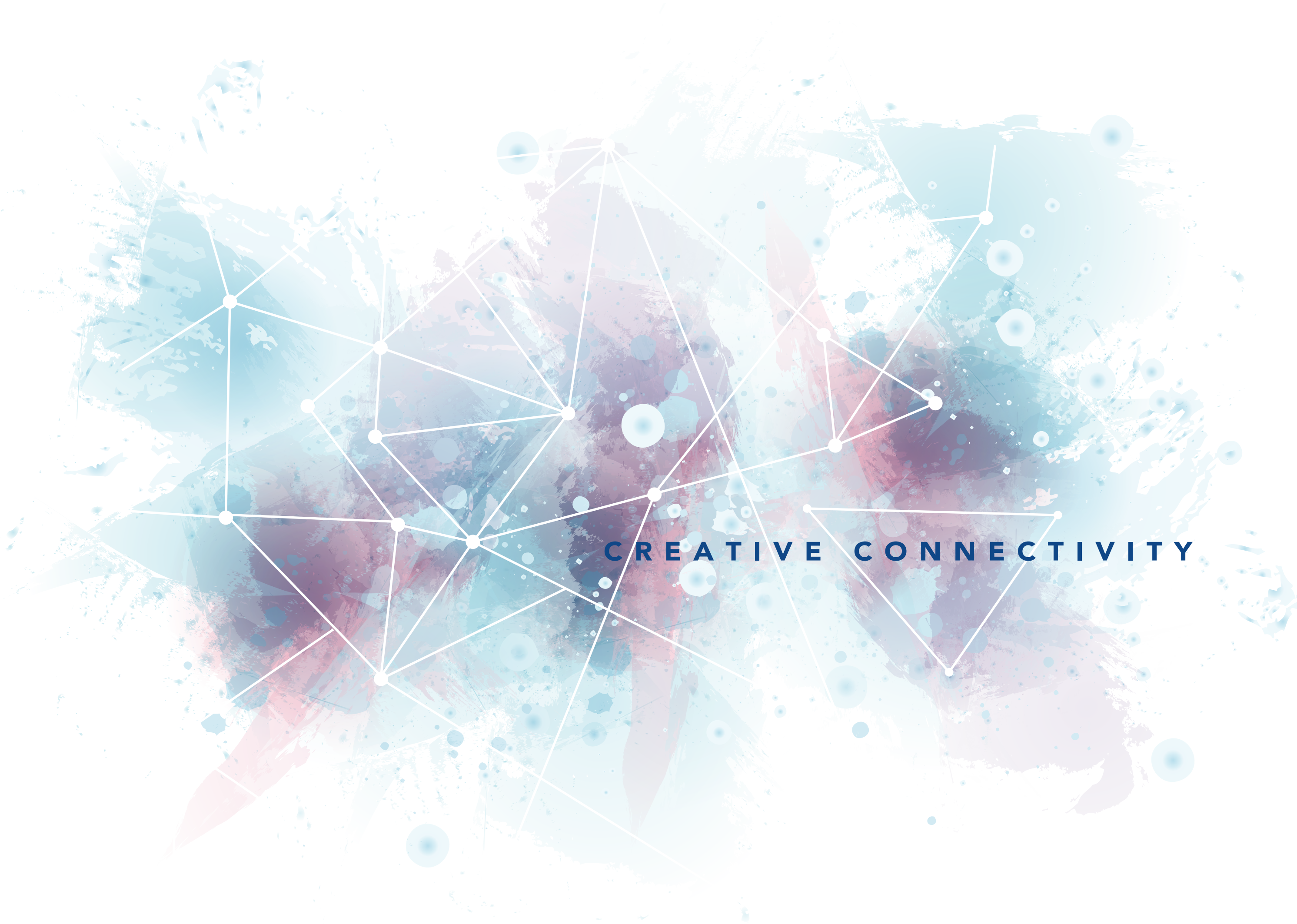
2018 ANNUAL REPORT



شركة البحرين للتسهيلات التجارية ش.م.ب
BAHRAIN COMMERCIAL FACILITIES COMPANY BSC

Bahrain Commercial Facilities Company BSC was established on August 29, 1983 under Bahrain's Commercial Companies Law 1975 (Legislative Decree No 28 of 1975), as a closed company with an authorized capital of BD 10,000,000 and issued capital of BD 5,000,000 with an objective to act as a specialist finance company in Bahrain. In April 1993, the Company was registered as a Public Shareholding Company. In 2003, the Company's Memorandum and Articles of Association were amended in accordance with the Commercial Companies Law (21) of 2001 and its duration became indefinite, following a resolution of the shareholders passed at the Extraordinary General Assembly Meeting on 10 March 2003. The Company has an authorized capital of BD 50,000,000 and an issued capital of BD 16,335,000.

Effective 26th June 2005, the Company became licensed and regulated by the Central Bank of Bahrain to operate as a financial institution.

Consumer Finance

Bahrain Credit is the leading provider of short, medium and long-term consumer finance for residents of the Kingdom of Bahrain, including vehicle finance, personal finance, mortgage finance and credit card.

Automotive

National Motor Company WLL (NMC) is one of the leading companies in Bahrain for the sale and service of vehicles. The Company has the exclusive national franchises for Honda, General Motors (Chevrolet, GMC and Cadillac) and Mack Defense. In 2013, the company's wholly-owned subsidiary Tasheelat for General Trading and Cars WLL (TGTC) was incorporated in Kurdistan, Iraq with the purpose of selling Honda vehicles in Erbil, Kurdistan Region.

The Group established a fully owned subsidiary Tasheelat Automotive Company SPC (TAC) to introduce GAC Motor and Foton brands to the Bahrain market.

On 25 April 2017, the Group established a fully owned subsidiary Tasheelat Car Leasing Company WLL (TCL) to introduce car leasing and rentals services.

Insurance

Tasheelat Insurance Service Company WLL (TISCO) was established in 1997 to arrange a wide range of insurance products and services that include motor, home, medical, life and travel insurance.

Real Estate

Tasheelat Real Estate Services Company SPC (TRESCO) was established in 2002, and is actively involved in the acquisition, sales, marketing, valuation, rental and brokerage services of land and properties within the Kingdom of Bahrain.

CONTENTS

His Royal Highness Prince Khalifa Bin Salman Al Khalifa
The Prime Minister of the Kingdom of Bahrain

His Majesty King Hamad Bin Isa Al Khalifa
The King of the Kingdom of Bahrain

His Royal Highness Prince Salman Bin Hamad Al Khalifa
The Crown Prince, Deputy Supreme Commander and First Deputy Prime Minister of the Kingdom of Bahrain

Through creating

DELIGHTFUL SOCIAL MOBILITY

we shall be the most respected and admired company in the eyes of all we serve.

OPERATIONAL HIGHLIGHTS

BCFC Group had an excellent year and yet again recorded its highest net profit. Notwithstanding the challenging market conditions, the Company continued the implementation of all the key strategic initiatives as identified in its 3-year 2016-2018 strategic plan which have further strengthened its well diversified business model and increased its reach to new market segments.

The Company has earned a net profit of BD 22.9 million for the year ended 31 December 2018, an increase of 11% on the BD 20.7 million reported for the year 2017.

Credit: Bahrain Credit had an excellent year and registered a net profit of BD 18.9 million (2017: BD 17.5 million). The company advanced BD 171 million new credit facilities (2017: BD 161 million). Maintaining portfolio quality remained a top priority and the non-performing loans were reduced to 2.98 % of the total portfolio.

Automotive: National Motor Company W.L.L. (NMC) has registered a net profit of BD 2.4 million (2017: BD 2.2 million). The proactive management of stock mix, reduction in total inventory and overall improvement in customers service were the key attributes of this achievement. The company continues to work towards improving efficiency in every part of its business to reduce overall costs of its operations.

Tasheelat Automotive Company S.P.C. (TAC) has continued its outstanding performance and reported a net profit of BD 0.2 million (2017: Net loss of BD 21 thousand). The company continued to improve its market share for GAC vehicles and maintained its leadership position amongst all the Chinese automotive brands. The company has also entered in commercial vehicles market through introduction of Foton Motor vehicles in Bahrain.

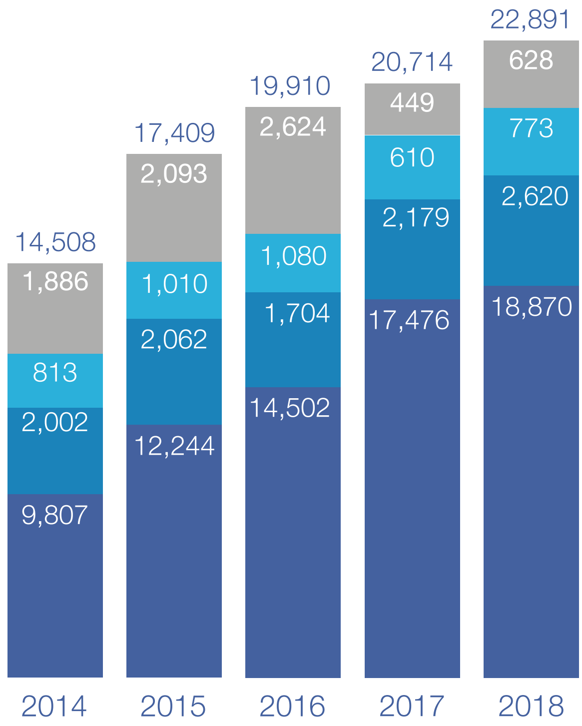
Tasheelat Car Leasing Company W.L.L (TCL) has successfully completed its first full year of operations. The company's total fleet have increased to more than 1,100 units through offering short and long term lease and rental services to retail and corporate clients. The company in such a short period of time has become one of the largest leasing companies operating in the country.

Insurance: Tasheelat Insurance Services Company W.L.L. (TISCO) has performed well and reported a net profit of BD 0.8 million (2017: BD 0.6 million). The company continued to diversify its product portfolio and introduced medical insurance product. The company maintained its leadership in motor insurance and arranged more than twenty-seven thousand policies.

Real Estate: Tasheelat Real Estate Company S.P.C. (TRESCO) has recorded a net profit of BD 0.63 million, 40% ahead of last year (2017: BD 0.45 million). The company has sold 31% more land plots when compared to last year despite a lackluster real estate market. The company's investment property portfolio continues to enjoy high occupancy and provided healthy annuity type returns.

FINANCIAL HIGHLIGHTS

Net Profit (BD thousand)

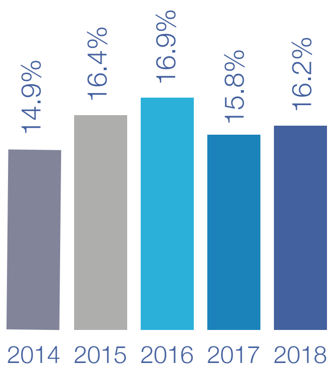


- Consumer Finance
- Automotive
- Insurance Services
- Real Estate

22,891

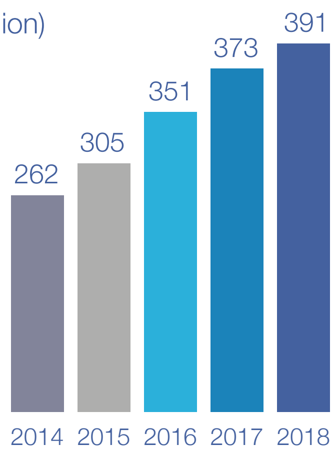
Return on Average Equity (%)

16.2%



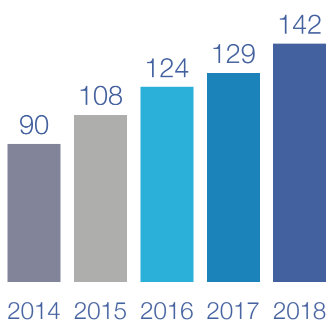
Total Assets (BD million)

391



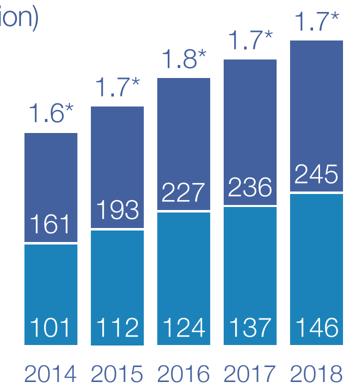
Earnings per share (fils)

142



Debt Equity (BD million)

1.7*



*Leverage Equity Liabilities

CHAIRMAN'S REPORT

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

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, the 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 continues to provide growth impetus, whereas other major economies experienced significant challenges. The possibility of financial market stress is escalating investors' concerns about the creditworthiness 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 continues 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 network. The range of products under Imtiaz credit card is helping the company to reach wider segments of the society. Imtiaz 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.

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 has 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 0.63 million (2017: BD 0.45 million). The real estate market in Bahrain continues 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 amongst all the Chinese automotive 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 Company 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 1,100 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 it's 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 shareholder value.

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 Khaja, the nominee of Social Insurance Organisation, has been replaced by Mr. Mohammed Jehad Bukammal. The former served the Company from March 2014 to December 2018. The Board places on record its sincere thanks and appreciation to Mr. Al Khaja for his valuable contributions over the years.

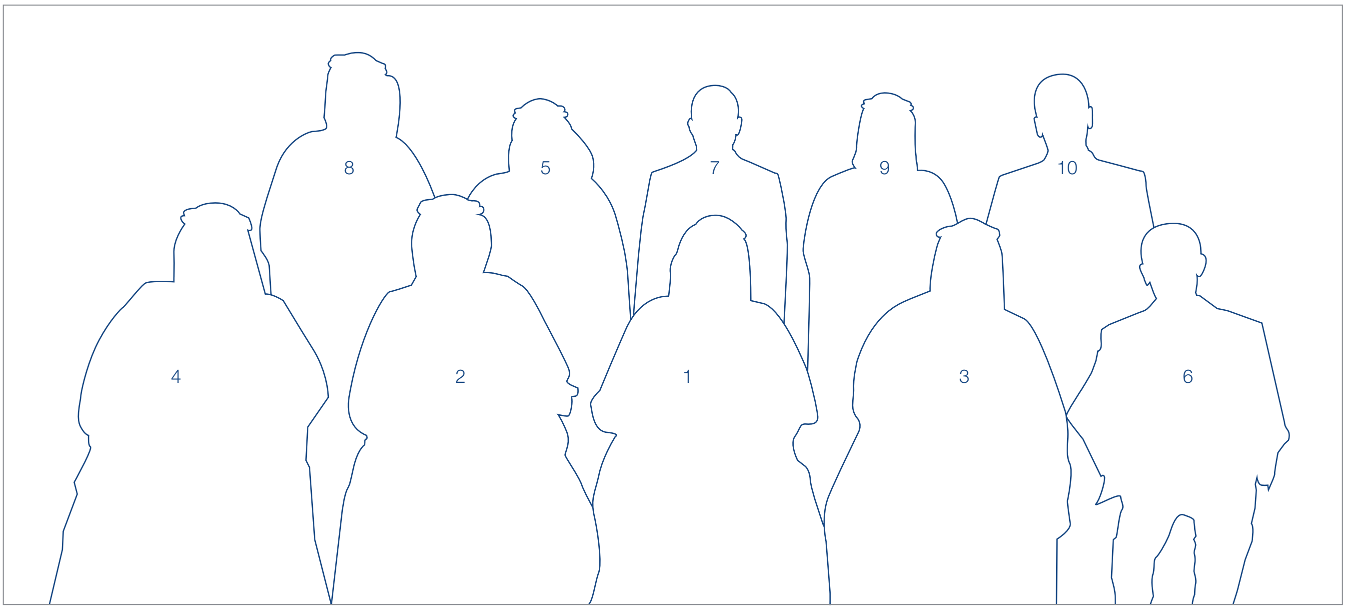
In accordance with the requirement of Commercial Company Law, we report the aggregate amount paid to directors during 2018 was BD 726 thousand (2017: BD 625 thousand) in respect of fees and subsidiary Board and Committees' attendance allowances. The total shareholding of the directors in the Company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

BOARD OF DIRECTORS



1. Abdulrahman Yusuf Fakhro

Chairman of the Board and Chairman of the Remuneration and Nomination Committee

Director since 12 November 1989 (Independent and Non-executive); has more than 54 years of extensive and diversified experience in business, trade, investment and insurance. Member of the Institute of Directors, London, 2016.

- Chairman of Yusif Bin Yusif Fakhro B.S.C. (c), Bahrain
- Deputy Chairman of Bahrain Telecommunications Company B.S.C. (Batelco), Bahrain (Up to 31st December 2018)
- Chairman of the Remuneration and Nomination Committee of Bahrain Commercial Facilities Company B.S.C. (BCFC), Bahrain

2. Reyadh Yusuf Hasan Sater

Vice Chairman of the Board and Vice Chairman of the Executive Committee - Nominee of Bank of Bahrain and Kuwait B.S.C.

Director since 18 March 2014 (Executive in shareholder bank "BBK"); has more than 40 years of extensive and diversified experience in banking and auditing; holds an Executive Management Diploma from University of Bahrain, 1996; an MBA in Business Administration from University of Glamorgan, UK, 2001; CIA from the Institute of Internal Auditors, USA, 2002; fulfilled the requirements of The Gulf Executive Development Program at University of Virginia - Darden-USA, 2003. Member of the Institute of Directors, London, 2016.

- Chief Executive – BBK B.S.C., Bahrain
- Chairman of Credimax B.S.C. (c), Bahrain
- Member of the Executive Committee of BBK B.S.C.
- Vice Chairman of the Executive Committee of Bahrain Commercial Facilities Company B.S.C. (BCFC), Bahrain

3. Khalid Mohammed Ali Mattar

Board Member and Chairman of the Executive Committee and Automotive Board

Director since 15 May 1996 (Independent and Non-executive); has more than 37 years of extensive and diversified experience in business, trade, investment, manufacturing, marine services and contracting; holds a BSc in Economics and Business Administration from the Arab University of Beirut, Lebanon, 1975. Member of the Institute of Directors, London, 2016.

- Chairman and Managing Director of Awal Contracting and Trading Co. W.L.L. (AWALCO), Bahrain
- Chairman and Managing Director of Awal Marine Services Est. W.L.L., Bahrain
- Chairman of Awalco Investment Co. W.L.L., Bahrain
- Board Member of Awal Gulf Manufacturing Co. B.S.C. (c), Bahrain
- Chairman of the Executive Committee of Bahrain Commercial Facilities Company B.S.C. (BCFC), Bahrain
- Chairman of the Automotive Board for National Motor Company W.L.L. (NMC), Tasheelat Automotive Company S.P.C. (TAC), Tasheelat Car Leasing Company W.L.L. (TCL), Bahrain; and Tasheelat for General Trading and Cars W.L.L. (TGTC), Erbil- Kurdistan, Republic of Iraq
- Vice Chairman of Al Sanabel Orphans Care Society, Bahrain

4. Ebrahim Abdulla Buhindi

Board Member and Chairman of the Audit Committee

Director from 15 March 1988 to July 2004 (Executive in shareholder bank "BBK" then); subsequently reappointed as Director since March 2007 (Independent and Non-executive); has more than 43 years of extensive and diversified experience in banking; holds an MBA in Management Consultancy from Sheffield Hallam University, UK, 1999. Member of the Institute of Directors, London, 2016.

- Chairman of the Audit Committee of Bahrain Commercial Facilities Company B.S.C. (BCFC), Bahrain

BOARD OF DIRECTORS (Continued)

5. Abdulaziz Abdulla A.Aziz Al-Ahmed

Board Member and Vice Chairman of the Remuneration and Nomination Committee and Automotive Board - Nominee of National Bank of Bahrain B.S.C.

Director since 28 March 2011 (Executive in shareholder bank "NBB"); has more than 45 years of extensive and diversified experience in Management and Banking; fulfilled the requirements of the Gulf Executive Development Program at University of Virginia - Darden-USA, 2001 - 2002; attended numerous management and business-related courses held locally and internationally. Member of the Institute of Directors, London, 2016.

- Chief Executive, Retail, Commercial and SMEs – National Bank of Bahrain B.S.C., Bahrain
- Vice Chairman of the Remuneration and Nomination Committee of Bahrain Commercial Facilities Company B.S.C. (BCFC), Bahrain
- Vice Chairman of the Automotive Board for National Motor Company W.L.L. (NMC), Tasheelat Automotive Company S.P.C. (TAC), Tasheelat Car Leasing Company W.L.L. (TCL), Bahrain; and Tasheelat for General Trading and Cars W.L.L. (TGTC), Erbil- Kurdistan, Republic of Iraq

6. Sayed Abdulghani Hamza Qarooni

Board Member and Member of the Executive Committee

Director since 15 March 2008 (Independent and Non-executive); has more than 53 years of extensive and diversified experience in the field of law as a Lawyer, Legal Advisor and Accredited Arbitrator in GCC Commercial Arbitration Centre; holds an LL.B. in Law from Damascus University, 1965. Member of the Institute of Directors, London, 2016.

- Legal Advisor – A.Ghani Qarooni and Associates Attorneys and Legal Consultants, Bahrain
- Chairman of Strand Property Management and Maintenance S.P.C., Bahrain
- Member of the Executive Committee of Bahrain Commercial Facilities Company B.S.C. (BCFC), Bahrain

7. Dr. Abdulrahman Ali Saif

Board Member and Member of the Automotive Board - Nominee of Bank of Bahrain and Kuwait B.S.C.

Director since 24 April 2016 (Executive in shareholder bank "BBK"); has more than 36 years of extensive and diversified experience in economics, finance, treasury operations, investments, corporate and international business; holds a Ph.D. in Economics from University of Leicester, UK, 1992; an MSc. in Economics from University of Lancaster, UK, 1986; a Post-graduate Diploma in Economics from University of Warwick, UK, 1985; a BSc in Economics from University of Poona, India, 1982. Member of the Institute of Directors, London, 2016.

- Deputy Chief Executive, Wholesale Banking Group, BBK B.S.C.
- Board Member of the Automotive Board for National Motor Company W.L.L. (NMC), Tasheelat Automotive Company S.P.C. (TAC), Tasheelat Car Leasing Company W.L.L. (TCL), Bahrain; and Tasheelat for General Trading and Cars W.L.L. (TGTC), Erbil- Kurdistan, Republic of Iraq
- Chairman of BBK Geojit Securities KSC, Kuwait
- Board Member of Bahrain Kuwait Insurance Company B.S.C. (BKIC), Bahrain
- Deputy Chairman of Aegila Capital Management Limited, London, UK

8. Abdulla Mohamed Al-Mahmood

Board Member, Vice Chairman of the Audit Committee and Member of the Remuneration and Nomination Committee - Nominee of Social Insurance Organization, Bahrain

Director from 18 March 2014 (Non-executive); has more than 30 years of extensive and diversified experience in information technology, human resources and administration, accounting and finance, benefits and customer services; holds a Diploma in Actuarial Science from Mohanna Foundation, Cyprus, 1998; an MSc in Management Technology from Arabian Gulf University, Bahrain, 1997; BSc in Statistics from Kuwait University, Kuwait, 1988. Member of the Institute of Directors, London, 2016.

- Executive Director of Customer Service Department – Social Insurance Organisation (SIO), Bahrain
- Vice Chairman of the Audit Committee and Member of the Remuneration and Nomination Committee of Bahrain Commercial Facilities Company B.S.C. (BCFC), Bahrain

9. Yusuf Saleh Sultan Khalaf

Board Member and Member of the Audit Committee

Director since 1 April 2018 (Independent and Non-executive); has more than 36 years of extensive and diversified experience in banking and financial services; holds an ACCA Professional Examinations from Trent Polytechnic, UK, 1980; a Higher Diploma in Business Studies from Salford College of Technology, UK, 1978; and National Diploma in Business Studies from Fielden Park College, UK; 1976. Member of the Institute of Directors, London, 2018.

- Managing Director of VisionLine Consulting, Bahrain
- Owner of Life Electronics, Bahrain.
- Board Member of Bahrain and Kuwait Bank (BBK), Bahrain.
- Member of the Audit Committee of Bahrain Commercial Facilities Company B.S.C. (BCFC), Bahrain

10. Mohammed Ahmed Al-Khaja

Board Member and Member of the Executive Committee - Nominee of Social Insurance Organization, Bahrain

Director from 18 March 2014 to December 2018; (Non-executive); has more than 19 years of extensive and diversified experience in financial services, credit control, wealth management, risk and compliance, sales, marketing and operations in domestic and international banking; holds a B.Sc. in Accounting from University of Bahrain, 2000. Member of the Institute of Directors, London, 2016.

- Head of Strategic Initiatives and Business Development at Osool Asset Management Company B.S.C.(c) (Osool), a subsidiary of SIO, Bahrain
- Board Member, Chairman of the Nomination and Remuneration Committee and Member of the Audit Committee of The Mediterranean and Gulf Insurance and Reinsurance Company B.S.C. (c) (MEDGULF), Bahrain
- Board Member and Member of the Executive Committee of Bahrain Islamic Bank B.S.C., Bahrain
- Board Member of Aegila Capital Management Limited, London, UK
- Member of the Executive Committee of Bahrain Commercial Facilities Company B.S.C. (BCFC), Bahrain

Sayed Jalal Jaafar Al-Mousawi

Secretary to the Board - Bahrain Commercial Facilities Company B.S.C.

Joined on 02 May 2007; has more than 18 years of accumulated and diversified experience in corporate affairs and administration within Board Secretariat as company secretary, compliance and corporate governance, law and legal drafting; undertaking group corporate affairs' registration and authorisation formalities including review of companies' constitutions and implementing necessary alterations, formation of companies, registration of trademarks and commercial agencies, authorization of lawyers to represent group companies; representing all group companies before all authorities; specialised translations, public and media relations and journalistic and general writing; holds a BA in English Literature and Translation from University of Bahrain, 2002; attended a number of courses in accounting and corporate governance; and still pursuing an LLB in Law.

CORPORATE GOVERNANCE

Bahrain Commercial Facilities Company BSC is committed to best practices of corporate governance in line with legal and regulatory requirements. Maintenance of high standards in corporate governance is an intrinsic part of the Company's pursuit of its business activities. These guidelines cover the high level controls aspects of corporate governance of the Company. They highlight the areas with which the Company complies in relation to the corporate governance and disclosure requirements, particularly in compliance with the approved Corporate Governance Code Principles of the Ministry of Industry, Commerce and Tourism and the updated regulatory requirements and in particular the High-Level Controls of the Central Bank of Bahrain.

A. Shareholder Information

Details of the Company's capital, shareholders and distribution of equity shares are disclosed under Note 16 to the Consolidated Financial Statements for the year ended 31 December 2018.

B. Board of Directors Information

The Board is constituted of ten directors, divided into independent, non-executive and executive members. The members are appointed and elected for a three-year term and terminated as per the Company's Memorandum and Articles of Association and the Board of Directors Charter. The Board represents a mix of high-caliber professional skills and expertise. An executive director refers to any director, who sits on board, without executive responsibilities in the Company, and represents a shareholder with a controlling interest in the Company, while directors who are nominees of a governmental body are considered non-executive. Any newly appointed/elected director undergoes a comprehensive, formal and tailored induction to ensure the director's fiduciary responsibilities are well understood and appreciated. In this regard, it is worth mentioning that training of the Board Members, as approved persons holding controlled functions in the Company, has always been at the forefront of the responsibilities of the Company, which ensures proper Continuous Professional Development ("CPD") Training is extended to all Directors as per the CBB Training and Competency Module. In addition, all the Board Members are Members of the Institute of Directors, a United Kingdom-based professional institute, which provides membership privileges to each member like an online access library and other resources that will keep each member informed of and updated on recent Board and Corporate Governance trends. To fulfill some of its responsibilities, the Board has in place an Executive Committee, a Board Audit Committee and a Remuneration and Nomination Committee, whose compositions consist of members with adequate professional background and experience. The Board annually reviews its own composition and Charter and conducts an evaluation of its performance, the performances and contributions of all Committees vis-à-vis their respective charters and the performance, effectiveness and contribution of each board member. The performance appraisals are in the form of written forms or reports made at the last scheduled meeting of the calendar year. The final performance appraisal report is recommended by the Remuneration and Nomination Committee and approved by the BCFC Board of Directors at the first meeting of the calendar year where the Company's year-end results are approved for publication.

The Board is responsible for the preparation and fair representation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal controls as the Board determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The Board of Directors of Bahrain Commercial Facilities Company BSC exercise their individual and collective business judgment objectively, transparently and in good faith in what they reasonably believe to be in the best interest of the Company, its shareholders and stakeholders. The Board of Directors oversees the process of disclosure and communications to internal and external stakeholders. The Board of Directors ensures that disclosure is fair, transparent, and comprehensive; and reflects the character of the Company and the nature and complexity of risks inherent in the business activities of the Company. The Board of Directors and Senior Management oversee and ensure that information and cyber security controls are periodically evaluated for adequacy.

In compliance with the local statutory requirements, the Board of Directors oversees the exercise of corporate powers and ensures that the Company's business and affairs are well managed to meet its stated goals and objectives. Maintenance of the highest standards of corporate conduct, including compliance with applicable laws, regulations, business and ethical standards, receives considerable attention by the Board of Directors.

The types of material transactions that require the Board of Directors approval cover a wide area ranging from credit approvals, approval of policies, strategies, donations to signing and investment authorities.

The Company strives to promote the highest standard of professional ethical norms and values towards its stakeholders (i.e. customers, employees, regulators and the community). The Board has approved a Code of Conduct that applies to the Directors and another one dedicated for the Executive Management and staff that includes "whistle-blowing" procedures. It is in the best interest of the Company and shareholders to bind all the concerned to the highest standards of professionalism and due diligence in discharging their duties. The codes include areas pertaining to conflict of interest, obligations of integrity and loyalty, confidentiality and the responsibilities of all those concerned to adhere to best practices and high standards in ethical norms and values.

Furthermore, directors as approved persons abide by their fiduciary duties of care and owe loyalty not to use property of the Company for their personal needs as though it was their own property, not to disclose confidential information or use it for their personal profit, not to take business opportunities for themselves that constitute direct and material conflicts of interest, not to compete in business with the Company; and to serve the Company's interest in any transaction with a company in which they have personal interests.

In compliance with the regulatory requirements, below is the number of shares held by the Company's directors, in their capacity as approved persons, and the connected persons as at 31st December 2018 as follows:

Directors *	Type of Shares	31 December 2018	31 December 2017
Abdulrahman Yusuf Fakhro	Ordinary	611,374*	566,374
Reyadh Yusuf Hasan Sater	Ordinary	Nil	Nil
Khalid Mohammed Ali Mattar	Ordinary	1,254,891	1,254,891
Ebrahim Abdulla Buhindi	Ordinary	Nil	Nil
Abdulaziz Abdulla Al-Ahmed	Ordinary	Nil	Nil
Sayed Abdughani Hamza Qarooni	Ordinary	1,529,910	1,529,910
Dr. Abdulrahman Ali Saif	Ordinary	Nil	Nil
Abdulla Mohamed Al Mahmood	Ordinary	Nil	Nil
Yusuf Saleh Khalaf **	Ordinary	Nil	Nil
Mohammed Ahmed Abdulla Al Khaja	Ordinary	Nil	Nil

** The Board of Directors and their connected persons, with the exception of Mr. Abdulrahman Yusuf Fakhro, did not trade in the shares of the Company during the financial year ended 31st December 2018.*

*** Appointed as BCFC Board Member in place of Outgoing Board Member Mr. Abdulkarim Ahmed Bucheery effective from 1st April 2018.*

CORPORATE GOVERNANCE (Continued)

The Board of Directors meets at least four times in each financial year upon the summons of the Chairman of the Board or his Deputy (in case of absence or disability) or at least two of its members. A quorum shall be attained if one half of the members are present. In 2018, the Board of Directors convened five ordinary meetings. The meetings were attended as follows:

Board of Directors	27 Feb.	27 Mar.	31 Jul.	30 Oct.	25 Dec.	Total
Abdulrahman Yusuf Fakhro, Chairman	✓	✓	✓	✓	✓	5
Reyadh Yusuf Hasan Sater, Vice Chairman	✓	✓	✓	✓	✓	5
Khalid Mohammed Ali Mattar, Director	✓	✓	✓	✓	✓	5
Ebrahim Abdulla Buhindi, Director	✓	✓	✓	✓	✓	5
Abdulaziz Abdulla Al-Ahmed, Director	✓	✓	✓	✓	✓	5
Sayed Abdughani Hamza Qarooni, Director	✓	✓	✓	✓	✓	5
Dr. Abdulrahman Ali Saif, Director	✓	✓	✓	✓	✓	5
Abdulla Mohamed Al Mahmood, Director	✓	✓	✓	✓	✓	5
Mohammed Ahmed Abdulla Al Khaja, Director ‹1›	✓	✓	✓	✓		4
Yusuf Saleh Khalaf, Director ‹2›			✓	✓	✓	3

1. Ceased being a Board member effective from 2 December 2018.
2. Joined the Board in place of resigned Board Member Mr. Abulkarim Bucheery.

Additionally, where there is a potential for conflict of interest, or there is a need for impartiality in relation to a subject or proposed transaction where a conflict of interest exists, the Board shall form ad hoc Board sub-committees, comprising of a sufficient number of non-banking Board members capable of exercising independent, objective judgment. This is to ensure that the Board members discharge their duties with a high degree of integrity and loyalty, taking into account applicable laws, codes and regulations. Therefore, in order to avoid conflicts of interest, a Board Sub-Committee meeting was held to consider proposals for a syndicated loan in 2018. The meeting was attended as follows:

Board Sub-committee *(To consider proposals for a syndicated loan)*	14 October
Abdulrahman Yusuf Fakhro	✓
Khalid Mohammed Ali Mattar	✓
Ebrahim Abdulla Buhindi	✓
Mohammed Ahmed Abdulla Al Khaja	By phone

C. Key Persons Dealing Policy

The Company has in place a Key Persons Dealing Policy to ensure that insiders are fully aware of the regulatory requirements regarding dealing with BCFC shares, with the objective of preventing abuse of inside information. A Key Person is defined as a natural person or a juristic person that possesses or has access to price-sensitive information, from time to time, by nature of their duties performed. Key persons are Board of Directors, senior management and other persons or third parties as decided by the Company's Board. The Group's Head of Compliance maintains at all times an updated Register of Key Persons and makes immediate notification to Bahrain Bourse of their dealings in the Company's shares.

D. Board of Directors Committees

1. Executive Committee

In accordance with Article (19) of the Company's Articles of Association and Article (1.6) Paragraph (1) of the Board of Directors Charter, the Executive Committee is delegated with a defined scope of duties and authorities in relation to Bahrain Credit, TRESCO and TISCO and to review and make recommendations to the whole Board on pre-defined matters as per the Executive Committee Charter.

The Committee is comprised of a minimum of three members, who are not members of the Board Audit Committee, appointed by the Board of Directors for a three-year term. At least one member shall be independent. In accordance with its charter, the Executive Committee has the role of reviewing reports and activities, taking decisions on issues within its defined authorities and recommending to the Board of Directors on other issues that are above its authorities, where applicable. These responsibilities and authorities cover a wide area ranging from credit approvals, write-offs, strategy, business planning, the Company's operational policies and practices, donations, signing and investment authorities.

To ensure full discharge of duties, the Executive Committee shall convene its meetings regularly as required, but with a minimum of four meetings per annum. In 2018, the Executive Committee held seven ordinary meetings. The meetings were attended as follows:

Committee Member	22 Jan.	27 Mar.	2 May.	22 May	26 Jun.	25 Sep.	27 Nov.	Total
Khalid Mohammed Ali Mattar, *Chairman*	✓	✓	✓	✓	✓	By phone	✓	7
Reyadh Yusuf Hasan Sater, *Vice Chairman*	✓	✓	✓	✓	✓	✓	✓	7
Sayed Abdulghani Hamza Qarooni, *Member*	✓	✓	✓	‹1›	✓	✓	✓	6
Mohammed Ahmed Abdulla Al Khaja, *Member ‹2›*	✓	✓	✓	✓	✓	✓	✓	7

1. An apology was received due to being on emergency sick leave.
2. Quit as member following his replacement from the Board of Directors effective from 2 December 2018.

2. Board Audit Committee

The Board Audit Committee assists the Board of Directors in overseeing the responsibilities for the financial reporting process, the system of internal control, the audit process, monitoring compliances with the Group's risk management policies and procedures and the process for monitoring compliance with laws and regulations and the Company's code of conduct. Consistent with this function, the Committee encourages continuous improvement of, and fosters adherence to, the Company's policies, procedures and sound practices at all levels.

CORPORATE GOVERNANCE (Continued)

The Board Audit Committee consists of at least three members appointed by the Board of Directors for a three-year term. All the members are financially literate and independent of the Management and free of any business or other relationships (including, without limitations, day to day involvement in the management of the business) which could interfere with the exercise of their independent judgment. The Committee directs the role and assesses the performance of the Internal Audit Department and the Risk Management, Compliance and Anti-Money Laundering Departments and is responsible for developing and recommending to the Board corporate governance guidelines and the Company risk management framework reviewing those guidelines at least once a year in compliance with the regulatory requirements.

The Board Audit Committee has the authority to conduct or authorize investigations into any matters within its scope of responsibility and has full access to all information required to discharge its functions.

The Committee shall hold a minimum of 4 meetings a year, with authority to convene additional meetings, as circumstances require. On each occasion, the Board Audit Committee will meet on a quarterly basis with the External Auditor in the presence of members of management of the parent company and its subsidiaries, Internal Auditors, Head of Compliance and Money Laundering Reporting Officer, Head of Risk Management or others, as necessary. During 2018, the Board Audit Committee held seven ordinary meetings and one unscheduled meeting. The meetings were attended as follows:

Committee Member	29 Jan.	26 Feb.	16 Apr. ‹1›	30 Apr.	30 Jul.	4 Oct.	29 Oct.	19 Dec.	Total
Ebrahim Abdulla Buhindi, *Chairman*	✓	✓	✓	✓	✓	✓	✓	✓	8
Abdulla Mohamed Al Mahmood, *Vice Chairman ‹2›*	✓	✓	✓	✓	✓	✓	✓	✓	8
Yusuf Saleh Khalaf, *Member ‹3›*				✓	✓	✓	✓	✓	5

1. An unscheduled meeting of the Committee held to address a regulatory requirement.
2. Elected as Vice Chairman of the Committee on 29 January 2018 following the departure of Outgoing Vice Chairman Mr. Abdulkarim Bucheery.
3. Appointed as member in place of Mr. Bucheery.

Additionally, the Chief Executive Officer and Group Head of Finance shall certify in writing to the Audit Committee and the Board as a whole the Company's interim and annual financial information / statements.

3. Remuneration and Nomination Committee

Comprised of at least three directors, appointed by the Board for a three-year term, the Remuneration and Nomination Committee provides advice and makes recommendations to the Board on matters related to the nomination and appointment of Directors, Directors to the Boards of the Company's subsidiaries; membership to all Committees of the Board, the Chief Executive Officer, the General Manager of National Motor Company W.L.L. and the Secretary to the Board.

The Committee reviews and makes recommendations to the Board on all matters of remuneration and compensation of Directors and the remuneration of the Chief Executive Officer, the General Manager of National Motor Company WLL and the Secretary to the Board, the bonus, share option, redundancy and termination payment policies of the Company. The Committee assesses the roles of the Chief Executive Officer, General Manager of National Motor Company W.L.L. and Secretary to the Board. Moreover, the Committee reviews and approves the salary and bonus payments for the CEO's Direct Reports. The Committee also ensures that failure is not rewarded and that the duty to mitigate loss is fully recognized. Additionally, the Committee determines the policy for the disclosure of Directors and Executive Management's remuneration.

The Committee shall meet as necessary to ensure full discharge of duties based upon a request of the Chairman, Vice-Chairman or the Chief Executive Officer. The Committee shall convene not less than two meetings each year. The Remuneration and Nomination

Committee convened two meetings during 2018. The meetings were attended as follows:

Committee Member	26 Feb.	24 Dec.	Total
Abdulrahman Yusuf Fakhro, *Chairman*	✓	✓	2
Abdulaziz Abdulla Al-Ahmed, *Vice Chairman*	✓	✓	2
Abdulla Mohamed Al Mahmood, *Member*	✓	✓	2

E. Risk Management, Compliance and Anti-Money Laundering

Bahrain Commercial Facilities Company BSC is fully aware of its responsibilities in observing all regulatory provisions and best international practices in relation to its functioning. It is committed to complying with best international practices on risk management, compliance and anti-money laundering as reflected by the requirements of the Central Bank of Bahrain.

The Company has a Head of Compliance and Money Laundering Reporting Officer (MLRO) and a Head of Risk Management. These functions are independent of business lines and the day-to-day running of the various business areas and are separate from the Internal Audit function.

In addition, the Head of Compliance and Money Laundering Reporting Officer and the Head of Risk Management report directly to the Chief Executive Officer and Board Audit Committee and have full access to the Board of Directors.

The Company has in place a clear strategy and framework for both risk management and compliance to identify and monitor risks and put right controls on a regular basis. The Company also retains approved Compliance and Anti-Money Laundering Policies, which contains Customer Due Diligence measures, procedures for identifying and reporting suspicious transactions, an annual awareness programme for staff training, record keeping requirements and documentation. The Internal Audit Department and External Auditors regularly carry out an independent review of Anti-Money Laundering controls for the attention of the Central Bank of Bahrain.

F. Management Committees:

1. The Assets and Liabilities Committee ("ALCO") shall be comprised of at least three members appointed by the Chief Executive Officer who will also designate a Chairman. The Head of Compliance and Money Laundering Reporting Officer (MLRO) and the Head of Risk Management shall attend ALCO meetings as invitees. ALCO is mandated to fulfill oversight responsibilities for the Group with regard to (1) asset and liability management; (2) capital planning; (3) liquidity adequacy; and (4) contingency planning with respect to the foregoing. It is also mandated to fix and review the overall portfolio yield, periodically review the provisioning and write off policies, reviews and take appropriate action with regard to the CBB consultation papers, guidelines and rules and follow up on all matters reported in regulatory inspection reports, review and approve rates, administration charges, business terms, and acceptance criteria of existing and new loan products. ALCO shall meet at least once every quarter or more frequently as circumstances dictate. A resolution is deemed passed if more than half the members present at the meeting vote "for" such a resolution. The Management Secretary will take minutes of ALCO meetings. The Committee periodically reviews its own composition and Charter and conducts an evaluation of its performance and the performances of its members.

2. The Credit Committee is set up with the objective of overseeing all aspects of credit exposures within its limits or above so as to ensure that proper due diligence is established before sanctioning any credit exposure and that credit risk arising from a credit

CORPORATE GOVERNANCE (Continued)

exposure is closely monitored throughout the tenor. To fulfill this objective, the Credit Committee is delegated with a defined scope of responsibilities and authorities. To ensure that the Credit Committee possesses the right skills and expertise to professionally discharge its responsibilities, membership to this Committee is not appointed based on seniority but exclusively based on the skills of the appointed member. The credit approval authorities of the Credit Committee are arranged into two tiers, each of which is delegated with a definite credit authority level. The members of Tier 1 and Tier 2 of the Credit Committee are appointed by the BCFC Board upon the recommendation of the Chief Executive Officer.

G. Remuneration Policy

a. Board Remuneration:

The Company has in place policies and guidelines for the attendance and sitting fees payable to all the Directors in consideration of attending one or more of Board and Committee meetings in a financial year. The Policy reflects the Company's commitment to the best practices of corporate governance in line with the legal and regulatory requirements and is intended to remunerate its Board and Committee members fairly and responsibly. The Policy ensures that the remuneration of Board and Committee members are sufficient to attract, retain and motivate persons of the quality competencies needed to run the Company successfully.

The Remuneration Policy of the Company applies to all the Board of Directors of the Parent Company, its Committees, the Boards of its Subsidiaries and any other Committee of a subsidiary formed from time to time.

The structure and level of the compensation for the Board and Committee Members are as follows:

- A fixed amount representing an annual remuneration fee approved by the Shareholders at the AGM; and
- Attendance fees payable to members attending different Board-related committees' meetings.

b. CEO and Management Remuneration:

The performance and remuneration of the CEO is reviewed by the Remuneration and Nomination Committee and approved by the Board. The remuneration of the Chief Executive Officer's Direct Reports is reviewed and approved by the Remuneration and Nomination Committee. Furthermore, the Board takes into consideration the following dimensions to remunerate the Chief Executive Officer:

1. *The bonus is discretionary and decided by the Board depending on the profitability of the Company, i.e. the bottom line not the top line.*
2. *The strength of internal controls and risk management practices.*
3. *Lending growth in each product.*
4. *Meeting all the funding requirments needed to ensure the growth of the Company.*
5. *Quality of loan portfolio and levels of non-performing loans.*
6. *Meeting agreed upon strategic objectives both financial and non-financial objectives.*

H. Related Party Policy

The Company has in place a policy which is set out to define the related parties, related transactions and how the Company discloses information related to loans and credit facilities. The policy applies to Bahrain Commercial Facilities Company's Directors, Key Management Personnel and Staff. It also covers within its scope credit facilities granted to, purchases made from, joint ventures and business agreements. Details of related party transactions are disclosed under Note 24 of the Consolidated Financial Statements for the year ended 31 December 2018.

I. Controllers

The Company shall obtain prior approval from the CBB in respect of any changes in the Company's controllers as defined by the CBB's guidelines.

J. Communication Strategy

The Company has a clear policy in relation to communication with its stakeholders, shareholders, and employees, customers, Government bodies, Regulator and society and has approved Corporate Communication Policy Guidelines. Shareholders are invited by the Chairman of the Board to attend the Annual General Meeting in the presence of the Chairman and other directors including the Executive Committee Chairman, the Audit Committee Chairman, the Remuneration and Nomination Committee Chairman, the Chairmen of subsidiaries' boards and the External Auditors, who are available to answer any questions raised by shareholders or media representatives with regard to the operations and performance of the Company. Additionally, the Company is cognizant and fully aware of its regulatory and statutory obligations regarding dissemination of information to its stakeholders. Without prejudice to the disclosure standards, guidelines on key persons and other requirements of the relevant statutory bodies, financial and non-financial corporate information is provided by the Company on all events that merit announcement, either on its website: www.bahraincredit.com.bh or through local newspapers or other means of communication. The financials and annual reports of the Company; the Charters of the Board and its Committees are made available on the Company's website. Internally, electronic mail and departmental portals are used for communicating with the Company's staff on general matters, and sharing information of common interest and concern. At board level, there is an easy-to-use electronic web-based portal that is aimed at automating all board works and providing Board Members with secure, real-time access to the Board's archive.

K. Approved Persons Policy

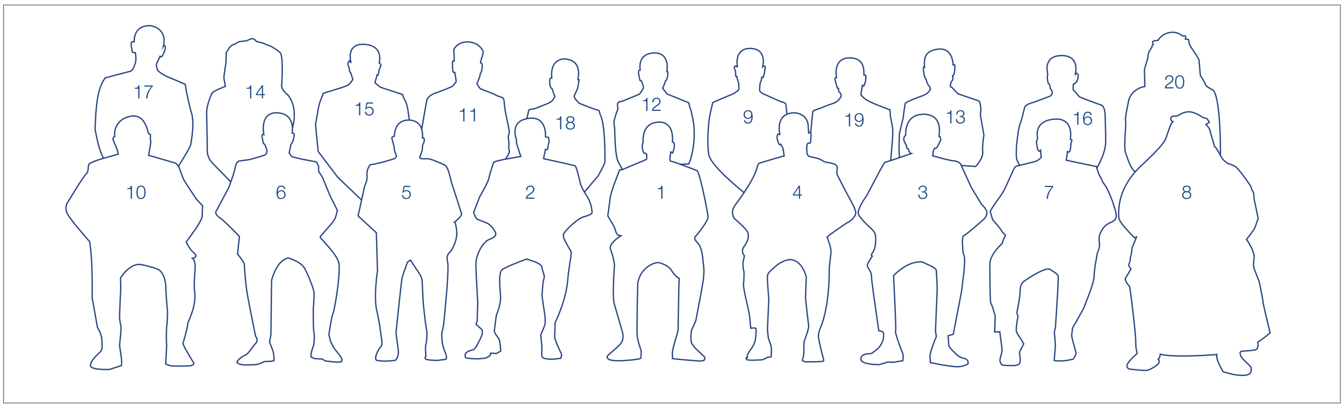
The Company adheres to all the CBB requirements regarding the "approved persons' fit and proper conditions. Approval of the CBB is obtained prior to the appointment for controlled functions. Controlled functions are those of:

1. *Board Member*
2. *Chief Executive Officer or General Manager;*
3. *Head of Function;*
4. *Compliance Officer; and*
5. *Money Laundering Reporting Officer*

a. Employment of Relatives

The Company has in place a board approved policy on the employment of relatives of approved persons that are embedded in various policies. The Chief Executive Officer of the Company shall disclose to the Board of Directors on an annual basis, relatives of any approved persons occupying controlled functions within the Company, if any.

EXECUTIVE
MANAGEMENT



1. Dr. Adel Hubail

Chief Executive Officer - Bahrain Commercial Facilities Company B.S.C.

Joined on 1 September 2004; has more than 20 years of extensive and diversified experience in financial services, automotive business, real estate business, insurance brokerage business, corporate and business strategies, product development, human resources, marketing and sales and business processes; holds a PhD in Management Studies from University of Aberdeen, UK, 2005. Member of the Institute of Directors, London, 2016. Attended a number of executive education programs at Harvard Business School, MIT Sloan Business School of Massachusetts Institute of Technology, Saeed Business School, Wharton Business School, IESA Business School and China Europe International Business School.

- Chairman of Tasheelat Insurance Services Company W.L.L. (TISCO)., Bahrain
- Board Member of the Automotive Board for National Motor Company W.L.L. (NMC), Tasheelat Automotive Company S.P.C. (TAC), Tasheelat Car Leasing Company W.L.L. (TCL), Bahrain; and Tasheelat for General Trading and Cars W.L.L. (TGTC), Erbil- Kurdistan, Republic of Iraq
- Chairman of the Executive Committee of Tasheelat for General Trading and Cars W.L.L. (TGTC), a subsidiary of NMC in Erbil – Kurdistan, Republic of Iraq
- Chairman of the Executive Committee of Tasheelat Automotive Company S.P.C. (TAC), Bahrain
- Chairman of the Executive Committee of National Motor Company W.L.L. (NMC), Bahrain
- Chairman of the Executive Committee of Tasheelat Car Leasing Company W.L.L. (TCL), Bahrain

2. Fadhel Al-Mahoozi

Senior Vice President, Head of Credit and Marketing - Bahrain Credit

Joined on 1 January 1993; has more than 38 years of extensive and diversified experience in financial and banking services, credit and recoveries, Information Technology, marketing and strategic branding and human resources. Attended a number of executive education / training programs at well-known, top business schools such as: Powerful Communication for Business at Cranfield School of Management, 2013; and Strategic Branding at London Business School, 2015. Member of the Institute of Directors, London, 2016.

- Board Member of the Automotive Board for National Motor Company W.L.L. (NMC), Tasheelat Automotive Company S.P.C. (TAC), Tasheelat Car Leasing Company W.L.L. (TCL), Bahrain; and Tasheelat for General Trading and Cars W.L.L. (TGTC), Erbil- Kurdistan, Republic of Iraq
- Vice Chairman of the Executive Committee of Tasheelat for General Trading and Cars W.L.L. (TGTC), Erbil – Kurdistan, Republic of Iraq
- Vice Chairman of the Executive Committee of Tasheelat Automotive Company S.P.C. (TAC), Bahrain
- Vice Chairman of the Executive Committee of National Motor Company W.L.L. (NMC), Bahrain
- Vice Chairman of the Executive Committee of Tasheelat Car Leasing Company W.L.L. (TCL), Bahrain

3. Vishal Purohit

Vice President, Group Head of Finance - Bahrain Commercial Facilities Company B.S.C.

Joined on 16 September 2007; has more than 20 years of extensive and diversified experience in finance, audit, corporate and business strategies and treasury operations; has a Bachelor of Commerce and holds a Chartered Accountant Degree from the Institute of Chartered Accountants of India. Attended a number of executive education / training programs at well-known, top business schools such as: Strategy-Building and Sustaining Competitive Advantage, 2012; and Authentic Leadership Development, 2014 at Harvard Business School; and Scenarios Programme at University of Oxford, 2015; and Creating and Implementing Strategy for Competitive Advantage at the Wharton School of the University of Pennsylvania, 2018. Member of the Institute of Directors, London, 2016.

- Member of the Executive Committee of Tasheelat Automotive Company S.P.C. (TAC), Bahrain
- Member of the Executive Committee of National Motor Company W.L.L. (NMC), Bahrain
- Member of the Executive Committee of Tasheelat Car Leasing Company W.L.L. (TCL), Bahrain

4. Ramzi Barakat

General Manager - National Motor Company W.L.L.

Joined on 1 February 2016; has more than 20 years of extensive and diversified experience in the motor industry in which time he has fulfilled a number of roles. Prior to NMC, he has worked in different Brands holding various senior positions; holds a BSc. in Business Administration (Management) from University of Texas at Arlington, USA, 1997. Attended a number of executive education / training programs at well-known, top business schools such as: Applied Neuroscience and Creating High Velocity Organisations at Massachusetts Institute of Technology, 2016; and Leading Change and Organisational Renewal at Harvard Business School, 2018.

- Member of the Executive Committee of Tasheelat for General Trading and Cars W.L.L. (TGTC), Erbil – Kurdistan, Republic of Iraq
- Member of the Executive Committee of Tasheelat Automotive Company S.P.C. (TAC), Bahrain
- Member of the Executive Committee of Tasheelat Car Leasing Company W.L.L. (TCL), Bahrain
- Board Member of Tasheelat Insurance Services Company W.L.L. (TISCO), Bahrain

EXECUTIVE MANAGEMENT (Continued)

5. Ali Al-Daylami
General Manager - Tasheelat Insurance Services Company W.L.L.

Joined on 1 January 1993; has more than 33 years of extensive and diversified experience in insurance; holds a Post Graduate Diploma in Business and Management from Sheffield University, UK, 1999. Attended a number of executive education / training programs at well-known, top business schools and obtained a Diploma in Life Health Institute from Life Office Management Association, 2016. Member of the Institute of Directors, London, 2016.

- Board Member of the Automotive Board for National Motor Company W.L.L. (NMC), Tasheelat Automotive Company S.P.C. (TAC), Tasheelat Car Leasing Company W.L.L. (TCL), Bahrain; and Tasheelat for General Trading and Cars W.L.L. (TGTC), ERBIL- Kurdistan, Republic of Iraq.

6. Hussain Ali Salman
Vice President, Head of Human Resources and Operations - Bahrain Credit

Joined on 17 April 2004; has more than 17 years of extensive and diversified experience in human resources training and development, procurement and administration, project management and public relations; holds a BSc. in Business Information Systems and an Associated Diploma in Civil Engineering, University of Bahrain, 2001; and a Master's Degree in Human Resource Management from DePaul University, Chicago IL, USA, 2010. Holds an Executive Certificate in Strategy and Innovation from Massachusetts Institute of Technology (MIT), Cambridge MA, USA, 2018. Member of The Chartered Institute of Personnel and Development (CIPD), UK. Member of The Society for Human Resource Management (SHRM), USA. Attended a number of executive education / training programs at well-known, top business schools such as: Authentic Leadership Development at Harvard Business School, 2014; and Customer Focused Innovation Programme at Standford Business School, 2015.

7. Hussain Al-Madhi
Vice President, Head of Branch Network - Bahrain Credit

Joined on 3 May 1997; has more than 22 years of extensive and diversified experience in financial and banking services; holds a BSc in Banking and Finance, University of Bahrain, 2004. Attended a number of executive education / training programs at well-known, top business schools such as: Strategy-Building and Sustaining Competitive Advantage at Harvard Business School, 2015; and General Management Programme at Cambridge Judge Business School, 2016. Member of the Institute of Directors, London, 2016.

- Board Member of Tasheelat Insurance Services Company W.L.L. (TISCO), Bahrain.
- Member of the Executive Committee of Tasheelat Automotive Company S.P.C. (TAC), Bahrain.
- Member of the Executive Committee of National Motor Company W.L.L. (NMC), Bahrain.

8. Majeed Hussain
Vice President, Head of Collection and Legal – Bahrain Credit

Joined on 1 April 2010; has more than 22 years of extensive and diversified experience in collection, recoveries and legal affairs management. Prior to his current post he was an Acting Principal at Ministry of Education; holds a B.A. in Education from University of Bahrain, 1996; attended a number of management, leadership, strategic thinking and planning and business-related courses.

9. Abdulla Al-Wedaei
Head of Honda and GM Brands - National Motor Company W.L.L.

Joined in October 1991; has more than 27 years of extensive and diversified experience in the motor industry. Performed a number of roles during the service with NMC from Honda Sales Manager, Head of Sales of Honda, GM and Used Cars and now holds the position of Head of Brands, Honda and General Motors responsible for all the business aspect of Sales, Service and Spare Parts; holds a Diploma in Executive Management from University of Bahrain, 1999; and a Master's Degree in Business Administration from University of Hull, 2001. Board member in Car Dealer Association, Bahrain. Attended a number of executive education / training programs at well-known, top business schools such as: Aligning Strategy and Sales at Harvard Business School, 2012.

- Board Member of Tasheelat Insurance Services Company W.L.L. (TISCO), Bahrain

10. Ali Ebrahim Al-Marzooq
Vice President, Head of Innovation and Business Technology - Bahrain Credit

Joined on 4 June 2006; has more than 26 years of extensive and diversified experience in IT; holds an MBA in Information Technology Management from Sunderland University, UK, 2010. Attended a number of executive education / training programs at well-known, top business schools such as: Competing on Business Analytics and Big Data at Harvard Business School, 2014; and Making Your Organisation Innovative at Cambridge Judge Business School, 2015.

11. Manaf Ghareeb
Vice President, Head of Corporate and Mortgage Lending, Bahrain Credit

Joined Bahrain Credit in July 2002; has more than 23 years of extensive and diversified experience in financial and banking services; holds a BSc in Information Systems and Management from University of Bahrain, 2004; and a Master in Business Administration from University of Strathclyde, Glasgow, UK. 2013. Attended a number of executive education / training programs at well-known, top business schools such as: Wind River Wilderness Outdoor Leadership at National Outdoor Leadership School, 2015; and General Management Programme at Cambridge Judge Business School, November 2018.

12. Jaffar Al-Oraibi
Assistant Vice President, Head of Real Estate, Tasheelat Real Estate Services Company S.P.C.

Joined on 1 October 2011; has more than 13 years of extensive and diversified experience in real estate investment and development, real estate brokerage business, property management and facilities management and building services; holds a BEng (Hons) in Building Services Engineering from Northumbaria University, Newcastle Upon Tyne, United Kingdom, 2005. Fulfilled the requirements of The Leadership Development Programme VI at University of Virginia - Darden-USA, 2015; and General Management Programme at Cambridge Judge Business School, November 2017.

13. A. Rasool Al-A'ali

Assistant Vice President, Head of Credit Card – Bahrain Credit

Joined on 1 June 2009; has more than 23 years of extensive and diversified experience in credit card business in financial institutions; holds a Diploma in Commercial Studies from University of Bahrain, 1994; attended a number of management, sales and marketing and business-related courses. Attended a number of executive education / training programs at well-known, top business schools such as: Sales Directors' Programme at Cranfield School of Management, 2015.

14. Bareer Jassim

General Manager - Tasheelat Automotive Company S.P.C.

Joined in May 2015; has more than 7 years of extensive and diversified experience in the motor industry as well as more than 9 years of experience in Industrial Engineering and Maintenance; holds a Diploma in Electronic Communications, College of Technological Studies, Kuwait, 2001; HND Electrical and Electronics, Bahrain Training Institute, 2009; and a BEng (Hons) in Electrical and Electronic Engineering – Teesside University, UK, 2010. Attended a number of executive education / training programs at well-known, top business schools such as: The 5 Day MBA at IIR Middle East, 2013; Level 3 Award in Leadership and Management at Institute of Leadership and Management, 2014; and Negotiating and Influencing Skills for Senior Managers Programme at London Business School, 2016.

15. Hamza Shehab

Assistant Vice President, Head of Insurance – Tasheelat Insurance Services Company W.L.L.

Joined on 24 December 2005; has more than 13 years of extensive and diversified experience in collection, recoveries, market research to set up companies, and insurance services; holds a BSc. in Marketing from Applied Science University, Jordan, 2004. Attended a number of executive education / training programs at well-known, top business schools such as fulfilling the requirements of The Leadership Development Programme VI at University of Virginia - Darden-USA, 2015; and Negotiation and Influencing Skills for Senior Managers at London Business School, 2016. Currently pursuing a Diploma in Isurance of the Chartered Insurance Institute (Dip CII).

16. Ali Aburwais

Vice President, Head of Compliance and Money Laundering Reporting Officer (MLRO) - Bahrain Commercial Facilities Company B.S.C.

Joined on 1 August 1995; has more than 27 years of extensive and diversified experience in finance, risk management, compliance and anti-money laundering; holds an MBA in Business Administration from Strathclyde University, UK, 2006 and has an International Diploma in Compliance (ICA), UK. Member of the International Compliance Association (ICA), UK. Attended a number of executive education / training programs at well-known, top business schools such as: High Performance People Skills for Leaders at London Business School, 2016; and obtained a Certified Anti-money Laundering Officer Certificate from The Global Academy of Finance and Management, 2016.

17. Ali Malalla

Head of Risk Management – Bahrain Commercial Facilities Company B.S.C.

Joined in September 2016, has more than 16 years of extensive and diversified experience in risk management in both Conventional and Islamic sectors with specialty in credit risk; holds a Master's Degree in Business Administration from AMA International University, Bahrain, 2008; has an Associate Professional Risk Manager (APRM) Certificate and is a Member of the Professional Risk Manager's International Association (PRMIA), USA.

18. Ripin Mehta

General Manager – Tasheelat Car Leasing Company W.L.L.

Joined on 1 July 2017; has more than 25 years of extensive and diversified experience with 17 years in automotive sales and leasing. Prior to that, he has worked with leading automobile brands within GCC; holds a certificate in Cost Accountant Inter, 1990; and a post-graduate degree specializing in Marketing Management-MBA from University of Delhi, India, 1994.

19. Jamal Salman

Executive Senior Manager, Head of Human Resources, Health and Safety – National Motors Company W.L.L.

Joined in July 2007; has more than 23 years of extensive and diversified experience in automotive, heavy vehicles and construction heavy equipment industry as well as more than 6 years of experience in Aviation Maintenance and more than 7 years in human resources training and development, health and safety; holds a BEng (Hons) in Electrical and Electronic Engineering from Teesside University, UK, 2009.

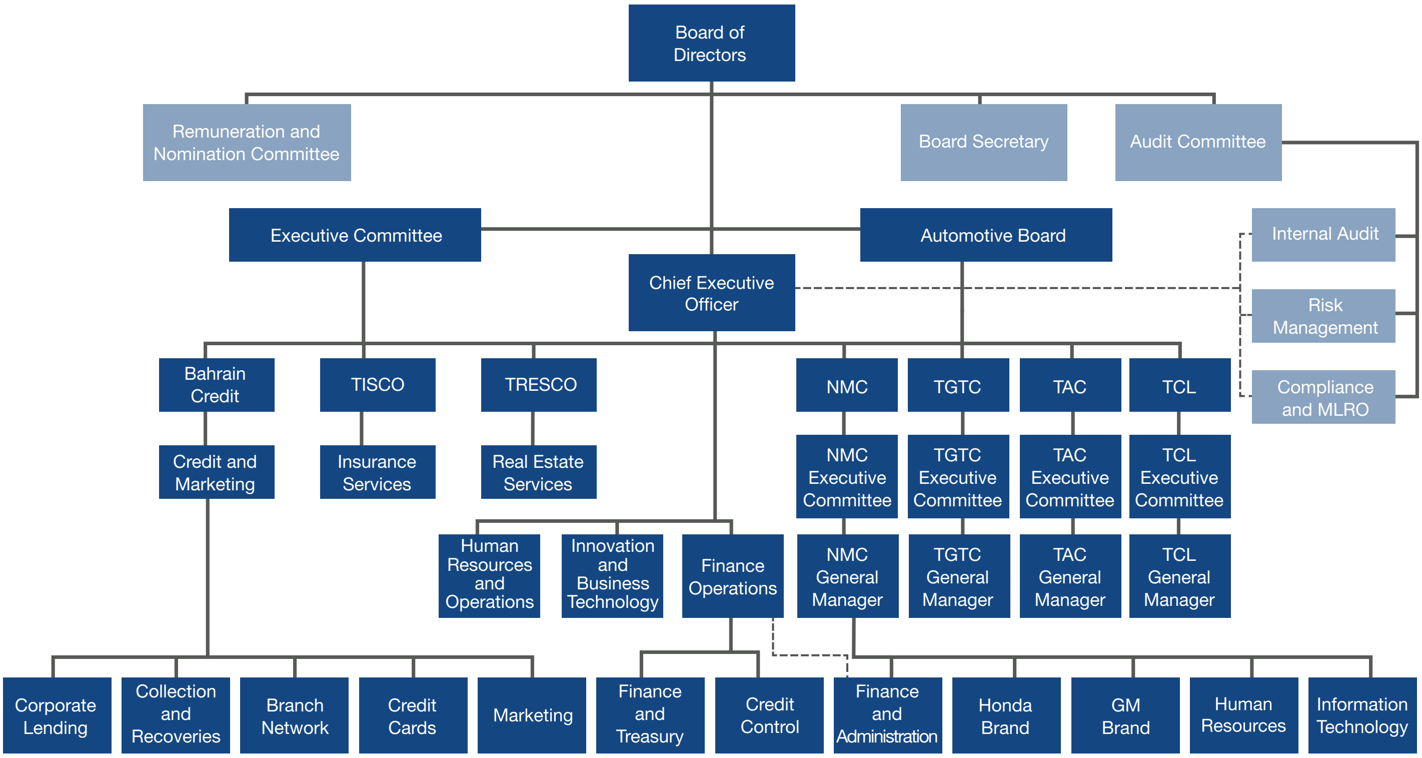
20. Mohamed Ahmed Al-Mutawa

Chief Internal Auditor - Bahrain Commercial Facilities Company B.S.C.

Joined on 15 April 2018; has more than 11 years of extensive and diversified experience in the field of Internal and External Audit covering multiple sectors which includes Banking, Financial Services, Insurance, and Investment. Mohamed hold an MBA degree from Colorado State University, USA, 2016. He is a Certified Internal Auditor (CIA) licensed by the Institute of Internal Auditors (IIA) in New York; a Certified Public Accountant (CPA) licensed by the New York Board of Accountancy and the California Board of Accountancy; and a Certified Management Accountant (CMA) licensed by the Chartered Institute of Management Accountant in New Jersey, he is also Certified Information System Auditor (CISA) licensed by ISACA, USA.

* *Executive Management Members and their connected persons did not hold or trade in the shares of the Company during the financial year ended 31st December 2018.*

ORGANIZATION
CHART



MANAGEMENT'S REVIEW OF OPERATIONS

2018 proved to be a mixed bag for the global economy with a very complicated economic environment. The US had a good year with economic activities supported by strong job growth, wage increases, relatively tame inflation and household net worth climbing to new heights. The other major economies faced severe whirlwinds placing more strains on the global economy. This is manifested through tightening financing conditions, moderate industrial production, elevated trade tensions. Some large emerging market and developing economies have experienced significant financial market stress.

In the Middle East region, the political unrest and security events continued to challenge the region's economic performance. Oil prices remained extremely volatile in a period where the GCC region's clout on oil pricing has subsided. The GCC countries governments continued to make concerted efforts to shore up their finances through tough fiscal reforms. The introduction of Value Added Tax in UAE and Saudi Arabia in 2018 has been a watershed moment where the citizens and local business communities are yet to absorb and readjust to the new market realities. Bahrain government also went through a very difficult period of balancing its fiscal shortfall with other priorities which include its liberal policies of social welfare. The government took various unpopular initiatives to instill fiscal discipline through further withdrawal of subsidies and increase in prices of fuel and utilities which have negatively impacted the disposable income of citizens. In this difficult environment, it is of paramount importance for the government to rebuild policy buffers while laying a stronger foundation for future growth by boosting human capital, promoting trade integration and addressing the challenges associated with attracting new foreign direct investment in the country.

The BCFC Group operating in such a challenging environment has yet again achieved its highest profit. The Company has recorded a net profit of BD 22.9 million, 11% higher than BD 20.7 million earned in 2017. Such performance translates into a return on equity of 15.7%.

2018 was the final year of its 2016-2018 Strategic Plan cycle. The Group has adopted the philosophy of 'the whole is bigger than sum of its parts'. The disciplined strategy making process and its execution remained the guiding force which has shaped a culture of creating unique values for the customers through introduction of various new products and services. The Group has implemented a wide range of initiatives to strengthen its core competencies and bolster business model. Several of these initiatives are qualitative in nature but have contributed significantly in the Company's remarkable performance and its risk management culture.

The Group remained in a healthy liquidity position with a low leverage of 1.7 multiples. The Company has successfully issued a USD 53 million syndicated loan. The new loan was raised to replace maturing BD 20 million bond facility. The Company has a well-thought and disciplined liquidity management strategy where maturity profile of long-term borrowings is well staggered with no concentration of significant maturities.

MANAGEMENT'S REVIEW OF OPERATIONS (Continued)

PARENT COMPANY

- *Vehicle loans*
- *Personal loans*
- *Mortgage loans*
- *Corporate loans*
- *Credit cards*
- *Cheque discounting*

Bahrain Credit had an excellent year and recorded a net profit of BD 18.9 million, 8% ahead of results achieved last year (2017: BD 17.5 million). During the year, the company has advanced new credit facilities of BD 171 million (2017: BD 161 million) which has resulted in 9% growth in the loan portfolio. The loan portfolio net of impairment provisions at 31 December 2018 stands at BD 315 million.

The company continued to create unique value for various customer segments through designing products tailored for their needs. The focused approach to augment customer relationship through many technology-driven initiatives has resulted in significant enhancement in delightful delivery of the company's products. The redesign in value chains to ease customer interaction yet incorporating better and effective controls has been widely appreciated by the customers. These proactive initiatives continued to strengthen the company's market share in vehicle, mortgage and personal lending and amplified credit card footprint in terms of number of cardholders

* "Imtiaz For Her" won the Seamless Awards for the most innovative card in the Middle East

and utilization in local and foreign currency spend. The company's strong risk management culture remained the bedrock for all the achievements.

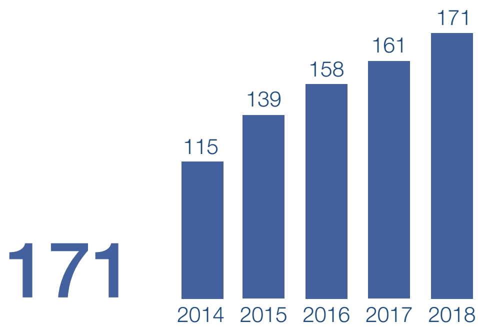
The decline in the new vehicle sale continued in most part of 2018, influenced by general reduction in customers' disposal income. These trends have directly impacted demand for vehicle lending which witnessed a noticeable reduction during the year. Whilst the company continued to stimulate the new vehicle market by taking joint initiatives with its partner network of auto dealers and sub-dealers, it continued to develop innovative products to tap unorganized used car market.

The real estate market in Bahrain has shown early signs of weakness. The increase in cost of funding and decrease in demand have stalled the appreciation in land prices. The company remained very selective for new mortgage lending and continued its approach of serving customers with regular income independent of the collaterals offered. The company continued to shy away from funding owners occupied properties.

The demand for personal loans remained strong. The company continued to leverage on its comprehensive lending guidelines and strategically located countrywide branch network to serve predominantly Bahraini nationals. The company's human touch in facilitating this product has been well recognized and appreciated by the customers.

The company's credit card offering 'Imtiaz' continued to grow as a strong brand and won international accolade for its unique differentiation strategy. During the year, the company has introduced its World Card, a new product targeting high spenders. The company's flagship for ladies 'Imtiaz for Her' continues to grow from strength to strength. The company has augmented ecosystem of partnering merchants with many new stores and retail chains providing additional benefits to the Imtiaz holders. This has stimulated the local and foreign currency spend to over BD 130 million. The company has also introduced new loyalty program which is well received by the customers.

The quality of the portfolio remained a key priority. The company's uncompromising underwriting standards dealing with customers with genuine repayment capacity, and efficient, focused and proactive collection and recovery efforts ensured that nonperforming loans were contained at very satisfactory 2.98% of the total loan portfolio. The company's new lending is predominantly made on a partial or fully secured basis. The company has adequately provided for all the expected credit losses.



Bahrain Credit new lending (BD million)

MANAGEMENT'S
REVIEW OF OPERATIONS (Continued)

NATIONAL MOTOR COMPANY

• Honda • Chevrolet • GMC • Cadillac
• Mack Defence

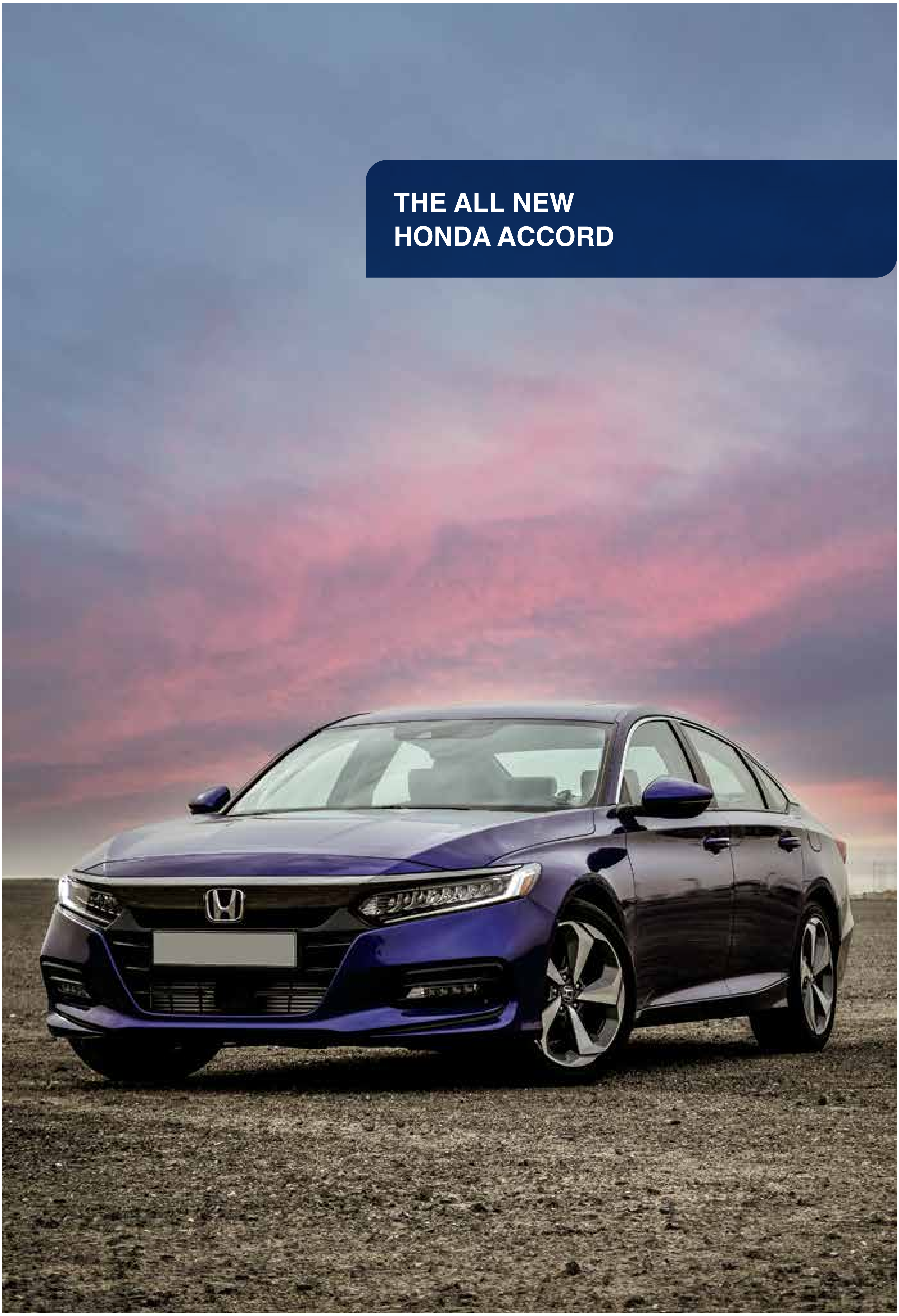
National Motor Company achieved a consolidated net profit of BD 2.4 million for the year ended 31 December 2018 (2017: BD 2.2 million). The overall weak economic conditions, lower disposable income and increase in fuel prices have changed the customers purchase preferences. The customers are shifting towards fuel efficient, smaller engine and lower value vehicles significantly reducing sales volume of prominent car dealers at country level. The company's proactive approach in shifting the inventory-mix from large SUV's to mid-size and compact vehicles and reducing overall inventory remained the highlight of the management strategy. The company has achieved a significant increase in its unit sales in an automotive market which was trailing 2017 for most of the year. The continuous improvement in efficiencies to control cost and utmost focus on customer servicing to increase customers retention remain the focal point of all the initiatives undertaken.

The Honda Brand achieved 24% increase in new vehicles unit sales. The company focused its energies on increasing units in operation to ensure good feed for its after sales services. It is pleasing to note that the increase in unit sales were achieved across all the Honda vehicle range namely: CRV, Civic, Accord and City. Despite higher pricing than most vehicles in its segment, Honda's reputation for reliability and fuel efficiency has helped the brand to attract new customers. The launch of the newly designed Accord in March proved to be a grand success. Since its launch, the Accord has received multiple awards and excellent feedback from the customers. The company aims to continue driving Honda sales to higher levels. On the other hand, the General Motor Brand, which includes Chevrolet, GMC and Cadillac marques, registered a 2% decline in its unit vehicle sales.

In line with the industry fundamentals, the Aftersales operations continued to be the largest contributor to the overall income of the company. The company continued its focus on increasing customer retention by providing superior services at all levels of the organization.

Tasheelat for General Trading and Cars has completely ceased its operations in Erbil. The economic and political situation in the Kurdistan region continues to be volatile and unstable with no change forecasted anytime soon. The company currently has no exposure towards inventory of vehicles or fixed assets in Erbil.

THE ALL NEW HONDA ACCORD



MANAGEMENT'S
REVIEW OF OPERATIONS (Continued)

TASHEELAT INSURANCE SERVICES COMPANY

• Motor insurance • Home insurance
• Life insurance • Travel insurance
• Medical insurance

Tasheelat Insurance Services Company has registered a net profit of BD 773 thousand, 27% ahead of the net profit achieved during the same period last year (2017: BD 610 thousand). The company has successfully diversified its revenue stream through the introduction of several new products to increase its reach to new market segments.

The company's core product motor insurance has performed exceptionally well. The company had sold more than 27 thousand motor policies, which is a growth of 16% over the number of motor policies sold in 2017. This was achieved through focused efforts on retaining existing customers, leveraging on BCFC Group synergies and introduction of exclusive new motor policy products in partnership with insurance companies.

The company has entered in the medical insurance through the introduction of 'AMFIT', a uniquely affordable annual medical insurance cover. The new product has provided customers with an access to the world-class medical facilities at reasonable cost.

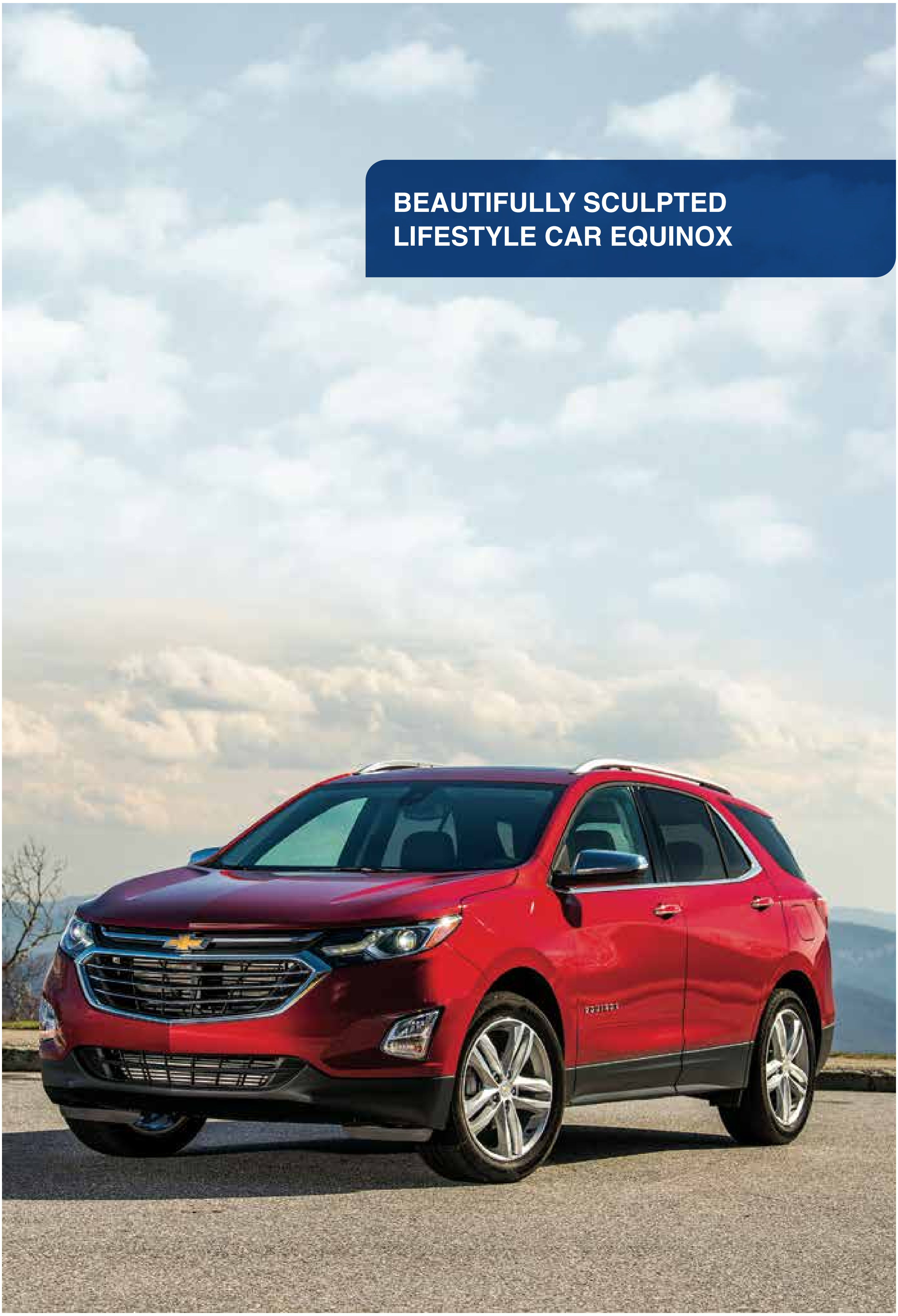
The company will continue to improve its market presence through introducing new and exclusive innovative insurance products partnering with selected insurance companies, providing unique facilities to customers through technology driven initiatives and further improving its synergies with the Group companies leveraging on their physical and digital presence.

TASHEELAT REAL ESTATE SERVICES COMPANY

• Rental and brokerage services • Valuation
• Property management • Investment

Tasheelat Real Estate Services Company has registered a net profit of BD 628 thousand in 2018, 40% higher than last year (2017: BD 449 thousand). The real estate market remained lackluster. Factors such as high supply of residential houses, delay in government funding for housing loans and increase in cost of borrowing have impacted downstream demand. Nonetheless, the company has sold 64 plots (2017: 49 plots) and generated a gross profit of BD 909 thousand (2017: BD 1,151 thousand). The company has successfully exited from the Future Project located in Hamad Town during the year. The company has limited inventory of 77 plots out of which 18 plots are already sold at the end of 2018 under future sale agreements.

The company's investment property portfolio enjoyed healthy occupancy during 2018. The unique value of affordable luxury directed towards middle income expatriates has witnessed good demand. To increase these steady and reliable annuity type returns, the company has acquired another new residential property during the year. The company will continue to invest in new investment properties in areas of high demand.


BEAUTIFULLY SCULPTED
LIFESTYLE CAR EQUINOX

MANAGEMENT'S REVIEW OF OPERATIONS (Continued)

TASHEELAT AUTOMOTIVE COMPANY

• GAC • Foton

2018 marked another successful year for Tasheelat Automotive Company. The company has recorded a net profit of BD 200 thousand (2017: Net loss of BD 21 thousand). In short period since its introduction less than 3 years ago, the company has put almost 1,900 GAC vehicles on Bahrain roads. With these sales, the company has 2.4% market share, higher than many well-established brands. The company has accomplished such feat without losing its sight on the pragmatics of profitability.

GAC Motor remained the most promising and fastest growing brand in the country. It remained an undisputed leader amongst the Chinese automotive manufacturers with almost 40% market share. GAC Motor continues to provide beautifully designed, fuel efficient, feature rich and very competitively priced vehicles. Over the past 3 years, GAC has passed successfully the test of time and tough weather conditions in Bahrain. This is a testament of its quality and reliability. During the year the company has introduced a small SUV car GS3 and a C-segment saloon car GA4 in a launch ceremony attended by more than 15 thousand people. Both the cars have received astonishing reception and initial shipments were sold out. GAC Motor is due to introduce many new innovative products, including electrical cars, during next year to demonstrate prowess of their research and development.

The company has also launched new commercial vehicles from Foton Motors in a special event organized in late November 2018. The introduction of new brand has closed the gap of commercial vehicles in the bouquet of BCFC automotive brands. Within Foton brand, the company has launched Tunland (small pickup) and VIEW CS2 (minivan) as two new vehicles in the market. The initial response to these models is encouraging. The company shall create unique marketing strategies to augment branding and sales proposition of this newly introduced brand.

In Aftersales, the company shall continue to leverage on the premium facilities of NMC to service GAC and Foton Motor vehicles. The company shall closely monitor the quality of its services and availability of spare parts to meet and surpass customers expectations.

TASHEELAT CAR LEASING COMPANY

• Car rental • Long term leasing • Short term leasing

The youngest BCFC venture is beautifully taking shape and making its presence known. 2018 was the first full year of operations for the company. With a total fleet of 1,100 vehicles and 9 operational branches for car rentals, the company has been successful in creating its impact and identity known in the country. The company has successfully won some leasing tenders and penetrated key corporate accounts. The company has been successful in establishing strategic partnerships with leading insurance companies offering vehicle replacement services. The company's synergy with NMC, TAC and TISCO working in perfect harmony with the company increasing BCFC automotive brands presence on the roads. In the first full year of operations, the company has reported a net loss of BD 63 thousand (2017: net loss of BD 80 thousand).

2019 Outlook

The global growth is expected to slow down in 2019. Factors related to weakening financial market sentiments, trade policy uncertainty due to trade war fears and concerns about China's outlook is the backdrop of slow down. In the GCC region, the introduction of Value added tax in Saudi Arabia and United Arab Emirates have slowed down the two economies and still not normalized. In Bahrain, the economy has gone through its toughest period which put its fiscal and monetary health in critical stage. The Government has introduced Value added tax starting from 1st January 2019 to enhance its fiscal position. However, in its first year of introduction, VAT is expected to reduce consumers' disposal income, increase cost of living and inflation which in turn slow down the growth of the economy. The Company is cautiously monitoring these trends, and has developed strategic initiatives to adapt to the current economic condition.


NEW FUTURISTIC SUV GS3
GS3

CORPORATE SOCIAL RESPONSIBILITY

The important concept of Corporate Social Responsibility ("CSR") has been at the heart of Bahrain Commercial Facilities Company B.S.C ("BCFC"). This concept whilst being around for a long time in the history of BCFC since its inception back in 1983, it has evolved significantly in recent years and has become an integral part of its business and ecosystem.

BCFC sets a role model in Corporate Social Responsibility and is now at the forefront of the largest and most renowned and prominent corporations practicing CSR all the way down the line in its business model. For BCFC, CSR has become quite an important corporate objective as its essential fundamental goes to the heart of two questions: firstly why does BCFC exist? And secondly what contribution should BCFC make to society?

Where you sit on the fence of CSR in terms whether you view it as being irrelevant or something that is important or something that is in between, really depends on how you view interdependence or the relationship between business and society because there is no doubt that society needs business, but also business needs society. As society, we need business to provide us with jobs and to pay those jobs the salaries and other remuneration. We need business to invest and innovate and also society needs business to pay its fair share of taxes so that the government spending can be supported on the things society needs. However, of course business needs us and needs society, as well. It needs us as consumers to create demand in the market and it needs society to provide essential public assets and infrastructure, for example, health system, transport system, legal system, to enable business to take place. So, there is no doubt business and society are interdependent.

As the largest financing company on the island, and aside from its mission to be "a dynamic and innovative Company that embodies the spirit of entrepreneurship", BCFC is geared with its vision to create "delightful social mobility" and undertakes a tremendous responsibility to give back to those who have helped it become a powerhouse in the financial, automotive, car leasing, insurance and real estate brokerage services industry.
BCFC's strong and sincere-sounding belief in Corporate Social Responsibility is an accurate interpretation of its pivotal social and philanthropic role in the local society. Therefore, the interdependence between BCFC and society is clearly depicted so strong that BCFC conscientiously discharges its broader obligations and responsibilities in form and substance. CSR in essence is about BCFC recognizing that interdependence doing more than is required of it by the legal and social systems and going beyond the bare minimum of being a good citizen and being part of society. BCFC views CSR as conducting business in an ethical way and in the interest of the wider community, as responding positively to emerging societal priorities and expectations and as showing a willingness to act ahead of the traditional targets of businesses and the free market theory (of leaving business to business and letting society take care of itself), to create shareholder wealth, achieve profitability within the law and in return give back and benefit the wider community.

BCFC believes that CSR is not just about building reputations and corporate relations, but about establishing a business that matters and cares about its surroundings. It is indeed a way of living to benefit ourselves and the society at large. We believe that undertaking socially-responsible initiatives is truly a win-win effort that enables BCFC to focus, with determination, on creating value not only in financial terms by maximizing profits and increasing shareholders value within the legal framework and ethical custom of the country but also in ecological and social terms and go beyond that business. It aims to make shareholders concern themselves with their broader social responsibility to extend support, uplift the needy, enhance economy and stimulate innovation. BCFC believes that CSR is not only a good and ethical thing to do to improve the Company's image and reputation, but it is more of socially responsible actions that can be even more enriching to all the stakeholders; that can increase employee motivation and help to correct the social problems caused by business.

With over 35 years, our commitment to supporting our country's social welfare and contributing to the betterment of people's

* New facility opening ceremony at Bahrain Mobility International

lives has continued undiminished and we have been able to translate our words into actions throughout the country. It is both our duty and our privilege to be serving our nation from a wider perspective.

In 2018, BCFC worked hard to instill and promote the culture of CSR, deliver on its social obligations and responsibilities and continue its contributions to Bahraini community. It continued to focus on measurable, worthwhile causes with social, economic, environmental, educational, volunteerism, health and cultural impacts.

BCFC plays an active role in assisting local communities to achieve their aspirations and goals and creating a solid platform conducive to the growth of great paramount and in addressing a key pillar of social corporate responsibility and commitment towards building a better nation. This is done through a combination of community volunteer work; financial assistance of cash donations and sponsorships wherever absolutely needed and required; doing its bit for good causes and social causes and reinvesting profits in the societal infrastructure; and protecting our environment and the planet at large by digitalizing and automating work and responsibly reducing waste and eliminating most of paperwork. BCFC remains committed to the fact that business needs to be developed in a socially responsible manner by caring about employees by paying them fairly and providing strong and safe working conditions and encompassing every individual of the community through enhancing employee career development and empowering our people with greater responsibilities.

During 2018, the Company continued to give to charity, with an increased focus on strengthening our community partnerships and active participation of our involvement with officially-registered not-for-profit organizations, charity societies and other governmental entities that address the special requirements of Bahraini citizens and are actively involved in helping a larger segment of needy families in the society.

Moreover, volunteerism is a major focus for BCFC, which is intended to enrich BCFC workplace and workforce with solid philanthropic values and be more involved in serving the needs of our Bahraini community, and that is why we have carried on with our "Social Responsibility Placement" initiative with the help of the BCFC Social Team for the 5th year in a row to provide

A volunteer working dat at Al Rahma Centre

time off for employees to go to spend some time in the societal projects with charitable institutions supported by the company and spend two days of volunteer service, with the aim of closely observing their activities, understanding their bare necessities and needs and servicing efforts to volunteer in their communities. Besides, we handled and scrutinised numerous applications for donations and sponsorships with a high sense of responsibility, objectivity and integrity.

Additionally, supporting the society reached an important milestone in 2018 and carried out lots of philanthropy. We continued to finance the cultural activities of the Sheikh Ebrahim Bin Mohammed Al-Khalifa Centre for Culture and Research. We were also able to combine flagship campaigns with a focus on community projects, marking the company's deep-rooted corporate social responsibility in intensifying our efforts to continue supporting our society for many years to come. To this effect, the company approved a contribution of BD 180,000 to fully construct an extension to Hidd Rehabilitation Centre for Special Needs in Al-Hidd to build extra classes and other facilities to meet the immensely growing number of the students with special needs in the whole of the Muharraq area. The community project's concept designs have been completed and we are hopeful of commencing the construction of the project once the authorities' approvals are obtained. This year also marked the official opening of the newly constructed extension to Azhar Al Herak Nursery of Bahrain Mobility International in Isa Town in the presence of the Board of Directors and other dignitaries. We trust this new facility will fulfill the special needs of children with physical disabilities.

BCFC maintains the highest ethical standards and takes its corporate social responsibility seriously and with a great amount of pride. Notwithstanding its acts of great generosity to its community, BCFC is as well determined to make further contributions and seek to engage more in philanthropic activities to serve our people and our beloved homeland.

A YEAR
IN PHOTOS

JUNE 2018
Iftar On Road

APRIL 2018
The Launch of Imtiaz World

MAY 2018
Women Power
Summit

MARCH 2018
Family day celebration with
UCO Parents Care Centre

NOVEMBER 2018
Children with special needs spending a day at BCFC

DECEMBER 2018
Discount Week with Sub-dealers

NOVEMBER 2018
The Launch of Foton

DECEMBER 2018
Imtiaz Grand Raffle

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 and Cars Company WLL in Erbil, Kurdistan, Iraq, to sell for Honda vehicles in Erbil, Kurdistan, Iraq. In March 2015, the Company has incorporated Tasheelat Automotive Company SPC and Tasheelat Car Leasing Company WLL was established in April 2017.

CR Number	:	13444
P.O. Box	:	1175, Manama, Kingdom of Bahrain
Tel	:	17 786 000
Toll Free	:	8000 8000
Fax	:	17 786 010
E-Mail	:	bcredit@bahraincredit.com.bh
Office	:	Bahrain Credit Building, Building 290, Road 111, Tubli 701
Website	:	www.bahraincredit.com.bh

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

CONSOLIDATED
FINANCIAL STATEMENTS

31 DECEMBER 2018

CONTENTS

INDEPENDENT AUDITORS'
REPORT TO THE SHAREHOLDERS

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

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" (IFRS 9) 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

    - 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

How the matter was addressed in our audit

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:

- 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;

How the matter was addressed in our audit

- 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.

Provision on inventory (vehicles and spare parts)

Refer to Note 11 to the consolidated financial statements.

Description

We focused on this area because:

- the Group has significant amount of inventory, and a broad range of car models and spare parts; and
- significant judgement and estimation is involved in the determination of the level of impairment needed to record the value of inventory at net realizable value, where such value is lower than cost.

How the matter was addressed in our audit

Our audit procedures included:

- testing the design and operating effectiveness of controls over the process of identification of slow moving items;
- testing the ageing of cars and spare parts inventory on a sample basis;
- testing sales subsequent to the year-end to check whether sale proceeds were sufficient to cover the net realisable value;
- challenging the Group's assumptions to arrive at net realisable value by assessing historical data and available market information; and
- evaluating the adequacy of the Group's disclosures related to provision on inventory by reference to the requirements of relevant accounting standards.

Impairment of trade receivables

Refer to Note 10 to the consolidated financial statements.

Description

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:
  - change in accounting policies for impairment including the need for making complex estimates and judgment over both timing and recognition of impairment;

How the key audit matter was addressed in our audit

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;

- transition adjustments on 1 January 2018, being the date of adoption in retained earnings amounting to BD 0.9 million;
- use of models and methodologies for determination of expected credit losses;

- 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.

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.

INDEPENDENT AUDITORS'

REPORT TO THE SHAREHOLDERS (Continued)

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

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

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

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

We also provide the board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, 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 Fakhro
Partner Registration No. 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 50-51)		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

	Share capital		Reserves and retained earnings					
				Other reserves				
2018	Share capital	Treasury shares	Statutory reserve*	Cash flow hedge reserve	Donation reserves	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	-	-	-	-	-	-	22,981	22,891
Other comprehensive income:								
- Fair value gain on cash flow hedge reserve	-	-	-	184	-	-	-	184
Total comprehensive income for the year	**-**	**-**	**-**	**184**	**-**	**-**	**22,981**	**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

	Share capital		Reserves and retained earnings					
				Other reserves				
2017	Share capital	Treasury shares	Statutory reserve*	Cash flow hedge reserve	Donation reserves	General reserve	Retained earnings	Total equity
At 1 January 2017	16,335	(599)	33,542	313	791	21,750	52,161	124,293
2016 appropriations (approved by shareholders):								
- Donation declared for 2016	-	-	-	-	300	-	(300)	-
- Transfer to general reserve for 2016	-	-	-	-	-	1,500	(1,500)	-
Balance after 2016 appropriations	16,335	(599)	33,542	313	1,091	23,250	50,361	124,293
Comprehensive income for the year								
Profit for the year	-	-	-	-	-	-	20,714	20,714
Other comprehensive income:								
- Net changes 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

	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 flow 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 flow from Financing activities		
Bank term loans availed	55,280	79,486
Bank term loan repaid	(28,775)	(71,527)
Bonds 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.

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 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 W.L.L.	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 S.P.C.	Bahrain	100%	Real estate related services
Tasheelat Insurance Services Company W.L.L.	Bahrain	100%	Insurance brokerage services
Tasheelat for General Trading and Cars Company W.L.L.	Kurdistan, Iraq	100%	Sale of Honda vehicles in Erbil, Kurdistan, Iraq (established through NMC)
Tasheelat Automative Company S.P.C.	Bahrain	100%	Exclusive distributor for GAC and Foton Vehicles
Tasheelat Car Leasing Company W.L.L.	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.

2. BASIS OF PREPARATION (Continued)

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:

a) 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 comperhansive 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 (a.4)):

	Retained Earning
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**

(a.1) 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.

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:

Financial assets	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount (IAS 39)	Re-measurement	New carrying amount (IFRS 9)
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**

(a.2) 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**

(a.3) 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.

(a.4) 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.

- 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.

2. BASIS OF PREPARATION (Continued)

(b) 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.

(c) 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:

1- 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.

2- Other Standards

The following amended standards are effective for annual periods beginning after 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

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 7.

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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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).

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.

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

(v) Impairment
1. 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).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

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

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

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

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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 Vehicles	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 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 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 parent 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.

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 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.

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 the 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.

Management of credit risk

The Group's credit risk management framework includes:

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

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

Exposure to credit risk

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

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

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

	31 December 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

	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

5. FINANCIAL RISK MANAGEMENT (Continued)

Stage 3 – Specifically assessed 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.

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 indicator.

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.

5. FINANCIAL RISK MANAGEMENT (Continued)

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

2017	Retail	Corporate	Total
Current	219,747	27,840	247,587
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

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	Total
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

5. FINANCIAL RISK MANAGEMENT (Continued)

2017	Bahrain	Kurdistan	Total
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.

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) was 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.

5. FINANCIAL RISK MANAGEMENT (Continued)

The residual future contractual maturity of financial assets and liabilities are summarised in the table below. The future contractual undiscounted cash flows of financial assets and financial liabilities have been disclosed at the carrying value and prevailing interest rates at the reporting date until their final maturities.

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.

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 50- 51). 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.

5. FINANCIAL RISK MANAGEMENT (Continued)

d. Operational risks

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

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

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 & 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.

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.

(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

7. USE OF ESTIMATES AND JUDGEMENTS (Continued)

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.

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.

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.).

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.

12. INVESTMENT PROPERTIES

	2018	2017
Cost		
At 1 January	8,056	7,830
Additions during the year	669	226
Transfer from 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).

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 October 2019

16. SHARE CAPITAL

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

	2018	2017
Issued and fully paid		
163,350,000 (2017:163,350,000) 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 (2017: 2,206,891 shares)	599	599

16. SHARE CAPITAL (Continued)

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, the provision of after sales services and car lease.
- Real estate - include buying, selling and renting of properties and providing property evaluation services.
- Insurance - provision of insurance brokerage services.

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