stc Bahrain B.S.C. (c)

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

stc Bahrain B.S.C. (c)

Contents of the Consolidated Financial Statements for the year ended 31 December 2021

stc Bahrain B.S.C. (c)

Administration and contact details as at 31 December 2021

Commercial registration no.	71117 obtained on 1 March 2009
Directors	Mohammed Al Hakbani - Chairman Dr. Abdullah Al Abdulqader Yahya Ali A AlJabr Moaeed Huwaij H AlSaloom Abdulaziz Al Ghamdi Hamoud Al Rumayan
Chief Executive Officer	Nezar Banabeela
Head office and registered office	stc Tower 15 Road 68, PO Box 21529 Seef District Manama Kingdom of Bahrain
Bankers	Standard Chartered Bank HSBC Bank Middle East Ahli United Bank Bank of Bahrain and Kuwait National Bank of Bahrain National Bank of Kuwait Kuwait Finance House Bahrain Islamic Bank Al Salam Bank Al Baraka Bank Gulf Finance House Khaleeji Commercial Bank Abu Dhabi Islamic Bank MUFG Bank (Malaysia) Berhad
Auditors	Ernst & Young - Middle East 10th Floor Bahrain World Trade Centre - East Tower P.O.Box 140 Manama Kingdom of Bahrain

The Board of Directors have pleasure in submitting the audited consolidated financial statements of stc Bahrain B.S.C. (c) (“the Company”) and its subsidiary (collectively referred to as “the Group”) for the year ended 31 December 2021.

Principal activities

The principal activity of the Group is to provide telecommunications services throughout the Kingdom of Bahrain.

Results for the year

The Group made a profit of BD 11,088,555 for the year ended 31 December 2021 compared to a profit of BD 10,165,430 for the year ended 31 December 2020.

Movements in retained earnings of the Group during the year are as follows:

	BD
Balance as of 1 January 2021	**37,584,542**
Total comprehensive income for the year	**11,088,555**
Transfer to statutory reserve	**(1,108,856)**
Balance as of 31 December 2021	**47,564,241**

Representation and audit

The Group’s activities for the year ended 31 December 2021 have been conducted in accordance with the Bahrain Commercial Companies Law, Decree Number 21 of 2001, and other relevant statutes of the Kingdom of Bahrain.

The Group has maintained proper, complete accounting records and these, together with all other information and explanations, have been made freely available to the auditors, EY.

Mohammed Al Hakbani	Dr. Yahya Al Jaber
Chairman	Director

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
stc BAHRAIN B.S.C. (c)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of stc Bahrain B.S.C. (c) ("the Company") and its subsidiary (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2021 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

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 *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Kingdom of Bahrain, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information included in the Report of the Board of Directors

Other information consists of the information included in the Report of the Board of Directors, set out on page 3 other than the consolidated financial statements and our auditor's report thereon. The Board of Directors is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do 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 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, 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.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF stc BAHRAIN B.S.C. (c) (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Responsibilities of the Board of Directors for the consolidated financial statements

The Company's Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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 Company and its subsidiary or to cease operations, or has no realistic alternative but to do so.

Auditor's 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 auditor's 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 judgement 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 Company'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 AUDITOR'S REPORT TO THE SHAREHOLDERS OF
stc BAHRAIN B.S.C. (c) (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Auditor's responsibilities for the audit of the consolidated financial statements (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 auditor's 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 auditor's 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.

Report on Other Legal and Regulatory Requirements

- As required by the Bahrain Commercial Companies Law, we report that:

1) the Company has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
2) the financial information contained in the Report of the Board of Directors is consistent with the consolidated financial statements;
3) we are not aware of any violations of the Bahrain Commercial Companies Law or the terms of the Company's articles of association during the year ended 31 December 2021 that might have had a material adverse effect on the business of the Group or on its financial position; and
4) satisfactory explanations and information have been provided to us by the Company's management in response to all our requests.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
stc BAHRAIN B.S.C. (c) (continued)

Report on Other Legal and Regulatory Requirements (continued)

- As required by Article (8) of section (2) of chapter (1) of the Bahrain Corporate Governance Code, we report that the Company:

1) has appointed a Corporate Governance Officer; and
2) has Board approved written guidance and procedures for Corporate Governance.

Auditor's Registration No ……….
……………....... 2022
Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021

	Note	***2021*** ***BD***	*2020* *BD*
ASSETS			
Non-current assets			
Property, plant and equipment	4	**68,837,278**	70,260,643
Capital work-in-progress	5	**13,359,555**	12,426,187
Intangible assets	6	**80,346,512**	85,434,429
Right-of-use assets	7	**25,247,281**	27,324,509
Investment in an associate	8	**1,885,250**	-
Non-current portion of trade and other receivables	10	**4,351,840**	3,850,595
		194,027,716	199,296,363
Current assets			
Inventories	9	**3,837,094**	5,352,036
Trade and other receivables	10	**44,542,963**	40,829,311
Murabaha deposits	12	**11,000,000**	-
Amounts due from related parties	25	**4,244,175**	5,570,487
Cash and cash equivalents	11	**30,597,796**	19,441,611
		94,222,028	71,193,445
TOTAL ASSETS		**288,249,744**	270,489,808
EQUITY AND LIABILITIES			
Equity			
Share capital	13	**75,000,000**	75,000,000
Statutory reserve	14	**10,329,805**	9,220,949
Other reserve		**125,084**	-
Retained earnings		**47,564,241**	37,584,542
Total equity		**133,019,130**	121,805,491
Non-current liabilities			
Derivatives at fair value	15	**-**	236,359
Non-current portion of Murabaha and Mudarabah facilities	16	**71,382,876**	27,248,386
Non-current portion of lease liabilities	17	**19,979,411**	21,428,748
Non current portion of trade and other payables	19	**2,966,103**	5,233,154
Employees' end of service benefits	18	**1,751,631**	1,498,511
		96,080,021	55,645,158
Current liabilities			
Derivatives at fair value	15	**67,760**	261,926
Current portion of Murabaha and Mudarabah facilities	16	**307,625**	28,194,990
Current portion of lease liabilities	17	**14,739,631**	14,400,161
Trade and other payables	19	**44,035,577**	50,182,082
		59,150,593	93,039,159
Total liabilities		**155,230,614**	148,684,317
TOTAL EQUITY AND LIABILITIES		**288,249,744**	270,489,808

Mohammed Al Hakbani Chairman	Dr. Yahya Al Jaber Director

The attached notes 1 to 30 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2021

	Note	***2021*** ***BD***	*2020* *BD*
Revenue	20	**168,226,143**	167,040,221
Cost of sales	21	**(83,258,132)**	(81,581,130)
GROSS PROFIT		**84,968,011**	85,459,091
General and administration expenses	22	**(38,973,199)**	(39,641,137)
Selling and distribution expenses	23	**(2,447,279)**	(3,139,062)
Amortisation of intangible assets	6	**(5,864,607)**	(5,836,791)
Amortisation of cost to obtain a contract		**(2,188,963)**	(2,215,127)
Depreciation of property, plant and equipment	4	**(17,194,488)**	(15,425,821)
Depreciation of right-of-use assets	7	**(5,628,536)**	(6,069,088)
PROFIT FROM OPERATIONS		**12,670,939**	13,132,065
Finance cost	24	**(2,439,260)**	(3,139,490)
Fair value gain on derivatives		**430,525**	102,408
Recycling of loss on cash flow hedge to the statement of income		**-**	(472,718)
Finance income		**458,575**	561,002
Foreign exchange and other losses		**(32,224)**	(17,837)
PROFIT FOR THE YEAR		**11,088,555**	10,165,430
Basic and diluted earnings per share	26	**14.785 fils**	13.554 fils
Earnings before interest, tax depreciation and amortisation		**43,547,533**	42,678,892

Mohammed Al Hakbani
Chairman

Dr. Yahya Al Jaber
Director

The attached notes 1 to 30 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Note	***2021 BD***	*2020 BD*
PROFIT FOR THE YEAR		**11,088,555**	10,165,430
OTHER COMPREHENSIVE INCOME			
Items that will be reclassified to the consolidated statement of income in subsequent periods:			
Net movement in cash flow hedges		**-**	(289,807)
Recycling of loss on cash flow hedge to the consolidated statement of income	15	**-**	472,718
OTHER COMPREHENSIVE INCOME FOR THE YEAR		**-**	182,911
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**11,088,555**	10,348,341

Mohammed Al Hakbani
Chairman

Dr. Yahya Al Jaber
Director

The attached notes 1 to 30 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	Share capital BD	*Statutory reserve BD*	*Cash flow hedge reserve BD*	*Other reserve BD*	*Retained earnings BD*	*Total equity BD*
At 31 December 2019	75,000,000	8,204,406	(182,911)	-	28,435,655	111,457,150
Profit for the year	-	-	-	-	10,165,430	10,165,430
Other comprehensive income	-	-	182,911	-	-	182,911
Total comprehensive income for the year	-	-	182,911	-	10,165,430	10,348,341
Transferred to statutory reserve (note 14)	-	1,016,543	-	-	(1,016,543)	-
At 31 December 2020	75,000,000	9,220,949	-	-	37,584,542	121,805,491
Profit and total comprehensive income for the year	-	-	-	-	11,088,555	11,088,555
Transferred to statutory reserve (note 14)	-	1,108,856	-	-	(1,108,856)	-
Share-based payment transactions (note 25)	-	-	-	125,084	-	125,084
At 31 December 2021	**75,000,000**	**10,329,805**	**-**	**125,084**	**47,564,241**	**133,019,130**

The attached notes 1 to 30 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	Notes	***2021*** ***BD***	*2020* *BD*
OPERATING ACTIVITIES			
Profit for the year		**11,088,555**	10,165,430
Adjustments for:			
Depreciation of property, plant and equipment	4	**17,194,488**	15,425,821
Amortisation of intangible assets	6	**5,864,607**	5,836,791
Depreciation of right-of-use assets	7	**5,628,536**	6,069,088
Amortisation of cost to obtain a contract	20	**2,188,963**	2,215,127
Share based payment expense	25	**125,084**	-
Provision for employees' end of service benefits	18	**406,537**	383,877
Gain on disposal of property, plant and equipment		**(902)**	-
Finance costs	24	**2,439,260**	3,139,490
Finance income		**(458,575)**	(561,002)
Fair value gain on derivatives		**(430,525)**	(102,408)
Recycling of loss on cash flow hedge to the statement of income		**-**	472,718
Provision for slow-moving inventories	9	**130,539**	61,053
Provision for expected credit losses	10	**1,889,875**	2,035,574
Operating profit before changes in working capital		**46,066,442**	45,141,559
Working capital changes:			
Inventories		**1,384,403**	2,069,097
Trade and other receivables		**(8,253,263)**	(1,230,897)
Trade and other payables		**(8,065,740)**	4,463,327
Employees' end of service benefits paid	18	**(153,417)**	(89,191)
Amounts due from related parties		**1,326,312**	(964,366)
Amounts due to related parties		**-**	(1,057,563)
Net cash flows from operating activities		**32,304,737**	48,331,966
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	4	**(3,806,212)**	(4,224,081)
Additions to capital work-in-progress	5	**(12,898,752)**	(14,750,790)
Proceeds from disposal of property, plant and equipment		**1,375**	-
Murabaha deposits (withdrawn) placed	12	**(11,000,000)**	8,000,000
Investment in an associate	8	**(1,885,250)**	-
Additions to intangible assets	6	**(776,690)**	(3,765,962)
Finance income received		**418,103**	561,002
Net cash flows used in investing activities		**(29,947,426)**	(14,179,831)
FINANCING ACTIVITIES			
Principal repayments of lease liabilities	17	**(5,609,656)**	(4,726,340)
Proceeds from Murabaha and Mudarabah facilities	29	**70,131,300**	-
Repayments of Murabaha and Mudarabah facilities	29	**(54,083,296)**	(28,214,691)
Finance costs paid		**(1,639,474)**	(2,239,614)
Net cash flows from (used in) financing activities		**8,798,874**	(35,180,645)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**11,156,185**	(1,028,510)
Cash and cash equivalents at 1 January		**19,441,611**	20,470,121
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	11	**30,597,796**	19,441,611

The attached notes 1 to 30 form part of these consolidated financial statements.

Non-cash transactions:

Movement in unpaid finance costs of BD 347,816 (2020: BD 270,724) has been excluded from the movement of trade and other payables.

Movement in finance income receivable of BD 40,472 (2020: nil) has been excluded from the movement of trade and other receivables.

1 CORPORATE INFORMATION

stc Bahrain B.S.C (c) ("the Company") and its subsidiary (collectively referred as "the Group"), is a closed shareholding company registered with the Ministry of Industry, Commerce and Tourism in the Kingdom of Bahrain and operates under commercial registration number 71117 obtained on 1 March 2009. The registered office of the Company is in the Kingdom of Bahrain.

The principal activities of the Group are to provide telecommunications services, sale and trade of information and communication equipment, repair of communication equipment, data processing, hosting and related activities throughout the Kingdom of Bahrain. The operations of the Company are regulated in the Kingdom of Bahrain through the Telecommunication Regulatory Authority under legislative Decree No. 48 of 2002.

The Company is a 100% subsidiary of Saudi Telecom Company ("the Parent Company"). The Ultimate Parent of the Company is the Public Investment Fund of the Kingdom of Saudi Arabia.

The consolidated financial statements were authorised for issue by the Board of Directors on …..............

The Group comprises of the Company and its following subsidiary:

		Ownership interest		
Relationship / name	***Country of incorporation***	***31 December 2021***	***31 December 2020***	***Principal activities***
Subsidiary				
stc Tech W.L.L. (CR -117921-1)	Kingdom of Bahrain	100%	100%	Selling and buying shares and securities for company's account only.
Associate				
STC GCC Cable Systems W.L.L. (CR - 145260-1) (note 8)	Kingdom of Bahrain	10%	-	Sale and installation of telecommunications equipment and construction of utility projects.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB). The consolidated financial statements have been presented in Bahrain Dinars which is the functional currency of the Company.

The consolidated financial statements have been prepared using the going concern assumption under the historical cost convention, except for derivatives which are carried at their fair values.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiary as at 31 December 2021. Control is achieved when the Group is exposed, 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. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Impact of Coronavirus (COVID-19)

2.3.1 Novel Coronavirus (COVID-19)

The Group's operations and financial results have not been significantly impacted by the COVID-19 outbreak, taking into consideration the lower impact of the pandemic over the operations and activities of companies operating in the telecom sector. However, the outbreak of COVID-19 continues to progress and evolve. The extent and duration of the outbreak and its related impact remain uncertain and dependent on future developments that cannot be accurately predicted at the date of approval of these consolidated financial statements for the year ended 31 December 2021. Such uncertainties include transmission rate of the coronavirus and the extent and effectiveness of containment actions taken. These developments could impact the Group's financial results, cash flows and financial condition going forward and the Group continues to monitor the impact of this pandemic on its business and financial results.

2.3.2 Government grants

As part of the stimulus package announced by the Government of Bahrain to counter the effects of COVID-19, the Group received government grants in respect of salaries of Bahraini employees during the year ended 31 December 2020 amounting to BD 793,019 which were netted off against staff expenses included under general and administrative expenses. There were no grants received during the year ended 31 December 2021.

2.4 Summary of significant accounting policies

New standards, interpretations and amendments adopted by the Group

The accounting and reporting policies adopted in the preparation of these consolidated financial statements are consistent with those used in the previous year, except for certain new standards and interpretations and amendments to standards and interpretations adopted by the Group during the year. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

- *Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform – Phase 2; and*
- *Amendments to IFRS 16: COVID-19 Related Rent Concessions for period beyond 30 June 2021.*

The adoption of the amendments to standards did not have any material impact on the Group's consolidated financial statements.

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements and which management anticipates to be reasonably applicable to the Group are disclosed below. The Group intends to adopt these standards, when they become effective:

- *Amendments to IAS 1: Classification of Liabilities as Current or Non-current;*
- *Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16;*
- *Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37;*
- *IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter;*
- *IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities;*
- *Definition of Accounting Estimates - Amendments to IAS 8; and*
- *Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2.*

The Group does not expect any material impact arising from the adoption of the above standards.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Property, plant and equipment
All property, plant and equipment are stated at historical cost less accumulated depreciation. Cost includes all costs directly attributable to bringing the asset to working condition for its intended use, including site dismantling and site restoration costs. Software that is integral to the functionality of the related equipment is capitalised as part of cost of that asset.

Depreciation commences when assets are available to use and is calculated using the straight-line method to write-off the cost of property, plant and equipment to their estimated residual values over their expected economic useful lives as follows:

Building	25 years
Furniture & Fixtures	Up to 5 years
Information technology equipment	Up to 5 years
Network equipment	Up to 15 years

Freehold land is not depreciated as it is deemed to have an infinite life.

Gains and losses resulting from the disposal/sale of property, plant and equipment are determined by comparing the proceeds with the book values of disposed-of/sale assets, and the gains or losses are included in the consolidated statement of income.

The asset's residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end. The effect of any adjustment to residual values, useful lives and methods is recognised prospectively as a change of accounting estimate.

Repairs and maintenance costs are expensed as incurred, except to the extent that they increase productivity or extend the useful life of an asset, in which case they are capitalised.

Capital work-in-progress
Capital work-in-progress represents expenditure incurred in setting up infrastructure and other network development costs, which are capitalised when they are available to be put into commercial use. Depreciation on capital work-in-progress is not charged until such time as these assets are completed, transferred to the respective category of property, plant and equipment and put into commercial use.

Right-of-use assets
The Group recognises a right of use asset and a lease liability at the lease commencement date. The right-of-use of asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentive received.

The right-of-use asset is subsequently depreciated using the straight line method from the commencement date to the earlier of the end of the useful life of the right of use asset or the end of the lease term. The estimated useful lives of right of use assets are determined on the same basis as the relevant asset categories in property, plant and equipment. In addition, the right of use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Right-of-use assets
Amortisation is calculated on a straight line basis over the following useful lives:

GSM sites	Up to 15 years
Shop rentals	Up to 3 years
IP transit	Up to 2 years
Others	Up to 5 years

Lease liabilities
Leases are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate. Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments; and
- lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the Effective Interest Rate Method ("EIR"). It is remeasured when the Group changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right of use asset, or is recorded in profit or loss if the carrying amount of the right of use asset has been reduced to zero.

Intangible assets
Intangible assets are recorded if it is probable that the future economic benefits that are attributable to the asset will flow to the Group and that the cost of such an asset can also be measured reliably.

Intangible assets acquired or developed by the Group are recognised at cost and are amortised starting from the date of service provisioning on a straight line basis over their remaining useful lives or statutory durations, whichever is shorter. Subsequent expenditure to the extent that it increases productivity or extends the useful life of an asset is capitalised.

In accordance with the Group's policy, the license fee is amortised using the straight line basis over the period of license, as the directors of the Group regard this period as the effective length of the license.

The asset's residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end. The effect of any adjustment to residual values, useful lives and methods is recognised prospectively as a change of accounting estimate.

Impairment of non-financial assets
The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or CGU’s fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Financial assets

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost and are measured using the EIR method less provision for impairment.

The Group's financial assets at amortised cost includes trade and other receivables, murabaha deposits and cash and cash equivalents. Trade receivables arise through provision of goods and services to customers. Murabaha deposits consists of fixed deposits held with Group's bankers with maturities of more than 90 days but less than 365 days. Cash and cash equivalents consist of cash on hand, balances with banks and murabaha deposits with maturities of 90 days or less from the acquisition date.

Impairment of financial and contract assets

The Group recognises an allowance for expected credit losses (ECLs) for all of its debt instruments not held at fair value through profit or loss and contract assets. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there have been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Investment in an associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries. The Group's investment in its associate are accounted for using the equity method. Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Investment in an associate (continued)

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is an objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss within ‘Share of profit of an associate’ in the statement of income. Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Financial liabilities

Financial liabilities are recognised initially at fair value and, in the case of Murabaha and Mudarabah facilities, net of directly attributable transaction costs.

The Group’s financial liabilities include trade payables, Murabaha and Mudarabah facilities, lease liabilities and derivative financial instruments which are subsequently measured at amortised cost using the EIR method except for derivative financial instruments which are subsequently measured at fair value.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which is determined on the weighted average basis, comprises expenditure incurred in the normal course of business in bringing inventories to their present location and condition. Net realisable value is the estimate of the selling price in the ordinary course of business, less selling expenses. Where necessary, provision is made for obsolete and slow-moving inventories.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if:

- there is a currently enforceable legal right to offset the recognized amounts; and
- there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Foreign currency transactions and balances

Balances of monetary assets and liabilities denominated in foreign currencies of specific amounts are translated using rates of exchange prevailing at the date of the consolidated statement of financial position. Gains and losses arising on the settlement of foreign currency transactions, and unrealised gains and losses resulting from the translation of foreign currency denominated monetary balances to Bahraini Dinar are recorded in the consolidated statement of income.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation in future and the amount of the obligations can be reliably estimated.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Contingent liabilities

A contingent liability is a possible obligation which may arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group, or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability. In this case the Group does not recognize the contingent liabilities but discloses them in the consolidated financial statements.

Revenue recognition

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

Telecommunication services

Telecommunication services include voice, data and text services. The Group recognises revenue as and when these services are provided (i.e. actual usage by the customer). The revenue for these services is reflected as mobile services revenue, enterprise & wholesale revenue, data subscription and transit revenues in note 20.

Handsets and other devices

The Group recognises revenue when the control of the device is transferred to the customer. This usually occurs at the contract inception when the customer takes the possession of the device. Further, any up front revenue more than the billing is recognised as unbilled instalments under trade and other receivables.

Information and Communication Technology (“ICT”) revenue

ICT revenue includes sale of hardware and provision of services. Hardware revenue is recognised when delivered to the customer whereas service revenue is recognised based on percentage of completion as of reporting date.

Bundled packages

Arrangements involving multiple products and services are separated into individual items and revenue is recognised on the basis of fair value (stand-alone selling prices) of the individual items by allocating the total arrangement consideration to the individual items on the basis of the relative value of the selling prices of the individual items. Items are separable if they are of separate value to the customer.

Activation fees

Activation fees are amortised over the average customer life or contract period, as the case may be.

Termination penalty

Termination penalty is recognised as income when the consideration in cash is collected from the customer.

Principal vs agent

The Group has determined that for most of goods and services provided to the customer, it acts as a principal as it controls the goods and services before they are transferred to customers. However, the Group provides certain value added services in which it acts as an agent. In cases where Group acts as an agent, it only recognises its share of revenue.

Costs to obtain the contracts

The Group incurs incremental costs in acquiring contracts with customers which are deferred and amortized over the average customer life or contract period, as the case may be.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Expenses

Expenses comprise cost of sales, general and administrative expenses and selling and distribution expenses. Cost of sales is expensed in the period in which the related revenue is recognised. General and administrative expenses and selling and distribution expenses are recognised in the period in which they are incurred.

Employee benefits

The Group provides end of service benefits to its non-Bahraini employees in accordance with the Bahraini Labour Law. The entitlement to these benefits is based upon the employees' final salary and length of service. The expected costs of these benefits are accrued over their period of employment.

The Group also makes contributions to the Social Insurance Organisation (SIO) and the Group’s obligations are limited to these contributions, which are expensed when due.

Share-based payments

The Group's executive employees receive share based remuneration. Under the terms of the incentive program, eligible employees of the Group are entitled to receive Parent Company's shares. The cost of these equity settled transactions is determined by the fair value of equity instrument at the grant date. The grant date is the date on which the Company and the employee agree on the share-based agreement, so that, a common understanding of the terms and conditions of the agreement exists between the parties.

Share-based payment expense is included as part of employees benefits expense over the period in which the service and the performance conditions are fulfilled (the vesting period), with the corresponding amount recorded under other reserve within equity. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company’s best estimate of the number of shares that will ultimately vest. The expense or credit in the interim condensed consolidated statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Share capital

Financial instruments issued by the Group are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Group's ordinary shares are classified as equity instruments.

Fair value measurement

The Group measures financial instruments at fair value at each reporting date.

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Fair value measurement (continued)

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

Level 2 : Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 : Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Derivative financial instruments and hedge accounting

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment. At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

A hedging relationship qualifies for hedge accounting if it meets the effectiveness requirements. The effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of income. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item. The amount accumulated in other comprehensive income is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in other comprehensive income must remain in accumulated other comprehensive income if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated other comprehensive income must be accounted for depending on the nature of the underlying transaction as described above.

3 SIGNIFICANT JUDGEMENTS, ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosures of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements which have the most significant effect on the amounts recognised in the consolidated financial statements.

Going concern

The management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue the business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

Determining the lease term of contracts with renewal and termination options – the Group as a lessee

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group's lease contracts include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

The Group has not included optional renewal period in the lease term as it is not reasonably certain that the lease contract will be renewed after expiry of the original lease terms. Furthermore, the periods covered by termination options are included as part of the lease term as it is reasonably certain that termination option will not be exercised.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the date of the statement of financial position, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Economic useful lives of intangible assets, property, plant and equipment and right-of-use assets

Intangible assets, property, plant and equipment and right-of-use assets are amortised or depreciated over their useful lives. Useful lives are based on management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefit to the Group. Changes to estimates can result in significant variations in the carrying value and amounts charged to the consolidated statement of income in specific periods.

Provision for expected credit losses of trade receivables and contract assets

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by customer types).

3 SIGNIFICANT JUDGEMENTS, ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)

Provision for expected credit losses of trade receivables and contract assets (continued)

The provision matrix is initially based on the Group's historical observed default rates. The Group calibrated the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e. gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the consumer sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

At 31 December 2021, gross trade receivables and contract assets were BD 57,124,944 (2020: BD 52,841,839), and the allowance for expected credit losses of trade receivables was BD 14,394,238 (2020: BD 12,504,363).

Impairment of inventories

Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete or if their selling prices have declined, an estimate is made of their net realisable values. For individually significant amounts this estimation is performed on an individual basis. Items which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of ageing or obsolescence, based on anticipated selling prices.

At 31 December 2021, gross inventories were BD 4,217,721 (2020: BD 5,602,124) with allowance for slow-moving and obsolete inventories of BD 380,627 (2020: BD 250,088). Any difference between the amounts actually realised in future periods and the amounts expected will be recognised in the consolidated statement of comprehensive income.

Impairment of intangible assets, property, plant and equipment and right-of-use assets

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the assets' recoverable amount. An asset's recoverable amount is higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessment of the time value of money and the risks specific to the assets. Management does not believe there is any impairment of intangible assets, property, plant and equipment and right-of-use assets as of 31 December 2021 and 31 December 2020.

Leases - estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

4 PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	*Building*	*Furniture & Fixtures*	*Information Technology Equipment*	*Network Equipment*	*Total*
	BD	*BD*	*BD*	*BD*	*BD*	*BD*
Cost						
At 31 December 2019	6,127,280	9,719,977	6,297,004	39,118,847	131,296,230	192,559,338
Reclassification	-	432,649	(436,429)	3,780	-	-
Additions during the year	-	-	153,388	1,120,412	3,485,808	4,759,608
Transferred from capital work-in-progress (Note 5)	-	-	241,740	2,283,342	4,242,457	6,767,539
Cost adjustment*	-	-	-	(263,336)	(272,191)	(535,527)
Disposals	-	-	-	(9,820)	-	(9,820)
Written-off	-	-	-	(1,773,950)	-	(1,773,950)
At 31 December 2020	6,127,280	10,152,626	6,255,703	40,479,275	138,752,304	201,767,188
Additions during the year	-	19,925	161,154	748,866	2,876,267	3,806,212
Transferred from capital work-in-progress (Note 5)	-	11,492	338,021	1,697,815	9,918,056	11,965,384
Disposals	-	-	-	-	(40,350)	(40,350)
Written-off	-	-	-	(15,928)	(559,059)	(574,987)
At 31 December 2021	**6,127,280**	**10,184,043**	**6,754,878**	**42,910,028**	**150,947,218**	**216,923,447**

4 PROPERTY, PLANT AND EQUIPMENT (continued)

	Freehold Land	*Building*	*Furniture & Fixtures*	*Information Technology Equipment*	*Network Equipment*	*Total*
	BD	*BD*	*BD*	*BD*	*BD*	*BD*
Accumulated depreciation						
At 31 December 2019	-	3,024,646	5,033,355	31,759,199	78,047,294	117,864,494
Charge for the year	-	398,439	374,483	3,720,357	11,170,261	15,663,540
Reclassification	-	101,318	(104,288)	2,970	-	-
On cost adjustment*	-	-	-	(100,977)	(136,742)	(237,719)
On disposals	-	-	-	(9,820)	-	(9,820)
Written-off	-	-	-	(1,773,950)	-	(1,773,950)
At 31 December 2020	-	3,524,403	5,303,550	33,597,779	89,080,813	131,506,545
Charge for the year	-	418,118	408,647	3,218,900	13,148,823	17,194,488
On disposals	-	-	-	-	(39,877)	(39,877)
Written-off	-	-	-	(15,928)	(559,059)	(574,987)
At 31 December 2021	-	3,942,521	5,712,197	36,800,751	101,630,700	148,086,169
Net book value						
At 31 December 2021	**6,127,280**	**6,241,522**	**1,042,681**	**6,109,277**	**49,316,518**	**68,837,278**
At 31 December 2020	6,127,280	6,628,223	952,153	6,881,496	49,671,491	70,260,643

*During 2020, the Group had made settlements with counterparties, resulting in adjustments amounting to BD 535,527 in cost and BD 237,719 in depreciation expense and accumulated depreciation. There are no adjustments during the year ended 31 December 2021.

5 CAPITAL WORK-IN-PROGRESS

	2021 BD	*2020 BD*
Opening balance	**12,426,187**	4,442,936
Additions during the year	**12,898,752**	14,750,790
Transferred to property, plant and equipment (Note 4)	**(11,965,384)**	(6,767,539)
Closing balance	**13,359,555**	12,426,187

Capital work-in-progress represents amounts incurred towards infrastructure and other network development costs.

6 INTANGIBLE ASSETS

	Mobile license & spectrum fees BD	*Other intangible assets BD*	*Total BD*
Cost			
At 31 December 2019	108,656,984	15,890,989	124,547,973
Additions during the year	1,406,447	2,359,515	3,765,962
At 31 December 2020	110,063,431	18,250,504	128,313,935
Additions during the year	-	776,690	776,690
At 31 December 2021	**110,063,431**	**19,027,194**	**129,090,625**
Accumulated amortisation			
At 31 December 2019	35,013,020	2,029,695	37,042,715
Amortisation for the year	4,438,201	1,398,590	5,836,791
At 31 December 2020	39,451,221	3,428,285	42,879,506
Amortisation for the year	4,260,353	1,604,254	5,864,607
At 31 December 2021	**43,711,574**	**5,032,539**	**48,744,113**
Net carrying value			
At 31 December 2021	**66,351,857**	**13,994,655**	**80,346,512**
At 31 December 2020	70,612,210	14,822,219	85,434,429

License fees represent the amount paid to the Telecommunication Regulatory Authority (“the TRA") to obtain a mobile operating license in the Kingdom of Bahrain. The license was issued on 1 March 2009 and is valid for twenty five years up to 2034, renewable after fifteen years at the option of the Group subject to compliance with regulatory requirements. During 2013, the Group was awarded an additional spectrum and extension of the original mobile license by the TRA to be valid until 2038. Furthermore, the Group entered into an agreement with the TRA for an additional spectrum, required to introduce additional products and services, which was awarded during 2019 and is valid until 2034.

Other intangible assets include contractual intangible assets such as indefeasible rights of use (IRU) and other IT licenses.

7 RIGHT-OF-USE ASSETS

	GSM Sites	*Shop Rentals*	*IP Transit*	*Car Park Rentals and others*	*Total*
	BD	*BD*	*BD*	*BD*	*BD*
Cost					
As at 1 January 2020	27,291,128	1,421,622	3,626,666	1,142,308	33,481,724
Additions / renewals	9,753,245	582,497	2,576,754	-	12,912,496
Termination	(22,839)	-	-	-	(22,839)
Amendments / adjustments	(186,881)	-	-	-	(186,881)
As at 31 December 2020	36,834,653	2,004,119	6,203,420	1,142,308	46,184,500
Additions / renewals	3,265,473	407,531	-	16,464	3,689,468
Termination	(499,299)	-	-	-	(499,299)
Amendments / adjustments	315,405	45,734	-	-	361,139
Balance at 31 December 2021	**39,916,232**	**2,457,384**	**6,203,420**	**1,158,772**	**49,735,808**
Accumulated depreciation					
As at 1 January 2020	8,461,103	876,198	2,687,799	765,803	12,790,903
Charge for the year 2020	3,975,827	461,345	1,514,486	117,430	6,069,088
Balance at 31 December 2020	12,436,930	1,337,543	4,202,285	883,233	18,859,991
Charge for the year 2021	3,743,994	468,073	1,288,377	128,092	5,628,536
Balance at 31 December 2021	**16,180,924**	**1,805,616**	**5,490,662**	**1,011,325**	**24,488,527**
Net carrying value at 31 December 2021	**23,735,308**	**651,768**	**712,758**	**147,447**	**25,247,281**
At 31 December 2020	24,397,723	666,576	2,001,135	259,075	27,324,509

8 INVESTMENT IN AN ASSOCIATE

The Group acquired 10% ownership in STC GCC Cable Systems W.L.L., an entity incorporated in the Kingdom of Bahrain and established to engage in sale and installation of telecommunications equipment and construction of utility projects.

By virtue of the Group's shareholding, representation on the investee's board of directors and participation in its policy making process, management concluded that the Group has significant influence over the investee. Accordingly, the Group has classified the investee as an associate.

The associate has not commenced commercial operations during the year. The summarised financial information of the associate as of 31 December 2021 is as follows:

	2021
	BD
Non-current asset	
Capital work-in-progress	**13,097,997**
Current asset	
Bank balance	**5,754,502**
Equity	**18,852,499**
The Group's share in equity - 10% and the Group's carrying amount of the investment	**1,885,250**

9 INVENTORIES

	2021	*2020*
	BD	*BD*
Inventories	**4,217,721**	5,602,124
Allowance for slow-moving and obsolete inventories	**(380,627)**	(250,088)
	3,837,094	5,352,036

The inventories represent handsets, accessories, routers and SIM cards used in sales and promotions.

The movement in provision for slow-moving inventories is as follows:

	2021	*2020*
	BD	*BD*
Opening balance	**250,088**	189,035
Provision made for the year	**130,539**	61,053
Closing balance	**380,627**	250,088

10 TRADE AND OTHER RECEIVABLES

	2021	*2020*
	BD	*BD*
Trade receivables	**39,177,869**	36,180,755
Unbilled instalments (note 20 - contract assets)	**17,947,075**	16,661,084
Allowance for expected credit losses	**(14,394,238)**	(12,504,363)
	42,730,706	40,337,476
Prepayments and other receivables	**1,781,811**	1,262,572
Advances to suppliers	**2,831,396**	1,708,227
Cost to obtain a contract (note 20)	**10,153,351**	7,785,129
Amortisation of cost to obtain a contract	**(8,602,461)**	(6,413,498)
	48,894,803	44,679,906
Less: Non-current portion	**(4,351,840)**	(3,850,595)
	44,542,963	40,829,311

Trade receivables are generally on 30 days' credit terms.

Unbilled instalments consist of the amount to be billed to customers in accordance with the terms of contracts.

10 TRADE AND OTHER RECEIVABLES (continued)

For trade receivables (excluding wholesale receivables), the Group has applied the simplified approach under IFRS 9 to measure the expected credit loss ("ECL") based on the lifetime expected loss. To calculate ECL, the Group measures the expected credit loss ("ECL") based on the Probability of Default ("PD") over the next 12 months and on historical Loss Given Default ("LGD") arrived at after deducting Recovery Rate. The PD is based on the payment profiles of sales over a period of 48 months before 31 December 2021. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Company has applied an economic adjustment by using GDP growth as the relevant factor. The allowance for expect credit losses as at 31 December 2021 for trade receivables (excluding wholesale receivables) amounted to BD 12,513,783 (2020: BD 10,454,068).

For wholesale receivables, the Group has calculated credit risk at a counterparty level. For wholesale receivables, the balances are settled on a net basis and can vary from month to month depending on the inbound and outbound traffic. The Company has performed an assessment of the counterparties of wholesale receivables and determined the allowance for expected credit losses amounting to BD 1,880,455 (2020: BD 2,050,295).

The Group also has receivables due from the Government and the likelihood of sovereign default is remote unless there is a bill dispute raised by them. As a result, the identified impairment loss was immaterial.

The movement in the allowance for expected credit losses is as follows:

	2021	*2020*
	BD	*BD*
Opening balance	**12,504,363**	10,839,151
Provision made for the year	**1,889,875**	2,035,574
Bad debts written off	**-**	(370,362)
Closing balance	**14,394,238**	12,504,363

Set out below is information about the credit risk exposure of the Group's trade receivables and unbilled instalments:

31 December 2021

i) Retail receivables

Category	***Current***	***Past due but not impaired***	***Impaired***	***Gross***	***Provision***	***Net***
Individuals	**20,064,582**	**1,221,588**	**12,651,107**	**33,937,277**	**(10,346,172)**	**23,591,105**
SME	**1,388,568**	**203,060**	**1,827,942**	**3,419,570**	**(1,492,995)**	**1,926,575**
Enterprise	**1,287,071**	**1,608,868**	**815,119**	**3,711,058**	**(590,083)**	**3,120,975**
VIP	**379,619**	**54,776**	**119,322**	**553,717**	**(84,533)**	**469,184**
	23,119,840	**3,088,292**	**15,413,490**	**41,621,622**	**(12,513,783)**	**29,107,839**
ii) Wholesale and other receivables	**200,721**	**11,260,979**	**4,041,622**	**15,503,322**	**(1,880,455)**	**13,622,867**
Total	**23,320,561**	**14,349,271**	**19,455,112**	**57,124,944**	**(14,394,238)**	**42,730,706**

10 TRADE AND OTHER RECEIVABLES (continued)

31 December 2020
i) Retail receivables

Category	*Current*	*Past due but not impaired*	*Impaired*	*Gross*	*Provision*	*Net*
Individuals	19,537,993	1,227,070	12,091,942	32,857,005	(8,420,590)	24,436,415
SME	859,476	102,400	1,381,933	2,343,809	(1,247,490)	1,096,319
Enterprise	1,080,111	1,763,570	893,498	3,737,179	(727,005)	3,010,174
VIP	324,426	49,580	87,543	461,549	(58,983)	402,566
	21,802,006	3,142,620	14,454,916	39,399,542	(10,454,068)	28,945,474
ii) Wholesale and other receivables	2,218,952	7,959,151	3,264,194	13,442,297	(2,050,295)	11,392,002
Total	24,020,958	11,101,771	17,719,110	52,841,839	(12,504,363)	40,337,476

11 CASH AND CASH EQUIVALENTS

	2021 ***BD***	*2020* *BD*
Savings and call account balances with banks	**24,061,521**	14,498,947
Current account balances with banks	**4,393,263**	2,590,171
Cash on hand and in transit	**2,143,012**	2,352,493
	30,597,796	19,441,611

The savings accounts bear profit rates up to 3.35% (2020: up to 3.35%) and the current account balances with banks are non-profit bearing.

12 MURABAHA DEPOSITS

The deposits are held with financial institutions in the Kingdom of Bahrain and are denominated in Bahraini Dinars. The maturity dates of these deposits range between March 2022 to September 2022 and carry profit rates ranging between 2.3% to 3.1% (2020: nil).

13 SHARE CAPITAL

	2021 ***BD***	*2020* *BD*
Authorised		
2,000,000,000 Ordinary shares with a nominal value of 100 fils each	**200,000,000**	200,000,000
Issued and fully paid-up		
750,000,000 Ordinary shares with a nominal value of 100 fils each	**75,000,000**	75,000,000

13 SHARE CAPITAL (continued)

	Number of shares	*Share Capital*	*Percentage of ownership interest*
Saudi Telecom Company	742,500,000	74,250,000	99%
stc Investment Holding (wholly owned subsidiary of Saudi Telecom Company)	7,500,000	750,000	1%
	750,000,000	**75,000,000**	100%

14 STATUTORY RESERVE

Under the provision of the Bahrain Commercial Companies Law, an amount equivalent to 10% of the Group's net profit before appropriations is required to be transferred to a non-distributable reserve account until such time a minimum of 50% of the issued share capital is set aside. During the year, BD 1,108,856 has been transferred to the statutory reserve (2020: BD 1,016,543). The reserve can not be utilised for the purpose of distribution, except in such circumstances as stipulated in the Bahraini Commercial Companies Law.

15 DERIVATIVES

The Group has a Profit Rate Swap agreement and a zero-cost collar agreement with financial institutions in the Kingdom of Bahrain. Zero-cost collar agreement was initially designated as a cash flow hedge as the hedge met the critical terms match test and was considered effective. During the year ended 31 December 2020, management reassessed the hedge effectiveness and concluded that hedge is no longer effective due to significant decrease in LIBOR rates. As a result, management recycled the loss on the cash flow hedge of BD 472,718 to the consolidated statement of income during the year ended 31 December 2020.

The fair values of derivatives are determined based on the mark-to-market valuations performed as of the reporting date and are summarised below together with their notional amounts:

	31 December 2021		*31 December 2020*	
	Notional amount BD	***Negative fair value BD***	*Notional amount BD*	*Negative fair value BD*
Derivatives held at fair value through profit or loss				
Profit rate SWAP	**-**	**-**	4,706,806	25,567
Zero cost collar	**11,311,500**	**67,760**	22,623,000	472,718
Total	**11,311,500**	**67,760**	27,329,806	498,285

The fair values of open positions of the derivatives are presented in the consolidated statement of financial position as follows:

	2021 BD	*2020 BD*
Non-current portion	**-**	236,359
Current portion	**67,760**	261,926
Total	**67,760**	498,285

16 MURABAHA AND MUDARABAH FACILITIES

	Last instalment	Note	2021 BD	2020 BD
Murabaha facilities				
Building Murabaha facility	December 2021	(a)	**-**	2,696,250
Syndicated Murabaha facility	September 2021	(b)	**-**	50,714,318
Murabaha facility	August 2026	(c)	**69,967,660**	-
Mudarabah facilities				
Al Salam Bank	May 2026	(d)	**1,722,841**	2,032,808
			71,690,501	55,443,376
Current portion of Murabaha and Mudarabah facilities			**(307,625)**	(28,194,990)
Non-current portion of Murabaha and Mudarabah facilities			**71,382,876**	27,248,386

a) This Murabaha facility was repaid in December 2021 and was fully secured against the land and building where the Group's headquarters are located. This facility carried profit rate at 1 month BHIBOR plus 0.25% margin.

b) The Group entered into a financing arrangement, for an unsecured Murabaha facility of BD 84.8 million (USD 225 million) with its bankers during June 2017. The facility ranks pari-passu with the claims of other unsecured and unsubordinated creditors of the Group. The original maturity date of the facility was May 2022. However, the Group made an early settlement of the facility during the year ended 31 December 2021. This facility carried profit rate at 3 months LIBOR plus 1.6% margin.

c) The Group entered into a financing arrangement, for an unsecured Murabaha facility of BD 70.1 million (USD 186 million) with its bankers during the year ended 31 December 2021. The facility ranks pari-passu with the claims of other unsecured and unsubordinated creditors of the Group. The Parent Company has provided a corporate guarantee to lenders in respect of this facility (note 25). The facility is repayable in a single instalment due in August 2026. This facility carries profit rate at 6 months LIBOR plus 0.15% margin.

d) During 2018, the Group had entered into a financing arrangement for a Mudarabah facility of BD 2.5 million with Al Salam Bank over a tenure of 7 years ending in November 2025. During the period ended 30 September 2020, repayment of 6 months' instalments were postponed and the revised final settlement was agreed in May 2026. The facility ranks pari passu with the claims of other unsecured and unsubordinated creditors of the Group. This arrangement has been facilitated by Tamkeen which bears a portion of the profit rate. This facility carries annual profit rate at 2.1%.

17 LEASE LIABILITIES

Set out below are the carrying amounts of lease liabilities and the movements during the year.

	2021 BD	2020 BD
As at 1 January	**35,828,909**	26,809,661
Additions - net	**3,551,308**	12,702,776
Accretion of interest (note 24)	**948,481**	1,042,812
Payments	**(5,609,656)**	(4,726,340)
As at 31 December	**34,719,042**	35,828,909

17 LEASE LIABILITIES (continued)

	2021	*2020*
	BD	*BD*
Lease liabilities	**34,719,042**	35,828,909
Less: Current lease liabilities*	**(14,739,631)**	(14,400,161)
Non-current lease liabilities	**19,979,411**	21,428,748

*The current lease liabilities include amounts due but not paid to the parent company in respect of the IP transit rentals amounting to BD 5,587,563 (2020: BD 4,739,200) (Note 25).

	2021	*2020*
	BD	*BD*
Maturity analysis - contractual undiscounted cash flows		
Less than one year	**15,260,754**	14,804,644
One to five years	**14,594,172**	14,810,571
More than five years	**8,055,451**	10,080,378
Total undiscounted lease liabilities	**37,910,377**	39,695,593

18 EMPLOYEES' END OF SERVICE BENEFITS

Local employees

The contributions made by the Group towards the pension scheme for Bahraini nationals administered by the Social Insurance Organization in the Kingdom of Bahrain for the year ended 31 December 2021 amounted to BD 450,640 (2020: BD 452,225).

Expatriate employees

Movements in the provision for end of service benefits during the year are as follows:

	2021	*2020*
	BD	*BD*
Balance at the beginning of the year	**1,498,511**	1,203,825
Provided during the year	**406,537**	383,877
End of service benefits paid	**(153,417)**	(89,191)
Balance at the end of the year	**1,751,631**	1,498,511

19 TRADE AND OTHER PAYABLES

	2021	*2020*
	BD	*BD*
Trade payables	**8,851,295**	11,656,684
Accrued operating expenses	**20,065,366**	24,036,138
Unearned revenue (Note 20 - contract liabilities)	**4,008,333**	2,767,195
Capital expenditures payable to contractors	**7,332,361**	10,373,320
Post-paid subscription received in advance	**5,260,104**	5,084,919
Staff accruals	**1,484,221**	1,496,980
	47,001,680	55,415,236
Less: Non-current portion	**(2,966,103)**	(5,233,154)
	44,035,577	50,182,082

20 REVENUE

	2021	*2020*
	BD	*BD*
Mobile services revenue	**51,356,847**	55,281,618
Enterprise & wholesale revenue	**33,083,552**	33,771,117
Data subscription	**19,688,735**	18,997,757
Handsets and other devices	**26,025,347**	27,591,552
Transit revenues	**29,869,412**	26,079,609
ICT revenue	**8,202,250**	5,318,568
	168,226,143	167,040,221

	2021	*2020*
	BD	*BD*
Timing of revenue recognition		
Products and services transferred at a point in time	**26,025,347**	27,591,552
Products and services transferred over time	**142,200,796**	139,448,669
	168,226,143	167,040,221

The Group's revenue is substantially generated within the Kingdom of Bahrain.

Contract assets and contract liabilities

Contract assets primarily relate to work completed but not billed at the reporting date in relation to mobile services, data subscription and handsets and other devices. Contract assets are transferred to receivables when the rights become unconditional. Contract liabilities primarily relate to advances received from customers for which revenue is recognised on completion of the contract obligation.

The Group expects to recognise revenue related to the contract liabilities within one year from the reporting date (2020: within one year). Revenue recognised that was included in the contract liabilities at the beginning of the year amounting to BD 3,377,124 (2020: BD 3,458,169).

Transaction price allocated to the remaining performance obligations:

The following table includes revenue expected to be recognised in the future related to performance obligations that are unsatisfied (or partially satisfied) at the reporting date.

	2021	*2020*
	BD	*BD*
Pre-paid revenue	**3,871,656**	2,202,764
Post-paid revenue	**136,677**	564,431
	4,008,333	2,767,195

Cost to obtain a contract

Management expects that the incremental costs incurred to obtain customer contracts are recoverable. The Group has therefore capitalised them as contract costs in the amount BD 10,153,351 (2020: BD 7,785,129).

20 REVENUE (continued)

Cost to obtain a contract (continued)

The contract costs are amortised over average customer life or contract period. During the year ended 31 December 2021, the amount of amortisation was BD 2,188,963 (2020: BD 2,215,127) and there was no impairment loss in relation to the costs capitalised.

21 COST OF SALES

	2021 BD	*2020 BD*
Interconnection and roaming costs	**37,208,163**	35,310,224
Handsets and SIM card starter packs	**24,816,256**	26,346,623
Leased lines	**13,781,193**	14,025,385
ICT costs	**4,870,154**	3,017,668
Content and Value Added Services (VAS)	**2,582,366**	2,881,230
	83,258,132	81,581,130

22 GENERAL AND ADMINISTRATION EXPENSES

	2021 BD	*2020 BD*
Staff expenses	**14,947,660**	13,705,293
Managed services and outsourcing expenses	**9,015,224**	9,467,821
TRA fees	**3,074,430**	4,912,503
Maintenance costs	**3,470,011**	3,548,742
Allowance for expected credit losses for trade receivables (note 10)	**1,889,875**	2,035,574
Consultancy and professional charges	**1,083,658**	1,765,867
Billing and collection activities	**1,423,656**	1,437,828
Corporate social responsibility	**1,058,811**	1,066,018
Utilities, rent of equipment, properties and motor vehicles	**758,212**	714,702
Advertising expenses - net	**1,731,486**	613,176
Office management expenses (note 25)	**150,196**	157,601
Training, travel and hospitality expenses	**239,441**	154,959
Allowance for slow-moving and obsolete inventories (note 9)	**130,539**	61,053
	38,973,199	39,641,137

23 SELLING AND DISTRIBUTION EXPENSES

	2021 BD	*2020 BD*
Re-charge distribution discount	**1,227,189**	1,499,854
Sales activation and commission expenses	**816,608**	1,238,037
Promotional expenses	**403,482**	401,171
	2,447,279	3,139,062

24 FINANCE COST

	2021	*2020*
	BD	*BD*
Profit on Murabaha and Mudarabah facilities	**1,291,658**	1,968,890
Interest on lease liabilities (note 17)	**948,481**	1,042,812
Amortisation of transaction cost (note 29)	**199,121**	127,788
	2,439,260	3,139,490

25 TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include entities over which the Group exercises significant influence, parent company, shareholders, associate, directors and executive management of the Group and businesses under their control. The Group's transactions with related parties are approved by the management.

A summary of related party transactions is as follows:

Transaction type	*Name of the related party*	*Nature of relationship*	***2021 BD***	*2020 BD*
Trade revenue	stc Kingdom of Saudi Arabia	Parent company	**12,437,432**	11,497,069
Trade expenses	stc Kingdom of Saudi Arabia	Parent company	**10,838,159**	11,602,048
Trade expenses	Bahrain Channels	Entity under common control	**3,842,111**	4,809,598
Trade revenue	stc Kuwait	Entity under common control	**1,431,306**	785,203
Trade expenses	stc Kuwait	Entity under common control	**264,194**	210,911
Staff and administration costs	stc Kingdom of Saudi Arabia	Parent company	**519,292**	500,153
Staff and administration costs	Bahrain Channels	Entity under common control	**1,257,725**	1,038,721

	2021	*2020*
	BD	*BD*
Key management personnel*		
Short-term benefits and remunerations	**2,433,154**	2,277,893
Shared-based payments	**125,084**	-
Provision for leaves and end of service benefits	**62,063**	31,627
	2,620,301	2,309,520

* Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. This includes BD 150,196 (2020: BD 157,601) of Board remuneration in the form of annual compensation, attendance allowances for board meetings and related travel expenses.

25 TRANSACTIONS AND BALANCES WITH RELATED PARTIES (continued)

Balances of the related parties included in the consolidated statement of financial position as at 31 December 2021 and as at 31 December 2020 are as follows:

	2021	*2020*
	BD	*BD*
Amounts due from related parties		
Amounts due from Parent Company, net*	**1,459,094**	1,949,575
Amounts due from STC Kuwait, net	**1,736,587**	689,326
Amounts due from Bahrain Channels, net	**1,048,494**	2,931,586
	4,244,175	5,570,487

The amounts due from related parties are non-profit bearing and arise from transactions in the normal course of business.

*In addition to the above related party balances, amounts due but not paid to the parent company in respect of the IP transit rentals as of 31 December 2021 amounted to BD 5,587,563 (2020: 4,739,200) are included in current lease liabilities (Note 17).

The Parent Company has provided corporate guarantee in respect of a Murabaha facility [note 16 (c)].

26 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit attributable to the shareholders by the weighted average number of ordinary shares in issue during the year.

	2021	*2020*
Net profit attributable to the shareholders (BD)	**11,088,555**	10,165,430
Number of ordinary shares issued	**750,000,000**	750,000,000
Basic earnings per share	**14.785 fils**	13.554 fils

There are no potentially dilutive ordinary shares at 31 December 2021 (2020: nil).

27 COMMITMENTS

a) Capital commitments

The Group enters into commitments during the ordinary course of business for major capital expenditures, primarily in connection with its network expansion programs. Outstanding capital expenditure commitments amounted to BD 8,380,226 as at 31 December 2021 (2020: BD 9,935,901).

b) Letter of credit commitments

Letters of credit other than for capital expenditure at the end of the year amounted to BD 4,901,650 (2020: BD 1,508,200).

27 COMMITMENTS (continued)

c) Information and Communications Technology (ICT) Investment Licensing Commitment

As part of mobile operating licensing condition, the Group is required to establish an ICT Fund amounting to USD 300,000,000 (BD 113,116,500). As of 31 December 2021, the Group has established fund amounting to BD 50,000,000 (BD 18,852,499) (2020: nil) (note 8). There is no specific timeline set by the regulator for establishment of the fund. Management believes that the above mentioned commitment has no impact on the consolidated financial statements of the Group for the year ended 31 December 2021.

28 CONTINGENT LIABILITIES

Bank guarantees

Guarantees have been issued by banks on behalf of the Group in the normal course of business aggregating to BD 8,107,112 (2020: BD 1,272,289).

29 RISK MANAGEMENT

The main risks arising from the Group's financial instruments are credit, liquidity and profit rate risks. The Company's Board of Directors reviews and agrees policies for managing each of these risks which are summarised below:

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group is exposed to credit risk on its bank balances, trade receivables and amounts due from related parties. There is no significant concentration of trade receivables due to the Company's diversified customer base. With respect to bank balances, the Group seeks to limit its credit risk by dealing with reputable financial institutions. For balances due from related parties, the Group has not experienced any default historically and forward looking factors do not indicate any default. The risk management policy relating to trade receivables is provided in Note 10.

Profit rate risk

Profit rate risk is the risk that the value of financial assets and liabilities will fluctuate due to changes in market profit rates. The Group's Murabaha facilities bear profit rates which are linked to BIBOR and LIBOR which fluctuates frequently. Also, the Group earns profit on saving and call accounts balances with banks based on variable rates. In the opinion of the management, there is no significant profit rate risk on Group's other assets and liabilities.

		Impact on equity/profit	
Description	*Change*	***2021 BD***	*2020 BD*
Saving and call account balance with banks	+/-0.50%	**+/- 120,308**	+/- 72,495
Murabaha and Mudaraba facilities	+/-0.50%	**+/- 358,453**	+/- 277,217

29 RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with its financial liabilities. The Group limits its liquidity risk by monitoring the liquidity requirements on a regular basis to help ensure that sufficient funds are available to meet all liabilities as and when they fall due. The table below summarises the maturities of the Group's undiscounted financial liabilities at 31 December, based on contractual payment dates and current market profit rates. The maturity analysis of lease liabilities is disclosed in note 17.

2021	***Less than 3 months BD***	***3 to 12 months BD***	***1 to 2 years BD***	***2 to 5 years BD***	***More than 5 years BD***	***Total BD***
Derivatives at fair value	**-**	**67,760**	**-**	**-**	**-**	**67,760**
Murabaha and Mudaraba facilities	**250,641**	**756,707**	**1,025,042**	**72,908,130**	**-**	**74,940,520**
Trade payables	**-**	**8,851,295**	**-**	**-**	**-**	**8,851,295**
	250,641	**9,675,762**	**1,025,042**	**72,908,130**	**-**	**83,859,575**

2020	*Less than 3 months BD*	*3 to 12 months BD*	*1 to 2 years BD*	*2 to 5 years BD*	*More than 5 years BD*	*Total BD*
Derivatives at fair value	59,090	202,836	236,359	-	-	498,285
Murabaha and Mudaraba facilities	6,684,318	22,641,133	25,981,538	1,237,481	185,680	56,730,150
Trade payables	-	11,656,684	-	-	-	11,656,684
	6,743,408	34,500,653	26,217,897	1,237,481	185,680	68,885,119

Changes in liabilities arising from financing activities

	As at 1 January 2021 BD	***Receipts BD***	***Payments BD***	***Interest accretion BD***	***Others BD***	***As at 31 December 2021 BD***
Murabaha and Mudaraba facilities	**55,443,376**	**70,131,300**	**(54,083,296)**	**-**	**199,121**	**71,690,501**
Lease liabilities	**35,828,909**	**-**	**(5,609,656)**	**948,481**	**3,551,308**	**34,719,042**
	91,272,285	**70,131,300**	**(59,692,952)**	**948,481**	**3,750,429**	**106,409,543**

29 RISK MANAGEMENT (continued)

Liquidity risk (continued)

Changes in liabilities arising from financing activities (continued)

	As at 1 January 2020 BD	*Receipts BD*	*Payments BD*	*Interest accretion BD*	*Others BD*	*As at 31 December 2020 BD*
Murabaha and Mudaraba facilities	83,530,279	-	(28,214,691)	-	127,788	55,443,376
Lease liabilities	26,809,661	-	(4,726,340)	1,042,812	12,702,776	35,828,909
	110,339,940	-	(32,941,031)	1,042,812	12,830,564	91,272,285

Others include transaction cost related to Murabaha and Mudarabah facilities and additions/ terminations of lease liabilities.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's major transactions are carried out in Bahraini Dinars and United States Dollar. The Bahraini Dinar is effectively pegged to the United States Dollar and therefore the management considers the currency rate risk as minimal with respect to the United States Dollar. Further, the Group's finance department constantly monitors the fluctuations in foreign currencies and minimises the exposure to foreign currencies.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a healthy capital base in order to support its business and maximise shareholder's value. The Group manages its capital structure and makes adjustments to it in light of changes in business conditions. Equity comprises share capital, statutory reserve, other reserve and retained earnings, and is measured at BD 133,019,130 as at 31 December 2021 (2020: BD 121,805,491).

30 FAIR VALUE MEASUREMENT

Fair value is the amount 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. Financial instruments comprise of financial assets, financial liabilities and derivative financial instruments.

The Group's derivative financial instruments are measured at fair value using interest rate curve which falls under level 2 hierarchy. In the opinion of management, the fair values of other financial instruments are not materially different from their carrying values at the statement of financial position date.