BAHRAIN COMMERCIAL FACILITIES COMPANY BSC

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020

Bahrain Commercial Facilities Company BSC

2020 CONSOLIDATED FINANCIAL STATEMENTS

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GENERAL INFORMATION

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

The Company wholly owns National Motor Company WLL, which was established in March 1988, Tasheelat Insurance Services Company WLL, which was established in 1997, 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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Branches	: 13444-1, 13444-2, 3444-6, 13444-7, 13444-8, 13444-9, 13444- 10, 13444-13 , 13444-14
Board of Directors	: Abdulrahman Yusuf Fakhro - Chairman
	Dr. AbdulRahman Ali Saif - Vice Chairman
	Reyadh Yusuf Hasan Sater
	Nader Karim Al Maskati
	Ebrahim Abdulla Buhindi
	Abdulaziz Abdulla A. Aziz Al-Ahmed
	Abdulla Mohamed Al-Mahmood
	Mohamed Abdulla Isa
	Yusuf Saleh Sultan Khalaf
	Mohamed Jehad Bukamal
Managing Director	: Reyadh Yusuf Hasan Sater
Acting Head of Credit & Marketing	: Hussain Al-Madhi
General Manager - NMC	: Ramzi Barakat
Acting General Manager - TISCO	: Hamza Shehab
General Manager - TAC	: Bareer Jassim
General Manager - TCL	: Ripin Mehta
Group Head of Finance	: Vishal Purohit

Banks	: Bank of Bahrain and Kuwait (B.S.C.)	National Bank of Bahrain B.S.C.
	Ahli United Bank BSC	BNP Paribas
	Gulf International Bank	Standard Chartered Bank
	Arab Banking Corporation (BSC)	Arab Bank PLC
	Al Salam Bank	HSBC Bank
	Mashreq Bank	Canara Bank
	The National Bank of Ras Al-Khaimah	HBL (Habib Bank Ltd)

Auditors	: KPMG Fakhro

CHAIRMAN REPORT

In 2020, Bahrain lost its beloved son and one of the most prominent world leaders His Royal Highness the Late Prince Khalifa bin Salman Al Khalifa. His Royal Highness had provided his vision and leadership in establishing Bahrain as regional hub for financial institutions and his support to the industry was well known. BCFC Board on behalf of its shareholders, directors and staff offers their respect and condolences to His Majesty King Hamad bin Isa Al Khalifa, The King of Bahrain, His Royal Highness Prince Salman bin Hamad Al Khalifa, the Crown Prince, Deputy Supreme Commander and Prime Minister and all Bahrain Royal Family members.

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 2020. 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 WLL, Tasheelat Insurance Services Company WLL, Tasheelat Automotive Company WLL and Tasheelat Car Leasing Company WLL.

2020 was a year of global disruption where all the businesses irrespective of their size and location were impacted due to the strike of COVID-19 pandemic in mid-February 2020. The pandemic has impacted the global supply chains, new investments, and money supply in addition to over two and half million people who lost their life. This crisis has worsened the already broad-based slowdown which has subdued growth as a consequence of rising trade barriers, elevated uncertainty surrounding geopolitics, macroeconomic strain in several emerging market economies and structural factors, such as low productivity growth and ageing demographics in advanced economies.

In Bahrain, the economy went into a tailspin for small and medium size businesses due to the closed international borders coupled with challenging economic environment, reduction in liquidity and businesses working at reduced capacities due to frequent lockdowns to control the spread of corona virus. The consumer consumption has also significantly affected. The government's efforts to balance the health of individuals to health of economy has resulted into multiple new initiatives, successful implementation of which is slowly stabilizing the economic activities. Due to changing circumstances and continued uncertainties, the business community may take longer than what was initially expected to readjust and recover to the new norm.

Your Company, in such unprecedented environment, cannot be insulated from these acute market realities and consequences. All the four segments where your Company operates, namely consumer finance, automotive sales and leasing, insurance and real estate are amongst the worst affected. The Company has registered a net loss of BD 4.3 million for the year ended 31 December 2020 (2019: net profit of BD 17.1 million). The reduction in net profit is predominantly due to higher impairment provisions taken as a prudent measure to safeguard the Company against expected customers' challenges in servicing their instalments. To support its Bahraini customers in these challenging times, the Company has provided six months loan instalments deferral without any interest or fees on the CBB directives. This has resulted in a modification loss of BD 15.2 million. The Company has received BD 1.9 million as government support towards partial reimbursement of its Bahraini staff salaries and electricity bills.

Bahrain Credit recorded a net loss of BD 3.6 million (2019: net profit of BD 13.9 million). The company has witnessed significant stress in the market where the ability to repay for good customers who never missed their instalments faced challenges due to ongoing crises. The CBB have issued various new directives to provide concessionary measures to eligible customers to relieve their difficulties through granting them deferment of instalments up to 10 months in 2020. We have also noticed increase in rescheduling requests from customers who never experienced cashflow challenges in the past. The company remained flexible to deserving customers and at the same time has taken significantly higher impairment provisions on a conservative basis to safeguard the portfolio. The company has also updated its risk appetite statement and product pricing conditions to reflect the new challenges and market realities.

The company practiced extreme caution in extending new credits and tightened its underwriting policies to adapt to the difficult market conditions. Total new loans worth BD 39.4 million (2019: BD 151 million) were advanced during the year. The company during 2020, prioritised healthy liquidity position over increasing the size of the portfolio.

The company continued its emphasis on reinforcing its risk management practices through engaging independent consultants to review the company's risk management practices and suggest further improvements. The company continued its investments into digital technologies to enhance its customer relation touchpoints.

The automotive market continued its double-digit decline in the new vehicle sales. This trend was also observed in the used cars trading. The customers continue to shift towards smaller engine and low-price vehicles. This has impacted our volume aspirations in vehicle lending, automotive businesses sales turnover and motor insurance policies sales volume. The company remained selective in extending new mortgage loans given the uninspiring real estate activities and prices. We also remained extremely selective in approving new personal loans where the demand from existing and new customer profiles remained high. Due to significant reduction in overseas travel due to ongoing restrictions, the company's credit card portfolio has seen reduction in portfolio size and foreign currency spend. The company shall continue to monitor the current market dynamics and heightened credit risks and shall normalise its new business activities when there are marked improvements in the important economic activity indicators.

National Motor Company (NMC) has reported a net loss of BD 0.4 million (2019: BD 2.1 million). These results are without considering the government support. If considered, NMC would have reported a net profit of BD 0.4 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' demand. 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.

Tasheelat Automotive Company (TAC) reported a net loss of BD 0.6 million (2019: net profit of BD 271 thousand). These results are without considering the government support. If considered, TAC would have reduced its loss to BD 0.4 million. The company was incorporated with the objective of creating a portfolio of quality Chinese brands to address the customers shift from higher priced vehicles to value cars due to decrease in their disposable income. The company has executed this strategy well with huge success of GAC Motor in Bahrain. The significant reduction in car sales in 2020 had a negative effect on its performance. Also, the launch of two new brands, 'Haval' and 'Great Wall' towards the end of 2019 has increased the company's cost structure. Though the new brands have received a warm reception from the customers and are expected to deliver promising results, it takes two to three years for any new brand to breakeven. All the brands the company has introduced to Bahrain have achieved significant strides in advance eco-friendly technologies, attractive designs, futuristic features, and are available at affordable prices. They have huge potential when the market bounces back.

Tasheelat Insurance Services Company (TISCO) had achieved a net profit of BD 171 thousand (2019: BD 0.7 million). These results are without considering the government support. If considered, TISCO would have reported a net profit of BD 279 thousand. The company continued to perform well despite the difficult market conditions due to its strategy of digitalising its business offerings and reduce its cost structure. 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. The company continued to work with partner insurance companies to offer unique products through leveraging on BCFC Group core competencies to address new market segments to increase its reach.

Tasheelat Real Estate Services Company (TRESCO) registered a net profit of BD 93 thousand (2019: BD 0.2 million). These results are without considering the government support. If considered, TRESCO would have reported a net profit of BD 177 thousand. The real estate market overall remained lacklustre with noticeable reduction in demand for buying and renting properties. The contraction in liquidity and overall negative market sentiments have impacted new investments and resulted in correction in real estate prices in certain areas.

CHAIRMAN REPORT (continued)

The market conditions have affected the company's plans to fully liquidate the available inventory in the existing projects. The company continues to chase steady and annuity type of returns from the investment properties. The occupancy in the residential buildings, predominantly catering to expatriates, have been affected due to many expatriates leaving the country and some of them shifting to lower cost alternatives to manage their reduced disposable income.

Tasheelat Car Leasing Company (TCL) was amongst the worst affected due to the ongoing pandemic. The closure of causeway and Bahrain International Airport has significantly reduced the demand for short-term leasing services for most of 2020. When most people are working from home, due to government guidelines and market circumstances, the demand from retail customers for long term lease has also reduced. The company is reaching out to retail and corporate customers to offer leasing as a solution with potential for reducing their cost. The company's mix of long-term and short-term leasing contracts with individuals as well corporate customers remained healthy. The company has good range of vehicles efficiently sourced from sister companies NMC and TAC. The company is working towards adding new contracts in its portfolio with higher retained margins. The company has reported a net loss of BD 27 thousand (2019: net profit of BD 100 thousand). These results are without considering the government support. If considered, TCL would have reported a net profit of BD 11 thousand.

BCFC Group faced certain challenges in its liquidity with the regulatory deferral of instalments. But due to its well-defined, adequately spaced maturity profile for its borrowings, the company continues to enjoy a strong and healthy liquidity position. During the year, the Company has successfully early settled USD 80 million syndicated loan whilst repaid USD 125 million syndicated loan on its maturity. These loans were repaid through issuing new term loans. The Group is currently operating at a low and healthy leverage of 1.8 multiples. This augurs well for the Group to explore new opportunities, as and when they present themselves, with potential to increase the shareholders' value.

During the last quarter, the previous Chief executive officer resigned from his position for personal reasons. Due to his sudden exit, the Board has appointed Mr. Reyadh Sater as Managing Director up to such time the company find a suitable successor for this important role.

During the year, following changes took place in the composition of the Board of Directors. The Board welcomed Mr Nader Al Maskati and Mr. Mohamed Isa. Mr Al Maskati was elected to the Board as an independent and non-executive director. Mr Isa replaced the Bank of Bahrain and Kuwait nominee Mr. Reyadh Yusuf Hasan Sater who was elected again to the Board. Mr. Sayed Abdulghani Hamza Qarooni opted not to present his candidature for the directors' elections and Mr Khalid Mohammed Ali Mattar resigned from the Board. Mr Qarooni served the Company from March 2008 to March 2020. Mr. Mattar has served the Company from May 1996 to April 2020 in various roles including Chairman of the Executive Committee and Automotive Board. The Board places on record its sincere thanks and appreciation to Mr. Qarooni and Mr. Mattar for their valuable contributions over the years. Mr. Yusuf Khalaf was reappointed to the Board in place of Mr. Mattar. Mr. Khalaf had the highest votes in the directors' election after the initial appointments.

In accordance with the requirement of Bahrain's Commercial Company Law 2001, we report the aggregate amount paid to directors during 2020 was BD 671 thousand (2019: BD 767 thousand) in respect of fees and subsidiary Board and Committees' attendance allowances. The total shareholding of the directors in the Company is 133.9 million shares (65.6% 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 would continue to drive the business towards growth in coming years.

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

Abdulrahman Yusuf Fakhro
Chairman
28 February 2021

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF

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 2020, 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 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as modified by the Central Bank of Bahrain (the "CBB").

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 International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Kingdom of Bahrain and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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 of the current period. 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 accounting policy in Note in 3(d) and Note 5 (a) and Note 9)

Description

We focused on this area because:

- of the significance of loans and advances representing 74% of total assets (by value); and
- estimation of expected credit loss (ECL) on loans and advances involve significant judgement and estimates. The key areas that involved significant management judgement and estimates include:
  - ➢ use of inherently judgmental complex models to estimate ECL which involve determining Probabilities of Default (PD), Loss Given Default (LGD), and Exposure At Default (EAD);
  - ➢ the need to measure ECL on a forward-looking basis, incorporating future macro-economic variables reflecting a range of future economic conditions; and

How the matter was addressed in our audit

Our procedures 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 involved our Information Technology specialist to assist us in:
  - ➢ 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 relevant controls over the transfer of data between underlying source systems and the impairment models;
  - ➢ 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

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (continued)

➢ Qualitive adjustments (overlays) made to ECL results to address model limitations or emerging risks and trends in underlying portfolio which are inherently judgemental especially in the current COVID-19 environment.	**Test of details** We involved our Credit risk specialists to assist in: ➢ evaluating the appropriateness of the Group's impairment methodology; ➢ 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 determination of significant increase in credit risk ('SICR') and selecting samples of financial instruments to determine whether a SICR was appropriately identified; ➢ re-performing key components of the Group's model calculations and assessing performance results for accuracy; ➢ evaluating the Group's methodology for determining the economic scenarios and the probability weightage applied to them; ➢ evaluating the overall reasonableness of the management economic forecast by reference to our own knowledge, external market data and economic conditions; and ➢ evaluating on a sample basis post model adjustments and management overlays for reasonableness by assessing key assumptions, testing the underlying calculation and tracing back to source data. **Disclosures** We assessed the adequacy of the Group's disclosure related to ECL on loans and advances by reference to the requirements of the relevant accounting standards.

Provision on inventory (vehicles and spare parts)

(refer to accounting policy in Note 3(f) and Note 11 to the consolidated financial statements)

Description	How the matter was addressed in our audit
We focused on this area because: • Of the Significance of inventory representing 5% of total assets (by value), and a broad range of car models and spare parts; and • significant judgement and estimation 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 the relevant accounting standards.

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (continued)

Impairment of trade receivables

(refer to accounting policy in Note 3d (v) and Note 10 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; • significant management judgment is involved over both timing and recognition of impairment; and • use of inherently judgmental complex models and methodologies for determination of expected credit losses.	*Our audit procedures included:* • We involved out IT and credit risk specialists to assist in: ➢ evaluating the appropriateness of the Group's impairment methodology; ➢ testing the design and operating effectiveness of the relevant controls over the completeness and accuracy of the key inputs and assumptions used in the ECL model; ➢ testing relevant controls over the transfer of data between underlying source systems and the impairment models; and ➢ evaluating and testing relevant controls over the governance and assessment of the output of the ECL model, authorisation and review of post model adjustments and management overlays. ➢ testing the accuracy of ageing of receivables on a sample basis. • Evaluating the adequacy of the Group's disclosures related to ECL for receivables by reference to the requirements of the relevant accounting standards.

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 as modified by the CBB, and for such internal control as the board of directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (continued)

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.

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, actions taken to eliminate threats or safeguards applied.

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 of the current period 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.

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (continued)

Report on other regulatory requirements
As required by the Commercial Companies Law 2001 and Volume 5 of the Rulebook issued by the CBB, 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 Jalil Alaali

KPMG

KPMG Fakhro
Partner registration number 100
28 February 2021

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2020

Bahraini dinars thousands

	Note	**31 December 2020**	31 December 2019
Assets			
Cash and balances with banks		25,530	5,040
Loans and advances to customers	9	264,006	325,289
Trade receivables	10	4,495	7,270
Inventories	11	18,706	26,322
Investment properties	12	12,563	12,641
Property and equipment	13	27,650	29,592
Other assets		2,504	3,673
Total assets		**355,454**	409,827
Liabilities and equity			
Liabilities			
Bank overdrafts		-	1
Trade and other payables		23,865	27,301
Bank term loans	14	205,956	230,163
Total liabilities		**229,821**	257,465
Equity			
Share capital	15	20,419	20,419
Treasury shares	15	(599)	(599)
Statutory reserve		10,210	10,210
Share premium		25,292	25,292
Other reserves		22,084	25,221
Retained earnings		48,227	71,819
Total equity		**125,633**	152,362
Total liabilities and equity		**355,454**	409,827

The consolidated financial statements were approved by the Board of Directors on 28th February 2021 and signed on its behalf by:

Abdulrahman Yusuf Fakhro
Chairman

Dr. AbdulRahman Ali Saif
Vice Chairman

Reyadh Yusuf Hasan Sater
Managing Director

The accompanying notes 1 to 30 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
for the year ended 31 December 2020

Bahraini dinars thousands

	Note	**2020**	2019
Interest income		34,366	39,505
Interest expense		(10,861)	(12,803)
Net interest income		**23,505**	26,702
Automotive revenue	16	39,855	48,183
Cost of sales		(35,964)	(41,803)
Gross profit on automotive revenue		**3,891**	6,380
Fee and commission income	17	5,276	10,988
Profit from sale of land inventory	18	220	334
Rental income		888	862
Total operating income		**33,780**	45,266
Other income	19	1,027	1,584
Salaries and related costs		(7,730)	(9,522)
Other operating expenses	20	(10,880)	(12,248)
Profit before impairment allowance on financial instruments		**16,197**	25,080
Impairment allowance on financial instruments, net of recoveries	21	(20,472)	(7,968)
Profit for the year		**(4,275)**	17,112
Basic and diluted earnings per 100 fils share	26	(21) fils	85 fils
Proposed cash dividend per 100 fils share		-	25 fils

Abdulrahman Yusuf Fakhro
Chairman

Dr. AbdulRahman Ali Saif
Vice Chairman

Reyadh Yusuf Hasan Sater
Managing Director

The accompanying notes 1 to 30 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2020 Bahraini dinars thousands

	2020	2019
Profit for the year	**(4,275)**	17,112
Other comprehensive income		
Items that are or may be reclassified to profit or loss		
Net change in cash flow hedge reserve	(3,723)	(3,088)
Total other comprehensive income for the year	**(3,723)**	(3,088)
Total comprehensive income for the year	**(7,998)**	14,024

The accompanying notes 1 to 30 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2020

Bahraini dinars thousands

	Share capital		Reserves and retained earnings						
					Other reserves				
2020	**Share capital**	**Treasury shares**	**Statutory reserve**	**Share premium**	**Cash flow hedge reserve**	**Donation reserve**	**General reserve**	**Retained earnings**	**Total equity**
As at 31 December 2019	20,419	(599)	10,210	25,292	(1,722)	693	26,250	71,819	152,362
2019 appropriations (approved by shareholders):									
- Donations approved	-	-	-	-	-	300	-	(300)	-
- Dividend to equity holders declared	-	-	-	-	-	-	-	(5,036)	(5,036)
- Transfer to general reserve	-	-	-	-	-	-	750	(750)	-
Balance after 2019 appropriations	**20,419**	**(599)**	**10,210**	**25,292**	**(1,722)**	**993**	**27,000**	**65,733**	**147,326**
Comprehensive income for the year:									
Profit for the year	-	-	-	-	-	-	-	(4,275)	(4,275)
Other comprehensive income:									
- Fair value loss on cash flow hedge reserve (Note 8)	-	-	-	-	(3,723)	-	-	-	(3,723)
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**(3,723)**	**-**	**-**	**(4,275)**	**(7,998)**
Modification loss (Note 2(a)(i) and Note 9(a))	-	-	-	-	-	-	-	(15,191)	(15,191)
Government grant (Note 2(a)(ii))	-	-	-	-	-	-	-	1,960	1,960
Utilisation of donation reserve	-	-	-	-	-	(464)	-	-	(464)
At 31 December 2020	**20,419**	**(599)**	**10,210**	**25,292**	**(5,445)**	**529**	**27,000**	**48,227**	**125,633**

The accompanying notes 1 to 30 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2020

Bahraini dinars thousands

	Share capital		Reserves and retained earnings						
					Other reserves				
2019	Share Capital	Treasury shares	Statutory reserve	Share premium	Cash flow hedge reserve	Donation reserve	General reserve	Retained earnings	Total equity
As at 31 December 2018	16,335	(599)	8,250	25,292	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)	9,750	25,292	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)	10,210	25,292	(1,722)	693	26,250	71,819	152,362

The accompanying notes 1 to 30 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2020

Bahraini dinars thousands

	2020	2019
Cash flow from operating activities		
Loan repayments, interest received and credit card related receipts	223,237	328,399
Receipts from automotive sales	42,097	51,262
Insurance commission received	924	1,402
Proceeds from sale of land inventory	2,158	3,049
Rental received	819	849
Loans and advances to customers disbursed	(158,576)	(296,037)
Payments to automotive suppliers	(34,379)	(44,024)
Payment for real estate inventory	(578)	(696)
Payments for operating expenses	(14,088)	(20,524)
Directors' fees paid	(440)	(535)
Interest paid	(10,940)	(13,106)
Net cash generated from operating activities	**50,234**	10,039
Cash flows from investing activities		
Capital expenditure on property and equipment	(2,956)	(3,020)
Addition to / purchase of investment properties (net)	(263)	(6,165)
Proceeds from sale of property and equipment	1,215	708
Net cash used in investing activities	**(2,004)**	(8,477)
Cash flows from financing activities		
Bank term loans availed	169,283	41,473
Bank term loans repaid	(193,279)	(15,593)
Bonds paid on maturity	-	(19,981)
Dividends paid	(5,179)	(7,205)
Government grants received	1,960	-
Donations paid	(464)	(339)
Net cash used in financing activities	**(27,679)**	(1,645)
Net increase / (decrease) in cash and cash equivalents	**20,551**	(83)
Cash and cash equivalents at 1 January	4,884	4,967
Cash and cash equivalents at 31 December	**25,435**	4,884

Cash and cash equivalents comprise:		
Cash and balances with banks	25,530	5,040
Less:		
Restricted cash	(95)	(155)
Bank overdrafts	-	(1)
	25,435	4,884

The accompanying notes 1 to 30 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 2020 comprise the Company, its subsidiaries and its branches (together referred to as "the Group").

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

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

2. BASIS OF PREPARATION

a) Statement of compliance

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

i. recognition of modification losses on financial assets, arising from payment holidays provided to customers impacted by COVID-19 without charging additional interest and fees, in equity instead of the consolidated profit or loss as required by IFRS 9: Financial Instruments. The impact of such modification loss is BD 15,191. Any other modification gain or loss on financial assets are recognised in accordance with the requirements of IFRS 9.

ii. recognition of financial assistance received from the government and/ or regulators in response to COVID-19 that meets the government grant requirement, in equity, instead of the profit or loss as required by the International Accounting Standard (IAS 20): Government Grant, to the extent of any modification loss recognised in equity as a result of (a) above. In case this exceeds the modification loss, the balance amount is recognized in the profit or loss. Any other financial assistance is recognised in accordance with the requirements IAS 20. The Group has received grants totalling to BD 1,960 in the form of salary subsidy for Bahraini employees and waiver of electricity and water expenses.

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

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

2. BASIS OF PREPARATION (continued)

The modification to accounting policies have been applied retrospectively and did not result in any change to the financial information reported for the comparative period.

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 effective from 1 January 2020

There were no new standards and amendments to standards, which became effective as of 1 January 2020, that are relevant and material to the Group.

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

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2021 and earlier application is permitted; however; the Group has not early applied the following new or amended standards in preparing these consolidated financial statements.

i) IAS 1 – classification of liabilities as current and non-current

Under existing IAS 1 requirements, companies classify a liability as current when they do not have an unconditional 'right to defer' settlement of the liability for at least twelve months after the end of the reporting period. As part of its amendments, the requirement for a right to be unconditional has been removed and instead, now requires that a right to defer settlement must have substance and exist at the end of the reporting period. This assessment may require management to exercise interpretive judgement.

Further, 'a right to defer' exists only if the company complies with conditions specified in the loan agreement at the end of the reporting period, even if the lender does not test compliance until a later date. This new requirement may change how companies classify rollover facilities, with some becoming non-current.

The amendments state that settlement of a liability includes transferring a company's own equity instruments to the counterparty. When classifying liabilities as current or non-current a company can ignore only those conversion options that are recognized as equity. Therefore, companies may need to reassess the classification of liabilities that can be settled by the transfer of the company's own equity instruments – e.g. convertible debt.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023. The Group does not expect a significant impact on its consolidated financial statements.

ii) Interest Rate Benchmark Reform-Phase 2 (Amendments to IFRS 9, IAS 39 and IFRS 7, IFRS 4 and IFRS 16)

The amendments address issues that might affect financial reporting as a result of the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate.

The amendments provide practical relief from certain requirements in IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to:

2. BASIS OF PREPARATION (continued)

(a) Change in basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities;

The amendments will require an entity to account for a change in the basis for determining the contractual cash flows of a financial asset or financial liability that is required by interest rate benchmark reform by updating the effective interest rate of the financial asset or financial liability.

(b) Hedge accounting

The amendments provide exceptions to the hedge accounting requirements in the following areas:

- Allow amendment of the designation of a hedging relationship to reflect changes that are required by the reform.
- When a hedged item in a cash flow hedge is amended to reflect the changes that are required by the reform, the amount accumulated in the cash flow hedge reserve will be deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.
- When a group of items is designated as a hedged item and an item in the group is amended to reflect the changes that are required by the reform, the hedged items are allocated sub-groups based on the benchmark rates being hedged.
- If an entity reasonably expects that an alternative benchmark rate will be separately identifiable within a period of 24 months, it is not prohibited from designating the rate as a non-contractually specified risk component if it is not separately identifiable at the designation date.

The Group plans to apply the amendments from 1 January 2021. Application will not impact amounts reported for 2020 or prior periods.

The Group has started an initial assessment of the potential impact on its consolidated financial statements.

f) 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 4.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These have been consistently applied by the Group to all periods presented in these consolidated financial statements except as described in Note 2(a).

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.

3. Significant accounting policies (continued)

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

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

b. Revenue recognition

(i) Interest income and expense
Interest income and expense is recognised 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 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.

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.

3. Significant accounting policies (continued)

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

(iv) 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 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 and trade receivables on the date on which they are originated. All other financial instruments are initially recognised on the trade date, which is the date when the Group becomes a party to the contractual provisions of the instrument.

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

3. 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.

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

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

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss, except for modification of loans and advances due to the CBB concessionary measures where modification loss was recognised in equity (Note 2(a)(i)).

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.

(iii) 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.

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

3. Significant accounting policies (continued)

(v) Impairment

The Group recognises loss allowances for ECLs on financial assets measured at amortised cost. The Group measures loss allowances at an amount equal to lifetime ECLs, 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.

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

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

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

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

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

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

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

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.

3. Significant accounting policies (continued)

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

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

Measurement of ECLs- Trade receivables (simplified approach):

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

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

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

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.
- Liquidation of collaterals.

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.

3. Significant accounting policies (continued)

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.

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

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 to 6 years
Leased Vehicle	4 to 6 years
Right of Use	Over lease period

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 and impairment if any.

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

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

3. Significant accounting policies (continued)

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

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.

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.

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.

3. Significant accounting policies (continued)

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.

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

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.

3. Significant accounting policies (continued)

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 executive management 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. USE OF ESTIMATES AND JUDGEMENTS

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

a) Judgments

(i) Classification of financial assets

Assessment of the business model within which the assets are held and assessment of whether contracted terms of the financial asset are SPPI and the principal amount outstanding (Note 3(d)(ii)).

(ii) 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 IFRS 9.

(iii) Significant increase in credit risk

Establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporation, forward looking information into measurement of ECL and selection and approval of models used to measure ECL (Note 5 (a)).

Potential impact of COVID-19

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

The Group has considered the impact of COVID-19 and related market volatility in preparing these consolidated financial statements. While the methodologies and assumptions applied in the measurement of various items within the consolidated financial statements remain unchanged from those applied in the 2019 consolidated financial statements, the impact of COVID-19 has resulted in the application of further judgement and the incorporation of estimates and assumptions specific to the impact of COVID-19.

Principally this has resulted in updates to the Group's economic assumptions used in determining expected credit losses (ECL) and the impairment assessment for other non-financial assets.

4. Use of judgements and estimates (continued)

The Group's risk and capital management framework continues to be applied and the Group continues to monitor the impact of COVID-19 on the Group's risk and capital profile. Non-financial risks remerging from local global movement restrictions, and remote working by staff, counterparties, clients and suppliers, are being identified, assessed, managed and governed through timely application of the Group's Risk Management Framework.

Loans and advances
In accordance with the CBB relief measures, the Group has introduced a number of support measures for customers impacted by COVID-19, including the deferral of payments without interest for retail and small business customers for an initial period of six months which was later extended by another 4 months with interest starting from March 2020. In December 2020, the CBB extended the holiday payments with interest for another 6 months to 30 June 2021.

Impairment allowance on loans and advances at amortised cost
In determining the appropriate level of expected credit losses (ECLs) the Group considered the macro-economic outlook, customer credit quality, the type of collateral held, exposure at default, and the effect of payment deferral options as at the reporting date.

The model inputs, including forward-looking information, scenarios and associated weightings, were revised to reflect the current outlook. Noting the wide range of possible scenarios and macroeconomic outcomes, and the relative uncertainty of how the social and economic consequences of COVID-19 will materialize these scenarios represent reasonable and supportable forward-looking views as at the reporting date.

The Groups models are calibrated to consider past performance and macrocosmic forward-looking variables as inputs. The IASB and global regulators have issued guidance consistent with IFRS 9, to consider the exceptional circumstances of the COVID-19 pandemic. This includes consideration of significant government support and the high degree of uncertainty around historic long-term trends used in determining reasonable and supportable forward-looking information as well as the assessment of underlying credit deterioration and migration of balances to progressive stages.

The Group considers both qualitative and quantitative information in the assessment of significant increase in credit risk. The utilisation of a payment deferral program was considered for affected customer segments due to the pandemic as a trigger for a significant increase in credit risk ("SICR") or a staging migration for the purposes of calculating ECL.

The Group continues to assess borrowers for other indicators of unlikeliness to pay, taking into consideration the underlying cause of any financial difficulty and whether it is likely to be temporary as a result of COVID-19 or longer term.

b) Estimates

(i) Impairment of financial instruments
- Determining inputs into the ECL measurement models, including incorporation of forward looking information (Note 5 (a)).
- Key assumptions used in estimating recoverable cash flows.

(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 (Note 3(d)(v) and Note 10).

(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 (Note 3(f) and Note 11).

5. FINANCIAL RISK MANAGEMENT

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

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

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

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

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.

COVID-19 impact

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

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

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

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

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

- Authorisation structure and limits for the approval and renewal of credit facilities;
- Reviewing and assessing credit exposures in accordance with authorisation structure and limits, prior to facilities being committed to customers. Renewals and reviews of facilities are subject to the same review process;
- Diversification of lending activities;
- 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.

5. Financial risk management (continued)

a. Credit risk (continued)

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.

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 2020	31 December 2019
Stage 3 – Specifically assessed loans		
Gross amount	7,925	3,081
Expected credit loss	(3,103)	(1,984)
Net amount	**4,822**	1,097
Stage 1, 2 and 3 - Collectively assessed loans		
Stage 1 - 12 month	186,819	275,700
Stage 2 - lifetime - not credit impaired	65,943	41,626
Stage 3 – lifetime - credit impaired	38,016	28,268
Expected credit loss	(31,594)	(21,402)
Net amount	**259,184**	324,192
Net loans and advances to customers	**264,006**	325,289

Stage 1, 2 and 3 - Collectively assessed loans
The Group applies a three-stage approach to measure expected credit losses (ECL) on financial assets carried at amortised cost 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;
- Stage 2 lifetime ECLs - not credit impaired: these are ECLs that result from all possible default events over the expected life of a financial instrument. Includes financial assets that have had a significant increase in credit risk since initial recognition but that do not have objective evidence of impairment; and
- Stage 3 lifetime ECLs - credit impaired: these are ECLs that result from all possible default events over the expected life of a financial instrument. Includes financial instruments that have objective evidence of impairment at the reporting date.

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

5. Financial risk management (continued)

a. Credit risk (continued)

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).

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, unemployment and oil prices. Considering the extra ordinary circumstances and the variations in the forward looking data for this variables, the company has used vasic methodology using oil prices as a factor to determine the PDs.

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

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

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

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. For the purpose of calculating ECL for the year ended 31 December 2020, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 74 days as against 30 days, in line with the CBB concessionary measures. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:
- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 74 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

5. Financial risk management (continued)

a. Credit risk (continued)

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

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

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

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

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

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

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.

5. Financial risk management (continued)

a. Credit risk (continued)

Aging analysis of loans and advances to customers as follows:

	Stage 1	Stage 2	Stage 3	2020	2019
Current	156,973	49,599	10,257	**216,829**	265,488
Past due:					
1-30 days	17,022	2,837	2,356	**22,215**	32,304
31-60 days	11,359	2,243	1,558	**15,160**	17,710
61-89 days	1,465	11,264	1,264	**13,993**	13,040
90 days – 1 year	-	-	22,114	**22,114**	14,914
1 year – 3 years	-	-	7,686	**7,686**	4,664
More than 3 years	-	-	706	**706**	555
Expected credit loss	(5,668)	(5,522)	(23,507)	**(34,697)**	(23,386)
Carrying value	**181,151**	**60,421**	**22,434**	**264,006**	325,289

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

5. Financial risk management (continued)

a. Credit risk (continued)

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

By geographical region:

All loans and advances are geographically located in Bahrain, (2019: BD 13 located in Kurdistan - Iraq).

At 31 December 2020, the total gross amount of non-performing loans as defined by the CBB, as accounts with days past due 90 days or more, was BD 30,506 (2019: 20,133). The stage 3 accounts were BD 45,941 (2019: BD 31,349). In compliance with the CBB requirements, interest on stage 3 is suspended and is accounted for on a cash basis.

During the year ended 31 December 2020, the average gross credit exposure for cash and balances with banks is BD 19,474 (2019: BD 5,509), loans and advances to customers is BD 287,332 (2019: BD 326,146), trade and other receivables is BD 5,826 (2019: BD 7,648) and unutilised credit limit is BD 31,243 (2019: BD 29,502). Such amounts are calculated based on the average of last four quarterly results.

At the reporting date, the loans and advances to customers represent 39% vehicle (2019: 41%), 20% mortgage (2019: 20%), 30% personal loan (2019: 27%) and 11% credit card lending (2019: 12%).

All exposures are located in Bahrain, (2019: BD 3 bank balance and BD 13 loans to customer located in Kurdistan - Iraq). The below table summarise the maximum exposure to credit risk without considering collateral and other credit enhancements as of 31 December:

	2020	2019
Balances with banks	25,530	5,040
Loans and advances to customers	264,006	325,289
Trade receivables	4,495	7,270
Other assets	672	1,335
Total	**294,703**	338,934
Unutilised credit limit	31,487	29,519

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.

5. Financial risk management (continued)

a. Credit risk (continued)

The Group has established policies and procedures under which each customer is analysed individually for creditworthiness. At the year end, automotive companies trade receivables of BD 3,438 (2019: BD 3,449) were past due against which BD 1,654 (2019: BD 1,324) 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 2020, loans and advances amounting to BD 11,605 (2019: BD 10,348) 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 2020, loans amounting to BD 128,545 (2019: BD 157,873) were fully collateralized and loans amounting to 45,414 (2019: BD 45,886) were partly collateralized with a collateral value of BD 35,215 (2019: BD 33,947).

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 2020, the Group obtained assets for loans value of BD 1,137 (2019: BD 2,463) 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 92% (2019: 91%) retail loans and 8% (2019: 9%) to corporate customers, trade receivables represent mainly corporate customers.

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

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

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

5. Financial risk management (continued)

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.

COVID-19 impact

The effects of COVID-19 on the liquidity and funding risk profile of the banking system are evolving and are subject to ongoing monitoring and evaluation. The CBB has announced various measures to combat the effects of COVID-19 and to ease liquidity in banking sector. The instalment deferments for 10 months during 2020 to eligible customers as per CBB instructions have an impact on the liquidity risk of the Group.

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

The Group continues to calibrate stress testing scenarios to current market conditions in order to assess the impact on the Group in current extreme stress environment. As at the reporting date, the liquidity and funding position of the Group remains strong and is well placed to absorb and manage the impacts of this disruption. During the year, the Group was able to successfully refinance debt of USD 80 million and USD 125 million syndicated loans.

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.

2020	**Carrying amount**	**Gross contractual cash flows**	**Within 1 Year**	**1 year to 5 years**	**Over 5 years**
Assets					
Cash and balances with banks	25,530	25,600	25,600	-	-
Loans and advances to customers	264,006	408,150	108,387	222,413	77,350
Trade receivables	4,495	4,495	4,495	-	-
Other assets	672	672	672	-	-
	294,703	**438,917**	**139,154**	**222,413**	**77,350**
Liabilities					
Trade and other payables	15,800	15,800	15,800	-	-
Bank term loans	205,956	224,413	51,483	172,930	-
	221,756	**240,213**	**67,283**	**172,930**	**-**
Unutilised credit limits	31,487	31,487	31,487	-	-

5. Financial risk management (continued)

b. Liquidity risk (continued)

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	-
	251,328	278,755	118,408	160,347	
Unutilised credit limits	29,519	29,519	29,519	-	-

c. Market risk

Market risk is the risk that the Group's income and / or value of a financial instrument will fluctuate because of changes in market prices such as interest rates.

Management of market risks

Market risks are closely monitored by the risk management and finance departments and reported to the Assets and Liabilities Committee (ALCO) and the Board.

Interest rate risk

Interest rate risk is the risk that the Group's earnings will be affected as a result of movements in interest rates. The Group's interest rate exposures arise from its interest earning assets and interest-bearing liabilities i.e. balance with banks, loans, 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**	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019
ASSETS								
Cash and balances with banks	19,914	-	-	-	5,616	5,040	25,530	5,040
Loans and advances to customers	263,617	324,676	-	-	389	613	264,006	325,289
Trade receivables	-	-	-	-	4,495	7,270	4,495	7,270
Other assets	-	-	-	2	672	1,333	672	1,335
	283,531	324,676	**-**	2	**11,172**	14,256	**294,703**	338,934
LIABILITIES								
Bank overdrafts	-	-	-	1	-	-	-	1
Trade and other payables	-	-	-	-	15,800	21,164	15,800	21,164
Bank term loans	-	-	205,956	230,163	-	-	205,956	230,163
	-	-	**205,956**	230,164	**15,800**	21,164	**221,756**	251,328

5. Financial risk management (continued)

c. Market risk (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 to covert floating rate of interest on bank term loan to fixed rate of interest. At 31 December 2020 interest rate risk attributable to the term loans of USD 255 million (BD: 96.14 million) (2019: USD 290 million, BD 109.33 million) has been hedged which will mature within 5 years.

The fair value changes of the interest rate swaps and forward contracts are recognised in equity (pages 13-14).

The unhedged portion of the floating rate borrowing is sensitive to changes in the interest rates. As at 31 December 2020 a change in variable rate financial instruments by 100 basis points will increase/ (decrease) net profits by BD 1,098 (2019: BD 1,208).

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

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.

	2020	2019
US Dollars	**145,795**	213,862

The Bahraini Dinar is effectively pegged to the US Dollar.
The Company has entered into BD 45 million forward rate contracts to hedge against any future changes in the peg rate.

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 1.8 as at 31 December 2020 (2019: 1.7).

6. 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.

6 OPERATIONAL RISKS (continued)

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

7. 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	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
ASSETS										
Cash and balances with banks	25,530	5,040	-	-	-	-	-	-	25,530	5,040
Loans and advances to customers	95,099	126,111	133,042	165,710	32,850	31,714	3,015	1,754	264,006	325,289
Trade receivables	4,495	7,270	-	-	-	-	-	-	4,495	7,270
Other assets	672	1,335	-	-	-	-	-	-	672	1,335
	125,796	139,756	**133,042**	165,710	**32,850**	31,714	**3,015**	1,754	**294,703**	338,934
LIABILITIES										
Bank overdrafts	-	1	-	-	-	-	-	-	-	1
Trade and other payables	15,800	21,164	-	-	-	-	-	-	15,800	21,164
Bank term loans	42,485	84,622	163,471	145,541	-	-	-	-	205,956	230,163
	58,285	105,787	**163,471**	145,541	**-**	-	**-**	-	**221,756**	251,328

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

8. FAIR VALUE AND CLASSIFICATION OF FINANCIAL INSTRUMENTS

The Group's financial assets and financial liabilities are measured at amortised cost except for derivative financial instruments, which are carried at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

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

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

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

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

8. FAIR VALUE AND CLASSIFICATION OF FINANCIAL INSTRUMENTS (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.

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 2020 is BD 5,445 (2019: BD 1,722) are categorised under Level 2.

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

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

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

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.

9. LOANS AND ADVANCES TO CUSTOMERS

(a) Exposure by staging

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

The initial modification loss recorded by the Group amounted to BD 16,125. Subsequently, the Company had made reversal of BD 934 to equity due to early settlements of loans and repayment of credit card balances.

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

	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

(b) Expected credit loss movement

	ECL model			**Stage 3 specifically assessed**	**Total**
2020	**Stage 1**	**Stage 2**	**Stage 3**		
ECL at 1 January 2020	3,282	4,923	13,197	1,984	**23,386**
Transfer to stage 1	2,090	(670)	(1,420)	-	**-**
Transfer to stage 2	(573)	1,724	(1,151)	-	**-**
Transfer to stage 3	(202)	(1,090)	(492)	1,784	**-**
Charge for the year	1,071	635	19,807	46	**21,559**
Write off during the year	-	-	(9,537)	(711)	**(10,248)**
ECL at 31 December 2020	**5,668**	**5,522**	**20,404**	**3,103**	**34,697**

The average interest rates on loans and advance to customer is 10.6% p.a. (2019: 11.6% p.a.).

	ECL model			Stage 3 specifically assessed	Total
2019	Stage 1	Stage 2	Stage 3		
ECL at 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)
ECL at 31 December	3,282	4,923	13,197	1,984	23,386

10. TRADE RECEIVABLES

	31 December 2020	31 December 2019
Trade receivables	6,221	8,759
Less: expected credit loss	(1,726)	(1,489)
	4,495	7,270

Expected credit loss movement	**31 December 2020**	31 December 2019
As 1 January	1,489	1,380
Charge for the year	239	119
Reversal for the year for settled accounts	(2)	(9)
Write off during the year	-	(1)
Expected credit loss at 31 December	**1,726**	1,489

11. INVENTORIES

	31 December 2020	31 December 2019
Automotive stock:		
-Vehicles	9,940	15,122
-Spare parts	4,641	5,326
Property	5,195	6,529
	19,776	26,977
Provision on vehicles and spare parts	(1,070)	(655)
	18,706	26,322

Movement on provisions (vehicle and spare parts)	**2020**	2019
At 1 January	655	568
Net charge for the year	646	355
Utilization	(231)	(268)
At 31 December	**1,070**	655

12. INVESTMENT PROPERTIES

	2020	2019
Cost		
At 1 January	14,273	8,094
Additions during the year (net)	263	6,179
At 31 December	**14,536**	14,273
Accumulated depreciation and impairment losses		
At 1 January	1,632	1,337
Charge for the year	316	295
Impairment losses	25	-
At 31 December	**1,973**	1,632
Net book value		
At 31 December	**12,563**	12,641

12. INVESTMENT PROPERTIES (continued)

The fair value of investment properties as at 31 December 2020 is BD 14,764 (2019: BD 17,054) were determined by an independent external property valuer with the appropriate recognised qualification and experience in the location and category of the property being valued. The fair value was determined based on sales comparison approach that reflect recent transaction prices for similar properties and accordingly categorised as level 2 in fair value hierarchy.

13. PROPERTY AND EQUIPMENT

	Land and buildings	**Furniture, fixtures & equipment**	**Vehicles**	**Work in Progress**	**Right of Use**	**2020 Total**	2019 Total
Cost							
At 1 January	24,953	10,281	9,223	1,606	3,671	49,734	45,059
Additions	2	312	1,263	561	818	2,956	6,999
Disposals and retirements	-	-	(2,027)	(1)	(471)	(2,499)	(2,324)
Reclassified	1,508	316	-	(1,824)	-	-	-
At 31 December	**26,463**	**10,909**	**8,459**	**342**	**4,018**	**50,191**	49,734
Depreciation							
1 January	8,339	8,365	2,488	-	950	20,142	17,695
Charge for the year	545	1,019	1,419	-	689	3,672	3,633
Disposals and retirements	-	-	(958)	-	(315)	(1,273)	(1,186)
Reclassified	-	-	-	-	-	-	-
At 31 December	**8,884**	**9,384**	**2,949**	**-**	**1,324**	**22,541**	20,142
Net book value							
At 31 December 2020	**17,579**	**1,525**	**5,510**	**342**	**2,694**	**27,650**	
At 31 December 2019	16,614	1,916	6,735	1,606	2,721		29,592

The cost of fully depreciated assets still in use at 31 December 2020 was BD 9,368 (2019: BD 8,327).

14. BANK TERM LOANS

	31 December 2020	31 December 2019
Current	42,485	84,622
Non-current	163,471	145,541
	205,956	230,163

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 4.9% p.a. (2019: 5.6% p.a.).

15. SHARE CAPITAL

	31 December 2020	31 December 2019
Authorised share capital		
500,000,000 (2019: 500,000,000) shares of 100 fils each	**50,000**	50,000

15 SHARE CAPITAL (continued)

	2020	2019
Issued and fully paid		
204,187,500 (2019: 204,187,500) shares of 100 fils each		
At 1 January	20,419	16,335
Bonus share (1 share for every 4 shares held)	**-**	4,084
At 31 December	**20,419**	20,419
Treasury shares 2,759,029 shares (2019: 2,759,029 shares)	**599**	599

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

Additional information on shareholding pattern

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

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

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

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%	47,922,264	1,286	23.47%
1% up to less than 5%**	23,166,059	7	11.35%
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**	**1,296**	**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

	2020	2019
Sale of cars and accessories	34,343	41,649
Car repair and maintenance services	3,626	4,610
Car leasing revenue	1,886	1,924
	39,855	48,183

17. FEE AND COMMISSION INCOME

	2020	2019
Loan administration and other credit card related fees	4,438	9,516
Insurance commission income	838	1,472
	5,276	10,988

18. PROFIT FROM SALE OF LAND INVENTORY

	2020	2019
Revenue	2,131	3,011
Cost of Sales	(1,911)	(2,677)
Profit from sale of land inventory	**220**	334

19. OTHER INCOME

	2020	2019
Incentives from automotive principals	508	1,075
Miscellaneous income	519	509
	1,027	1,584

20. OTHER OPERATING EXPENSES

	2020	2019
General and administration costs	5,388	6,139
Depreciation	2,777	2,680
Selling and promotion costs	1,784	2,790
Impairment provision for inventory	646	355
Impairment provision for investment properties	25	-
Automotive finance cost	260	284
	10,880	12,248

21. Impairment allowance on financial instruments, net of recoveries

	2020	2019
Impairment on loans and advances to customers, net (Note 9 (b))	21,559	9,768
Impairment on trade receivables, net (Note 10)	237	110
Recoveries from written off balances	(1,324)	(1,910)
	20,472	7,968

22. 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.

23. 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.

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 2020 and 2019. 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	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
Operating income	**27,932**	36,190	**3,902**	6,408	**1,108**	1,196	**838**	1,472	**33,780**	45,266
Inter segment revenue	97	51	404	626	290	244	161	220	**952**	1,141
Operating costs	(10,726)	(13,654)	(4,995)	(4,511)	(1,034)	(1,040)	(828)	(981)	**(17,583)**	(20,186)
Impairment, net of recoveries	(20,239)	(7,880)	(203)	(58)	(30)	(11)	-	(19)	**(20,472)**	(7,968)
Inter segment expenses	(675)	(840)	(36)	(99)	(241)	(202)	-	-	**(952)**	(1,141)
Profit for the year	**(3,611)**	13,867	**(928)**	2,366	**93**	187	**171**	692	**(4,275)**	17,112
Assets (Liabilities)										
Cash and balances with banks	21,259	3,816	4,051	997	93	13	127	214	**25,530**	5,040
Loans and advances to customers	264,006	325,289	-	-	-	-	-	-	**264,006**	325,289
Trade and other receivables	19	256	4,126	6,548	122	52	228	414	**4,495**	7,270
Intercompany balances	1,844	2,291	(300)	356	(4,896)	(6,237)	3,352	3,590	**-**	-
Inventories	-	-	13,511	19,793	5,195	6,529	-	-	**18,706**	26,322
Investment properties	-	-	-	-	12,563	12,641	-	-	**12,563**	12,641
Property and equipment	9,675	10,137	17,975	19,455	-	-	-	-	**27,650**	29,592
Other assets	173	379	2,287	3,285	44	3	-	6	**2,504**	3,673
Overdrafts	-	-	-	(1)	-	-	-	-	**-**	(1)
Trade and other payables	(16,899)	(16,948)	(6,423)	(9,842)	(253)	(226)	(290)	(285)	**(23,865)**	(27,301)
Bank term loans	(205,956)	(224,658)	-	(5,505)	-	-	-	-	**(205,956)**	(230,163)
Equity	**(74,121)**	(100,562)	**(35,227)**	(35,086)	**(12,868)**	(12,775)	**(3,417)**	(3,939)	**(125,633)**	(152,362)
Capital expenditure	**901**	1,754	**2,055**	3,305	**-**	-	**-**	-	**2,956**	5,059
Depreciation charge for the property and equipment	**1,203**	1,222	**2,469**	2,411	**-**	-	**-**	-	**3,672**	3,633

24. 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.

	2020	2019
Major shareholders:		
As at 31 December		
Term loans	**50,160**	49,617
Bank balances	**1,302**	1,611
For the year ended 31 December		
Interest expense	**2,086**	2,504

	2020	2019
Directors and related affiliates:		
As at 31 December		
Loans and advances to customer / Receivable	**-**	1,685
For the year ended 31 December		
Interest income /Income	**-**	160

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 2020 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 Ex Chief Executive Officer, the Managing Director, the President, the General Managers and the Senior Vice Presidents.

	2020	2019
As at 31 December		
Credit card receivables	19	25
For the year ended 31 December		
Salaries and short term employee benefits	1,849	1,762
Directors remuneration and attendance fees	628	700
Sales, service and lease of vehicles	70	-
Purchase of materials	20	-

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.

25. RETIREMENT BENEFITS COST

The Group's contributions in respect of Bahraini employees for the year amounted to BD 698 (2019: BD 684). The Group's provision for expatriate employees' leaving indemnities at 31 December 2020 was BD 1,053 (2019: BD 1,457). The Group employed 849 staff at 31 December 2020 (2019: 911).

As at 31 December 2020, the total liability of the Group to its employees under Saving Plan was BD 2,485 (2019: BD 2,873).

26. 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:

	2020	2019
Profit for the year	(4,275)	17,112
Weighted average number of equity shares (in 000's) (note 15)	201,429	201,429
Basic earnings per share	(21) fils	85 fils

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

27. OUTSTANDING COMMITMENTS

As at reporting date, the Group has contingent liabilities for standby letters of credit issued in the normal course amounting to BD 8,800 (2019: BD 7,663) and unutilised credit limits of BD 31,487 (2019: BD 29,519) to its customers.

28. 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 2020	**1**	**25,611**	**230,163**	**-**	**1,690**	**19,820**	**60,723**	**71,819**	**409,827**
Proceeds from loans and borrowings	-	-	169,283	-	-	-	-	-	169,283
Repayment of borrowings	-	-	(193,279)	-	-	-	-	-	(193,279)
Bond paid on maturity	-	-	-	-	-	-	-	-	-
Dividend paid	-	(5,179)	-	-	-	-	-	-	(5,179)
Donation paid	-	-	-	-	-	-	(464)	-	(464)
Total changes from financing cash flows	**-**	**(5,179)**	**(23,996)**	**-**	**-**	**-**	**(464)**	**-**	**(29,639)**
Changes in fair value	-	-	-	-	-	-	(3,723)	-	(3,723)
Other changes	-	-	-	-	3,847	-	750	(23,592)	(18,995)
Liability-related	-	(2,166)	-	-	-	-	-	-	(2,166)
Donation declared	-	-	-	-	-	-	300	-	300
Change in bank overdraft	(1)	-	-	-	-	-	-	-	(1)
Capitalised borrowing costs	-	-	(211)	-	-	-	-	-	(211)
Interest expense	-	10,861	-	-	-	-	-	-	10,861
Interest paid	-	(10,799)	-	-	-	-	-	-	(10,799)
Total liability-related other changes	**(1)**	**(2,104)**	**(211)**	**-**	**3,847**	**-**	**-**	**-**	**1,531**
Total equity-related other changes	**-**	**-**	**-**	**-**	**-**	**-**	**(2,673)**	**(23,592)**	**(26,265)**
Balance at 31 December 2020	**-**	**18,328**	**205,956**	**-**	**5,537**	**19,820**	**57,586**	**48,227**	**355,454**

29. PROPOSED APPROPRIATIONS

The board of directors has proposed the following appropriations for 2020. These appropriations are subject to approval by the shareholders at the Annual General Meeting.

	2020	2019
Proposed dividends	-	5,036
Donations	-	300
General reserve	-	750
Statutory reserve	-	460
	-	6,546

30. 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.

Unaudited Supplementary Information
Impact of COVID-19

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

The COVID-19 outbreak earlier in 2020 has had multiple implications on the Group, from stressed market conditions, significant reduction in sales of its product and services, reduction in cashflows from the loan book and disruption of its normal operations due to social distancing norms and restricted commercial activities. The CBB, along with the Government of Bahrain, have adopted numerous concessionary measures. In March 2020, the CBB announced a six-month loan deferral to all qualifying Bahraini individuals and companies. Subsequently, the CBB instructed its licensees to take the present value of the shortfall in interest income (termed the "modification loss" under IFRS) arising from this deferral directly to equity, net of any government grants received. The initial modification loss recorded by the Group amounted to BD 16,125. Subsequently, the Group has made reversal of BD 934 to equity due to early settlements of loans and repayment of credit card balances. The Group had received BD 1,684 grants in the form of salary subsidy and electricity and water bill reductions.

The table below summarizes the impact of the various measures and market conditions on the Group as at 31 December 2020:

	Net Profit	Total Equity (Excluding Net Profit)	Total Assets
Estimated balances at 31 December 2020 excluding COVID-19 impact	**16,987**	**143,139**	**395,527**
CBB and Government measures			
Loan deferral and modification loss	-	(15,191)	(28,558)
Government grants	-	1,960	-
	-	(13,231)	(28,558)
Impact due to changed market conditions:			
Additional impairment provisions due to COVID-19	(11,516)	-	(11,516)
Lower interest income	(6,087)	-	-
Lower interest cost	1,116	-	-
Lower income in automotive businesses	(2,312)	-	-
Lower credit card income due to deferrals	(1,867)	-	-
Lower income in real estate business	(205)	-	-
Lower income in insurance services business	(390)	-	-
	(21,262)	-	(11,516)
Closing balances as per the financial statements	**(4,275)**	**129,908**	**355,453**

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