BAHRAIN COMMERCIAL FACILITIES COMPANY BSC

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2018

Bahrain Commercial Facilities Company BSC

2018 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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Board of Directors	: Abdulrahman Yusuf Fakhro - Chairman Reyadh Yusuf Hasan Sater - Vice Chairman Khalid Mohammed Ali Mattar Ebrahim Abdulla Buhindi Mohammed Ahmed Al-Khaja Abdulaziz Abdulla A.Aziz Al-Ahmed Sayed Abdulghani Hamza Qarooni Dr. A. Rahman Ali Saif A. Rahman Abdulla Mohamed Al-Mahmood Yusuf Saleh Sultan Khalaf
Chief Executive Officer	: Dr. Adel Hubail
Head of Credit & Marketing	: Fadhel Mahoozi
General Manager - NMC	: Ramzi Barakat
General Manager - TISCO	: Ali Al-Daylami
General Manager – TAC	: Bareer Jassim
General Manager – TCL	: Ripin Mehta
Group Head of Finance	: Vishal Purohit

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

Auditors	: KPMG Fakhro

REPORT OF THE CHAIRMAN

On behalf of the Board of Directors, it gives me immense pleasure to present to you the Annual Report of Bahrain Commercial Facilities Company BSC, for the financial year ended 31 December 2018. The annual report includes the consolidated financial statements of Bahrain Credit and the Company's subsidiaries: National Motor Company, Tasheelat Real Estate Services Company, Tasheelat Insurance Services Company, Tasheelat Automotive Company and Tasheelat Car Leasing Company.

It is a matter of great pride that your Company continued its remarkable performance in difficult and challenging market conditions and yet again recorded its highest profit. The Company has earned a net profit of BD 22.9 million for the year ended 31 December 2018, 11% ahead of last year (2017: BD 20.7 million). The results demonstrate the resilience of a well-diversified business model, successful execution of 2016-2018 Strategic Plan initiatives and strong synergies amongst all the subsidiary companies of the Group. These earnings translate into an outstanding return on equity of 15.7%. Your Board recommends a cash dividend to shareholders at the rate of 45 fils per share (45 %) (2017: 50 fils per share) and 25% bonus shares (2017: Nil bonus shares).

The world economy continued to face extraordinary volatile market conditions in 2018. The United States continue to provide growth impetus, whereas other major economies experienced significant challenges. The possibility of financial market stress is escalating investors' concerns about the credit worthiness of certain emerging markets and developing economies. This is possibly attributed to faster than expected normalization of monetary policy in advanced economies. Countries with elevated corporate debts, wide current account and fiscal deficits or weak growth prospects would be vulnerable to accelerating financing costs. At the GCC level, oil prices remain volatile averaging most of the times lower than the breakeven points of some GCC countries. Bahrain's economy has gone through its toughest period which tested its fiscal and monetary health. In 2018, the country grew at subpar 2.2%. To enhance its fiscal position and maintain long-term economic stability, the government has continued to undertake new reforms. The impact of reduction in subsidies and increase in utility prices have started to become visible on household disposable income of citizens. The business community is readjusting its fundamentals to the new norm.

Bahrain Credit produced a strong performance and achieved a net profit of BD 18.9 million (2017: BD 17.5 million). The company continued to exercise caution in extending new loans and further tightened its underwriting policies to adapt to the difficult market conditions. Total new loans worth BD 171 million (2017: BD 161 million) were advanced during the year. The company continue to invest into technology driven initiatives to augment its customer relation touchpoints whilst at the same time bolstering its risk management practices through offering products which clearly demarcate risk and rewards per customer segments.

Activities of new vehicle lending have experienced some challenges as a result of market contraction for most of the year. To maintain its leadership, the company continued its investment in partnership with auto dealers and sub dealers to stimulate markets, whilst at the same time it developed a complete value chain for funding used car loans. Mortgage loans performed well despite significant decrease in real estate activities. Personal loan continued to attract existing and new customer profiles due to its unique value proposition and the company's reach through strategically located branch locations. The range of products under Imtiaz credit card is helping the company to reach wider segments of the society. The card continued to grow in terms of number of cards, receivables and foreign currency spend.

The company remained extremely cautious to ensure the quality of its portfolio. The company has taken key initiatives to strengthen its collection strategies to thwart the current market realities and challenges. The active continuous feedback loop between the underwriters and collection agents helped the company in dynamically updating its underwriting guidelines to be more sensitive to prevailing market circumstances. These unrelenting efforts have been quite rewarding, resulting in nonperforming loans being significantly reduced to 2.98% of the total loans portfolio.

REPORT OF THE CHAIRMAN

National Motor Company has earned a net profit of BD 2.4 million (2017: BD 2.2 million). The growth achieved is impressive in view of continued contraction in the new car sales and significant erosion of margins due to overall vehicle supplies exceeding customers' demands. Reduction of overall disposable income and increase in fuel prices have started to redirect customers purchasing habits towards small engine, fuel efficient and lower value vehicles. In this environment, the company focussed on ensuring adequate inventory controls with correct mix of vehicles, lean and efficient deployment of workforce, strong focus on customer satisfaction and emphasis on cost optimisation. In aftersales, the company continued its focus on customer retention through providing superior customer service at a reasonable cost to further enhance its customer base.

Tasheelat Insurance Services Company performed well and achieved a net profit of BD 773 thousand (2017: BD 610 thousand). The company has introduced several new products during the year to reduce its reliance on a single product. The company maintained its market leadership position in the motor insurance industry. This strategy paid off despite decline in overall new vehicle sales. The company continued to increase its penetration and achieved 16% growth through arranging more than twenty-seven thousand motor insurance policies.

Tasheelat Real Estate Services Company registered a net profit of BD 0.6 million (2017: BD 0.4 million). The real estate market in Bahrain continue to remain stagnant and uninspiring with general decline in demand and correction of prices in certain areas. Such market conditions have affected the company's land inventory liquidation plans. The company has introduced certain innovative products to infuse confidence and instil growth. All the company's investment properties continue to maintain healthy occupancy throughout the year and have generated steady and reliable rental yield.

Tasheelat Automotive Company had an excellent year and achieved a net profit of BD 200 thousand. The company has made GAC cars a household name leading to a higher brand visibility and equity. What is of a great source of pride and encouragement is the fact that many customers switched from well-established automotive brands to GAC. This has positioned GAC as an undisputed leading brand among all the Chinese brands. GAC vehicles are packed with cutting edge technologies, safety features, fuel efficiency and very attractive price points. Recognizing the importance of light commercial vehicles to extend Tasheelat Automotive Company's reach to the business community, a decision was taken to introduce Foton, a well-known Chinese brand to the market. The initial feedback received has been positive for the fortune of this brand. Your Board will continue to invest in new and aspiring brands and the setup of the automotive business.

Tasheelat Car Leasing completed its first full year of operation. The new company in a short period of 18 months has emerged as a dominant player in the car leasing market. The company has a fleet of more than 1,000 vehicles with largest strategically located branch network. The company is fast emerging as an alternative to those retail and corporate customers who would like to choose leasing as an alternative over buying vehicles to manage their cash flows more diligently. The company is also developing its rental business where its targeting not only Bahrain residents but those customers who visit Bahrain frequently.

The Company has a strong and healthy liquidity position with a well-defined staggered maturity profile for its borrowings. During the year, the Company had successfully arranged a USD 53 million syndicated loan and repaid BD 20 million bonds on their maturity. The Group is currently operating at a low leverage of 1.7 multiples. This offers tremendous potential to comfortably increase the size of the balance sheet. The Group will explore expansion opportunities which have the potential to increase the shareholder value.

REPORT OF THE CHAIRMAN

During the year, the following changes took place in the composition of the Board of Directors. The Board welcomed Mr. Yusuf Saleh Sultan Khalaf, who joined as a non-executive and independent director in April 2018.

Mr. Mohammed Ahmed Al Khaja resigned from the Board. He served the Company from March 2014 to December 2018 as a nominee of Social Insurance Organisation. The Board places on record its sincere thanks and appreciation to Mr. Al Khaja for his valuable contributions over the years.

In accordance with the requirement of Commercial Company Law, we report the aggregate amount paid to directors during 2018 was BD 726 thousand (2017: BD 625 thousand) in respect of fees and subsidiary Board and Committees' attendance allowances. The total shareholding of the directors in the Company is 109.9 million shares (67.26% of paid up capital).

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

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

Abdulrahman Yusuf Fakhro
Chairman
26 February 2019

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

Bahrain Commercial Facilities Company BSC
Kingdom of Bahrain

Report on the audit of the consolidated financial statements

Opinion

We have audited the accompanying consolidated financial statements of Bahrain Commercial Facilities Company BSC (the "Company") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of loans and advances

(refer to the use of estimate and management judgement in note 7, impairment policy in note 3(d), and note 5 on disclosure of credit risk in the financial statements)

Description	How the matter was addressed in our audit
We focused on this area because: ▪ of the significance of loans and advances (representing 80% of total assets) and the related estimation of uncertainty to the financial statements; and ▪ IFRS 9 "Financial Instruments" was adopted by the Group on 1 January 2018 and has resulted in: • change in accounting policies for impairment including the need for making complex estimates and judgment over both timing and recognition of impairment;	Our audit procedures, amongst others, to address significant risks associated with impairment included: • Evaluating the appropriateness of the accounting policies adopted based on the requirements of IFRS 9, our business understanding, and industry practice. • Confirming our understanding of management's new or revised processes, systems and controls implemented, including controls over ECL model development. **Controls testing** We performed process walkthroughs to identify the key systems, applications and controls used in the ECL processes. We tested the relevant General IT and applications controls over key systems used in the ECL process. Key aspects of our control testing involved the following:

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- transition adjustments on 1 January 2018, being the date of adoption in retained earnings amounting to BD 5.4 million;
- use of statistical models and methodologies for determination of expected credit losses;
- significant change in processes, data and control that have not been subject to testing previously; and

complex disclosure requirements regarding impact of initial application of IFRS 9 and credit quality of the portfolio including explanation of key judgements and material inputs used in determination of expected credit losses

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

Test of details

Key aspects of our testing involved:

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

Use of specialists

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

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

Disclosures

We assessed the adequacy of the Group's disclosure in relation to transition impact arising from first time application of IFRS 9, new accounting policies, use of significant estimates and judgement and credit quality of loans and advances by reference to the requirements of relevant accounting standards.

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (continued)

Provision on inventory (vehicles and spare parts)

Refer to Note 11 to the consolidated financial statements.

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

Impairment of trade receivables

Refer to Note 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; and ▪ IFRS 9 "Financial Instruments" was adopted by the Group on 1 January 2018 and has resulted in: o change in accounting policies for impairment including the need for making complex estimates and judgment over both timing and recognition of impairment; o transition adjustments on 1 January 2018, being the date of adoption in retained earnings amounting to BD 0.9 million; o use of models and methodologies for determination of expected credit losses;	Our audit procedures included: • Evaluating the appropriateness of the accounting policies adopted based on the requirements of IFRS 9, our business understanding, and industry practice. **Controls testing** • Testing the design and operating effectiveness of the key controls over the completeness and accuracy of the key inputs and assumptions elements into the IFRS 9 ECL model; • Evaluating controls over the governance and assessment of the output of the ECL model, authorisation and review of post model adjustments and management overlays; and **Test of details** • Testing the ageing of receivables on a sample basis; **Use of specialists** • We involved our Financial Risk Management specialists to review the reasonableness and appropriateness of the ECL model and assumptions used by reference to our own knowledge and external market data and economic conditions. Evaluating the adequacy of the Group's disclosures related to IFRS 9 in the consolidated financial statements.

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (continued)

Other information

The board of directors is responsible for the other information. The other information comprises the annual report but does not include the consolidated financial statements and our auditors' report thereon. Prior to the date of this auditors' report, we obtained the Chairman's report which forms part of the annual report, and the remaining sections of the annual report are expected to be made available to us after that date.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we have obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

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

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (continued)

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

We also provide the board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the board of directors, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended 31 December 2018 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

a) the Company has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
b) the financial information contained in the chairman's report is consistent with the consolidated financial statements;
c) we are not aware of any violations during the year of the Commercial Companies Law, the CBB and Financial Institutions Law No. 64 of 2006 (as amended), the CBB Rule Book (Volume 5, applicable provisions of Volume 6 and CBB directives), the CBB Capital Markets Regulations and associated resolutions, the Bahrain Bourse rules and procedures or the terms of the Company's memorandum and articles of association that would have had a material adverse effect on the business of the Company or on its financial position; and
d) satisfactory explanations and information have been provided to us by management in response to all our requests.

The engagement partner on the audit resulting in this independent auditors' report is Jaafar AlQubaiti.

KPMG

KPMG Fakhro
Partner registration number 83
26 February 2019

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2018

Bahraini dinars thousands

	Note	31 December 2018	31 December 2017
Assets			
Cash and balances with banks		5,171	5,637
Loans and advances to customers	9	314,803	294,718
Trade receivables	10	8,879	7,111
Inventories	11	22,842	29,716
Investment properties	12	6,757	6,939
Property and equipment	13	27,364	25,343
Other assets		5,266	3,608
Total assets		**391,082**	373,072
Liabilities and equity			
Liabilities			
Bank overdrafts		141	73
Trade and other payables		20,757	17,988
Bank term loans	14	204,292	177,703
Bonds issued	15	19,964	39,900
Total liabilities		**245,154**	235,664
Equity			
Share capital	16	16,335	16,335
Treasury shares	16	(599)	(599)
Statutory reserve		33,542	33,542
Other reserves		26,848	25,112
Retained earnings		69,802	63,018
Total equity (page 13-14)		**145,928**	137,408
Total liabilities and equity		**391,082**	373,072

The consolidated financial statements were approved by the Board of Directors on 26 February 2019 and signed on its behalf by:

Abdulrahman Yusuf Fakhro
Chairman

Reyadh Yusuf Hasan Sater
Vice Chairman

Dr. Adel Hubail
Chief Executive Officer

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
for the year ended 31 December 2018

Bahraini dinars thousands

	Note	2018	2017
Interest income		37,218	34,137
Interest expense		(11,729)	(10,287)
Net interest income		**25,489**	23,850
Automotive revenue	17	60,406	57,117
Cost of sales		(53,236)	(50,745)
Gross profit on automotive revenue		**7,170**	6,372
Fee and commission income	18	12,016	10,613
Profit from sale of land inventory	19	909	1,151
Rental and evaluation income		714	751
Total operating income		**46,298**	42,737
Salaries and related costs		(9,027)	(7,646)
Other operating expenses	21	(11,557)	(10,966)
Impairment allowance on loans and receivables, net of recoveries		(3,649)	(4,394)
Other income	20	826	983
Profit for the year		**22,891**	20,714
Basic and diluted earnings per 100 fils share	26	142 fils	129 fils
Proposed cash dividend per 100 fils share		45 fils	50 fils

Abdulrahman Yusuf Fakhro
Chairman

Reyadh Yusuf Hasan Sater
Vice Chairman

Dr. Adel Hubail
Chief Executive Officer

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 2018 Bahraini dinars thousands

	2018	2017
Profit for the year	**22,891**	20,714
Other comprehensive income		
Items that are or may be reclassified to profit or loss		
Net change in cash flow hedge reserve	184	869
Total other comprehensive income for the year	**184**	869
Total comprehensive income for the year	**23,075**	21,583

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 2018

Bahraini dinars thousands

2018	Share capital		Reserves and retained earnings					
				Other reserves				
	Share capital	Treasury shares	Statutory reserve*	Cash flow hedge reserve	Donation reserve	General reserve	Retained earnings	Total equity
As at 31 December 2017 (as previously reported)	16,335	(599)	33,542	1,182	680	23,250	63,018	137,408
Impact of adopting IFRS 9 as at 1 January 2018 (note 2)	-	-	-	-	-	-	(6,250)	(6,250)
Restated balance as at 1 January 2018	**16,335**	**(599)**	**33,542**	**1,182**	**680**	**23,250**	**56,768**	**131,158**
2017 appropriations (approved by shareholders):								
- Donations approved	-	-	-	-	300	-	(300)	-
- Dividend to equity holders declared	-	-	-	-	-	-	(8,057)	(8,057)
- Transfer to general reserve	-	-	-	-	-	1,500	(1,500)	-
Balance after 2017 appropriations	**16,335**	**(599)**	**33,542**	**1,182**	**980**	**24,750**	**46,911**	**123,101**
Comprehensive income for the year:								
Profit for the year	-	-	-	-	-	-	22,891	22,891
Other comprehensive income:								
- Fair value gain on cash flow hedge reserve	-	-	-	184	-	-	-	184
Total comprehensive income for the year	**-**	**-**	**-**	**184**	**-**	**-**	**22,891**	**23,075**
Utilisation of donation reserve	-	-	-	-	(248)	-	-	(248)
At 31 December 2018	**16,335**	**(599)**	**33,542**	**1,366**	**732**	**24,750**	**69,802**	**145,928**

*Includes BD 25,292 of share premium.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2018

Bahraini dinars thousands

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

*Includes BD 25,292 of share premium.

The 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 2018 Bahraini dinars thousands

	Note	**2018**	2017
Cash flow from operating activities			
Loan repayments, interest received and credit card related receipts		313,822	273,903
Receipts from automotive sales		58,504	59,573
Insurance commission received		1,499	1,248
Proceeds from sale of land inventory		6,465	6,162
Rental received		698	750
Loans and advances to customers disbursed		(295,182)	(259,167)
Payments to automotive suppliers		(48,615)	(41,325)
Payment for real estate inventory		(784)	(4,931)
Payments for operating expenses		(19,739)	(17,057)
Directors' fees paid		(464)	(393)
Interest paid		(11,820)	(10,998)
Net cash generated from operating activities		**4,384**	7,765
Cash flows from investing activities			
Capital expenditure on property and equipment		(3,145)	(3,483)
Addition to / purchase of investment properties		(669)	(226)
Proceeds from sale of property and equipment		804	829
Net cash used in investing activities		**(3,010)**	(2,880)
Cash flows from financing activities			
Bank term loans availed		55,280	79,486
Bank term loan repaid		(28,775)	(71,527)
Bond paid on maturity		(20,000)	-
Dividends paid		(8,020)	(7,994)
Donations paid		(248)	(411)
Net cash used in financing activities		**(1,763)**	(446)
Net (decrease) / increase in cash and cash equivalents		**(389)**	4,439
Cash and cash equivalents at 1 January		5,356	917
Cash and cash equivalents at 31 December		**4,967**	5,356
Cash and cash equivalents comprise:			
Cash and balances with banks		5,171	5,637
Less:			
Restricted cash		(63)	(208)
Bank overdrafts		(141)	(73)
		4,967	5,356

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2018 Bahraini dinars thousands

1. REPORTING ENTITY

Bahrain Commercial Facilities Company BSC ("the Company") is a public shareholding company incorporated and registered in Kingdom of Bahrain. It provides short-term, medium-term, long-term loans and issue credit card. Since 26th June 2005, the Company has been licensed and regulated by the Central Bank of Bahrain ("the CBB"). The consolidated financial statements of the Company as at and for the year ended 31 December 2018 comprise the Company its subsidiaries and branches (together referred to as "the Group").

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

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

2. BASIS OF PREPARATION

a) Statement of compliance

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

b) Basis of measurement

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

c) Functional and presentation currency

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

d) New standards, amendments and interpretations effective from 1 January 2018

The following standards, amendments and interpretations, which became effective as of 1 January 2018, are relevant to the Group:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2018 Bahraini dinars thousands

2 Basis of preparation (continued)

d) New standards, amendments and interpretations effective from 1 January 2018 (continued)

(i) IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

The Group has initially applied IFRS 9 from 1 January 2018. Due to the transition options chosen by the Group in applying this standard, comparative information throughout these consolidated financial statements has not been restated to reflect the requirements of the new standards.

The effect of initially applying this standards is mainly attributed to an increase in impairment losses recognised on financial assets.

As a result of adopting IFRS 9, the Group has adopted consequential amendments to IAS 1 Presentation of Financial Statements, which require impairment of financial assets to be presented in a separate line item in the statement of profit or loss and other comprehensive income.

Additionally, the Group has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018 but have not been generally applied to comparative information.

The following table summarises the impact of transition to IFRS 9 on the opening balance retained earnings (for a description of the transition method, refer (2 d (iv)):

	Retained earnings
Closing balance under IAS 39 at 31 December 2017	63,018
Impact on recognition of Expected Credit Losses	
Loans and Advances to Customers	(5,401)
Trade receivables	(849)
	(6,250)
Opening balance under IFRS 9 on date of initial application of 1 January 2018	**56,768**

i. Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and on its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities and derivative financial instruments.

2 *Basis of preparation (continued)*
d) New standards, amendments and interpretations effective from 1 January 2018 (continued)

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets and financial liabilities as at 1 January 2018. The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates solely to the new impairment requirements:

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount (IAS 39)	Re-measure-ment	New carrying amount (IFRS 9)
Financial assets					
Loans and advances to customers	Loans and receivables	Amortised cost	294,718	(5,401)	289,317
Trade receivables	Loans and receivables	Amortised cost	7,111	(849)	6,262
Cash and balance with banks	Loans and receivables	Amortised cost	5,637	-	5,637
Other assets	Loans and receivables	Amortised cost	3,608	-	3,608
			311,074	**(6,250)**	**304,824**

ii. Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt instruments at FVOCI, but not to equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Group has determined that the application of IFRS 9's impairment requirements at 1 January 2018 resulted in an additional allowance for impairment as follows:

Loss allowance at 31 December 2017 Under IAS 39	**11,389**
Additional impairment recognised at 1 January 2018 on:	
Loans and Advances to Customers	5,401
Trade receivables	849
Loss allowance at 1 January 2018 under IFRS 9	**17,639**

iii. Hedge Accounting

The Group will continue to apply the hedge accounting requirements of IAS 39 on adoption of IFR 9, until the macro-economic hedge requirements of IFRS 9 are issued.

iv. Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

- The Group has used an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9, but rather those of IAS 39.

2 Basis of preparation (continued)
d) New standards, amendments and interpretations effective from 1 January 2018 (continued)

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:
  - The determination of the business model within which a financial asset is held.
  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.

(ii) IFRS 15 Revenue from Contracts with Customers
IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

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

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

- Transfer of Investment Property (Amendments to IAS 40)
- Annual Improvement to IFRS 2014 - 2016 Cycle - Various standards

e) New standards, amendments and interpretations issued but not yet effective
A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however; the Group has not early applied the following new or amended standards in preparing these consolidated financial statements.

The following standards are expected not to have a material impact on the Group's consolidated financial statements in the period of initial application:

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

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

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

The Group does not expect to have a significant impact on its consolidated financial statements from adoption of this standard.

(ii) Other Standards
The following amended standards are effective for annual periods beginning after on 1 January 2019 and early application is permitted. The Group has not early applied the following standards and it is not expected to have significant impact on these consolidated financial statements:

- Annual Improvement to IFRS standards 2015 -2017 Cycle - various standards
- Plan Amendments, Curtailment or settlement (Amendments to IAS 19)
- Amendments to Reference to conceptual Framework in IFRS standards

2 Basis of preparation (continued)

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 6.

3. SIGNIFICANT ACCOUNTING POLICIES

The Group has initially adopted IFRS 9 and IFRS 15 from 1 January 2018. A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Group's financial statements.

Due to the transition method chosen by the Group in applying IFRS 9 and IFRS 15, comparative information throughout these financial statements has not generally been restated to reflect its requirements. Accordingly, the impact on the comparative information is limited to new disclosure requirements.

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

a. Basis of consolidation

(i) Subsidiaries:

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

(ii) Loss of control:

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

(iii) Transactions eliminated on consolidation:

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

b. Interest and revenue recognition

(i) Interest

Interest income and expense- policy applicable from 1 January 2018

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.

3. Significant accounting policies (continued)

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

Amortised cost and gross carrying amount
The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

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

Interest income and expense- policy applicable before 1 January 2018

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

(ii) Income from sale of goods and provision of services
Policy applicable from 1 January 2018

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, ie 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.

Policy applicable before 1 January 2018

Revenue is measured at the fair value of the consideration received or receivable, net of discounts, and represents amounts receivable for goods supplied or services performed. The Group recognises revenues when significant risk and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

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; and
c) revenue from warranty claims is recognised when these services have been rendered to the customers under warranty obligations; and
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.
f) Rental income from investment property is recognised as revenue on a straight line basis over the term of the rental agreement.

(iii) Fee and commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate. Other fees and commission income – including loan administration and account servicing fees – are recognised over time as the related services are performed.

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

c. Foreign currencies transactions

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

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

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

d. Financial instruments

(i) Recognition and initial measurement

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

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

3. Significant accounting policies (continued)
d. Financial instruments (continued)

(ii) Classification and subsequent measurement
Financial assets- Policy applicable from 1 January 2018

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.

Subsequent measurement and gains and losses

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.

Financial assets – Policy applicable before 1 January 2018

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

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

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. Financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on de-recognition is also 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.

3. Significant accounting policies (continued)

(i) 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.

(ii) Impairment

i. Non-derivative financial assets

Policy applicable from 1 January 2018

Financial instruments

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

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

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

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 60 days past due for loans and 30 past due for credit cards.

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

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

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

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

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

Measurement of ECLs- Loans and advances

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

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

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

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

3. Significant accounting policies (continued)

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

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

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:

3. Significant accounting policies (continued)

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

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

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

Policy applicable before 1 January 2018

Loans and advances to customers

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

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

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

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

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

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

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

3. Significant accounting policies (continued)

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

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

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

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

Buildings	15 to 35 years
Furniture, fixture and equipment	3 to 6 years
Owned Vehicles	4 years
Leased Vehicle	4 to 6 years

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

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

Buildings	15 to 35 years
Furniture, fixture and equipment	4 years

h. 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.

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

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

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

3. Significant accounting policies (continued)

k. 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.

l. 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.

m. 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.

n. Cash flow hedges

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

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in other comprehensive income and presented in the hedging reserve in equity remains there until the forecast transaction affects profit or loss. When the hedged item is a non-financial asset, the amount recognised in other comprehensive income is transferred to the carrying amount of the asset when the asset is recognised.

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

3. Significant accounting policies (continued)

o. Impairment of non-financial assets

The carrying amounts of the Group's assets other than financial assets (note 3e) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated and an impairment loss is recognised whenever the carrying amount exceeds the recoverable amount. Impairment losses are recognised in the profit or loss.

p. 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.

q. 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.

r. Trade and other payables

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

s. Bank term loans and bonds issued

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

t. 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.

u. 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.

v. Segment reporting

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

3. Significant accounting policies (continued)

w. 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.

x. Repossessed property

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

4. CHANGE IN ESTIMATE OF USEFUL LIFE

With effect from 1 January 2018, the Group revised the estimated useful life of its building from 15 - 20 to 15 - 35 years. As per management assessment, the revised useful life appropriately reflects the period of economic benefits to be derived from the usage and would hence result in a more appropriate preparation of the consolidated financial statements. In accordance with International Accounting Standard 8, "Accounting Policies, Changes in Accounting Estimates and Errors", the change in useful life of assets is considered to be a change in accounting estimate and the effect of the change is recognised prospectively.

Accordingly, if the Group had not changed the estimated useful life of its buildings during the year ended 31 December 2018, the profit for the year ended 31 December would have been lower by BD 471 thousand, and the carrying value of building would have been lower by BD 471 thousand. Further, depreciation charge would have been BD 2,204 thousand for the year ended 31 December 2018 if the Group had not changed the useful life.

5. FINANCIAL RISK MANAGEMENT

Introduction and overview

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

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

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

Risk management framework

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

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

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

a. Credit risk

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

5. Financial risk management (continued)

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

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

All loans and advances are with local individuals and locally incorporated entities. The credit risk on these loans and advances is actively managed and rigorously monitored in accordance with well-defined credit policies and procedures. The creditworthiness of each borrower is evaluated prior to lending and with a comprehensive review of information which includes the Credit Bureau report. The Group is also subject to single obligor limits as specified by the Central Bank of Bahrain. Credit review procedures are in place to identify at an early stage exposures which require more detailed monitoring and review. Appropriate procedures for follow-up and recovery (including recourse to legal action) are in place to monitor the credit risk on loans and advances.

Exposure to credit risk
The Group is not exposed to any significant concentration of credit risk arising from exposures to a single debtor or debtors having similar characteristics such that their ability to meet their obligations is expected to be affected similarly by changes in economic or other conditions. Regular audits of business units and 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:

2018	**31 December 2018**	1 January 2018 (restated)
Stage 3 – Specifically assessed loans		
Gross amount	1,724	661
Expected credit loss	(967)	(460)
Net amount	**757**	201
Stage 1, 2 and 3 - Collectively assessed loans		
Stage 1 - 12 month	291,580	272,586
Stage 2 - lifetime - not credit impaired	17,117	11,845
Stage 3 – lifetime - credit impaired	22,212	20,426
Expected credit loss	(16,863)	(15,741)
Net amount	**314,046**	289,116
Net loans and advances to customers	**314,803**	289,317

5. Financial risk management (continued)

2017	31 December 2017
Specifically provided loans	
Gross amount	661
Impairment allowance	(460)
Net amount	201
Collectively provided loans and advances	
Current	247,219
Past due but not impaired	47,095
Past due and impaired	10,543
Impairment allowance	(10,340)
Net amount	294,517
Net loans and advances to customers	294,718

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

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

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

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

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

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

Monitoring of credit risk
Generating the term structure of PD

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

5. Financial risk management (continued)

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

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

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

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.
Using its expert credit judgement and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a general criteria, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 60 days past due or, for credit card more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

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

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

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

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

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 behavioural indicators.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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5. Financial risk management (continued)

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

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

Key macro-economic indicators include: Oil price, Consumers purchase index (CPI), Real GDP growth, Real interest rate (RIR), Unemployment rate, Domestic credit growth, Central Government revenue as percentage of GDP and Central Government expenditure as percentage of GDP.
The base case represents a most-likely outcome and is aligned with information used by the Group for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes.

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

	Stage 1	Stage 2	Stage 3	2018	2017
Current	260,624	5,142	7,785	**273,551**	247,587
1-30 days	21,449	757	1,805	**24,011**	20,885
31-60 days	9,507	3,788	1,975	**15,270**	15,414
61-89 days	-	7,430	2,336	**9,766**	10,796
90 days – 1 year	-	-	6,416	**6,416**	7,890
1 year – 3 years	-	-	2,974	**2,974**	2,263
More than 3 years	-	-	645	**645**	683
Expected credit loss	(3,116)	(3,708)	(11,006)	**(17,830)**	**-**
Impairment allowances	-	-	-	**-**	(10,800)
Carrying value	**288,464**	**13,409**	**12,930**	**314,803**	294,718

By industry or counterparty:

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

5. Financial risk management (continued)

2017

	Retail	Corporate	Total
Current	219,747	27,840	247,588
1-30 days	19,797	1,088	20,885
31-60 days	14,531	883	15,414
61-89 days	9,843	953	10,796
90 days – 1 year	7,755	135	7,890
1 year – 3 years	2,148	115	2,263
More than 3 years	683	-	683
Gross loans and advance	274,504	31,014	305,518
Collective impairment allowance	(9,715)	(424)	(10,139)
Specifically impairment allowance	(580)	(81)	(661)
Net loans and advances	264,209	30,509	294,718

By geographical region:

2018	Bahrain	Kurdistan	Total
Current	273,551	-	**273,551**
1-30 days	24,011	-	**24,011**
31-60 days	15,270	-	**15,270**
61-89 days	9,766	-	**9,766**
90 days – 1 year	6,416	-	**6,416**
1 year – 3 years	2,857	117	**2,974**
More than 3 years	645	-	**645**
Gross loans and advance	332,516	117	332,633
Collectively assessed ECL	(16,746)	(117)	(16,863)
Specifically assessed ECL	(967)	-	(967)
Net loans and advances	314,803	-	314,803

2017	Bahrain	Kurdistan	Total
Current	247,587	-	247,587
1-30 days	20,885	-	20,885
31-60 days	15,414	-	15,414
61-89 days	10,795	1	10,796
90 days – 1 year	7,872	18	7,890
1 year – 3 years	2,108	155	2,263
More than 3 years	683	-	683
Gross loans and advance	305,344	174	305,518
Collective impairment allowance	(10,338)	(2)	(10,340)
Specifically impairment allowance	(460)	-	(460)
Net loans and advances	294,546	172	294,718

5. Financial risk management (continued)

At 31 December 2018, the total gross amount of non-performing loans as defined by the CBB was BD 10,035 (2017: 10,836).In compliance with the CBB requirements, interest on non-performing loans is suspended and is accounted for on a cash basis. Suspended interest income relating to such past due loans is not material to the Group's net income.

During the year ended 31 December 2018, the average gross credit exposure for cash and balances with banks is BD 4,570 (2017: BD 3,918), loans and advances to customers is BD 302,695 (2017: BD 285,096), trade and other receivables is BD 7,447 (2017: BD 7,909) and unutilised credit limit is BD 27,738 (2017: BD 25,857). Such amounts are calculated based on the average of last four quarterly results.

At the reporting date, the loans and advances to customers represent 47% vehicle (2017: 51%), 20% mortgage (2017: 20%), 23% unsecured lending (2017: 20%) and 10% credit card lending (2017: 9%).

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

2018	Bahrain	Kurdistan	**2018**
Balances with banks	5,169	2	5,171
Loans and advances to customers	314,803	-	314,803
Trade receivables	8,879	-	8,879
Other assets	3,332	-	3,332
Total	**332,183**	**2**	**332,185**
Unutilised credit limit	27,651	-	27,651

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

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

The Group has established policies and procedures under which each customer is analyzed individually for creditworthiness. At the year end, trade receivables of BD 2,517 (2017: BD 1,567) were past due against which BD 912 (2017: BD 585) 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.

5. Financial risk management (continued)

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 2018, loans and advances amounting to BD 7,532 (2017: BD 406) 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/or additionally post dated cheques/promissory notes and personal guarantees.

As at 31 December 2018, loans amounting to BD 174,955 (2017: BD 178,412) were fully collateralized and loans amounting to BD 38,305 (2017: BD 32,194) were partly collateralized with a collateral value of BD 31,291 (2017: BD 28,139).

Management estimates the fair value of collaterals and other security enhancements held against individually impaired loans are reasonably sufficient to cover the value of such loans at the reporting date. The Group monitors concentrations of credit risk by product. As at 31 December 2018, the Group obtained assets of BD 2,045 (2017: BD 1,521) by taking possession of collateral held as security against loans and advances

Credit risk concentration

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

Settlement risk

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

Derivative related credit risk

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

Credit risk related to trade receivables

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

b. Liquidity risk

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

Management of liquidity risk

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

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.

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5. Financial risk management (continued)

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

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

c. Market risks

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

Management of market risks

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

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5. Financial risk management (continued)

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	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
ASSETS								
Cash and balances with banks	-	-	-	-	5,171	5,637	5,171	5,637
Loans and advances to customers	314,302	294,329	-	-	501	389	314,803	294,718
Trade receivables	-	-	-	-	8,879	7,111	8,879	7,111
Other assets	1,349	-	1,439	-	544	626	3,332	626
	315,651	294,329	**1,439**	-	**15,095**	13,763	**332,185**	308,092
LIABILITIES								
Bank overdrafts	-	-	141	73	-	-	141	73
Trade and other payables	-	-	-	-	16,910	14,042	16,910	14,042
Bank term loans	-	-	204,292	177,703	-	-	204,292	177,703
Bonds issued	-	-	19,964	39,900	-	-	19,964	39,900
	-	-	**224,397**	217,676	**16,910**	14,042	**241,307**	231,718

The Group's instalment loans receivables are predominantly of a fixed rate nature (the Group has, however, reserved the right under the terms of the agreement with customers to vary the rate at its discretion after giving a customer one month notice) while its bank borrowings are of a floating rate nature. To hedge this risk, the Group uses interest rate swaps and caps to reduce exposure to fluctuations of interest rates. At 31 December 2018 interest rate risk attributable to the term loans of USD 270 million (BD: 101.79 million) (2017: USD 300 million, BD 113.1 million) has been hedged. The Group also have additional USD 20 million forward start interest rate swaps. The fair value changes of the interest rate swaps are recognised in equity (pages 13-14). The Group does not enter into derivative financial instruments other than for economic hedging purposes.

The unhedged portion of the floating rate borrowing is sensitive to changes in the interest rates. As at 31 December 2018 a change in variable rate financial instruments by 100 basis points will increase/ (decrease) net profits by BD 1,226 (2017: BD 1,046).

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.

	2018	2017
US Dollars	**212,123**	178,598

The Bahraini Dinar is effectively pegged to the US Dollar.

d. Operational risks
Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations and are faced by all business entities.

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

that restrict initiative and creativity.

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5. Financial risk management (continued)

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

e. Capital management

The Group's policy is to maintain a strong capital base. The Central Bank of Bahrain sets and monitors capital requirements for the Group. The conventional financing company license granted by the Central Bank of Bahrain limits borrowings to five times the capital and reserves (shareholders' equity) of the Company. Such rate for the Group was 1.68 as at 31 December 2018 (2017:1.72).

6. 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	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
ASSETS										
Cash and balances with banks	5,171	5,637	-	-	-	-	-	-	5,171	5,637
Loans and advances to customers	119,033	107,764	161,179	156,067	33,213	29,919	1,378	968	314,803	294,718
Trade receivables	8,879	7,111	-	-	-	-	-	-	8,879	7,111
Other assets	3,332	626	-	-	-	-	-	-	3,332	626
	136,415	121,138	**161,179**	156,067	**33,213**	29,919	**1,378**	968	**332,185**	308,092
LIABILITIES										
Bank overdrafts	141	73	-	-	-	-	-	-	141	73
Trade and other payables	16,910	14,042	-	-	-	-	-	-	16,910	14,042
Bank term loans	53,096	33,293	151,196	144,410	-	-	-	-	204,292	177,703
Bonds issued	19,964	19,919	-	19,981	-	-	-	-	19,964	39,900
	90,111	67,327	**151,196**	164,391	**-**	-	**-**	-	**241,307**	231,718

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

7. USE OF ESTIMATES AND JUDGEMENTS

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

(i) Impairment on Loans and advances

Applicable after 1 January 2018

Impairment

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

7. Use of estimates and judgments (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 and including forward-looking information.

Inputs, assumptions and techniques used for estimating impairment

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

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

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

Applicable before 1 January 2018

Specific impairment charge on loans

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

Collective impairment charge on loans

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

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7. Use of estimates and judgments (continued)

(ii) Impairment on trade receivables

Applicable after 1 January 2018

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.

Applicable before 1 January 2018

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

(iii) Provision on inventory

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

(iv) Contingent liability arising from litigations

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

(v) Classification of derivatives financial instrument

In the process of applying the Group's accounting policies, management decides on the transaction date the purpose of the derivative financial instrument acquired and based on the management purpose the accounting treatment is determined in accordance with the IAS 39.

8. FAIR VALUE

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

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

All financial assets of BD 332,186 (2017: BD 308,092) are categorised under 'loans and receivables' and are measured at amortised cost. All the financial liabilities of BD 241,307 (2017: BD 231,718) are measured at amortised cost except derivatives which are measured at fair value and categorised as at fair value through profit or loss.

Fair value hierarchy

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

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8. Fair value (continued)

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

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

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

(i) Financial assets and liabilities measured at fair value

The fair value of the derivatives, which are not exchange traded, is estimated at the amount the Group would receive or pay to terminate the contract at the reporting date taking into account current market conditions and the current credit worthiness of the counterparties. The Group's exposure to derivatives, whose fair value as of 31 December 2018 is BD 1,366 (2017: BD 1,182) are categorised under Level 2.

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

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

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

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

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

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

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

(iii) Non-financial assets not measured at fair value but where the fair value is disclosed

The fair value of the Group's investment property as at 31 December 2018 and 31 December 2017 has been arrived at on the basis of a valuation carried out on the respective dates. The fair value was determined based on market comparable approach that reflects recent transaction prices for similar properties. There has been no change to the valuation technique during the year.

8. Fair value (continued)

Details of the Group's investment properties and information about the fair value hierarchy as at 31 December 2018 are as follows:

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

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

9. LOANS AND ADVANCES TO CUSTOMERS

(a) Exposure by staging

	31 December 2018				31 December 2017
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Total
Loans and advances	291,580	17,117	23,936	**332,633**	305,518
Less: expected credit loss	(3,116)	(3,708)	(11,006)	**(17,830)**	(10,800)
Net loans and advances	288,464	13,409	12,930	**314,803**	294,718

	As at 1 January 2018 (restated)			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans and advances	272,586	11,845	21,087	**305,518**
Less: expected credit loss	(3,136)	(3,419)	(9,646)	**(16,201)**
Net loans and advances	269,450	8,426	11,441	**289,317**

(b) Expected credit loss movement

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

The Average effective interest rates on loans and advance to customer is 11.66% p.a. (2017: 11.68% p.a.).

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10. TRADE RECEIVABLES

	31 December 2018	31 December 2017
Trade receivables	10,259	7,700
Less: expected credit loss	(1,380)	(589)
	8,879	7,111

Expected credit loss movement	**31 December 2018**	31 December 2017
As at the beginning of the period under IAS 39	589	494
Impact of adopting IFRS 9 as at 1 January 2018 (note 3)	849	-
Balance as at 1 January 2018 under IFRS 9	**1,438**	494
Charge for the year	77	95
Reversal for the year for settled accounts	(87)	-
Write off during the year	(48)	-
Expected credit loss at the end of the year	**1,380**	589

11. INVENTORIES

	31 December 2018	31 December 2017
Automotive stock:		
-Vehicles	10,303	13,427
-Spare parts	4,597	3,855
Land and building inventory	8,510	12,739
	23,410	30,021
Provision on vehicles and spare parts	(568)	(305)
	22,842	29,716

Movement on provisions (vehicle and spare parts)	**2018**	2017
At 1 January	305	350
Net charge for the year	320	50
Utilization	(57)	(95)
At 31 December	**568**	305

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

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12. INVESTMENT PROPERTIES

	2018	2017
Cost		
At 1 January	8,056	7,830
Additions during the year	669	226
Transfer to Inventories	(631)	-
At 31 December	8,094	8,056
Accumulated depreciation		
At 1 January	1,117	776
Depreciation for the year	220	341
At 31 December	**1,337**	1,117
Net book value		
At 31 December	**6,757**	6,939

The fair value of all the investment properties as at 31 December 2018 is BD 9,324 determined by an independent property valuer with the appropriate qualification and experience

13. PROPERTY AND EQUIPMENT

	Land and buildings	**Furniture, fixtures & equipment**	**Vehicles**	**Work in Progress**	**2018 Total**	2017 Total
Cost						
At 1 January	26,855	8,422	6,065	350	41,692	39,942
Additions	21	655	1,145	1,324	3,145	3,995
Transfer during the year	22	454	-	(476)	-	(872)
Transfer from Inventory	-	-	2,197	-	2,197	-
Disposals and retirements	(713)	(3)	(1,259)	-	(1,975)	(1,373)
At 31 December	**26,185**	**9,528**	**8,148**	**1,198**	**45,059**	41,692
Depreciation						
1 January	8,453	6,618	1,278	-	16,349	15,518
Charge for the year	507	775	1,291	-	2,573	2,852
Transfer during the year	-	-	-	-	-	(1,491)
Disposals and retirements	(713)	(3)	(511)	-	(1,227)	(530)
At 31 December	**8,247**	**7,390**	**2,058**	**-**	**17,695**	16,349
Net book value						
At 31 December 2018	**17,938**	**2,138**	**6,090**	**1,198**	**27,364**	25,343
At 31 December 2017	18,402	1,804	4,787	350	-	25,343

The cost of fully depreciated assets still in use at 31 December 2018 was BD 7,614 (2017: BD 6,602).

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14. BANK TERM LOANS

	31 December 2018	31 December 2017
Repayable within one year	53,096	33,293
Repayable after one year	151,196	144,410
	204,292	177,703

Bank term loans extended have floating interest rates, which are subject to re-pricing on a quarterly or half-yearly basis. The effective interest rate on term loans inclusive of the effect of the interest rate swaps (note 5) was 5.4% p.a. (2017: 4.9% p.a.).

15. BONDS ISSUED

	31 December 2018	31 December 2017
Face value	19,981	39,981
Less: Unamortised cost of issue	(17)	(81)
	19,964	39,900

Movement on bonds during the year	**2018**	2017
At 1 January	39,981	39,981
Less: Repaid during the year	(20,000)	-
At 31 December	**19,981**	39,981

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

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

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

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

16. SHARE CAPITAL

	31 December 2018	31 December 2017
Authorised share capital		
500,000,000 (2016: 500,000,000) shares of 100 fils each	**50,000**	50,000

	2018	2017
Issued and fully paid		
163,350,000 (2016:163,350,000) shares of 100 fils each		
At 1 January	16,335	16,335
At 31 December	**16,335**	16,335
Treasury shares 2,206,891 shares (2016: 2,206,891 shares)	**599**	599

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

Additional information on shareholding pattern

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

	Nationality	No. of shares	% holding
Social Insurance Organisation*	Bahrain	50,532,033	30.93%
BBK BSC	Bahrain	37,618,691	23.03%
National Bank of Bahrain	Bahrain	18,328,620	11.22%

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

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

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

Categories*	Number of Shares	Number of shareholders	% of total issued shares
Less than 1%	40,727,243	1,250	24.94%
1% up to less than 5%**	16,143,413	5	9.88%
5% up to less than 10%	-	-	-
10% up to less than 20%	18,328,620	1	11.22%
20% up to less than 50%	88,150,724	2	53.96%
Total	**163,350,000**	**1,258**	**100.00%**

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

** Includes 2,206,891 treasury shares

17. AUTOMOTIVE REVENUE

	2018	2017
Sale of cars and accessories	53,621	50,459
Car repair and maintenance services	5,276	5,461
Car leasing revenue	1,509	1,196
	60,406	57,116

18. FEE AND COMMISSION INCOME

	2018	2017
Loan administration and other credit card related fees	10,560	9,489
Insurance commission income	1,456	1,124
	12,016	10,613

19. PROFIT FROM SALE OF LAND INVENTORY

	2018	2017
Sales of land Inventory	6,554	5,935
Cost of Sales	(5,645)	(4,784)
Profit from sale of land inventory	**909**	1,151

20. OTHER INCOME

	2018	2017
Incentives from automotive principal	571	616
Other income	255	367
	826	983

21. OTHER OPERATING EXPENSES

	2018	2017
General and administration costs	7,240	6,475
Depreciation	1,733	2,259
Selling and promotion costs	2,047	1,865
Impairment provision for inventory	320	51
Automotive finance cost	217	316
	11,557	10,966

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:

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

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for the year ended 31 December 2018 Bahraini dinars thousands

23. SEGMENTAL INFORMATION (continued)

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating profit or loss in the consolidated financial statements. Transfer prices between operating segments are on an

arm's length basis in a manner similar to transactions with third parties. No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in 2018 or 2017. 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**	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Operating income	**36,029**	33,328	**7,189**	6,383	**1,635**	1,902	**1,488**	1,124	**46,341**	42,737
Inter segment revenue	56	265	414	432	66	-	194	187	730	884
Operating costs	(13,052)	(11,425)	(4,999)	(4,447)	(866)	(1,056)	(884)	(701)	(19,801)	(17,629)
Impairment, net of recoveries	(3,683)	(4,260)	59	(134)	-	-	(25)	-	(3,649)	(4,394)
Inter segment expenses	(480)	(432)	(43)	(55)	(207)	(397)	-	-	(730)	(884)
Profit for the year	**18,870**	17,476	**2,620**	2,179	**628**	449	**773**	610	**22,891**	20,714
Assets (Liabilities)										
Cash and balances with banks	3,822	3,554	1,222	1,573	15	273	112	237	5,171	5,637
Loans and advances to customers	314,803	294,545	-	173	-	-	-	-	314,803	294,718
Trade and other receivables	110	8	8,332	6,699	40	23	397	381	8,879	7,111
Intercompany balances	(2,092)	4,225	2,155	(90)	(3,898)	(7,736)	3,835	3,601	-	-
Inventories	-	-	14,332	16,977	8,510	12,739	-	-	22,842	29,716
Investment properties	-	-	-	-	6,757	6,939	-	-	6,757	6,939
Property and equipment	9,669	8,702	17,695	16,641	-	-	-	-	27,364	25,343
Other assets	1,613	1,427	2,300	2,142	1,353	-	-	39	5,266	3,608
Overdrafts	(141)	(73)	-	-	-	-	-	-	(141)	(73)
Trade and other payables	(13,749)	(11,250)	(6,496)	(6,060)	(188)	(277)	(324)	(401)	(20,757)	(17,988)
Bonds	(19,964)	(39,900)	-	-	-	-	-	-	(19,964)	(39,900)
Bank term loans	(199,472)	(175,770)	(4,820)	(1,933)	-	-	-	-	(204,292)	(177,703)
Equity	**(94,599)**	(85,468)	**(34,720)**	(36,122)	**(12,589)**	(11,961)	**(4,020)**	(3,857)	**(145,928)**	(137,408)
Capital expenditure	**1,665**	1,951	**1,480**	2,044	-	-	-	-	**3,145**	3,995
Depreciation charge for the property and equipment	**697**	640	**1,876**	2,212	**-**	-	**-**	-	**2,573**	2,852

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.

	2018	2017
Major shareholders:		
As at 31 December		
Term loans	38,505	39,005
Bank overdrafts	141	71
Bank balances	1,560	1,468
For the year ended 31 December		
Interest expense	2,145	1,701

	2018	2017
Directors and related affiliates:		
As at 31 December		
Receivable	1,349	-
For the year ended 31 December		
Income	9	-

Certain transactions were approved by the Board of Directors under Article 189(b) of the Commercial Companies Law in the financial year ended 31 December 2018 where the chairman, directors or managers had a direct or indirect interest in the contracts or transactions which have been approved by the board.

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

	2018	2017
As at 31 December		
Credit card receivables	29	24
For the year ended 31 December		
Salaries and short term employee benefits	1,523	1,308
Directors remuneration and attendance fees	726	625
Sale of land plots and cars	99	594

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

25. RETIREMENT BENEFITS COST

The Group's contributions in respect of Bahraini employees for the year amounted to BD 642 (2017: BD 601). The Group's provision for expatriate employees' leaving indemnities at 31 December 2018 was BD 1,252 (2017: BD 1,039). The Group employed 847 staff at 31 December 2018 (2017: 794).

As at 31 December 2018, the total liability of the Group to its employees under Saving Plan was BD 2,247 (2017: BD 1,787).

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:

	2018	2017
Profit for the year	22,891	20,714
Weighted average number of equity shares (in 000's)	161,143	161,143
Basic earnings per share	**142 fils**	129 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 8,548 (2017: BD 8,190) and unutilised credit limits of BD 27,651 (2017: BD 26,119) 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 2018	73	17,964	177,703	39,900	24	15,736	58,654	63,018	373,072
Proceeds from loans and borrowings	-	-	55,280	-	-	-	-	-	55,280
Repayment of borrowings	-	-	(28,775)	-	-	-	-	-	(28,775)
Bond paid on maturity	-	-	-	(20,000)	-	-	-	-	(20,000)
Dividend paid	-	(8,020)	-	-	-	-	-	-	(8,020)
Donation paid	-	-	-	-	-	-	(248)	-	(248)
Total changes from financing cash flows	**-**	**(8,020)**	**26,505**	**(20,000)**	**-**	**-**	**(248)**	**-**	**(1,763)**
Changes in fair value	-	-	-	-	-	-	184	-	184
Other changes	-	-	-	-	-	-	1,800	6,784	8,584
Liability-related	-	2,847	-	-	(24)	-	-	-	2,823
Dividends declared	-	8,057	-	-	-	-	-	-	8,057
Change in bank overdraft	68	-	-	-	-	-	-	-	68
Capitalised borrowing costs	-	-	84	64	-	-	-	-	148
Interest expense	-	11,729	-	-	-	-	-	-	11,729
Interest paid	-	(11,820)	-	-	-	-	-	-	(11,820)
Total liability-related other changes	**68**	**10,813**	**84**	**64**	**(24)**	**-**	**-**	**-**	**11,005**
Total equity-related other changes	**-**	**-**	**-**	**-**	**-**	**-**	**1,984**	**6,784**	**8,768**
Balance at 31 December 2018	**141**	**20,757**	**204,292**	**19,964**	**-**	**15,736**	**60,390**	**69,802**	**391,082**

29. PROPOSED APPROPRIATIONS

The board of directors has proposed the following appropriations for 2018. These appropriations are subject to approval by the shareholders at the Annual General Meeting.

	2018	2017
Proposed dividends	7,251	8,057
Bonus share (1 share for every 4 shares held)	4,084	-
Donations	300	300
General reserve	1,500	1,500
Statutory reserve	1,500	-
	14,635	9,857

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.