BAHRAIN COMMERCIAL FACILITIES COMPANY BSC

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2019

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 sell 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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Board of Directors	: Abdulrahman Yusuf Fakhro - Chairman	
	Reyadh Yusuf Hasan Sater - Vice Chairman	
	Khalid Mohammed Ali Mattar	
	Ebrahim Abdulla Buhindi	
	Abdulaziz Abdulla A. Aziz Al-Ahmed	
	Sayed Abdulghani Hamza Qarooni	
	Dr. A. Rahman Ali Saif A. Rahman	
	Abdulla Mohamed Al-Mahmood	
	Yusuf Saleh Sultan Khalaf	
	Mohamed Jehad Bukamal	
Chief Executive Officer	: Dr. Adel Hubail	
Head of Credit & Marketing	: Fadhel Mahoozi	
General Manager - NMC	: Ramzi Barakat	
General Manager - TISCO	: Ali Al-Daylami	
General Manager - TAC	: Bareer Jassim	
General Manager - TCL	: Ripin Mehta	
Group Head of Finance	: Vishal Purohit	
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	Canara Bank
	Mashreq Bank	Bank of Baghdad, Erbil, Kurdistan
	IBL Bank, Erbil, Kurdistan	Al Baraka Bank, Erbil, Kurdistan
	The National Bank of Ras Al-Khaimah	
Auditors	: KPMG Fakhro	

CHAIRMAN REPORT

On behalf of the Board of Directors, it gives me immense pleasure to present to you the Annual Report of Bahrain Commercial Facilities Company BSC, for the financial year ended 31 December 2019. The annual report includes the consolidated financial statements of Bahrain Credit and the Company's subsidiaries: National Motor Company WLL, Tasheelat Real Estate Services Company SPC, Tasheelat Insurance Services Company WLL, Tasheelat Automotive Company SPC and Tasheelat Car Leasing Company WLL.

2019 proved to be an extremely difficult year. The strong headwinds continued to challenge growth for the world economy. The broad-based slowdown downgraded the global growth to its slowest pace since the global financial crisis. This subdued growth is a consequence of rising trade barriers; elevated uncertainty surrounding trade and geopolitics; idiosyncratic factors causing macroeconomic strain in several emerging market economies; and structural factors, such as low productivity growth and aging demographics in advanced economies. For the GCC countries, in addition to some significant security events in the region, the economic challenges resulted from structural changes and volatile oil prices continue to cast doubt in the investors' confidence.

In Bahrain, with every quarter of 2019, the economic environment turned more challenging with reduction in liquidity and slowing down of consumer consumption. The government's initiatives to embrace more fiscal discipline to improve its financial health has resulted in new tax reforms and reduced spending. The introduction of VAT at the start of the year and increase in fees for certain government services have affected consumers' disposable income. The real estate and automotive industry are amongst the worst affected. The business community is taking longer than what initially expected to readjust its fundamentals to the new norm.

In such an unprecedented environment, your Company cannot be insulated from these acute market realities and consequences. The Company has earned a net profit of BD 17.1 million for the year ended 31 December 2019 (2018: BD 22.9 million). The reduction is predominantly due to higher impairment provisions taken as prudent measures to safeguard the Company against expected customers' liquidity challenges. These earnings translate into a return on equity of 11%. Your Board recommends a cash dividend to shareholders at the rate of 50 fils per share (50 %) (2018: 45 fils per share, 25% bonus shares).

Bahrain Credit achieved a net profit of BD 13.9 million (2018: BD 18.9 million). The company practiced further caution in extending new credits and tightened its underwriting policies to adapt to the difficult market conditions. Total new loans worth BD 151 million (2018: BD 171 million) were advanced during the year. The company continued its emphasis on reinforcing its risk management practices through offering products which clearly demarcate risk and rewards per customer segments. The company continued its forward-looking investments into technology driven initiatives to accommodate demands of contemporary customers and augment its customer relation touchpoints.

The unprecedented 34% contraction in the new vehicle sales, overall reduction in the used cars trading and customers shift towards smaller engine and low-price cars had affected our volume aspirations in our core product vehicle lending. The company continued its investments in new initiatives to stimulate automotive market in partnership with auto dealers and sub dealers. The company remained very selective in extending new mortgage loans considering reduction in real estate activities and prices. The overall increase in costs of living infused higher demands for personal loans amongst existing and new customer profiles. The company's credit card offerings under 'Imtiaz' continue to reach wider segments of the society. The business fundamental remains very sound with respect to cards acquisition, growth in receivables and foreign currency spend.

The company remained extremely cautious to maintain and manage the quality of its portfolio. However, 2019 witnessed a new reality where customers who never experienced cashflow challenges in the past have reached out to us seeking help in rescheduling their commitments to manage the current market realities and challenges. The company remained flexible to deserving customers and at the same time has taken higher impairment provisions to safeguard its portfolio. The company continues to update its underwriting policies through active feedback between the underwriters and collection agents to ensure that the company's underwriting practices, and risk appetite remain sensitive to the prevailing market circumstances.

National Motor Company has earned a net profit of BD 2.1 million (2018: BD 2.4 million). These results are particularly remarkable considering the significant decline in the new vehicle sales during the year and substantial erosion of margins due to accumulation of vehicle supplies in the country. This supply exceeds customers' demands. It is to be noted that the fortunes of the global automotive industry are under huge disruptions. Factors ranging from new safety and intelligent technologies to fuel efficient engines to aggressive fight over reducing costs of ownerships are casting a negative shadow on the revenue structure of a distributorship business model. In this changing environment, the company has focussed its energy on efficient inventory controls with correct mix of vehicles, lean and skilled deployment of workforce, strong focus on customer satisfaction and emphasis on cost optimisation. The company continued its strong focus on meeting and exceeding customer expectations in after sales operations.

The disruptions mentioned above are being capitalized on through Tasheelat Automotive Company. The growth trajectory of the company, despite the contracting automotive market, remain exciting. The company has achieved a net profit of BD 271 thousand (2018: BD 200 thousand). GAC Motor continued its leadership in the China sourced brands, at the same time it became overall seventh largest automotive brand in the country due to its high reliability, cutting edge technologies, safety features, fuel efficiency and very attractive price points. To take advantage of changing customers preferences, the company has recently introduced Haval Motor, another well-known car brand known for its sports utility vehicles. The initial feedback received has been excellent. Your Board will continue to invest in new and aspiring brands and the setup for the automotive businesses.

Tasheelat Insurance Services Company had achieved a net profit of BD 0.7 million (2018: BD 0.8 million). The company continued to perform well despite the difficult market conditions due to its strategy of diversifying its revenue streams. The contraction in the new vehicle sales and noticeable shift of customers to lower price vehicles have resulted in the reduction of the company's gross insurance premium income. This is despite the fact that the company sold higher number of policies during the year. The company continued to offer unique products through leveraging on BCFC Group core competencies to address new market segments that are currently not well served.

Tasheelat Real Estate Services Company registered a net profit of BD 0.2 million (2018: BD 0.6 million). The introduction of new infrastructure fees and general contraction in liquidity has stagnated the real estate market in Bahrain. Customers overall demands remained uninspiring with marginal correction in real estate prices in certain areas. Such market conditions have affected the company's plans to liquidate available inventory in the existing projects. The company continues to chase steady and annuity type of returns and have further invested in multiple new investment properties. All such properties continue to maintain healthy occupancy rate throughout the year and have generated steady and reliable rental yield.

Tasheelat Car Leasing company continued to scale at the right pace and registered a net profit of BD 100 thousand (2018: net loss BD63 thousand). In current market circumstances when customers disposable income is significantly constrained, car leasing is emerging as a good option for vehicle needs. The company is reaching out to retail and corporate customers to offer leasing as an alternative option for mobility. The company has achieved significant increase in its fleet of vehicles to more than 1200 vehicles. The company has unique advantage of having largest strategically located branch network with vast range of vehicles, efficiently sourced from sister companies to appeal to all types of customer profiles.

BCFC Group continues to enjoy a strong and healthy liquidity position with a well-defined spaced out maturity profile for its borrowings. During the year, the Company had successfully arranged a USD 125 million syndicated loan. The loan proceeds were used to repay USD 53 million bonds and USD 50 million towards first tranche of USD 125 million syndicated loan on their respective maturities. The Group is currently operating at a low and healthy leverage of 1.7 multiples. The Group shall explore expansion opportunities, as and when they are presented themselves, which have the potential to increase the shareholder value.

During the year, there were no changes in the composition of the Board of Directors. In accordance with the requirement of Bahrain's Commercial Company Law 2001, we report the aggregate amount paid to directors during 2019 was BD767 thousand (2018: BD 726 thousand) in respect of fees and subsidiary Board and Committees' attendance allowances. The total shareholding of the directors in the Company is 137.3 million shares (67.26% 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
26 February 2020

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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 2019, 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 2019, 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 2019. 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(d) and note 4 on disclosure of credit risk in the financial statements)

Description	**How the matter was addressed in our audit**
We focused on this area because: ▪ of the significance of loans and advances and the related estimation of uncertainty to the consolidated financial statements; and ▪ impairment of loans and advances involves: - complex estimates and judgment over both timing and recognition of impairment;	Our audit procedures, amongst others, to address significant risks associated with impairment included: • Evaluating the appropriateness of the accounting policies adopted based on the requirements of IFRS 9, our business understanding, and industry practice. • Confirming our understanding of management's processes, systems and controls, including controls over the expected credit loss ("ECL") model. **Controls testing** We performed process walkthroughs to identify the key systems, applications and controls used in the ECL processes. We tested the relevant General IT and applications controls over key systems used in the ECL process. Key aspects of our control testing involved the following:

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (continued)

- use of statistical models and methodologies for determination of expected credit losses; and
- complex disclosure requirements regarding credit quality of the portfolio including explanation of key judgments and material inputs used in determination of expected credit losses.

- Testing the design and operating effectiveness of the key controls over the completeness and accuracy of the key inputs and assumptions elements into the IFRS 9 impairment models;
- Testing controls over the transfer of data between underlying source systems and the impairment models that the Group operates;
- Evaluating controls over the modelling process, including governance over model monitoring, validation and approval;
- Evaluating controls over the governance and assessment of model outputs and authorisation and review of post model adjustments and management overlays; and
- Testing key controls relating to selection and implementation of material economic variables and the controls over the scenario selection and probabilities.

Test of details

Key aspects of our testing involved:

- Sample testing over key inputs and assumptions impacting ECL calculations including economic forecasts and weights to confirm the accuracy of information used;
- Re-performing key aspects of the Group's significant increase in credit risk ('SICR') determinations and selecting samples of financial instruments to determine whether a SICR was appropriately identified;
- Re-performing key elements of the Group's model calculations and assessing performance results for accuracy;
- Selecting a sample of post model adjustments and management overlays in order to assess the reasonableness of the adjustments by challenging key assumptions, testing the underlying calculation and tracing a sample back to source data.

Use of specialists

For the relevant portfolios examined, we have involved KPMG specialists to assist us in assessing IT system controls and challenging key management assumptions used in determining expected credit losses. Key aspects of their involvement included:

- Involvement of Information Risk Management specialists to test controls over the IT systems, recording of data in source systems and transfer of data between source systems and the ECL models;
- Involvement of our Financial Risk Management specialists to review the reasonableness and appropriateness of the methodology and assumptions used in various components of ECL modelling by reference to our own knowledge and external market data and economic conditions. This typically included challenging key assumptions/judgements relating to, significant increase in credit risk, definition of default, probability of default, recovery rates, use of macro-economic variables and probability weighted outcomes.

Disclosures

We assessed the adequacy of the Group's disclosure related to expected credit losses by reference to the requirements of relevant accounting standards.

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (continued)

Provision on inventory (vehicles and spare parts)

Refer to Note 10 to the consolidated financial statements.

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

Impairment of trade receivables

Refer to Note 9 to the consolidated financial statements.

Description	*How the key audit matter was addressed in our audit*
We focused on this area because: ▪ the Group has significant receivables from customers in the automotive industry; ▪ accounting policies for impairment include the need for making complex estimates and judgment over both timing and recognition of impairment; and ▪ use of models and methodologies for determination of expected credit losses;	Our audit procedures included: • Evaluating the appropriateness of the accounting policies based on the requirements of IFRS 9, our business understanding, and industry practice. **Controls testing** • Testing the design and operating effectiveness of the key controls over the completeness and accuracy of the key inputs and assumptions elements into the IFRS 9 ECL model; • Evaluating controls over the governance and assessment of the output of the ECL model, authorisation and review of post model adjustments and management overlays. **Test of details** • Testing the ageing of receivables on a sample basis. Evaluating the adequacy of the Group's disclosures related to IFRS 9 in the consolidated financial statements.

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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.

- 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.

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (continued)

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 2019 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 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 Commercial Companies Law, the CBB and Financial Institutions Law No. 64 of 2006 (as amended), 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.

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KPMG Fakhro
Partner registration number 83
26 February 2020

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2019

Bahraini dinars thousands

	Note	**31 December 2019**	31 December 2018
Assets			
Cash and balances with banks		5,040	5,171
Loans and advances to customers	8	325,289	314,803
Trade receivables	9	7,270	8,879
Inventories	10	26,322	22,842
Investment properties	11	12,641	6,757
Property and equipment	12	29,592	27,364
Other assets		3,673	5,266
Total assets		**409,827**	391,082
Liabilities and equity			
Liabilities			
Bank overdrafts		1	141
Trade and other payables		27,301	20,757
Bank term loans	13	230,163	204,292
Bonds issued	14	-	19,964
Total liabilities		**257,465**	245,154
Equity			
Share capital	15	20,419	16,335
Treasury shares	15	(599)	(599)
Statutory reserve		35,502	33,542
Other reserves		25,221	26,848
Retained earnings		71,819	69,802
Total equity (page 13-14)		**152,362**	145,928
Total liabilities and equity		**409,827**	391,082

The consolidated financial statements were approved by the Board of Directors on 26 February 2020 and signed on its behalf by:

Abdulrahman Yusuf Fakhro
Chairman

Reyadh Yusuf Hasan Sater
Vice Chairman

Dr. Adel Hubail
Chief Executive Officer

The accompanying notes 1 to 29 are an integral part of these consolidated financial statements.

Bahrain Commercial Facilities Company BSC

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
for the year ended 31 December 2019

Bahraini dinars thousands

	Note	**2019**	2018
Interest income		39,505	37,218
Interest expense		(12,803)	(11,729)
Net interest income		**26,702**	25,489
Automotive revenue	16	48,183	60,406
Cost of sales		(41,803)	(53,236)
Gross profit on automotive revenue		**6,380**	7,170
Fee and commission income	17	10,988	12,016
Profit from sale of land inventory	18	334	909
Rental and other fee income		862	714
Total operating income		**45,266**	46,298
Salaries and related costs		(9,522)	(9,027)
Other operating expenses	20	(12,248)	(11,557)
Other income	19	1,584	826
Profit before impairment allowance on loans and receivables		**25,080**	26,540
Impairment allowance on loans and receivables, net of recoveries		(7,968)	(3,649)
Profit for the year		**17,112**	22,891
Basic and diluted earnings per 100 fils share	25	85 fils	114 fils
Proposed cash dividend per 100 fils share		50 fils	45 fils

Abdulrahman Yusuf Fakhro
Chairman

Reyadh Yusuf Hasan Sater
Vice Chairman

Dr. Adel Hubail
Chief Executive Officer

The accompanying notes 1 to 29 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2019 Bahraini dinars thousands

	2019	2018
Profit for the year	**17,112**	22,891
Other comprehensive income		
Items that are or may be reclassified to profit or loss		
Net change in cash flow hedge reserve	(3,088)	184
Total other comprehensive income for the year	**(3,088)**	184
Total comprehensive income for the year	**14,024**	23,075

The accompanying notes 1 to 29 are an integral part of these consolidated financial statements.

BAHRAIN COMMERCIAL FACILITIES COMPANY BSC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2019

Bahraini dinars thousands

	Share capital		Reserves and retained earnings					
				Other reserves				
2019	**Share capital**	**Treasury shares**	**Statutory reserve***	**Cash flow hedge reserve**	**Donation reserve**	**General reserve**	**Retained earnings**	**Total equity**
As at 31 December 2018	16,335	(599)	33,542	1,366	732	24,750	69,802	145,928
2018 appropriations (approved by shareholders):								
- Donations approved	-	-	-	-	300	-	(300)	-
- Bonus share	4,084	-	-	-	-	-	(4,084)	-
- Dividend to equity holders declared	-	-	-	-	-	-	(7,251)	(7,251)
- Transfer to statutory reserve	-	-	1,500	-	-	-	(1,500)	-
- Transfer to general reserve	-	-	-	-	-	1,500	(1,500)	-
Balance after 2018 appropriations	**20,419**	**(599)**	**35,042**	**1,366**	**1,032**	**26,250**	**55,167**	**138,677**
Comprehensive income for the year:								
Profit for the year	-	-	-	-	-	-	17,112	17,112
Other comprehensive income:								
- Fair value loss on cash flow hedge reserve	-	-	-	(3,088)	-	-	-	(3,088)
Total comprehensive income for the year	**-**	**-**	**-**	**(3,088)**	**-**	**-**	**17,112**	**14,024**
Utilisation of donation reserve	-	-	-	-	(339)	-	-	(339)
- Transfer to statutory reserve	-	-	460	-	-	-	(460)	-
At 31 December 2019	**20,419**	**(599)**	**35,502**	**(1,722)**	**693**	**26,250**	**71,819**	**152,362**

*Includes BD 25,292 of share premium.

The accompanying notes 1 to 29 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2019

Bahraini dinars thousands

2018	Share capital		Reserves and retained earnings					Total equity
				Other reserves				
	Share capital	Treasury shares	Statutory reserve*	Cash flow hedge reserve	Donation reserve	General reserve	Retained earnings	
As at 31 December 2017 (as previously reported)	16,335	(599)	33,542	1,182	680	23,250	63,018	137,408
Impact of adopting IFRS 9 as at 1 January 2018	-	-	-	-	-	-	(6,250)	(6,250)
Restated balance as at 1 January 2018	16,335	(599)	33,542	1,182	680	23,250	56,768	131,158
2017 appropriations (approved by shareholders):								
- Donations approved	-	-	-	-	300	-	(300)	-
- Dividend to equity holders declared	-	-	-	-	-	-	(8,057)	(8,057)
- Transfer to general reserve	-	-	-	-	-	1,500	(1,500)	-
Balance after 2017 appropriations	16,335	(599)	33,542	1,182	980	24,750	46,911	123,101
Comprehensive income for the year:								
Profit for the year	-	-	-	-	-	-	22,891	22,891
Other comprehensive income:								
- Fair value gain on cash flow hedge reserve	-	-	-	184	-	-	-	184
Total comprehensive income for the year	-	-	-	184	-	-	22,891	23,075
Utilisation of donation reserve	-	-	-	-	(248)	-	-	(248)
At 31 December 2018	16,335	(599)	33,542	1,366	732	24,750	69,802	145,928

*Includes BD 25,292 of share premium.

The accompanying notes 1 to 29 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2019

Bahraini dinars thousands

	2019	2018
Cash flow from operating activities		
Loan repayments, interest received and credit card related receipts	328,399	313,822
Receipts from automotive sales	51,262	58,504
Insurance commission received	1,402	1,499
Proceeds from sale of land inventory	3,049	6,465
Rental received	849	698
Loans and advances to customers disbursed	(296,037)	(295,182)
Payments to automotive suppliers	(44,024)	(48,615)
Payment for real estate inventory	(696)	(784)
Payments for operating expenses	(20,524)	(19,739)
Directors' fees paid	(535)	(464)
Interest paid	(13,106)	(11,820)
Net cash generated from operating activities	**10,039**	4,384
Cash flows from investing activities		
Capital expenditure on property and equipment	(3,020)	(3,145)
Addition to / purchase of investment properties (net)	(6,165)	(669)
Proceeds from sale of property and equipment	708	804
Net cash used in investing activities	**(8,477)**	(3,010)
Cash flows from financing activities		
Bank term loans availed	41,473	55,280
Bank term loans repaid	(15,593)	(28,775)
Bonds paid on maturity	(19,981)	(20,000)
Dividends paid	(7,205)	(8,020)
Donations paid	(339)	(248)
Net cash used in financing activities	**(1,645)**	(1,763)
Net decrease in cash and cash equivalents	**(83)**	(389)
Cash and cash equivalents at 1 January	4,967	5,356
Cash and cash equivalents at 31 December	**4,884**	4,967

Cash and cash equivalents comprise:		
Cash and balances with banks	5,040	5,171
Less:		
Restricted cash	(155)	(63)
Bank overdrafts	(1)	(141)
	4,884	4,967

The accompanying notes 1 to 29 are an integral part of these consolidated financial statements.

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 issues credit cards. Since 26th June 2005, the Company has been licensed and regulated by the Central Bank of Bahrain ("the CBB"). The consolidated financial statements of the Group as at and for the year ended 31 December 2019 comprise the Company, its subsidiaries and its branches (together referred to as "the Group").

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

Name of subsidiary	Country of incorporation	% holding by Group	Principal activities
National Motor Company WLL	Bahrain	100%	Exclusive distributor for General Motors (GMC, Chevrolet and Cadillac), 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%	Sale of Honda vehicles in Erbil, Kurdistan, Iraq (established through NMC)
Tasheelat Automotive Company SPC	Bahrain	100%	Exclusive distributor for GAC, Foton Haval and Great Wall vehicles in the Kingdom of Bahrain
Tasheelat Car Leasing Company WLL	Bahrain	100%	Car rentals and long and short term 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 Commercial Companies Law.

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 2019
The following standards, amendments and interpretations, which became effective as of 1 January 2019, are relevant to the Group:

i. IFRS 16 Leases

2. Basis of preparation (continued)

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.

A. Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining Whether an Arrangement contains a Lease. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

B. As a lessee

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

The Group presents right-of-use assets that do not meet the definition of investment property in ‘property, plant and equipment’, the same line item as it presents underlying assets of the same nature that it owns. Right-of-use assets that meet the definition of investment property are presented within investment property.

C. As a lessor

The Group leases out its investment property, including right-of-use assets. The Group has classified these leases as operating leases. The accounting policies applicable to the Group as a lessor are not different from those under IAS 17.

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor. However, the Group has applied IFRS 15 Revenue from Contracts with Customers to allocate consideration in the contract to each lease and non-lease component.

D. Transition

Previously, the Group classified property leases as operating leases under IAS 17. At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group’s incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments – the Group applied this approach to all leases.

The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

- Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term or of low value assets.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

2. Basis of preparation (continued)

E. Impacts on financial statements

I. ***Impacts on transition***

On transition to IFRS 16, the Group recognised additional right-of-use assets, and additional lease liabilities as summarised below:

	1 January 2019
Right-of-use assets presented in property, plant and equipment	2,095
Lease Liabilities	1,039

The Company has entered into a lease agreement with Right of use value of BD 1,050 thousand as of 1 January 2019, however the correspondent lease liability has been paid in advance at the initiation of the lease contract. When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. On adoption of IFRS 16, there was no significant impact of retained earnings.

ii. **Other standards**

The following amended standards are not expected to have significant impact on the Group's Consolidated financial statements:

- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)
- Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards

e) 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.

f) 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 2019 and earlier application is permitted; however; the Group has not early applied the following new or amended standards in preparing these consolidated financial statements.

- Amendments to References to Conceptual Framework in IFRS Standards
- Definition of Material – Amendments to IAS 1 and IAS 8.

3. SIGNIFICANT ACCOUNTING POLICIES

The Group has initially adopted IFRS 16 from 1 January 2019. A number of other new standards are also effective from 1 January 2019, but they do not have a material effect on the Group’s financial statements. (Note reference 3e)

Except for the changes related to the above standards, the Group has consistently applied the accounting policies to all periods presented in these consolidated financial statements.

3. Significant accounting policies (continued)

a. Basis of consolidation

(i) Subsidiaries:

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

(ii) Loss of control:

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

(iii) Transactions eliminated on consolidation:

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

b. Revenue recognition

(i) Interest

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

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

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

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability. The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest

Amortised cost and gross carrying amount

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

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

(ii) Income from sale of goods and provision of services

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

3. Significant accounting policies (continued)

Revenue is measured at the fair value of the consideration received or receivable. Revenue comprises revenue from car maintenance and repair and warranty services. Revenue is recognised over time as the services are rendered, provided pervasive evidence of an arrangement exists, tariff / rates are fixed or are determinable and collectability is reasonably certain.
Revenue from investment property and cars leased out under an operating lease are recognised over the tenure of the lease / service agreement on a straight line basis over the term of the lease, except where the rentals are structured to increase in line with expected general inflation, and except where there is uncertainty of ultimate collection.

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

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

(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 over time 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.

c. Foreign currency transactions

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

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

Foreign currency differences arising on retranslation are generally recognized in profit or loss statements.

d. Financial instruments

(i) Recognition and initial measurement

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 instruments are initially recognised on the trade date, which is the date when the Group becomes a party to the contractual provisions of the instrument.

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

3. Significant accounting policies (continued)

(ii) Classification and subsequent measurement

Financial assets

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

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

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

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

Business model assessment:

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

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

Assessment whether contractual cash flows are solely payments of principal and interest:

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

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

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

3. Significant accounting policies (continued)

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

Financial assets at amortised cost

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

De-recognition

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

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

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

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.

Impairment

Non-derivative financial assets

Financial instruments
The Group recognises loss allowances for ECLs on financial assets measured at amortised cost. The Group measures loss allowances at an amount equal to lifetime ECLs, except for bank balances for which credit risk has not increased significantly since initial recognition.

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

3. Significant accounting policies (continued)

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

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due for the loan portfolio.

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

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

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

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

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

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

ECLs are discounted at the effective interest rate of the financial asset.
The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

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

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

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

3. Significant accounting policies (continued)

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

Measurement of ECLs- Trade receivables (simplified approach):

The Group uses an allowance matrix to measure the ECLs of trade receivables from individual customers, which comprise a very large number of small balances.

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

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

Measurement of ECLs- Cash and bank balances (General approach)

Impairment on cash and cash equivalents has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

Credit-impaired financial assets

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

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

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

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

Trade and other receivables
Trade receivable are recognised at fair value and subsequently measured at amortised cost, less provision for impairment.

e. **Adoption of IFRS 16**
The Group applied IFRS 16 with a date of initial application of 1 January 2019. As a result, the Group has changed its accounting policy for lease contracts as detailed below.

The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated – ie. It is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

Changes in accounting policies
At the inception of the contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for the period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset, this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset if either:
  - the Group has the right to operate the asset; or
  - the Group designed the asset in a way that predetermines how and for what purpose it will be used.

The new definition of a lease under IFRS 16 has been applied for contracts entered into, or changed, on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Group has elected not to separate non-lease components and to account for the lease and non-lease components as a single lease component.

Measurement

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises:

- the amount of the initial measurement of the lease liability;
- any lease payment made at or before the commencement date, less any lease incentives received;
- any initial direct cost incurred by the lessee; and
- estimated cost to dismantle and to remove the underlying asset, or to restore the underlying asset or the site on which it is located.

The right-of-use asset is subsequently depreciated using the straight line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined based on the lease term.

Lease liability is measured as the present value of the future lease payments that are not paid at the commencement date. The lease payments are discounted based on the Group's incremental borrowing rate. Lease liability comprises the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option;
- lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option; and
- penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

f. Inventories

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

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

g. Property, equipment and right of use assets

Recognition:

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

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

Depreciation:

Depreciation is charged to the profit or loss statement 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 35 years
Furniture, fixture and equipment	3 to 6 years
Owned Vehicles	4 years
Leased Vehicle	4 to 6 years
Right of Use	Over lease period

3. Significant accounting policies (continued)

h. 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 statement 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	15 to 35 years
Furniture, fixture and equipment	4 years

i. 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 statement in the year in which it arises.

j. Dividends

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

k. Statutory reserve and share premium

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

In accordance with the Commercial Companies Law 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.

l. General reserve

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

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

m. 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.

n. Share capital

Ordinary shares

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

Treasury shares

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

3. Significant accounting policies (continued)

o. 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 statement. 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.

p. Impairment of non-financial assets

The carrying amounts of the Group's assets other than financial assets (note 3d) 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.

q. 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.

r. 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 10% of the employee salary to each employee's savings contribution. Annual interest rate of 4.5% 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 the Group's contribution and all earned interest based on years of service.

3. Significant accounting policies (continued)

s. Trade, other payables and lease liability
Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost.

t. 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.

u. 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.

v. 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.

w. 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.

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

4. FINANCIAL RISK MANAGEMENT

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

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

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

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

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

4. Financial risk management (continued)

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 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 the Group credit processes are undertaken by the Internal Audit department.

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

4. *Financial risk management (continued)*

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

	31 December 2019	31 December 2018
Stage 3 – Specifically assessed loans		
Gross amount	3,081	1,724
Expected credit loss	(1,984)	(967)
Net amount	**1,097**	757
Stage 1, 2 and 3 - Collectively assessed loans		
Stage 1 - 12 month	275,700	291,580
Stage 2 - lifetime - not credit impaired	41,626	17,117
Stage 3 – lifetime - credit impaired	28,268	22,212
Expected credit loss	(21,402)	(16,863)
Net amount	**324,192**	314,046
Net loans and advances to customers	**325,289**	314,803

Stage 3 – Specifically provided loans

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

Stage 1, 2 and 3 - Collectively assessed loans

The Group applies a three-stage approach to measuring expected credit losses (ECL) on financial assets carried at amortised cost and debt instruments classified as FVOCI. Financial assets migrate through the following three stages based on the change in credit quality since initial recognition.

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

Significant increase in credit risk

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

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

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

4. Financial risk management (continued)

Monitoring of credit risk
Generating the term structure of PD

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

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

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include: GDP growth, benchmark interest rates and unemployment.

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

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

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

As a general criteria, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

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

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 60 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

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

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

4. Financial risk management (continued)

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

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

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

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

Key macro-economic indicators include: Oil price, Consumers purchase index (CPI), Real GDP growth, Real interest rate (RIR), Unemployment rate, Domestic credit growth, Central Government revenue as percentage of GDP and Central Government expenditure as percentage of GDP.

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

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

	Stage 1	**Stage 2**	**Stage 3**	**2019**	2018
Current	247,937	11,701	5,850	**265,488**	273,551
Past due:					
1-30 days	27,763	2,979	1,562	**32,304**	24,011
31-60 days	-	16,466	1,244	**17,710**	15,270
61-89 days	-	10,480	2,560	**13,040**	9,766
90 days – 1 year	-	-	14,914	**14,914**	6,416
1 year – 3 years	-	-	4,664	**4,664**	2,974
More than 3 years	-	-	555	**555**	645
Expected credit loss	(3,282)	(4,923)	(15,181)	**(23,386)**	(17,830)
Carrying value	**272,418**	**36,703**	**16,168**	**325,289**	314,803

4. Financial risk management (continued)

By industry or counterparty:

2019	**Retail**	**Corporate**	**Total**
Current	240,749	24,739	265,488
Past due:			
1-30 days	29,829	2,475	32,304
31-60 days	16,540	1,170	17,710
61-89 days	12,200	840	13,040
90 days – 1 year	14,603	311	14,914
1 year – 3 years	4,084	580	4,664
More than 3 years	317	238	555
Gross loans and advance	**318,322**	**30,353**	**348,675**
Collectively assessed ECL	(20,004)	(1,398)	(21,402)
Specifically assessed ECL	(1,216)	(768)	(1,984)
Net loans and advances	**297,102**	**28,187**	**325,289**

2018	Retail	Corporate	Total
Current	244,910	28,641	273,551
Past due:			
1-30 days	23,375	636	24,011
31-60 days	12,953	2,317	15,270
61-89 days	8,538	1,228	9,766
90 days – 1 year	6,352	64	6,416
1 year – 3 years	2,885	89	2,974
More than 3 years	645	-	645
Gross loans and advance	299,658	32,975	332,633
Collectively assessed ECL	(16,052)	(811)	(16,863)
Specifically assessed ECL	(681)	(286)	(967)
Net loans and advances	282,925	31,878	314,803

By geographical region:

Except for BD 13 (2018: BD 117) all loans and advances are geographically located in Bahrain

At 31 December 2019, the total gross amount of non-performing loans as defined by the CBB was BD 20,133 (2018: 10,035).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 2019, the average gross credit exposure for cash and balances with banks is BD 5,509 (2018: BD 4,570), loans and advances to customers is BD 326,146 (2018: BD 302,695), trade and other receivables is BD 7,648 (2018: BD 7,447) and unutilised credit limit is BD 29,502 (2018: BD 27,738). Such amounts are calculated based on the average of last four quarterly results.

At the reporting date, the loans and advances to customers represent 41% vehicle (2018: 47%), 20% mortgage (2018: 20%), 27% personal loan (2018: 23%) and 12% credit card lending (2018: 10%).

4. Financial risk management (continued)

Except for balance with banks of BD 3 (2018: BD 2) and fully provided loans and advances to customers of BD 13 (2018: BD 117) located in Kurdistan, all remaining maximum exposure are located in Bahrain. The below table summarise the maximum exposure to credit risk without considering collateral and other credit enhancements as of 31 December:

2019	**2019**	2018
Balances with banks	5,040	5,171
Loans and advances to customers	325,289	314,803
Trade receivables	7,270	8,879
Other assets	1,335	3,332
Total	**338,934**	332,185
Unutilised credit limit	29,519	27,651

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 analysed individually for creditworthiness. At the year end, trade receivables of BD 3,449 (2018: BD 2,517) were past due against which BD 1,324 (2018: BD 912) 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. During the year ended 31 December 2019, loans and advances amounting to BD 10,348 (2018: BD 7,532) were restructured.

Collateral

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

As at 31 December 2019, loans amounting to BD 157,873 (2018: BD 174,955) were fully collateralized and loans amounting to BD 45,886 (2018: BD 38,305) were partly collateralized with a collateral value of BD 33,947 (2018: BD 31,291).

Management estimates the fair value of collaterals and other security enhancements held against individually impaired customers loans are reasonably sufficient to cover the value of such loans at the reporting date. The Group monitors concentrations of credit risk by product. As at 31 December 2019, the Group obtained assets for loans value of BD 2,463 (2018: BD 2,045) 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 91% retail loans and 9% to corporate customers and trade receivables represent mainly corporate.

4. Financial risk management (continued)

Settlement risk
The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a counter party to honour its obligations to deliver cash, securities or other assets as contractually agreed.

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

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

b. Liquidity risk
Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk management ensures that funds are available at all times to meet the funding requirements of the Group.

Management of liquidity risk
The Group's approach to managing liquidity risk is to ensure that the Group secures funding significantly larger than present and future requirements. The Group continuously monitors the extent to which contractual receipts exceed contractual payments and the levels of new advances are correlated to the levels of liquidity.

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.

2019	**Carrying amount**	**Gross contractual cash flows**	**Within 1 Year**	**1 year to 5 years**	**Over 5 years**
Assets					
Cash and balances with banks	5,040	5,040	5,040	-	-
Loans and advances to customers	325,289	453,270	144,924	245,598	62,748
Trade receivables	7,270	7,270	7,270	-	-
Other assets	1,335	1,335	1,335	-	-
	338,934	**466,915**	**158,569**	**245,598**	**62,748**
Liabilities					
Bank overdrafts	1	1	1	-	-
Trade and other payables	21,164	21,164	21,164	-	-
Bank term loans	230,163	257,590	97,243	160,347	-
Bonds	-	-	-	-	-
	251,328	**278,755**	**118,408**	**160,347**	**-**
Unutilised credit limits	29,519	29,519	29,519	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2019 Bahraini dinars thousands

4. Financial risk management (continued)

2018	Carrying amount	Gross contractual cash flows	Within 1 Year	1 year to 5 years	Over 5 years
Assets					
Cash and balances with banks	5,171	5,171	5,171	-	-
Loans and advances to customers	314,803	436,450	139,963	236,043	60,444
Trade receivables	8,879	8,879	8,879	-	-
Other assets	3,332	3,332	3,332	-	-
	332,185	453,832	157,345	236,043	60,444
Liabilities					
Bank overdrafts	141	141	141	-	-
Trade and other payables	16,910	16,910	16,910	-	-
Bank term loans	204,292	234,239	65,619	168,620	-
Bonds	19,964	20,856	20,856	-	-
	241,307	272,146	103,526	168,620	-
Unutilised credit limits	27,651	27,651	27,651	-	-

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**	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
ASSETS								
Cash and balances with banks	-	-	-	-	5,040	5,171	5,040	5,171
Loans and advances to customers	324,676	314,302	-	-	613	501	325,289	314,803
Trade receivables	-	-	-	-	7,270	8,879	7,270	8,879
Other assets	-	1,349	2	1,439	1,333	544	1,335	3,332
	324,676	315,651	**2**	1,439	**14,256**	15,095	**338,934**	332,185
LIABILITIES								
Bank overdrafts	-	-	1	141	-	-	1	141
Trade and other payables	-	-	-	-	21,164	16,910	21,164	16,910
Bank term loans	-	-	230,163	204,292	-	-	230,163	204,292
Bonds issued	-	-		19,964	-	-	-	19,964
	-	-	**230,164**	224,397	**21,164**	16,910	**251,328**	241,307

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 2019 interest rate risk attributable to the term loans of USD 290 million (BD: 109.33 million) (2018: USD 270 million, BD 101.79 million) has been hedged. The Group also have additional USD 20 million forward start interest rate swaps. Further, the Group has entered into BD 15 million forward contracts to partially hedge its BD-USD open position.

The fair value changes of the interest rate swaps and forward contracts are recognised in equity (pages 13-14). 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 2019 a change in variable rate financial instruments by 100 basis points will increase/ (decrease) net profits by BD 1,208 (2018: BD 1,226).

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.

	2019	2018
US Dollars	**213,862**	212,123

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 1.7 as at 31 December 2019 (2018:1.68).

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	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
ASSETS										
Cash and balances with banks	5,040	5,171	-	-	-	-	-	-	5,040	5,171
Loans and advances to customers	126,111	119,033	165,710	161,179	31,714	33,213	1,754	1,378	325,289	314,803
Trade receivables	7,270	8,879	-	-	-	-	-	-	7,270	8,879
Other assets	1,335	3,332	-	-		-		-	1,335	3,332
	139,756	136,415	**165,710**	161,179	**31,714**	33,213	**1,754**	1,378	**338,934**	332,185
LIABILITIES										
Bank overdrafts	1	141	-	-	-	-	-	-	1	141
Trade and other payables	21,164	16,910	-	-	-	-	-	-	21,164	16,910
Bank term loans	84,622	53,096	145,541	151,196	-	-	-	-	230,163	204,292
Bonds issued	-	19,964	-	-	-	-	-	-	-	19,964
	105,787	90,111	**145,541**	151,196	**-**	-	**-**	-	**251,328**	241,307

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) Impairment on Loans and advances

Impairment

Assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL.

Significant increase in credit risk

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

Inputs, assumptions and techniques used for estimating impairment

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures expected credit loss using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD).

6. Use of estimates and judgments (continued)

The Group employs statistical models to analyse the data collected and generate estimates of PD of exposures and how these are expected to change as a result of the passage of time. This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties.

(ii) Impairment on trade receivables

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

(iii) 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

(iv) 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.

(v) 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 338,934 (2018: BD 332,185) are categorised under 'loans and receivables' and are measured at amortised cost. All the financial liabilities of BD 251,328 (2018: BD 241,307) are measured at amortised cost except derivatives which are measured at fair value.

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.

7. Fair value (continued)

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

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

(i) Financial assets and liabilities measured at fair value

The fair value of the derivatives, which are not exchange traded, is estimated at the amount the Group would receive or pay to terminate the contract at the reporting date taking into account current market conditions and the current credit worthiness of the counterparties. The Group's exposure to derivatives, whose fair value as of 31 December 2019 is BD (1,722) (2018: BD 1,366) 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.

2019	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**Total Carrying value**
Loans and advances to customers	-	-	325,289	325,289	325,289
Bank term loans	-	230,163	-	230,163	230,163

2018	Level 1	Level 2	Level 3	Total fair value	Total Carrying value
Loans and advances to customers	-	-	314,803	314,803	314,803
Bank term loans	-	204,292	-	204,292	204,292
Bonds issued	-	19,964	-	19,964	19,964

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 2019 and 31 December 2018 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.

7. Fair value (continued)

Details of the Group's investment properties and information about the fair value hierarchy as at 31 December 2019 are as follows:

2019	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**Total Carrying value**
Investment properties	**-**	**17,054**	**-**	**17,054**	**12,641**

2018	Level 1	Level 2	Level 3	Total fair value	Total Carrying value
Investment properties	-	9,324	-	9,324	6,757

8. LOANS AND ADVANCES TO CUSTOMERS

(a) Exposure by staging

	As at 31 December 2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans and advances	275,700	41,626	31,349	**348,675**
Less: expected credit loss	(3,282)	(4,923)	(15,181)	**(23,386)**
Net loans and advances	272,418	36,703	16,168	**325,289**

	As at 31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
Loans and advances	291,580	17,117	23,936	332,633
Less: expected credit loss	(3,116)	(3,708)	(11,006)	(17,830)
Net loans and advances	288,464	13,409	12,930	314,803

(b) Expected credit loss movement

2019	**Stage 1**	**Stage 2**	**Stage 3 Collectively assessed**	**Stage 3 Specifically assessed**	**Total**
Expected credit loss as 1 January 2019	3,116	3,708	10,039	967	**17,830**
Transfer to stage 1	1,257	(104)	(1,126)	(27)	**-**
Transfer to stage 2	(389)	1,804	(1,415)	-	**-**
Transfer to stage 3	(211)	(355)	367	199	**-**
Charge for the year	(491)	(130)	9,378	1,011	**9,768**
Write off during the year	-	-	(4,046)	(166)	**(4,212)**
Expected credit loss as 31 December 2019	**3,282**	**4,923**	**13,197**	**1,984**	**23,386**

8. Loans and advances to customers (continued)

2018	Stage 1	Stage 2	Stage 3 Collectively assessed	Stage 3 Specifically assessed	Total
Expected credit loss as 1 January 2018 (restated)	3,136	3,419	9,186	460	16,201
Transfer to stage 1	104	(47)	(57)	-	-
Transfer to stage 2	(505)	569	(64)	-	-
Transfer to stage 3	(2,973)	(851)	3,824	-	-
Charge for the year	3,354	618	945	563	5,480
Write off during the year	-	-	(3,795)	(56)	(3,851)
Expected credit loss as 31 December 2018	3,116	3,708	10,039	967	17,830

The average interest rates on loans and advance to customer is 11.6% p.a. (2018: 11.7% p.a.).

9. TRADE RECEIVABLES

	31 December 2019	31 December 2018
Trade receivables	8,759	10,259
Less: expected credit loss	(1,489)	(1,380)
	7,270	8,879

Expected credit loss movement	**31 December 2019**	31 December 2018
As at the beginning of the period	1,380	589
Impact of adopting IFRS 9 as at 1 January 2018	-	849
Opening balance under IFRS 9	**1,380**	1,438
Charge for the year	119	77
Reversal for the year for settled accounts	(9)	(87)
Write off during the year	(1)	(48)
Expected credit loss at the end of the year	**1,489**	1,380

10. INVENTORIES

	31 December 2019	31 December 2018
Automotive stock:		
-Vehicles	15,122	10,303
-Spare parts	5,326	4,597
Land and building inventory	6,529	8,510
	26,977	**23,410**
Provision on vehicles and spare parts	(655)	(568)
	26,322	22,842

Movement on provisions (vehicle and spare parts)	**2019**	2018
At 1 January	568	305
Net charge for the year	355	320
Utilization	(268)	(57)
At 31 December	**655**	568

The land and building inventory include land plots and a residential building under construction for the purpose of sale of flats once completed. These are classified at the reporting date as an inventory and carried at the lower of cost and net realisable value.

11. INVESTMENT PROPERTIES

	2019	2018
Cost		
At 1 January	8,094	8,056
Additions during the year (net)	6,179	669
Transfer to Inventories	-	(631)
At 31 December	14,273	8,094
Accumulated depreciation		
At 1 January	1,337	1,117
Depreciation for the year	295	220
At 31 December	**1,632**	1,337
Net book value		
At 31 December	**12,641**	6,757

The fair value of all the investment properties as at 31 December 2019 is BD 17,054 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	Right of Use	2019 Total	2018 Total
Cost							
At 1 January	26,185	9,528	8,148	1,198	-	45,059	41,692
Additions	32	508	3,137	989	2,333	6,999	5,342
Disposals and retirements	(135)	(76)	(2,086)	(27)	-	(2,324)	(1,975)
Reclassified	(1,129)	321	24	(554)	1,338	-	-
At 31 December	**24,953**	**10,281**	**9,223**	**1,606**	**3,671**	**49,734**	45,059
Depreciation							
1 January	8,247	7,390	2,058	-	-	17,695	16,349
Charge for the year	497	978	1,508	-	650	3,633	2,573
Disposals and retirements	(105)	(3)	(1,078)	-	-	(1,186)	(1,227)
Reclassified	(300)	-	-	-	300	-	-
At 31 December	**8,339**	**8,365**	**2,488**	**-**	**950**	**20,142**	17,695
Net book value							
At 31 December 2019	**16,614**	**1,916**	**6,735**	**1,606**	**2,721**	**29,592**	27,364
At 31 December 2018	17,938	2,138	6,090	1,198	-	-	27,364

The cost of fully depreciated assets still in use at 31 December 2019 was BD 8,327 (2018: BD 7,614).

13. BANK TERM LOANS

	31 December 2019	31 December 2018
Repayable within one year	84,622	53,096
Repayable after one year	145,541	151,196
	230,163	204,292

Bank term loans extended have floating interest rates, which are subject to re-pricing on a quarterly or half-yearly basis. The effective interest rate on term loans inclusive of the effect of the interest rate swaps (note 5) was 5.6% p.a. (2018: 5.4% p.a.).

14. BONDS ISSUED

	31 December 2019	31 December 2018
Face value	-	19,981
Less: Unamortised cost of issue	-	(17)
	-	19,964

Movement on bonds during the year	**2019**	2018
At 1 January	19,981	39,981
Less: Repaid during the year	(19,981)	(20,000)
At 31 December	**-**	19,981

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

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

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

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

15. SHARE CAPITAL

	31 December 2019	31 December 2018
Authorised share capital		
500,000,000 (2018: 500,000,000) shares of 100 fils each	**50,000**	50,000

	2019	2018
Issued and fully paid		
204,187,500 (2018:163,350,000) shares of 100 fils each		
At 1 January	16,335	16,335
Bonus share (1 share for every 4 shares held)	4,084	-
At 31 December	**20,419**	16,335
Treasury shares 2,759,029 shares (2018: 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	63,165,039	30.93%
BBK BSC	Bahrain	47,023,363	23.03%
National Bank of Bahrain	Bahrain	22,910,775	11.22%

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

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

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

Categories*	**Number of Shares**	**Number of shareholders**	**% of total issued shares**
Less than 1%	48,739,954	1,272	23.87%
1% up to less than 5%**	22,348,369	7	10.95%
5% up to less than 10%	-	-	-
10% up to less than 20%	22,910,775	1	11.22%
20% up to less than 50%	110,188,402	2	53.96%
Total	**204,187,500**	**1,282**	**100.00%**

* Expressed as a percentage of total issued and fully paid shares of the Company

** Includes 2,759,029 treasury shares

16. AUTOMOTIVE REVENUE

	2019	2018
Sale of cars and accessories	41,649	53,621
Car repair and maintenance services	4,610	5,276
Car leasing revenue	1,924	1,509
	48,183	60,406

17. FEE AND COMMISSION INCOME

	2019	2018
Loan administration and other credit card related fees	9,516	10,560
Insurance commission income	1,472	1,456
	10,988	12,016

18. PROFIT FROM SALE OF LAND INVENTORY

	2019	2018
Revenue	3,011	6,554
Cost of Sales	(2,677)	(5,645)
Profit from sale of land inventory	**334**	909

19. OTHER INCOME

	2019	2018
Incentives from automotive principals	1,075	571
Miscellaneous income	509	255
	1,584	826

20. OTHER OPERATING EXPENSES

	2019	2018
General and administration costs	7,394	7,240
Depreciation	2,680	1,733
Selling and promotion costs	1,535	2,047
Impairment provision for inventory	355	320
Automotive finance cost	284	217
	12,248	11,557

21. 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.

22. SEGMENTAL INFORMATION

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

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

22. SEGMENTAL INFORMATION (continued)

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating profit or loss in the consolidated financial statements. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties. No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in 2019 and 2018. The following table presents income and profit and certain asset and liability information regarding the Group's operating segments.

At 31 December	Lending		Automotive		Real estate		Insurance		Total	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Operating income	**36,190**	36,029	**6,408**	7,189	**1,196**	1,624	**1,472**	1,456	**45,266**	46,298
Inter segment revenue	**51**	56	**626**	414	**244**	66	**220**	194	**1,141**	730
Operating costs	**(13,654)**	(13,052)	**(4,511)**	(4,999)	**(1,040)**	(855)	**(981)**	(852)	**(20,186)**	(19,758)
Impairment, net of recoveries	**(7,880)**	(3,683)	**(58)**	59	**(11)**	-	**(19)**	(25)	**(7,968)**	(3,649)
Inter segment expenses	**(840)**	(480)	**(99)**	(43)	**(202)**	(207)	**-**	-	**(1,141)**	(730)
Profit for the year	**13,867**	18,870	**2,366**	2,620	**187**	628	**692**	773	**17,112**	22,891
Assets (Liabilities)										
Cash and balances with banks	**3,816**	3,822	**997**	1,222	**13**	15	**214**	112	**5,040**	5,171
Loans and advances to customers	**325,289**	314,803	**-**	-	**-**	-	**-**	-	**325,289**	314,803
Trade and other receivables	**256**	110	**6,548**	8,332	**52**	40	**414**	397	**7,270**	8,879
Intercompany balances	**2,291**	(2,092)	**356**	2,155	**(6,237)**	(3,898)	**3,590**	3,835	**-**	-
Inventories	**-**	-	**19,793**	14,332	**6,529**	8,510	**-**	-	**26,322**	22,842
Investment properties	**-**	-	**-**	-	**12,641**	6,757	**-**	-	**12,641**	6,757
Property and equipment	**10,137**	9,669	**19,455**	17,695	**-**	-	**-**	-	**29,592**	27,364
Other assets	**379**	1,613	**3,285**	2,300	**3**	1,353	**6**	-	**3,673**	5,266
Overdrafts	**-**	(141)	**(1)**	-	**-**	-	**-**	-	**(1)**	(141)
Trade and other payables	**(16,948)**	(13,749)	**(9,842)**	(6,496)	**(226)**	(188)	**(285)**	(324)	**(27,301)**	(20,757)
Bonds	**-**	(19,964)	**-**	-	**-**	-	**-**	-	**-**	(19,964)
Bank term loans	**(224,658)**	(199,472)	**(5,505)**	(4,820)	**-**	-	**-**	-	**(230,163)**	(204,292)
Equity	**(100,562)**	(94,599)	**(35,086)**	(34,720)	**(12,775)**	(12,589)	**(3,939)**	(4,020)	**(152,362)**	(145,928)
Capital expenditure	**1,754**	1,665	**3,305**	1,480	**-**	-	**-**	-	**5,059**	3,145
Depreciation charge for the property and equipment	**1,222**	697	**2,411**	1,876	**-**	-	**-**	-	**3,633**	2,573

23. 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.

	2019	2018
Major shareholders:		
As at 31 December		
Term loans	**49,617**	38,505
Bank overdrafts	**-**	141
Bank balances	**1,611**	1,560
For the year ended 31 December		
Interest expense	**2,504**	2,145

	2019	2018
Directors and related affiliates:		
As at 31 December		
Loans and advances to customer / Receivable	**1,685**	1,349
For the year ended 31 December		
Interest income /Income	**160**	9

Certain transactions were approved by the Board of Directors under Article 189(b) of the Commercial Companies Law in the financial year ended 31 December 2019 where the chairman, directors or managers had a direct or indirect interest in the contracts or transactions which have been approved by the board.

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 President and the General Managers.

	2019	2018
As at 31 December		
Credit card receivables	25	29
For the year ended 31 December		
Salaries and short term employee benefits	1,762	1,523
Directors remuneration and attendance fees	700	726
Sale of land plots and cars	-	99

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.

24. RETIREMENT BENEFITS COST

The Group's contributions in respect of Bahraini employees for the year amounted to BD 684 (2018: BD 642). The Group's provision for expatriate employees' leaving indemnities at 31 December 2019 was BD 1,457 (2018: BD 1,252). The Group employed 911 staff at 31 December 2019 (2018: 847).

As at 31 December 2019, the total liability of the Group to its employees under Saving Plan was BD 2,873 (2018: BD 2,247).

25. 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:

	2019	2018
Profit for the year	17,112	22,891
Weighted average number of equity shares (in 000's) (note 15)	201,429	201,429
Basic earnings per share	**85 fils**	114 fils

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

26. OUTSTANDING COMMITMENTS

As at reporting date, the Group has contingent liabilities for standby letters of credit issued in the normal course amounting to BD 7,663 (2018: BD 8,548) and unutilised credit limits of BD 29,519 (2018: BD 27,651) to its customers.

27. 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 2019	**141**	**20,757**	**204,292**	**19,964**	**-**	**15,736**	**60,390**	**69,802**	**391,082**
Proceeds from loans and borrowings	-	-	41,473	-	-	-		-	41,473
Repayment of borrowings	-	-	(15,593)	-	-	-	-	-	(15,593)
Bond paid on maturity	-	-	-	(19,964)	-	-	-		(19,964)
Dividend paid	-	(7,205)	-	-	-	-	-	-	(7,205)
Donation paid	-	-	-	-		-	(338)	-	(338)
Total changes from financing cash flows	**-**	**(7,205)**	**25,880**	**(19,964)**	**-**	**-**	**(338)**	**-**	**(1,627)**
Changes in fair value	-	-	-	-	-	-	(3,088)	-	(3,088)
Other changes	-	-	-	-	-	4,084	3,760	2,016	9,860
Liability-related	-	5,111	-	-	1,690	-	-	-	6,801
Dividends declared		7,251	-	-	-	-	-	-	7,251
Change in bank overdraft	(140)	-	-	-	-	-	-	-	(140)
Capitalised borrowing costs	-	-	(9)	-	-	-	-	-	(9)
Interest expense	-	12,803	-	-	-	-	-	-	12,803
Interest paid	-	(13,106)	-	-	-	-	-	-	(13,106)
Total liability-related other changes	**(140)**	**12,059**	**(9)**	**-**	**-**	**-**	**-**	**-**	**11,910**
Total equity-related other changes	**-**	**-**	**-**	**-**	**-**	**4,084**	**672**	**2,016**	**6,772**
Balance at 31 December 2019	**1**	**25,611**	**230,163**	**-**	**1,690**	**19,820**	**60,724**	**71,818**	**409,827**

28. PROPOSED APPROPRIATIONS

The board of directors has proposed the following appropriations for 2019. These appropriations are subject to approval by the shareholders at the Annual General Meeting.

	2019	2018
Proposed dividends	10,071	7,251
Bonus share (1 share for every 4 shares held)	-	4,084
Donations	300	300
General reserve	750	1,500
Statutory reserve	460	1,500
	11,581	14,635

29. 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.