Strength to Strength

>Annual Report 2008

NFH
التمويل الوطني

His Highness Shaikh 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 Highness Shaikh Salman Bin Hamad Al Khalifa

The Crown Prince and Deputy Supreme Commander of the Kingdom of Bahrain

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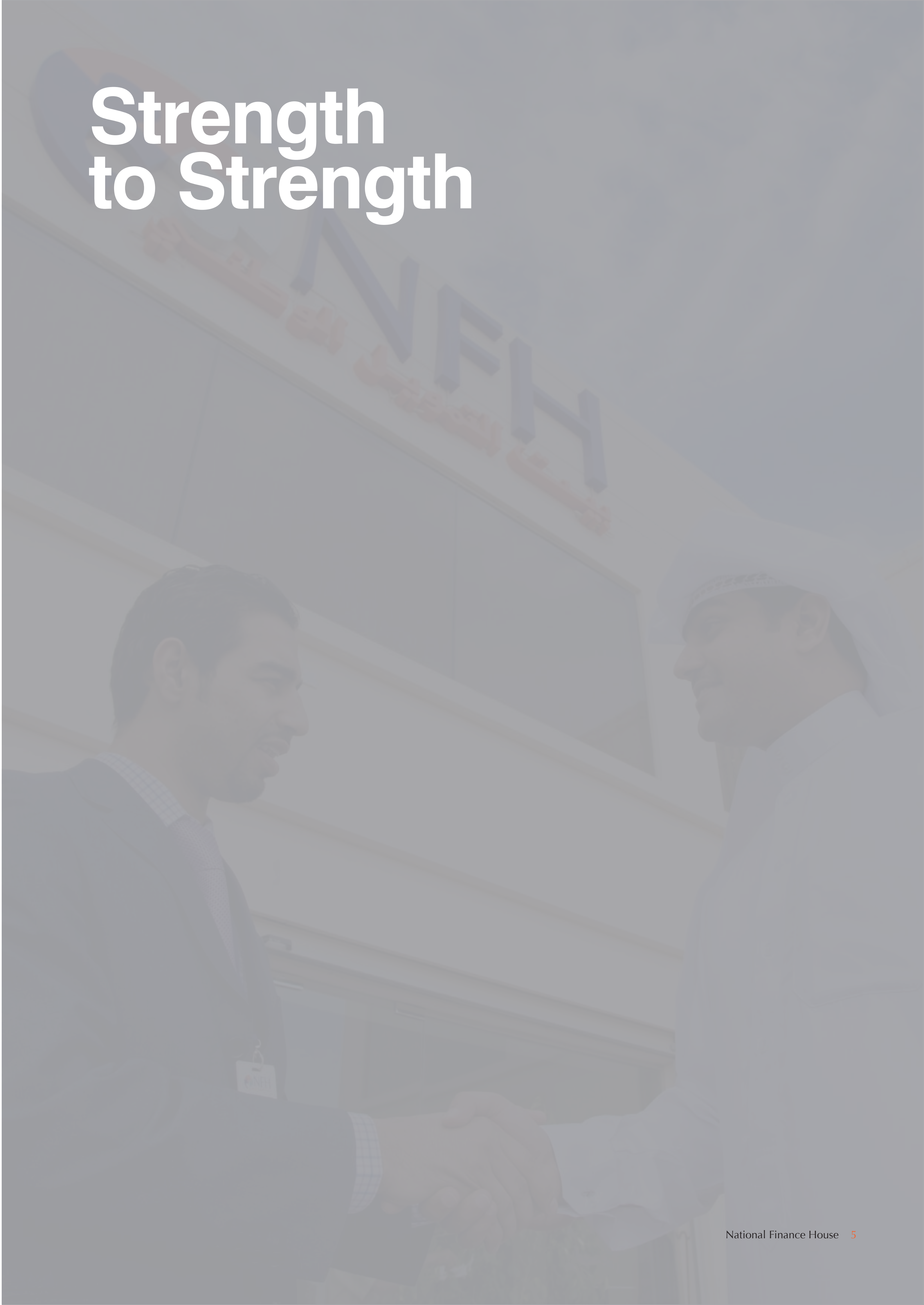
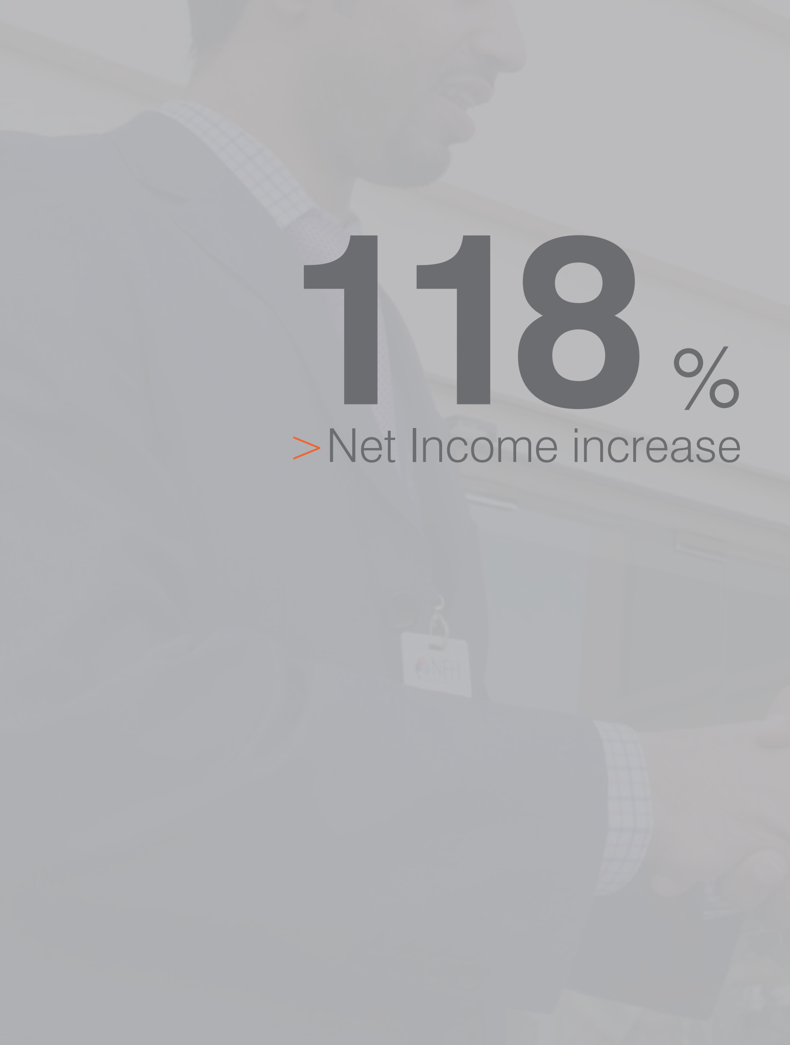
Strength to Strength





118 %

> Net Income increase

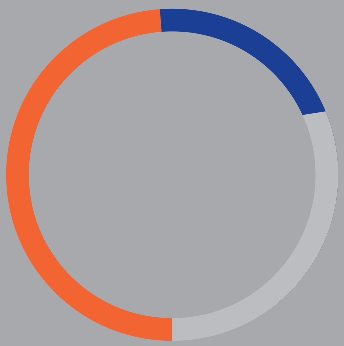

106%
> Total Assets


100%
>Bahraini

Financial Highlights

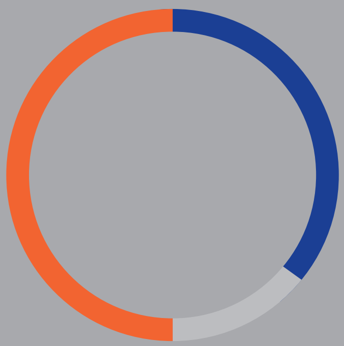
> KEY FIGURES

(Bahraini Dinars)	**2008**	2007
Total Assets	27,388,319	13,293,054
Total Liabilities	18,981,148	5,415,459
Total Equity	8,407,171	7,877,595
Operating Income	1,527,275	889,363
Profit for the year	529,576	242,475
Share Capital	7,500,000	7,500,000



2008 FIGURES

Total Assets	27.4 million
Total Liabilities	19 million
Shareholders Equity	8.4 million



2007 FIGURES

Total Assets	13.3 million
Total Liabilities	5.4 million
Shareholders Equity	7.9 million

NFH has gone from strength to strength in only its second full year of operation with results that demonstrate another successful year

> NATIONAL FINANCE HOUSE

National Finance House (NFH) specialises in providing consumer and corporate financing for the purchase of private, commerical and heavy vehicles and construction equipment.

> THE SHAREHOLDERS OF NFH ARE:

Kingdom of Bahrain
Bahrain National Holding Company
Y.K. Almoayyed & Sons
E.K Kanoo & Sons

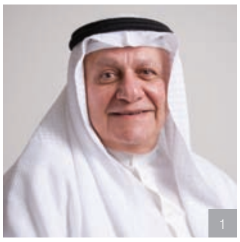
Sultanate of Oman
Oman National Investment Corporation Holding

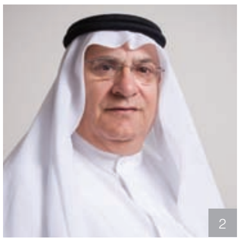
Dubai, UAE
Gulf Finance Corporation

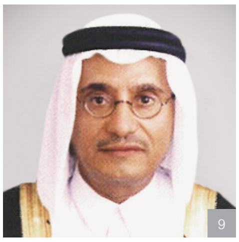
Kingdom of Saudi Arabia
Almutlaq Group

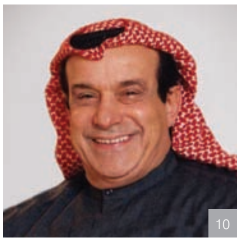
State of Qatar
Al Khaleej Insurance & Reinsurance Company
Sheikh Abdulla Mohammed bin Jabor Al Thani

> BOARD OF DIRECTORS









1. Mr. Farouk Yousif Khalil Almoayyed
Chairman of the Board

2. Mr. Fuad Ebrahim Kanoo
Deputy Chairman

3. Mr. Mahmood Al Soufi
Director and Chairman of the Executive Committee

4. Mr. Tariq Mutlaq Almutlaq
Director and Member of the Audit Committee

5. Mrs. Sayyida Rawan Ahmed Al-Said
Director and Member of the Executive Committee

6. Mr. Mohammed Farouk Yousif Almoayyed
Director and Member of the Executive and Audit Committee

7. Mr. Talal Fuad Kanoo
Director and Member of the Executive Committee

8. Mr. Majid Saif Al Ghurair
Director

9. Sh. Abdulla Mohd Jabor Al Thani
Director

10. Mr. Ali Rashid Al Amin
Director

1. Farouk Yousuf Khalil Almoayyed
Chairman

Chairman: Y. K. Almoayyed & Sons, Almoayyed Contracting Group, Almoayyed International Group, Bahrain Duty Free Shop Complex, Ashrafs, Gulf Hotels Group, Dar Alwasat for Publishing and Distribution, Bahrain National Holding, Ahlia University

Deputy Chairman: National Bank of Bahrain, Labour Market Regulatory Authority

Director: Investcorp Bank, TAIB Bank

Chairman of Board of Trustees: Ibn Khuldoon National School

2. Fuad Ebrahim Kanoo
Deputy Chairman

Chairman: Al Ahli Club

Vice Chairman: Ebrahim Khalil Kanoo Group

Member of Board of Directors: General Trading & Food Processing Company, The Food Supply Company, Bahrain Water Bottling & Beverages, Dar Alwasat for Publishing and Distribution

3. Mahmood Al Soufi
Director, Chairman of Executive Committee

Chief Executive Officer: Bahrain National Holding Company

Member of Board of Directors: Al-Jiser Takaful Insurance Company, Al Kindi Specialized Hospital, Arabian Shield Cooperative Insurance Company, Bahrain National Life Assurance Company BSC, Gulf Insurance Institute, United Insurance Company, MASY Holding

4. Tariq Mutlaq Almutlaq
Director, Chairman of Audit Committee

Managing Partner: Almutlaq Group

President: Almutlaq Real Estate Investment Company

Chairman: Shuaa Capital Saudi Arabia Sorouh International for Real Estate Development

Vice Chairman: Arabia Insurance Company

Member of Board of Directors: Almutlaq Group, NAPCO Group Companies, Sahara Petrochemical Company, Alwaha Petrochemical Company, National Installment Company

5. Sayyida Rawan Ahmed Al-Said
Director, Member of Executive Committee

Group Chief Executive Officer: Oman National Investment Corporation

Member of Board of Directors: National Investment Funds Company, National Bank of Oman, National Life & General Insurance, Oman Oil Marketing Company

6. Mohammed Farouk Almoayyed
Director, Member of Executive Committee, Member of Audit Committee

Managing Director: Almoayyed International Group

Member of Board of Directors: Y.K. Almoayyed & Sons, Alpine Wealth Management, Bahrain Maritime and Mercantile International, Al Banader Hotel Resorts Company, Bahrain Industrial Group, Mirai Restaurant WLL Gulf Air, Bahrain Airport Services

7. Talal Fuad Kanoo
Director, Member of Executive Committee

Member of Board of Directors: Bahrain National Holding Company, Bahrain International Circuit, Al Kindi Specialized Hospital.

Private Sector Advisory Committee Member: Economic Development Board of Bahrain

8. Majid Saif Al Ghurair
Director

Chief Executive Officer: Al Ghurair Private Company, UAE

Managing Director: Gulf Extrusions & Arabian Can Industry

President: BurJuman Centre and Reef Mall

Chairman: Shuaa Capital, Gulf Finance Corporation

Member of Board of Directors: Dubai Statistic Centre, Dubai Council of Economic Affairs, Emaar Properties, Mashreq Bank, National Cement Co, RAK Bank

9. Sh. Abdulla Mohd Jabor Al Thani
Director

Chairman: Alkhaleej Insurance & Reinsurance Company in Qatar

Vice Chairman: Qatar Navigation

Member of the Board of Directors: Doha Bank

10. Ali Rashid Al Amin
Director

Chairman: Ali Rashid Al Amin Co., Ramakaza Trading Co., Bahrain & Qatar A & B Logistic Services WLL, Bahrain Rawabi Al Amin Distribution Co. Ltd, Saudi Arabia, A.R. Al Amin Industries, Qatar

Member of the Board of Directors: Bahrain National Holding Company

Chairman of Board of Trustees: Ali Rashid Al Amin Charity Est.

On behalf of the Board of Directors, I have the privilege of presenting the annual report of National Finance House (NFH) for the year ended 31 December 2008. I am happy to report that, building on solid foundations, the Company has shown good growth in all aspects of its operations.

NFH achieved an excellent financial performance during 2008. Gross income grew by 72% to BD1,527,275 while net income increased by 118% to BD529,576. The value of vehicle financing loans issued during the year totalled BD19.3 million, an increase of 76%. Total assets at the end of 2008 were up 106% at BD27.4 million, while shareholders' equity increased by 7% to BD8.4 million.

These results demonstrate that NFH has gone from strength to strength in only its second full year of operation – a year that saw the Company develop and consolidate its core offering of vehicle financing, growing its market share to 11%, compared to 9% in 2007. The Company also substantially expanded its network of dealer relationships during 2008.

A major contributor to a successful year for NFH was the enhancement of its credit facilities. A new facility amounting to BD2 million was signed with BMI, while the agreements with BBK and BNP Paribas were increased by BD5 million and BD 2 million respectively, taking the Company's total credit facilities to BD22 million. These financings will significantly help NFH with its plans for future growth.

In 2008 NFH finalised preparations for the setting up of its new branch in Sitra, which was opened in early 2009. This new outlet will allow the Company to provide even better service and more convenience to both customers and car dealers and will make a significant difference to our performance in the coming years. As part of an ongoing policy of constantly improving the Company's products and services, NFH also finalised plans to open an insurance brokerage company in 2009 after the Central Bank of Bahrain has given final approval. The new company will allow NFH to offer a more complete, 'one-stop' service to its customers.

NFH achieved an excellent financial performance during 2008. Gross income grew by 72% to **BD1,527,275** while net income increased by 118% to BD529,576

> FAROUK ALMOAYYED
CHAIRMAN

NFH is currently working on a 3-year strategy for expansion, which will be reviewed in 2009. Despite the weakening of the automotive market worldwide and other adverse effects of the global financial slowdown the company still anticipates solid growth in both business and market share and, with the use of appropriate caution and prudence, will make the most of the excellent opportunities it sees in 2009 and beyond.

The Board of Directors is recommending the following appropriations out of the net profit for the approval of the Company's shareholders:

- BD52,958 representing 10% of the net profit to be transferred to the Statutory Reserve in accordance with the Bahrain Commercial Companies Law 2001.

- The balance of BD476,618 to be transferred to Retained Earnings.

On behalf of the Board of Directors I would like to express my gratitude to His Majesty the King, His Highness the Prime Minister and His Highness the Crown Prince, of the Kingdom of Bahrain, for their wise leadership, enlightened reforms and encouragement of the private sector and financial services industry. Special thanks are also due to the Government ministries and bodies, especially the Ministry of Industry and Commerce, the Ministry of Finance and the Central Bank of Bahrain, for their continued assistance, guidance and support.

I would also like to express my appreciation to my fellow shareholders for their financial support and unwavering confidence, to our customers and business partners for their trust and loyalty, and to the management and staff of NFH for their hard work and dedication.

On behalf of the Board of Directors.

Farouk Yousef Khalil Almoayyed
Chairman
2 March 2009

>CORPORATE GOVERNANCE

National Finance House (NFH) is committed to establishing and maintaining the highest standards of corporate governance in line with industry best practice, in order to ensure fairness for all stakeholders, and to achieve organisational efficiency.

>STRUCTURE

NFH has put in place a robust corporate governance structure that clearly sets out the objectives of the Company, together with the means and incentives through which the Board and Management pursue objectives that are in the best interests of the Company and its shareholders. This structure facilitates effective monitoring, and encourages the most efficient use of resources.

>PRINCIPLES

The corporate governance structure of NFH is based on a number of critical principles. These include: an independent, active and engaged Board of Directors that has the skill to properly oversee and direct Management; a Code of Business Conduct to guide directors, managers and staff in their daily administration of the Company's business; the imposition of effective controls and monitoring systems; and the dissemination of timely and accurate information to shareholders, regulatory authorities, and other stakeholders.

>BOARD OF DIRECTORS

The Company is managed by a Board of Directors, consisting of ten non-executive directors elected by the Ordinary General Meeting by secret ballot for a period of three years renewable. The full Board meets for a minimum of four times each year. The Board of Directors is accountable to the Company's shareholders and other stakeholders to ensure that NFH is managed in a safe and sound manner, and with an appropriate balance between financial performance and fulfillment of its public purpose.

>BOARD COMMITTEES

The Board has established two committees – Executive Committee and Audit Committee – to assist it in carrying out its responsibilities.

NFH has approved a corporate governance structure for the Directors, Executive Management, and Staff, binding signatories to the highest standards of professionalism

>EXECUTIVE COMMITTEE

This committee consists of four directors and the General Manager. Its responsibilities include developing a group strategy for approval by the Board; overseeing the financial, operational and safety performance of the Company; and guiding the Company in its relationships with all stakeholders.

>AUDIT COMMITTEE

This committee consists of a minimum of two non-executive directors. Its responsibilities include reviewing the integrity of the Company's financial reporting; selecting external auditors for approval by shareholders; monitoring the activities and performance of the internal audit function; and ensuring compliance with all relevant laws and regulations.

>MANAGEMENT

The Board has delegated authority to the General Manager for the day-to-day management of the Company. He is supported in his duties by a Management Team consisting of Head of Financial Control, Head of Retail, Head of Operations and Head of Collections and Legal Affairs; and two committees: Management Committee and Credit Committee.

>ETHICAL BUSINESS CONDUCT

The Board has approved a corporate governance structure for the Directors, Executive Management, and Staff. The structure binds signatories to the highest standards of professionalism and due diligence in discharging their duties. It also outlines areas of conflict of interest, confidentiality, and the responsibilities of signatories to adhere to best practices.

>COMPLIANCE

The Company conducts its business in compliance with all relevant bye-laws, rules and regulations pertaining to financial institutions. These comprise Central Bank of Bahrain rules and guidelines; legal compliance; and international accounting standards. NFH has well-documented Know Your Customer guidelines, and a Customer Due Diligence Policy and procedures. The Company has appointed a Compliance Manager, a Money Laundering Reporting Officer (MLRO) and a Complaints Officer.

>COMMUNICATIONS WITH STAKEHOLDERS

The Company conducts all communications with its stakeholders in a transparent, accurate and timely manner. Main channels of communications comprise an annual general meeting, annual report, quarterly and annual financial statements, corporate website, and regular announcements in the appropriate local media.

>RISK MANAGEMENT

The Company has put in place a robust risk management framework to ensure the identification of all risks to which NFH may be exposed, and the implementation of all necessary policies, procedures and systems to effectively monitor and manage these risks.

>RISK EXPOSURE

The main risks to which NFH is exposed, are the following:

- Credit risk
- Interest rate risk
- Liquidity risk
- Compliance risk
- Operational & IT risk

>CREDIT COMMITTEE

The Company has established a Credit Committee, which consists of the General Manager, Head of Financial Control, Head of Retail, Head of Operations and Head of Collection & Legal Affairs. This committee acts as a forum for the discussion of any matters relating to credit risk. It sets credit policies and procedures, oversees the operation of the credit process, and approves loans within its authorisation limits.

>BUSINESS CONTINUITY

The Company is in the process of finalising a comprehensive business continuity plan to ensure that NFH can continue to function effectively in the event of an emergency, disaster or systems failure. Phase one of the development of a fully-fledged disaster recovery site is currently under implementation.

NFH has put in place a robust risk management framework to ensure the identification of all risks

It gives me great pleasure to report that National Finance House enjoyed a highly successful year in 2008. In our second full year of operation we have truly gone from strength to strength, with a number of notable achievements.

2008 saw many key developments for NFH. We increased our market share significantly. We almost doubled our staff, filling gaps in our team with high quality, talented and experienced people. Once again, we enhanced our operating structure, allowing us to deliver a better and more personal service and helping us to grow our business.

We further strengthened our credit facilities with major financial institutions; and in sales and marketing we established new business relationships and launched the NFH brand to the people of Bahrain with a new advertising campaign.

> SALES AND MARKETING

One of our most important achievements in 2008 was to establish strategic alliances with Ebrahim K Kanoo and Y. K. Almoayyed & Sons, two of the major car dealerships in the Kingdom of Bahrain, by setting up NFH desks at Toyota and Nissan showrooms. These desks enable us to give our customers much faster service and on site approval for vehicle financing applications. We have plans to form further strategic alliances with other car dealerships in Bahrain in the future.

2008 was also the year we introduced ourselves properly to the general public with an extensive and aggressive new advertising campaign. Featuring a concept that used the spots of a cheetah to demonstrate the speed of all the aspects of the NFH service, the multimedia campaign featured newspaper advertisements, radio commercials, billboards, mupis and point-of-sale leaflets. It was very successful and was well received throughout the kingdom by both potential customers and business associates in the automotive trade.

One of our most important achievements in 2008 was to establish strategic alliances with Ebrahim K Kanoo and Y. K. Almoayyed & Sons, two of the major car dealerships in the Kingdom of Bahrain

> JASSIM KHALAF
GENERAL MANAGER

>CREDIT FACILITIES

During 2008, NFH enjoyed the further trust and support of several banks and financial institutions in the Kingdom of Bahrain as the Company strengthened its relationships with its existing bankers and with new banks in the kingdom.

We successfully increased our credit lines with Bank of Bahrain & Kuwait from BD10 million to BD15 million and with BNP Paribas from BD3 million to BD5 million. We also signed a credit facility for BD2 million with BMI, one of the leading banks in the GCC.

The Company will continue its strategy of strengthening its banking relationships with local and international banks in Bahrain to support the ongoing growth and expansion of our business and to provide our customers with a wide range of products and services.

>CUSTOMERS

At NFH we believe that customer service is a vital differentiator in a highly competitive market place. For this reason we continue to strive to raise the satisfaction levels of our customers, not just by meeting – and often exceeding – their expectations, but also by listening to their suggestions and comments. We're also confident that our investment in technologies and people will improve satisfaction levels even more in the future, which is why we intend to invest in a new integrated core banking system designed to support the ongoing growth in the Company.

Our ability to process enquiries from potential customers effectively plays a vital role in supporting the rapid growth of NFH. For this reason we finalised plans to establish a new call centre by signing an outsourcing agreement with Invita, a company that specialises in call centre management and whose service includes training all the necessary staff to the highest standards. The new call centre will be fully functional in 2009.

From Left to Right

Jassim Khalaf
General Manager

Outhair Falah
Head of Retail

Naheed Najaf
Head of Insurance Services

Seddeeqa Almunfaredi
Head of Operations

Hussain Al Sayegh
Head of Collection and Legal Affairs

Ameera Al Saqqay
HR and Admin Officer

May Al-Mahmood
Head of Financial Control

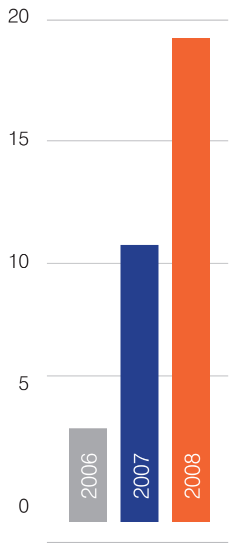
At NFH we believe that people are our most valuable asset. We developed our policy of promoting a solid teamwork, a motivated workforce and effective communication

>THE MANAGEMENT TEAM

> PEOPLE

In keeping with our belief that people are our most valuable asset, we further developed our policy of promoting solid teamwork and effective communication in an energised, motivated workforce dedicated to achieving the Company's goals. During 2008, NFH hired more experienced and talented professionals, increasing the number of employees to 40. All of these are Bahraini nationals – a level of Bahrainisation that is unique among financial services companies in the Kingdom.

Our people will continue to enjoy opportunities to improve their skills and knowledge, achieve professional qualifications and generally make the most of their undoubted potential.



Loans

> FUTURE OUTLOOK

Despite the current global financial downturn, we expect NFH to continue to enjoy steady and secure growth.

We will continue to expand by opening new branches and using other means to be closer to customers. The Company's first branch in the Sitra area, run by highly trained and experienced people, opens in 2009. Being closer to the main car dealers and business providers in the kingdom, this branch will provide our customers with faster and more efficient service. Sitra branch will be also used as a location for disaster recovery and business continuity plans.

In addition NFH obtained the approval from the Central Bank of Bahrain for an Insurance Broker License in February of 2009. This licence will enable us to expand our offering with a convenient one-stop shop that provides customers with financing and insurance products that match their requirements and risk profile. NFH will act on behalf of its customers, providing professional advice and a choice of insurance products from a number of companies to ensure that clients receive the best deal.

>THE COMPANY

National Finance House (NFH) specialise in providing consumer and corporate financing for the purchase of private commercial and heavy vehicles and construction equipment.

>CR NUMBER	58880
>POSTAL ADDRESS	P.O. Box 21774, Manama, Kingdom of Bahrain
>WEBSITE	www.nfh.com.bh
>EMAIL	nfhsales@batelco.com.bh
>TOLL FREE	8000 8005

>BRANCHES

Main Office:
Office Number 186, Road 66, Block 364,
Bilad Al-Qadeem

General Telephone	+ 973 17 407 999
General Fax	+ 973 17 403 995
Sales Fax	+ 973 17 403 378

Sitra Office:
Office Number 150, Building 5162
Road 10, Block 606 , Sitra

General Telephone	+ 973 17 120 120
General Fax	+ 973 17 735 373

>EXECUTIVE MANAGEMENT

Jassim Khalaf, General Manager
May Al-Mahmood, Head of Financial Control
Outhair Falah, Head of Retail
Seddeeqa Almunfaredi, Head of Operations
Hussain Al Sayegh, Head of Collection & Legal Affairs
Ali Ridha Mohammed, Sitra Branch Manager

>BANKERS

Bank of Bahrain and Kuwait
BNP Paribas
Ahli United Bank
National Bank of Bahrain
Kuwait Finance House
BMI Bank

>AUDITORS

KPMG

National Finance House (NFH) specialises in providing consumer and corporate financing

> FINANCIAL STATEMENTS

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> INDEPENDENT AUDITORS’ REPORT TO THE SHAREHOLDERS

We have audited the accompanying financial statements of National Finance House BSC (c) (“the Company”), which comprise the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity, and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Responsibility of the directors for the financial statements
The Directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors’ responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity’s preparation and fair presentation of the financial statements 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 entity’s internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2008, and its financial performance, and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements
In addition, in our opinion, the Company has maintained proper accounting records and the financial statements are in agreement therewith. We have reviewed the accompanying report of the Chairman of the Board of Directors and confirm that the information contained therein is consistent with the financial statements. We are not aware of any violations of the Bahrain Commercial Companies Law 2001, the Central Bank of Bahrain and Financial Institutions Law 2006, the terms of the Company’s licence or its memorandum and articles of association having occurred during the year ended 31 December 2008 that might have had a material effect on the business of the Company or on its financial position. Satisfactory explanations and information have been provided to us by the management in response to all our requests.

KPMG

2 March 2009
Manama, Kingdom of Bahrain

	Note	2008	2007
ASSETS			
Cash and cash equivalents	5	1,329,286	975,618
Loans to customers	6	25,770,166	12,153,994
Furniture, fixtures and equipment	7	257,490	142,984
Other assets		31,377	20,458
Total assets		**27,388,319**	13,293,054
LIABILITIES AND EQUITY			
Liabilities			
Borrowings from banks	9	15,000,000	4,000,000
Other liabilities	10	3,981,148	1,415,459
Total liabilities		**18,981,148**	5,415,459
Equity			
Share capital	11	7,500,000	7,500,000
Share premium		112,500	112,500
Statutory reserve		79,467	26,509
Retained earnings		715,204	238,586
Total equity (page26)		**8,407,171**	7,877,595
Total equity and liabilities		**27,388,319**	13,293,054

Chairman

Deputy Chairman

The Board of Directors approved the Financial Statements consisting of pages 23 to 40 on 2 March 2009.

	Notes	2008	2007
Interest income	12	1,811,939	848,219
Interest expense		(419,967)	(59,386)
Net interest income		1,391,972	788,833
Fees and commission income		297,753	178,481
Fees and commission expense		(162,450)	(77,951)
Net fee and commission income		135,303	100,530
Operating income		**1,527,275**	889,363
Salaries and related costs		524,049	319,187
General and administrative expenses	13	288,479	157,192
Depreciation	7	47,606	43,751
Impairment of loans to customers		137,565	126,758
Operating costs		**997,699**	646,888
Profit for the year		**529,576**	242,475

Chairman

Deputy Chairman

The Board of Directors approved the Financial Statements consisting of pages 23 to 40 on 2 March 2009.

	Note	2008	2007
Operating activities			
Interest, fees and commission receipts		2,109,692	1,026,700
Loans disbursed (net)		(11,246,955)	(8,544,870)
Payments of staff salaries and related costs		(481,836)	(296,290)
Payments of other operating expenses		(448,643)	(225,616)
Cash flows from operating activities		**(10,067,742)**	(8,040,076)
Investing activities			
Purchase of furniture, fixtures and equipment	7	(162,112)	(11,291)
Cash flows from investing activities		**(162,112)**	(11,291)
Financing activities			
Proceeds from loan		11,000,000	4,000,000
Payment of interest		(416,478)	(16,627)
Share capital received	11	-	1,037,500
Cash flows from financing activities		**10,583,522**	5,020,873
Net increase / decreases in cash and cash equivalents		**353,668**	(3,030,494)
Cash and cash equivalents at 1 January		975,618	4,006,112
Cash and cash equivalents as at 31 December	5	**1,329,286**	975,618

The Financial Statements consist of pages 23 to 40.

2008	**Share capital**	**Share premium**	**Statutory reserve**	**Retained earnings**	**Total equity**
At 1 January	7,500,000	112,500	26,509	238,586	7,877,595
Profit for the year (page 24)	-	-	-	529,576	529,576
Total recognised income and expense	**-**	**-**	**-**	529,576	**529,576**
Transfer to statutory reserve	-	-	52,958	(52,958)	-
At 31 December	**7,500,000**	**112,500**	**79,467**	**715,204**	**8,407,171**

2007	Share capital	Share premium	Statutory reserve	Retained earnings	Total equity
At 1 January	7,500,000	112,500	2,262	20,358	7,635,120
Profit for the year (page 24)	-	-	-	242,475	242,475
Total recognised income and expense				242,475	242,475
Transfer to statutory reserve	-	-	24,247	(24,247)	-
At 31 December	7,500,000	112,500	26,509	238,586	7,877,595

The Financial Statements consist of pages 23 to 40.

1. STATUS AND OPERATIONS

National Finance House BSC (c) ("the Company") is a closed joint stock Company incorporated and registered in the Kingdom of Bahrain on 4 December 2005. The Company obtained a licence from the Central Bank of Bahrain ("CBB") to operate as a financial Company on 6 December 2005. The Company formally commenced operations on 13 September 2006.

The Company's principal activities are to provide consumer finance services and grant short term and medium term loans to individuals and incorporated entities for the purpose of financing all type of purchase of an instalment basis, including instalment for the purchase of motor vehicles, non motorized vehicles, equipment, machinery, household effects etc.

2. BASIS OF PREPARATION

a. Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

b. Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could 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. Information about significant areas of estimation and critical judgements in applying accounting policies on the amounts recognised in the financial statements are described in the following notes:

- Note 3 (d) (vi) and 3 (j) – Impairment; and
- Note 3 (g) – Estimates of useful lives.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements by the Company.

a. Basis of measurement

The financial statements have been prepared under the historical cost convention except for financial assets and liabilities stated at amortised cost on an effective interest rate basis.

b. Interest

Interest income and expense are recognised in the income statement using the effective interest method. The effective interest rate is the rate that discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently. The calculation of the effective interest rate includes all fees paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability. Interest income and expense presented in the income statement include:

- Interest on financial assets and liabilities at amortised cost on an effective interest rate basis; and
- Interest on time deposits on an effective interest basis.

c. Fees and commission income and expenses

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Origination fees received by the Company and the related direct

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

c. Fees and commission income and expenses (continued)

costs relating to the creation or acquisition of a financial asset other than a financial asset classified 'at fair value through profit or loss', are deferred and recognised as an adjustment to the effective interest rate.

d. Financial assets and liabilities

(i) Recognition

The Company initially recognises loans to customers and borrowings from banks on the date that they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

(ii) De-recognition

The Company 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. The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

(iii) Offsetting

Financial assets and liabilities are set off and the net amount presented in the balance sheet when, and only when, the Company has a legal 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.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

(iv) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(v) Fair value measurement

The determination of fair values of financial assets and financial liabilities that are not quoted is determined by using valuation techniques. Valuation techniques include net present value techniques and the discounted cash flow method.

(vi) Identification and measurement of impairment

At each balance sheet date, the Company assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably. The Company considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, indications that a borrower will enter bankruptcy, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers, or economic conditions that correlate with defaults in the group.

In assessing collective impairment the Company uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

d. Financial assets and liabilities (continued)

(vi) Identification and measurement of impairment (continued)

conditions are such that the 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 that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in the income statement and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the income statement.

e. Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Company does not intend to sell immediately or in the near term.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

f. Furniture, fixtures and equipment

Furniture, fixtures and equipment are stated at cost less accumulated depreciation and impairment allowances.

g. Depreciation

Depreciation on furniture, fixtures and equipment is provided on the straight line method over their estimated useful lives as follows:

Furniture, fixture, equipment, computer software and motor vehicles	5 years
Computer hardware	3 years

h. Cash and cash equivalents

Cash and cash equivalent represents cash in hand and bank accounts and deposits maturing within 90 days.

i. Statutory reserve

The Bahrain Commercial Companies Law 2001 requires 10 percent of net profit for the year to be transferred to a statutory reserve, which is not normally distributable except in the circumstances stipulated in the Bahrain Commercial Companies Law. Such transfers may cease once the reserve reaches 50% of share capital.

j. Impairment of non financial assets

The carrying amount of the Company's non financial assets is reviewed at each balance sheet 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 income statement.

k. Borrowings from banks

Borrowings from banks are the Company's sources of debt funding. Borrowings from banks are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Company chooses to carry the liabilities at fair value through the income statement.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

l. Provisions

A provision is recognised if, as a result of a past event, the Company 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. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognises any impairment loss on the assets associated with that contract.

m. Employees' end of service benefits

(i) Bahraini employees

Pensions and other social benefits for Bahraini employees are covered by the General Organisation for Social Insurance scheme, which is a "defined contribution scheme" in nature, and to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis.

(ii) Expatriate employees

Expatriate employees on fixed contracts are entitled to leave indemnity payable under the Bahraini Labour Law for the Private Sector of 1976, based on length of service and final remuneration. Provision for this unfunded commitment has been made by calculating the notional liability had all employees left the Company at the balance sheet date.

4. NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS

During the year, the following new or amended IFRS and interpretations relevant to the activities of the Company have been issued which are not yet mandatory for adoption by the Company:

- IAS 1 Presentation of Financial Statements *
- IAS 23 Borrowing Costs *

* Annual periods commencing on or after 1 January 2009

The adoption of these standards and interpretations are not expected to have material impact on the financial statements.

5. CASH AND CASH EQUIVALENTS

	2008	2007
Cash in hand and at bank	1,226,249	710,128
Term deposits	103,037	265,490
	1,329,286	975,618

6. LOANS TO CUSTOMERS

	2008	2007
Loans disbursed	31,490,128	14,911,594
Unearned interest on loans	(5,459,657)	(2,634,816)
Impairment allowance (net of write offs)	(260,305)	(122,784)
At 31 December	**25,770,166**	12,153,994

The movement in the allowance for impairment is as follows:

	2008	2007
At 1 January	122,784	-
Charge for the year	137,521	126,758
Written off during the year	-	(3,974)
At 31 December	**260,305**	122,784

7. FURNITURE, FIXTURES AND EQUIPMENT

	Furniture and equipment	Computer software	Computer hardware	Motor Vehicles	2008 Total	2007 Total
Cost						
At 1 January	114,791	57,979	31,865	-	204,635	193,344
Additions	127,333	678	27,501	6,600	162,112	11,291
At 31 December	**242,124**	**58,657**	**59,366**	**6,600**	**366,747**	204,635
Depreciation						
At 1 January	28,678	17,323	15,650	-	61,651	17,900
Charge for the year	23,597	11,596	11,203	1,210	47,606	43,751
At 31 December	**52,275**	**28,919**	**26,853**	**1,210**	**109,257**	61,651
Net book value						
At 31 December 2008	**189,849**	**29,738**	**32,513**	**5,390**	**257,490**	
At 31 December 2007	86,113	40,656	16,215	-	142,984	142,984

8. RELATED PARTY TRANSACTIONS

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. These represent transactions with shareholders and directors of the Company.

Related party transactions	**2008**	2007
Expenses		
Insurance premium paid to a shareholder	6,596	3,421
Software maintenance charges	4,544	-

Other related party balances are presented in schedule 10 "Other liabilities".

Transactions with key management personnel

Key management personnel of the Company comprise the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Company. The key management personnel compensation is as follows:

Transactions with key management personnel	**2008**	2007
Key management compensation	229,619	168,712
Board of directors committee meeting allowances	4,000	1,000

9. BORROWINGS

	2008	2007
Repayable within one year	3,000,000	1,000,000
Repayable after one year	12,000,000	3,000,000
	15,000,000	4,000,000

Term loans have floating interest rates, which are subject to re-pricing on a half-yearly basis. The effective interest rate on borrowings was within the range of 4.33% to 5.69 % p.a. (2007: 6.21% to 6.83% p.a.).

Of the above borrowings, BD 3 million (2007: BD 1 million) is secured by assignment of receivables (to the extent of 120% of such loan outstanding) and the remaining BD 12 million (2007: BD 3 million) is unsecured.

10. OTHER LIABILITIES

	2008	2007
Amounts payable for vehicles financed		
• to related parties (major shareholders)	3,243,700	950,015
• to other parties	539,307	326,210
Accrued expenses		
• to related parties (major shareholders)	9,447	1,000
• to other parties	188,694	138,234
	3,981,148	1,415,459

11. SHARE CAPITAL

	2008	2007
Authorised		
500,000,000 ordinary shares of 100 fils each	50,000,000	50,000,000
Issued capital		
75,000,000 ordinary shares of BD 100 fils each	7,500,000	7,500,000
Paid up capital		
75,000,000 ordinary shares of BD 100 fils each	7,500,000	7,500,000

12. INTEREST INCOME

	2008	2007
Interest earned on loans to customers	1,804,695	768,956
Interest income from term deposits	7,244	79,263
	1,811,939	848,219

13. GENERAL AND ADMINISTRATIVE EXPENSES

	2008	2007
Rent	27,300	22,070
Communication	12,552	12,523
Office expenses	64,094	35,130
Printing and stationery	15,959	11,547
Computer maintenance and support expenses	10,737	16,414
Legal and professional charges	67,741	38,806
Advertising and publicity	90,096	20,702
	288,479	157,192

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Risk management framework and overview
The risks associated with the Company's business are credit risk, market risk, liquidity risk and operational risk. The Company has a risk management framework in place for managing these risks which is constantly evolving as the business activities change in response to credit, market, product and other developments. This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

Financial instruments comprise of financial assets and financial liabilities. Financial assets of the Company consist of cash and cash equivalents, loans and receivable and other assets. Financial liabilities of the Company consist of loans, related party payable and other liabilities. Accounting policies in respect of financial assets and financial liabilities are set out in Note 3.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

The Board of Directors of the Company has the overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has established the Executive Committee, for developing and monitoring risk management policies in their specified areas. The Board of Directors set the Company's overall risk parameters and risk tolerances, and the significant risk management policies. The Executive Committee reviews and reports to the Board of Directors on the Company's risk profile and risk taking activities.

The General Manager has the primary responsibility for sanctioning risk taking activities and defining risk management policies within the overall risk parameters and tolerances defined by the Board of Directors. The risk management control process is based on a detailed structure of policies, procedures and limits, and comprehensive risk measurement and management information systems for the control, monitoring and reporting of risks. The principal risks associated with the Company's businesses and the related risk management processes are set out below.

Credit risk

Credit risk is the risk that a customer fails to perform under its contractual payment obligations thus causing the Company to suffer a loss in terms of cash flow or market value. Credit risk is the predominant risk type faced by the Company in its financing activities both on and off balance sheet. The Company is exposed to credit risk primarily on the loans to customers. Credit risk assessment and management is divided into personal and corporate loans.

The Board of Directors has delegated responsibility for the management of credit risk to its Credit Committee, comprising three members, Head of Retail and Head of Operations and Head of Collection reporting to the General Manager. The Credit Committee is responsible for oversight of the Company's credit risk, including:

- Formulating credit policies, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements;
- Establishing the authorisation structure for the approval and renewal of credit facilities. The authorisation limits are allocated to the Head of Retail and Head of Operations. Larger facilities require approval by General Manager, Credit Committee or Executive Committee. Each business unit is required to implement Company's credit policies and procedures, with credit approval authorities delegated from the Company's Credit Committee;
- Reviewing and assessing credit risk. Credit committee assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process;
- Limiting concentrations of exposure to counterparties, and industries for loans and advances;
- Reviewing and monitoring credit exposures on an ongoing basis to identify, as early as possible, customers that may be experiencing declining credit worthiness or financial difficulty;
- reviewing compliance of business units with agreed exposure limits. Regular reports are provided to the General Manager and Board of Directors on the credit quality of local portfolios and appropriate corrective action is taken; and
- Providing advice, guidance and specialist skills to other departments to promote best practice throughout the Company in the management of credit risk.

All loans are with local individuals and locally incorporated entities. The credit risk on these loans is actively managed and rigorously monitored in accordance with well-defined credit policies and procedures. The creditworthiness of each borrower is evaluated prior to sanctioning of facilities. Credit review procedures are in place for corporate customers 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.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

The Company is not exposed to any significant concentration of credit risk arising from exposures to a single debtor or to Group of 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. The maximum credit risk exposure of the loans to customer is the carrying value amount net of the unearned interest income and net of impairment allowance. The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of loans and receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified.

Exposure to credit risk
The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2008	2007
Cash and cash equivalents	1,329,286	975,618
Loans to customer	25,770,166	12,153,994
	27,099,452	13,129,612

Concentration to credit risk
The Company monitors concentration of credit risk by sector. An analysis of concentrations of credit risk on loans to customers at the reporting date is shown below.

	2008	2007
Concentration by sector		
Corporate	16,000,005	6,991,713
Retail	9,770,161	5,162,281
	25,770,166	12,153,994

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

All loans are domestic and are granted to borrowers within the Kingdom of Bahrain. Analysis of loans that are current, past due and impaired is as follows:

	2008	2007
Individually impaired and written off – carrying amount	-	3,974
Past due but not impaired		
Gross amount	74,776	11,183
Collectively impaired	(748)	(112)
Carrying amount	74,028	11,071
Neither past due nor impaired		
Gross amount	25,955,695	12,261,621
Collectively impaired	(259,557)	(122,672)
Carrying amount	25,696,138	12,138,949
Carrying amount	**25,770,166**	12,153,994

Impaired loans are loans for which the Company determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreement. Past due but not impaired loans are loans where contractual interest or principal payments are past due and the Company believes that impairment is not appropriate on the basis of the level of security or collateral available and / or the stage of collection of amounts owed to the Company. The Company writes off a loan balance (and any related allowances for impairment losses) when Company determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

The Company holds collateral against loans and advances to customers in the form of mortgage interests over vehicles financed. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments.

Management of liquidity risk

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. It manages its liquidity requirements mainly by financial support from collection of vehicle loans with varying maturities, borrowings from financial institutions and financial support from shareholders.

Liquidity management policies are designed to ensure that funds are available at all times to meet the funding requirements of the Company, even in adverse conditions. In normal conditions, the objective is to ensure that there are sufficient funds available not only to meet current financial commitments but also to facilitate business expansion. These objectives are met through the application of prudent liquidity controls. These controls provide security of access to funds without undue exposure to increased costs from the liquidation of assets or the aggressive bidding for deposits.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

The liquidity position of the Company is monitored by the General Manager and Financial Controller. Surplus and deficit of short and long term positions of the Company are managed as appropriate by the Finance Department. The Company ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. The Company maintains a BD 5 million short term revolving loan facility priced at 1.25% over 6 month Prime Rate and BD 10 million term loan facility priced at 1.25% over 6 months BIBOR and BD 5 million term loan priced at 1.75% over 6 months BIBOR.

The contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements is set out below. This shows the undiscounted cash flows on the Company's financial liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity.

31 December 2008	**Carrying amount**	**Contractual cash flows**	**6 months or less**	**6- 12 months**	**More than 12 months**
Borrowings from banks	15,000,000	17,352,321	3,346,698	287,421	13,718,202
Accounts payable	3,783,007	3,783,007	3,783,007	-	-
	18,783,007	**21,135,328**	**7,129,705**	**287,421**	**13,718,202**

31 December 2007	Carrying amount	Contractual cash flows	6 months or less	6- 12 months	More than 12 months
Borrowings from banks	4,000,000	5,027,329	1,147,282	98,437	3,781,610
Accounts payable	1,276,225	1,276,225	1,276,225	-	-
	5,276,225	6,303,554	2,423,507	98,437	3,781,610

Market risks

Market risk is the risk that changes in market prices, such as interest rate and credit spreads (not relating to changes in the issuer's credit standing) will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. The principal market risk to which the Company is exposed is interest rate risk with its asset and liability management activities.

Interest rate risk

Interest rate risk is the risk that the Company's earnings will be affected as a result of movements in interest rates. The Company's interest rate exposures arise from its interest earning assets and interest-bearing liabilities i.e. balance with banks, loans and term loans. The distribution of financial instruments between interest rate categories is summarised in the following page (38).

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

	Fixed rate	Floating rate	Non-interest earning	Total
31 December 2008				
Cash and cash equivalents	-	103,037	1,226,249	1,329,286
Loans to customers	25,770,166	-	-	25,770,166
Other assets	-	-	31,377	31,377
	25,770,166	**103,037**	**1,257,626**	**27,130,829**
Other liabilities	-	-	3,981,148	3,981,148
Borrowings from banks	-	15,000,000	-	15,000,000
	-	**15,000,000**	**3,981,148**	**18,981,148**
31 December 2007				
Cash and cash equivalents	-	265,490	710,128	975,618
Loans to customers	12,153,994	-	-	12,153,994
Other assets	-	-	20,458	20,458
	12,153,994	265,490	730,586	13,150,070
Borrowings from banks	-	4,000,000	-	4,000,000
Other liabilities	-	-	1,415,459	1,415,459
	-	4,000,000	1,415,459	5,415,459

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2007.

	Income statement		**Equity**	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
31 December 2008				
Borrowings from banks	**77,137**	**77,137**	**77,137**	**77,137**
31 December 2007				
Borrowings from banks	6,556	6,556	6,556	6,556

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for re-pricing bands. The Company's loans to customers are predominantly of a fixed rate nature and the Company has the right under the terms of the agreement with customers to vary the rate at its discretion after giving the customer due notice. A summary of the Company's interest rate gap position on non-trading portfolios is as follows:

	Carrying amount	Less than 3 months	3-6 months	6- 12 months	1-5 years	More than 5 years
31 December 2008						
Cash and cash equivalents	1,329,286	1,329,286	-	-	-	-
Loans to customers	25,770,166	1,837,755	1,796,674	3,599,547	17,269,605	1,266,605
Other assets	31,377	31,377	-	-	-	-
	27,130,829	**3,198,418**	**1,796,674**	**3,599,547**	**17,269,605**	**1,266,605**
Borrowings from banks	15,000,000	3,000,000	-	-	12,000,000	-
Other liabilities	3,981,148	3,981,148	-	-	-	-
	18,981,148	**6,981,148**	**-**	**-**	**12,000,000**	**-**
31 December 2007						
Cash and cash equivalents	975,618	975,618	-	-	-	-
Loans to customers	12,153,994	629,421	815,588	1,647,749	8,372,229	689,007
Other assets	20,458	20,458	-	-	-	-
	13,150,070	1,625,497	815,588	1,647,749	8,372,229	689,007
Borrowings from banks	4,000,000	1,000,000	-	-	3,000,000	-
Other liabilities	1,415,459	1,415,459	-	-	-	-
	5,415,459	2,415,459	-	-	3,000,000	-

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's exposure to currency risk is not significant as a significant portion of the Company's transactions are in Bahraini Dinars

Fair values

Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable willing parties in an arm's length transaction. Differences can therefore arise between book values under the historical cost method and fair value estimates. 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. The fair values of financial assets and liabilities of the Company are not materially different from their carrying values.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Operational risks

Operational risk is the risk of unexpected losses resulting from inadequate or failed internal controls or procedures, systems failures, fraud, business interruption, compliance breaches, human error, management failure or inadequate staffing. Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company'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 Company's operations and are faced by all business entities.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity. The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Company standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorisation transactions
- Requirements for the reconciliation and monitoring of transactions
- Compliance with regulatory and other legal requirements
- Documentation of controls and procedures
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- Requirements for the reporting of operational losses and proposed remedial action
- Development of contingency plans
- Training and professional development
- Ethical and business standards
- Risk mitigation, including insurance where this is effective.

Compliance with Company standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Company.

Capital management

The Central Bank of Bahrain sets and monitors capital requirements for the Company. According to the conventional financing company license granted by the Central Bank of Bahrain the Company should maintain a minimum paid-up capital of BD 5,000,000 and the borrowings may not exceed five times the capital and reserves (shareholders equity) of the Company. As on 31 December 2008 Company's paid-up share capital is BD 7,500,000 (2007: BD 7,500,000) and the borrowing to capital and reserves ratio on 31 December 2008 is 1.8 (2007:0.5).

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business. The impact of the level of capital on shareholders' return is also recognised as well as the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. The Company manages its capital structure and makes adjustments to the structure taking account of changes in economic conditions and strategic business plans.


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