables | 7,700 | 9,136 |
| Provision for impairment | (589) | (494) |
| | **7,111** | 8,642 |

| **Movement on impairment provisions;** | **2017** | 2016 |
|---|---|---|
| At 1 January | 494 | 415 |
| Net charge for the year | 95 | 79 |
| **At 31 December** | **589** | 494 |

## 10. INVENTORIES

| | **31 December 2017** | 31 December 2016 |
|---|---|---|
| Automotive stock: | | |
| -Vehicles | 13,427 | 20,014 |
| -Spare parts | 3,855 | 3,340 |
| Land inventory | 12,739 | 12,592 |
| | **30,021** | 35,946 |
| Provision on vehicles and spare parts | (305) | (350) |
| | **29,716** | 35,596 |

| **Movement on provisions** (vehicle and spare parts) | **2017** | 2016 |
|---|---|---|
| At 1 January | 350 | 278 |
| Net charge for the year | 51 | 79 |
| Written off | (95) | (7) |
| **At 31 December** | **305** | 350 |

During the year 2017, 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

| | **2017** | 2016 |
|---|---|---|
| **Cost** | | |
| At 1 January | 7,830 | 6,633 |
| Additions during the year | 226 | 1,446 |
| Transfer from Inventories | - | 444 |
| Disposal | - | (693) |
| **At 31 December** | **8,056** | 7,830 |
| **Accumulated depreciation** | | |
| At 1 January | 776 | 572 |
| Depreciation for the year | 341 | 327 |
| Disposal | - | (123) |
| **At 31 December** | **1,117** | 776 |
| **Net book value** | | |
| **At 31 December** | **6,939** | 7,054 |

The fair value of all the investment properties as at 31 December 2017 is BD 8,638 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 | 2017 Total | 2016 Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 January | 21,892 | 7,267 | 6,648 | 4,135 | 39,942 | 33,499 |
| Additions | 942 | 556 | 1,625 | 872 | 3,995 | 5,899 |
| Transfer during the year | 4,021 | 616 | 639 | (4,657) | 619 | 2,020 |
| Disposals and retirements | - | (17) | (1,356) | - | (1,373) | (1,476) |
| **At 31 December** | **26,855** | **8,422** | **7,556** | **350** | **43,183** | 39,942 |
| **Depreciation** | | | | | | |
| 1 January | 7,595 | 5,906 | 2,017 | - | 15,518 | 13,640 |
| Charge for the year | 858 | 728 | 1,266 | - | 2,852 | 2,598 |
| Disposals and retirements | - | (16) | (514) | - | (530) | (720) |
| **At 31 December** | **8,453** | **6,618** | **2,769** | **-** | **17,840** | 15,518 |
| **Net book value** | | | | | | |
| **At 31 December 2017** | **18,402** | **1,804** | **4,787** | **350** | **25,343** | 24,424 |
| At 31 December 2016 | 14,297 | 1,361 | 4,631 | 4,135 | - | 24,424 |

The cost of fully depreciated assets still in use at 31 December 2017 was BD 6,602 (2016: BD 6,001).

## 13. BANK TERM LOANS

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Repayable within one year | 33,293 | 79,149 |
| Repayable after one year | 144,410 | 91,055 |
| | **177,703** | 170,204 |

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 4.9% p.a. (2016: 4.4% p.a.).

## 14. BONDS ISSUED

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Face value | 39,981 | 39,981 |
| Less: Unamortised cost of issue | (81) | (152) |
| | **39,900** | 39,829 |

| **Movement on bonds during the year** | **2017** | 2016 |
|---|---|---|
| At 1 January | 39,981 | 39,981 |
| Add: Issued during the year | - | - |
| **At 31 December** | **39,981** | 39,981 |

***14.*** *Bonds Issued (continued)*

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 2017** | 31 December 2016 |
|---|---|---|
| Authorised share capital | | |
| 500,000,000 (2016: 500,000,000) shares of 100 fils each | **50,000** | 50,000 |

| | **2017** | 2016 |
|---|---|---|
| **Issued and fully paid** | | |
| 163,350,000 (2016:163,350,000) 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 (2016: 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:

*15. Share capital (continued)*

| Categories* | Number of Shares | Number of shareholders | % of total issued shares |
|---|---|---|---|
| Less than 1% | 37,952,802 | 1,271 | 23.23% |
| 1% up to less than 5%** | 18,917,854 | 7 | 11.58% |
| 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** | **1,281** | **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

| | 2017 | 2016 |
|---|---|---|
| Loan administration and other credit card related fees | 9,489 | 7,192 |
| Insurance commission income | 1,124 | 1,309 |
| | **10,613** | 8,501 |

## 17. PROFIT FROM SALE OF LAND INVENTORY

| | 2017 | 2016 |
|---|---|---|
| Sales of land Inventory | 5,935 | 10,016 |
| Cost of Sales | (4,784) | (7,417) |
| Profit from sale of land inventory | **1,151** | 2,599 |

## 18. OTHER INCOME

| | 2017 | 2016 |
|---|---|---|
| Incentives from automotive principal | 943 | 569 |
| Gain on sale of investment property | - | 252 |
| Foreign exchange gains | 15 | 89 |
| Other income | 25 | 43 |
| | **983** | 953 |

## 19. OTHER OPERATING EXPENSES

| | 2017 | 2016 |
|---|---|---|
| General and administration costs | 6,475 | 5,360 |
| Depreciation | 2,259 | 2,187 |
| Selling and promotion costs | 1,865 | 1,946 |
| Impairment provision for inventory | 51 | 79 |
| Automotive finance cost | 316 | 455 |
| | **10,966** | 10,027 |

## 20. 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.

## 21. 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 2017 or 2016. The following table presents income and profit and certain asset and liability information regarding the Group's operating segments.

*21 Segmental information (continued)*

| At 31 December | Lending | | Automotive | | Real estate | | Insurance | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| **Operating income** | **33,328** | 29,020 | **6,383** | 6,758 | **1,902** | 3,309 | **1,124** | 1,309 | **42,737** | 40,396 |
| Inter segment revenue | 265 | 74 | 432 | 471 | - | - | 187 | 234 | 884 | 779 |
| Operating costs | (11,425) | (10,276) | (4,447) | (5,233) | (1,056) | (487) | (701) | (463) | (17,629) | (16,459) |
| Impairment, net of recoveries | (4,260) | (3,845) | (134) | (182) | - | - | - | - | (4,394) | (4,027) |
| Inter segment expenses | (432) | (471) | (55) | (110) | (397) | (198) | - | - | (884) | (779) |
| **Profit for the year** | **17,476** | 14,502 | **2,179** | 1,704 | **449** | 2,624 | **610** | 1,080 | **20,714** | 19,910 |
| **Assets (Liabilities)** | | | | | | | | | | |
| Cash and balances with banks | 3,554 | 1,418 | 1,573 | 544 | 273 | 184 | 237 | 167 | 5,637 | 2,313 |
| Loans and advances to customers | 294,545 | 269,886 | 173 | 240 | - | - | - | - | 294,718 | 270,126 |
| Trade and other receivables | 8 | 119 | 6,699 | 7,964 | 23 | 22 | 381 | 537 | 7,111 | 8,642 |
| Intercompany balances | 4,225 | 13,136 | (90) | (8,182) | (7,736) | (8,289) | 3,601 | 3,335 | - | - |
| Inventories | - | - | 16,977 | 23,004 | 12,739 | 12,592 | - | - | 29,716 | 35,596 |
| Investment properties | - | - | - | - | 6,939 | 7,054 | - | - | 6,939 | 7,054 |
| Property and equipment | 8,702 | 7,389 | 16,641 | 17,035 | - | - | - | - | 25,343 | 24,424 |
| Other assets | 1,427 | 518 | 2,142 | 2,089 | - | - | 39 | - | 3,608 | 2,607 |
| Overdrafts | (73) | (1,073) | - | - | - | - | - | - | (73) | (1,073) |
| Trade and other payables | (11,250) | (9,692) | (6,060) | (5,329) | (277) | (51) | (401) | (291) | (17,988) | (15,363) |
| Bonds | (39,900) | (39,829) | - | - | - | - | - | - | (39,900) | (39,829) |
| Bank term loans | (175,770) | (167,481) | (1,933) | (2,723) | - | - | - | - | (177,703) | (170,204) |
| **Equity** | **(85,468)** | (74,391) | **(36,122)** | (34,642) | **(11,961)** | (11,512) | **(3,857)** | (3,748) | **(137,408)** | (124,293) |
| Capital expenditure | **1,951** | 3,038 | **2,044** | 2,861 | - | - | - | - | **3,995** | 5,899 |
| Depreciation charge for the property and equipment | **640** | 250 | **2,212** | 2,348 | **-** | - | **-** | - | **2,852** | 2,598 |

## 22. 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 terms agreed between the parties.

| | **2017** | 2016 |
|---|---|---|
| **Shareholders:** | | |
| ***As at 31 December*** | | |
| Term loans | 39,005 | 27,810 |
| Bank overdrafts | 71 | 1,073 |
| Bank balances | 1,468 | 893 |
| ***For the year ended 31 December*** | | |
| Interest expense | 1,701 | 1,097 |

**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 President and the General Managers.

| | **2017** | 2016 |
|---|---|---|
| ***For the year ended 31 December*** | | |
| Salaries and short term employee benefits | 1,308 | 1,184 |
| Directors remuneration and attendance fees | 625 | 527 |
| Credit card receivables | 24 | 19 |
| Sale of land plots and cars | 594 | - |

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.

## 23. RETIREMENT BENEFITS COST

The Group's contributions in respect of Bahraini employees for the year amounted to BD 601 (2016: BD 684). The Group's provision for expatriate employees' leaving indemnities at 31 December 2017 was BD 1,039 (2016: BD 876). The Group employed 794 staff at 31 December 2017 (2016: 746).

As at 31 December 2017, the total liability of the Group to its employees under Saving Plan was BD 1,787 (2016: BD 1,389).

## 24. 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:

| | **2017** | 2016 |
|---|---|---|
| Profit for the year | 20,714 | 19,910 |
| Weighted average number of equity shares (in 000's) | 161,143 | 161,143 |
| Basic earnings per share | **129 fils** | 124 fils |

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

## 25. OUTSTANDING COMMITMENTS

As at reporting date, the Group has contingent liabilities for standby letters of credit issued in the normal course amounting to BD 8,190 (2016: BD 10,381) and unutilised credit limits of BD 26,119 (2016: BD 21,303) to its customers.

The Group's capital commitment for the construction of a Company's new office is NIL as at 31 December 2017

## 26. RECONCILIATION OF MOVEMENTS OF LIABILITIES TO CASH FLOWS ARISING FROM FINANCING ACTIVITIES

| | **Liabilities** | | | | **Derivatives (assets)/liabilities held to hedge long-term borrowings** | **Equity** | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Bank overdrafts used for cash management purposes** | **Trade and other payables** | **Bank Term loans** | **Bonds issued** | **Interest rate swap and forward exchange contracts used for hedging – liabilities** | **Share capital** | **Reserve** | **Retained earnings** | **Total** |
| **Balance at 1 January 2017** | 1,073 | 15,300 | 170,204 | 39,829 | 63 | 15,736 | 56,396 | 52,161 | 350,762 |
| Proceeds from loans and borrowings | - | - | 79,486 | - | - | - | - | - | 79,486 |
| Repayment of borrowings | - | - | (71,527) | - | - | - | - | - | (71,527) |
| Dividend paid | - | (7,994) | - | - | - | - | - | - | (7,994) |
| Donation paid | - | - | - | - | - | - | (411) | - | (411) |
| **Total changes from financing cash flows** | **-** | **(7,994)** | **7,959** | **-** | **-** | **-** | **(411)** | **-** | **(446)** |
| Changes in fair value | - | - | - | - | - | - | 869 | - | 869 |
| Other changes | - | - | - | - | - | - | 1,800 | 10,857 | 12,657 |
| Liability-related | - | 3,312 | - | - | (39) | - | - | - | 3,273 |
| Dividends declared | - | 8,057 | - | - | - | - | - | - | 8,057 |
| Change in bank overdraft | (1,000) | - | - | - | - | - | - | - | (1,000) |
| Capitalised borrowing costs | - | - | (460) | 71 | - | - | - | - | (389) |
| Interest expense | - | 10,287 | - | - | - | - | - | - | 10,287 |
| Interest paid | - | (10,998) | - | - | - | - | - | - | (10,998) |
| **Total liability-related other changes** | **(1,000)** | **10,658** | **(460)** | **71** | **(39)** | **-** | **-** | **-** | **9,230** |
| **Total equity-related other changes** | **-** | **-** | **-** | **-** | **-** | **-** | **2,669** | **10,857** | **13,526** |
| **Balance at 31 December 2017** | **73** | **17,964** | **177,703** | **39,900** | **24** | **15,736** | **58,654** | **63,018** | **373,072** |

## 27. PROPOSED APPROPRIATIONS

The board of directors has proposed the following appropriations for 2017. These appropriations are subject to approval by the shareholders at the Annual General Meeting.

| | **2017** | 2016 |
|---|---|---|
| Proposed dividends | 8,057 | 8,057 |
| Donations | 300 | 300 |
| General reserve | 1,500 | 1,500 |
| | 9,857 | 9,857 |

## 28. 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.