SURPASSING EXPECTATIONS

Annual Report 2009

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His Royal Highness Prince Khalifa Bin Salman Al Khalifa

The Prime Minister of the Kingdom of Bahrain

His Majesty King Hamad Bin Isa Al Khalifa

The King of the Kingdom of Bahrain

His Royal Highness Prince Salman Bin Hamad Al Khalifa

The Crown Prince and Deputy Supreme Commander

SURPASSING EXPECTATIONS

IN ONLY ITS THIRD YEAR OF OPERATIONS, NFH POSTED AN EXCELLENT OVERALL PERFORMANCE IN 2009 THAT SURPASSED THE EXPECTATIONS OF ALL STAKEHOLDERS.

PERFORMANCE HIGHLIGHTS INCLUDE RECORD FINANCIAL RESULTS, INNOVATIVE SALES AND MARKETING INITIATIVES, IMPROVED CUSTOMER SERVICE, ENHANCED ORGANISATIONAL CAPABILITY AND SOUND STRATEGIC PROGRESS.

IN A YEAR MARKED BY THE ONGOING GLOBAL FINANCIAL CRISIS AND ECONOMIC DOWNTURN, AND SUBSEQUENT ADVERSE EFFECTS ON GCC REGIONAL MARKETS, SUCH A PERFORMANCE CONSTITUTES A REMARKABLE ACHIEVEMENT.

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COMPANY PROFILE

COMPANY PROFILE

NFH specialises in providing consumer and corporate financing for the purchase of private, commercial and heavy vehicles, together with complementary insurance.

Established in 2005 and commencing operations in 2006, National Finance House (NFH) operates under a Financing Company licence issued by the Central Bank of Bahrain.

NFH services its customers from its main branch at the Company's head office, its branch office in Sitra, and dedicated service desks at the showrooms of the two leading car dealers in Bahrain. In just three years, the Company has built a commanding market share of over 13% in the competitive vehicle financing segment, and established a reputation for the fastest processing of loan applications.

Through its new wholly-owned subsidiary, National Finance House Insurance Services Company, NFH also acts as a broker for motor insurance, home and contents insurance, travel insurance, life insurance and health and medical insurance.

NFH SHAREHOLDERS

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

Sultanate of Oman
Oman National Investment Corporation Holding

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

2009 AT A GLANCE

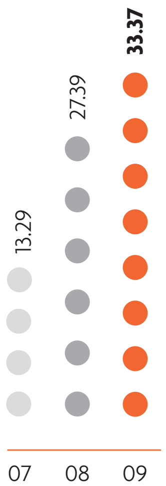
IN 2009, THE COMPANY'S NET PROFIT INCREASED BY A RECORD 71%, WITH MARKET SHARE GROWING BY OVER 20%

- Total operating income reached BD 2.2 million
- Net profits increased by a record 71%
- Total interest income reached BD 3 million
- Market share grew by over 20%
- Return on equity improved to 9.7%
- New 3-year strategy developed
- Corporate Governance Policy updated
- Credit Policy reviewed and enhanced
- New Code of Conduct introduced
- New ALCO Committee established
- Management Team expanded
- Headcount increased by 17.5% with a unique level of 100% Bahrainisation
- New insurance brokerage subsidiary established
- Branch office opened at Sitra
- Permanent service desks set up at Toyota and Nissan showrooms
- New Call Centre launched
- Phase 1 of new Disaster Recovery Site completed
- Investment in new core banking system approved for implementation in 2010

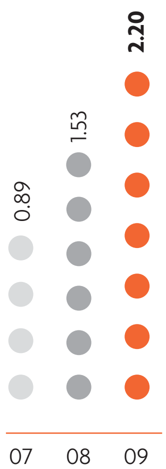
FINANCIAL HIGHLIGHTS

(Bahraini Dinars)	**2009**	2008	2007
Total Assets	33,367,007	27,388,319	13,293,054
Total Liabilities	24,052,270	18,981,148	5,415,459
Total Equity	9,314,737	8,407,171	7,877,595
Operating Income	2,199,210	1,527,275	889,363
Profit for the year	907,566	529,576	242,475
Share Capital	7,500,000	7,500,000	7,500,000

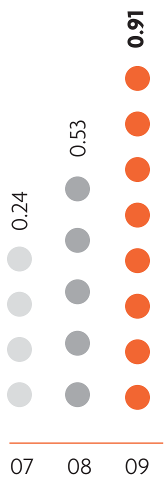
Total Assets
BD millions



Operating Income
BD millions



Profit for the year
BD millions



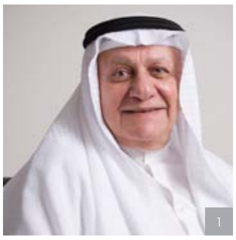
NFH

NURTURING THE POTENTIAL OF OUR PEOPLE

At NFH, our people are our most valuable asset. Accordingly, we invest in nurturing their potential through personal and professional training and development, to help them pursue rewarding careers.


NFH

BOARD OF DIRECTORS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2


3


4


5

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 Company, 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, NFH Insurance Services Company

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
Non-Executive Director
Chairman of Executive Committee

Chief Executive Officer: Bahrain National Holding Company

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

4. Tariq Mutlaq Almutlaq
Non-Executive Director
Member 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, NFH Insurance Services Company

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

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

Group Chief Executive Officer: Oman National Investment Corporation Holding

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

6. Mohammed Farouk Almoayyed
Non-Executive Director
Member of Executive Committee

Managing director:
Almoayyed International Group

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

7. Talal Fuad Kanoo
Non-Executive Director
Member of Executive Committee

Member of Board of Directors:
Bahrain National Holding Company
Bahrain International Circuit
Al Kindi Specialised Hospital

Private Sector Advisory Committee Member:
Economic Development Board of Bahrain

8. Abdul Hakim Al Adhamy
Independent Non-Executive Director
Chairman of Audit Committee

Chairman: Golden Light Company W.L.L. - Jordan

Member of the Board of Directors: Bahrain National Holding Company, Ebrahim Khalil Kanoo Group, Islamic Bank of Britain-U.K.

Chairman of the Audit Committee: Ebrahim Khalil Kanoo Group

Member of the Audit Committee: Commercial Bank of Dubai, U.A.E., Islamic Bank of Britain - U.K.

Member of the Audit & Risk Committee: MERAAS Holding - Dubai, U.A.E.

Member of the Risk & Corporate Governance: Kuwait Finance House - Bahrain

9. Sh. Abdulla Mohd Jabor Al Thani
Non-Executive Director

Chairman: Alkhaleej Insurance & Reinsurance Company - Qatar

Vice Chairman: Qatar Navigation

Member of the Board of Directors: Doha Bank

10. Ali Rashid Al Amin
Non-Executive 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.

CHAIRMAN'S STATEMENT

ON BEHALF OF THE BOARD OF DIRECTORS, I HAVE THE PRIVILEGE TO PRESENT THE ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS OF NATIONAL FINANCE HOUSE (NFH) FOR THE YEAR ENDED 31 DECEMBER 2009. I AM DELIGHTED TO REPORT THAT THE COMPANY ACHIEVED AN EXCELLENT OVERALL PERFORMANCE DURING ITS THIRD FULL YEAR OF OPERATIONS THAT SURPASSED THE EXPECTATION OF ALL STAKEHOLDERS. THIS PERFORMANCE WAS MARKED BY RECORD FINANCIAL RESULTS, INNOVATIVE SALES AND MARKETING INITIATIVES, ENHANCED INSTITUTIONAL CAPABILITY AND ORGANISATIONAL EFFICIENCY, AND SOUND STRATEGIC PROGRESS.

Farouk Yousif Khalil Almoayyed, Chairman

Despite challenging and difficult market conditions, NFH posted a record financial performance in 2009. Total operating income rose by 44% to BD 2.2 million, while net profit for the year was BD 907,566, increasing by 71% over 2008. Shareholders' equity grew by 11% to BD 9.3 million, resulting in an improved return on equity of 9.7%. Total interest income reached BD 3 million compared to BD 1.8 million in 2008, with total assets standing at BD 33.4 million at the end of 2009, representing a growth of 22%. Also during the year, NFH secured additional funding through extended credit lines with existing and new bankers.

These results reflect the strong financial track record of NFH, underlined by its policy to adopt a conservative lending approach while maintaining portfolio quality, and to control expenses. They also reinforce the exceptional progress that the Company has made since commencing operations in 2006. In just three years, NFH has substantially increased its market share, established a solid network of relationships with leading car dealers, and developed a growing loyal client base in the Kingdom of Bahrain.

A number of successful sales and marketing initiatives were introduced during 2009. These include the opening of a branch office in Sitra, and the establishment of dedicated service desks in the showrooms of the two leading car dealers in Bahrain. In addition, a new Call Centre was launched, and promotional campaigns were conducted to increase awareness of the Company and its products.

Throughout the year, we continued to enhance the institutional capability and organisational efficiency of NFH. We strengthened our corporate governance and risk management framework with the introduction of a new Code of Conduct, an updated Credit Policy, and the establishment of a new ALCO Committee. At the same time, due to the slowdown in business, we were able to devote more time and resources to further improving the efficiency of our back office operations. To support the Company's current business activities and future expansion plans, the Board has approved a major investment for a new core banking system.

A key strategic development in 2009 was the establishment of a new wholly-owned subsidiary to provide clients with a brokerage service for all kinds of insurance. This is line with the new three-year strategy that the Company is developing, which includes the introduction of new products and services and the opening of additional branches in Bahrain. Such endeavours will be supported by a further increase in capital.

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

- BD 90,757 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 BD 816,809 to be transferred to Retained Earnings.

Looking ahead, there is no doubt that 2010 will prove to be an equally demanding and difficult year. Although there are encouraging signs of global economic recovery, the future still remains uncertain, and it is possible that the full impact of the financial crisis on the GCC region has yet to unfold. However, given our specialist niche focus, our successful performance in 2009, our strong core underlying business fundamentals, and the strength of our strategic alliances with the Company's shareholders, we remain cautiously optimistic about the future prospects for NFH.

On behalf of the Board of Directors, I would like to express my gratitude to His Majesty the King, His Royal Highness the Prime Minister, and His Royal Highness the Crown Prince, for their wise leadership, enlightened reforms, and encouragement of the private sector and financial services industry in the Kingdom of Bahrain.

Special thanks are also due to Government ministries and bodies, especially the Ministry of Industry and Commerce, the Ministry of Finance, and the Central Bank of Bahrain, for their continued guidance. I also extend 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 during 2009.

Farouk Yousif Khalil Almoayyed
Chairman
25 February 2010


بيت التمويل الوطني
STOP HERE FOR THE
FASTEST CAR LOANS
NFH

NFH

FAST
AND RESPONSIVE

At NFH, we strive to understand our customers' needs.
As well as delivering the fastest approval time for loan applications, our friendly staff respond to customers' enquiries and complaints through our Call Centre and unique 'chat online' service.

MANAGEMENT REVIEW

I AM VERY PLEASED TO REPORT THAT NFH POSTED A RECORD PERFORMANCE IN 2009, WITH STRONG BUSINESS GROWTH THAT SURPASSED ALL EXPECTATIONS. THIS WAS ACHIEVED DESPITE DIFFICULT LOCAL MARKET CONDITIONS RESULTING FROM THE GLOBAL FINANCIAL CRISIS AND ECONOMIC DOWNTURN THAT AFFECTED THE GCC REGION.

Jassim Khalaf, General Manager

Accordingly, NFH was faced with a number of challenges, including a lack of liquidity in the market and tightening of credit facilities by banks; a decline in business growth and consumer confidence; a drop in the purchase of private, commercial and heavy vehicles, and construction equipment; and increased competition from banks and other financial institutions for auto loans.

However, due to the many initiatives implemented by NFH during the year, we succeeded in substantially increasing our market share of the competitive vehicle financing segment from 11% at the end of 2008 to over 13% at the end of 2009, which is a remarkable achievement. At the same time, we expanded our footprint in Bahrain, established a new insurance brokerage subsidiary, and improved our levels of customer service.

In view of deteriorating market conditions, we instigated a thorough analysis of our loan portfolio, and tightened credit criteria in line with our strategy of adopting conservative lending policies while maintaining the quality of the portfolio. We also adopted a proactive approach to existing and potential defaults by customers facing financial difficulties, by discussing options for the rescheduling of their loans. As a result, the number of non-performing-loans (NPLs) at the end of the year remained under control.

SALES & MARKETING

Key initiatives during 2009 included the opening of a new branch office at Sitra, an area that has developed as the main location for vehicle dealers in Bahrain. We also established strategic alliances with EK Kanoo and YK Almoayyed, which entailed the setting up of dedicated service desks at their Toyota and Nissan showrooms. This enables NFH to provide customers with a more personalised service and faster on-site approval for their vehicle financing applications, together with insurance brokerage advice.

Also during the year, we launched special offers to employees of major local companies, and conducted a series of promotional campaigns to increase awareness of NFH and its products and services. Plans for 2010 include the opening of an additional branch office at Muharraq, and the launch of a new Customer Loyalty Programme.

INSURANCE BROKERAGE

A key strategic development during the year was the establishment of a new wholly-owned subsidiary – National Finance House Insurance Services Company (NFHI) – to provide customers with insurance brokerage services. NFHI complements our core vehicle financing activities, and will offer customers a convenient 'one-stop-shop' service, not only for motor insurance but also for building and home contents insurance, travel insurance, life insurance, and health and medical insurance. Since commencing operations in June 2009, the NFHI team has been actively engaged in developing relationships with reputable conventional insurance and takaful companies, and working on launching innovative new products with the companies. NFHI will provide important new fee-income for the Group, which will enhance profitability.

CUSTOMER SERVICE

At NFH, we consider superior customer service to be a critical differentiator in a highly competitive market. For this reason, we place the highest importance on not only meeting, but surpassing, our customers' expectations. In 2009, we maintained our reputation for providing the fastest loan approval processing time. We also established a new Call Centre with a toll-free number, through which to offer a friendly and efficient response to customer enquiries and complaints, and also act as a sales channel for renewals and new business. A major revamp of the NFH website was completed during the year, and will be launched in early 2010. This will incorporate a unique 'Chat Online' service and also facilitate online loan applications. In addition, we plan to introduce a new Customer Loyalty Programme next year, with a Privilege Card for trustworthy clients affording them priority loan application processing, and discounts on products and services from NFH and NFHI, and other selected companies in Bahrain.

PEOPLE

Our people are our most important asset, and in 2009 we continued to invest in their ongoing personal welfare and professional development. We work closely with the Bahrain Institute of Banking & Finance for insurance training and qualifications, and also provide courses in non-financial skills such as communications and customer relationship management. NFH also supports the training and employment initiatives of Tamkeen for Bahraini nationals, and employed two graduates in 2009.

The expansion of the Company's management team during the year illustrates not only our commitment to career development but also equal opportunities, with four females now occupying senior management positions. The NFH corporate culture encourages teamwork and transparency, and incorporates an 'open door' policy and effective internal communications.

TECHNOLOGY

NFH considers information and communications technology to be a critical business enabler and strategic driver. In 2009, the Board approved a major investment in a new integrated ERP core banking system to meet the needs of the Company's current business activities and future expansion plans. The process for the selection of a preferred supplier will begin in early 2010. During the year, NFH completed the final stages of a new Disaster Recovery Site at its Sitra branch to support the implementation of a comprehensive Business Continuity Plan. Emergency generators were also installed at the head office and Sitra branch to ensure continued business operations in the event of a power shut-down or emergency.

FUTURE OUTLOOK

We expect 2010 to be another challenging and difficult year. However, in view of our successful performance in 2009, and the initiatives and investments planned for 2010, supported by the strategic alliances with our shareholders, we are cautiously confident of being able to produce another strong performance in 2010.

I take this opportunity to thank our Directors for their continued support and encouragement, and pay special tribute to the dedication and professionalism of our management and staff during a most challenging and unpredictable year.

MANAGEMENT TEAM

NATIONAL FINANCE HOUSE

1. Jassim Khalaf
General Manager

2. May Al-Mahmood
Head of Financial Control

3. Seddeeqa Almunfaredi
Head of Operations

4. Outhair Falah
Head of Retail

5. Hussain Al Sayegh
Head of Collection & Legal Affairs

6. Ameera Al Saqqay
HR & Administration Officer

Hussain Eid
Assistant Manager - Information Technology

Hafedh Shams
Senior Marketing & PR Officer

Ali Ridha Mohammed
Sitra Branch Manager

Mazin Ebrahim
Assistant Branch Manager - Main Branch

NFH INSURANCE SERVICES COMPANY

7. Naheed Najaf
General Manager

CORPORATE GOVERNANCE AND RISK MANAGEMENT

NATIONAL FINANCE HOUSE (NFH) IS COMMITTED TO ESTABLISHING AND MAINTAINING THE HIGHEST STANDARDS OF CORPORATE GOVERNANCE AND RISK MANAGEMENT IN LINE WITH INDUSTRY BEST PRACTICE, IN ORDER TO ENSURE FAIRNESS FOR ALL STAKEHOLDERS, AND TO ACHIEVE THE HIGHEST LEVELS OF ORGANISATIONAL EFFICIENCY AND EFFECTIVENESS. KEY DEVELOPMENTS IN 2009 INCLUDE AN UPDATE OF THE COMPANY'S CORPORATE GOVERNANCE POLICY, THE INTRODUCTION OF A NEW CODE OF CONDUCT, AN ENHANCED CREDIT POLICY, AND THE ESTABLISHMENT OF A NEW ALCO COMMITTEE.

CORPORATE GOVERNANCE

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 skills to properly oversee and direct Management; a Code of Conduct to guide directors, managers and staff in their day-to-day 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's Board of Directors consists of a minimum of six and a maximum of 10 members elected by the Ordinary General Meeting by secret ballot for a period of three years renewable. The full Board meets at least four times each year. The Board 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.

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

Executive Committee

This committee consists of three 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 three non-executive directors and one of the directors is a qualified and experienced accountant. 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 qualified and experienced management team, and three committees: Management Committee, Credit Committee and ALCO Committee.

Code of Conduct

The Board has approved a comprehensive Code of Conduct for the directors, management, and staff. The Code binds signatories to the highest standards of personal and professional behaviour, and due diligence in discharging their duties. It also outlines areas of conflict of interests and confidentiality, and the responsibilities of signatories to reject bribery, kickbacks and corruption, and adhere to best employment practices.

NFH

HONESTY AND TRANSPARENCY

At NFH, we adopt the highest standards of ethical behaviour.
Honesty and transparency underscore the enduring, equitable, and mutually-beneficial relationships that we have established with all our stakeholders.


NFH
التمويل

CORPORATE GOVERNANCE AND RISK MANAGEMENT CONTINUED

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 customer due diligence policy, processes 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
NFH is exposed to the following main risks:
- Credit risk
- Liquidity risk
- Market risk (including interest rate and currency risks)
- Operational risk
- Compliance risk
- Capital management

Credit Committee
The Company has established a Credit Committee, which consists of the General Manager, 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.

ALCO Committee
The Company has established an Asset & Liability Committee (ALCO), which is a sub-committee of the Management Committee, and consists of the General Manager, Head of Operations, and Head of Financial Control. ALCO is responsible for managing the assets and liabilities of the Company to ensure that sufficient funds are readily available to meet commitments, under both normal operating conditions and in the event of a crisis. ALCO is also responsible for managing the Company's liquidity risk and reviewing the interest rate charged on loans.

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. The development of a fully-fledged disaster recovery site, located at the Sitra branch office, is currently in the final stages of implementation.

CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the accompanying consolidated financial statements of National Finance House BSC (c) ("the Company"), and its subsidiary (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statements of comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Responsibility of the directors for the consolidated financial statements
The Directors of the Company are responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2009, and its financial performance and 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 consolidated 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 consolidated 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 2009 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

25 February 2010
Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2009 (Bahraini Dinars)

	Note	2009	2008
ASSETS			
Cash and cash equivalents	4	2,221,732	1,329,286
Loans to customers	5	30,811,416	25,770,166
Furniture, fixtures and equipment	6	256,211	257,490
Other assets		77,648	31,377
Total assets		**33,367,007**	27,388,319
LIABILITIES AND EQUITY			
Liabilities			
Bank borrowings	8	22,888,889	15,000,000
Other liabilities	9	1,163,381	3,981,148
Total liabilities		**24,052,270**	18,981,148
Equity			
Share capital	10	7,500,000	7,500,000
Share premium		112,500	112,500
Statutory reserve		170,224	79,467
Retained earnings		1,532,013	715,204
Total equity (page 26)			
		9,314,737	8,407,171
Total equity and liabilities		**33,367,007**	27,388,319

Chairman

Deputy Chairman

The Board of Directors approved the consolidated financial statements consisting of pages 23 to 44 on 25 February 2010.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009 (Bahraini Dinars)

	Note	2009	2008
Interest income	11	3,036,945	1,811,939
Interest expense		(991,578)	(419,967)
Net interest income		**2,045,367**	1,391,972
Fees and commission income		334,172	297,753
Fees and commission expense		(180,329)	(162,450)
Net fee and commission income		**153,843**	135,303
Operating income		**2,199,210**	1,527,275
Salaries and related costs		702,122	524,049
General and administrative expenses	12	384,014	288,479
Depreciation	6	85,813	47,606
Impairment on loans to customers		119,695	137,565
Total operating expenses		**1,291,644**	997,699
Profit for the year		**907,566**	529,576
Other comprehensive income		**-**	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**907,566**	529,576

Chairman

Deputy Chairman

The Board of Directors approved the consolidated financial statements consisting of pages 23 to 44 on 25 February 2010.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2009 (Bahraini Dinars)

	Note	2009	2008
Operating activities			
Interest, fees and commission received		3,371,117	2,109,692
Loans disbursed		(15,972,980)	(19,337,877)
Loan repayments		7,849,898	8,090,922
Payments for staff salaries and related costs		(709,642)	(481,836)
Payments for other operating expenses		(525,556)	(448,643)
Cash flows from operating activities		**(5,987,163)**	(10,067,742)
Investing activities			
Purchase of furniture, fixtures and equipment	7	(84,534)	(162,112)
Cash flows from investing activities		**(84,534)**	(162,112)
Financing activities			
Proceeds from bank borrowings, net		7,888,889	11,000,000
Interest paid		(924,746)	(416,478)
Cash flows from financing activities		**6,964,143**	10,583,522
Net increase in cash and cash equivalents		**892,446**	353,668
Cash and cash equivalents at 1 January		1,329,286	975,618
Cash and cash equivalents as at 31 December	4	**2,221,732**	1,329,286

The consolidated financial statements consist of pages 23 to 44

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009 (Bahraini Dinars)

2009	**Share capital**	**Share premium**	**Statutory reserve**	**Retained earnings**	**Total equity**
At 1 January	7,500,000	112,500	79,467	715,204	8,407,171
Profit for the year (page 24)	-	-	-	907,566	907,566
Total comprehensive income for the year	**-**	**-**	**-**	**907,566**	**907,566**
Transfer to statutory reserve	-	-	90,757	(90,757)	-
At 31 December	**7,500,000**	**112,500**	**170,224**	**1,532,013**	**9,314,737**

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 comprehensive income for the year	-	-	-	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

The consolidated financial statements consist of pages 23 to 44

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009 (Bahraini Dinars)

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 finance 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.

During the year, the Company established a wholly owned subsidiary, National Finance House Insurance Services Company SPC ("NFHI"), for the purpose of acting as an insurance broker for all kinds of insurance, including life assurance. NFHI was registered with the Ministry of Industry and Commerce on 6 April 2009 with registration no. 71382.

NFHI was established for the purpose of mediating in all kinds of insurance and has the right to have interest or participate in any type of association which helps in achieving its purpose.

2. BASIS OF PREPARATION

a. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and Bahrain Commercial Companies Law 2001.

b. Basis of measurement

The consolidated 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.

c. Functional and presentation currency

The consolidated financial statements are presented in Bahraini Dinars, which is the Group's functional and presentation currency.

d. Use of estimates and judgments

The preparation of consolidated 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009 (Bahraini Dinars)

2. Basis of preparation (continued)

e. Standards, amendments and interpretations effective on or after 1 January 2009

During the year, the Group adopted Revised IAS 1 "Presentation of Financial Statements", amended IFRS 7 "Financial Instruments: Disclosures" and improvements to IFRS issued in May 2008 on their required application date of 1 January 2009.

IAS 1 (revised) - *Presentation of Financial Statements*

Revised IAS 1 "Presentation of Financial Statements" introduces the term "total comprehensive income", which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either:

- a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or
- In an income statement and a separate statement of comprehensive income.

The Group has opted to present the total comprehensive income in a single statement of comprehensive income. The adoption of revised IAS 1 impacted the type and amount of disclosures made in the consolidated financial statements, but had no impact on the retained earnings of the Group. In accordance with the transitional requirements of the standard, the Group has provided full comparative information.

Amendments to IFRS 7 - Financial Instruments: Disclosures

The IASB published amendments to IFRS 7 in March 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures but does not have an impact on the financial position or the comprehensive income of the Group.

Improvements to IFRS

Improvements to IFRS were issued in May 2008 which contains numerous amendments to IFRS that the IASB considers no-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes to presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. The amendments effective for annual periods beginning on or after 1 January 2009 have been adopted by the Group and there have been no material changes to accounting policies as a result of these amendments.

f. Standard and interpretations issued but not yet effective

During the year the following standards, interpretations and amendments to standards were issued, but not yet effective for the year ended 31 December 2009 and have not been applied in preparing the consolidated financial statements of the Group. These are mandatory for the Group's accounting periods beginning on or after 1 July 2010 or later periods and are expected to be relevant to the Group.

IFRS 9 Financial instruments part 1: Classification and measurement

IFRS 9 was issued in November 2009 and is applicable for reporting period beginning on or after 1 January 2013. This standard replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Adoption of the standard is not expected to have a significant impact on the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009 (Bahraini Dinars)

2. Basis of preparation (continued)

Improvements to IFRS (issued in April 2009)
Improvements to IFRS issued in April 2009 contained numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes to presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. The amendments effective for annual periods beginning on or after 1 January 2010 with earlier adoption permitted. No material changes to accounting policies are expected as a result of these amendments.

g. Early adoption of standards
The Group did not early adopt new or amended standards in 2009.

3. SIGNIFICANT ACCOUNTING POLICIES

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

a. Basis of consolidation

i. Subsidiaries
Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. Entities in which the Company owns more than half of the voting power are considered as its subsidiaries. The financial statements of a subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases.

ii. Transactions eliminated on consolidation
Intragroup balances and income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009 (Bahraini Dinars)

3. Significant accounting policies (continued)

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 Group and the related direct 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 Group 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 Group 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 Group considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009 (Bahraini Dinars)

3. Significant accounting policies (continued)

(vi) Identification and measurement of impairment (continued)
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 Group 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 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 Group 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009 (Bahraini Dinars)

3. Significant accounting policies (continued)

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 Group'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 Group'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 Group chooses to carry the liabilities at fair value through the income statement.

l. Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. 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 Group 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 Group at the balance sheet date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009 (Bahraini Dinars)

4. CASH AND CASH EQUIVALENTS

	2009	2008
Cash in hand and at bank	2,111,890	1,226,249
Bank term deposits	109,842	103,037
	2,221,732	1,329,286

5. LOANS TO CUSTOMERS

	2009	2008
Gross loans	31,191,416	26,030,471
Less: impairment allowance	(380,000)	(260,305)
At 31 December	30,811,416	25,770,166

The movement in the allowance for impairment was as follows:

	2009	2008
At 1 January	260,305	122,784
Charge for the year	119,695	137,521
At 31 December	380,000	260,305

6. FURNITURE, FIXTURES AND EQUIPMENT

	Furniture and equipment	Computer software	Computer hardware	Motor Vehicles	2009 Total	2008 Total
Cost						
At 1 January	242,124	58,657	59,366	6,600	366,747	204,635
Additions	27,263	24,928	27,065	5,278	84,534	162,112
At 31 December	269,387	83,585	86,431	11,878	451,281	366,747
Depreciation						
At 1 January	52,275	28,919	26,853	1,210	109,257	61,651
Charge for the year	50,318	14,215	19,022	2,258	85,813	47,606
At 31 December	102,593	43,134	45,875	3,468	195,070	109,257
Net book value						
At 31 December 2009	166,794	40,451	40,556	8,410	256,211	
At 31 December 2008	189,849	29,738	32,513	5,390	257,490	257,490

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009 (Bahraini Dinars)

7. 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	**2009**	2008
Expenses		
Insurance premium paid to a shareholder	55,533	32,948
Software maintenance charges	5,000	5,000

Related party balances	**2009**	2008
Amounts payable for vehicles financed (shareholders)	582,029	3,243,700
Accrued expenses (shareholders)	3,700	9,447
Prepaid expenses (shareholders)	8,871	6,596
Amounts payable to insurance companies (shareholders)	1,057	-

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:

	2009	2008
Key management compensation	264,364	229,619
Board of directors remuneration and committee meeting allowances	19,500	4,000
Staff loan disbursed	18,000	-

8. BANK BORROWINGS

	2009	2008
Repayable within one year	4,666,667	3,000,000
Repayable after one year	18,222,222	12,000,000
	22,888,889	15,000,000

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 3.83 % to 5.41 % p.a. (2008: 4.33 % to 5.69% p.a.).Of the above borrowings, BD 5.89 million (2008: BD 3 million) is secured by assignment of receivables (to the extent of 120% of such loan outstanding) and the remaining BD 17 million (2008: BD 12 million) is unsecured.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009 (Bahraini Dinars)

9. OTHER LIABILITIES

	2009	2008
Amounts payable for vehicles financed		
• to related parties (major shareholders)	582,029	3,243,700
• to other parties	175,486	539,307
Amount payable to insurance companies		
• to related parties (major shareholders)	1,057	-
• to other parties	62,298	-
Accrued expenses		
• to related parties (major shareholders)	3,700	9,447
• to other parties	338,811	188,694
	1,163,381	3,981,148

10. SHARE CAPITAL

	2009	2008
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

11. INTEREST INCOME

	2009	2008
Interest earned on loans to customers	3,030,386	1,804,695
Interest income from term deposits	6,559	7,244
	3,036,945	1,811,939

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009 (Bahraini Dinars)

12. GENERAL AND ADMINISTRATIVE EXPENSES

	2009	2008
Rent	44,000	27,300
Communication expense	22,119	12,552
Office expenses	119,408	64,094
Printing and stationery expense	17,504	15,959
Computer maintenance and support expenses	24,821	10,737
Legal and professional charges	62,240	67,741
Advertising and publicity expense	93,922	90,096
	384,014	288,479

13. 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 borrowings from banks, related party payable and other liabilities. Accounting policies in respect of financial assets and financial liabilities are set out in Note 3.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009 (Bahraini Dinars)

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Credit risk (continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009 (Bahraini Dinars)

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Credit risk (continued)

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:

	2009	2008
Cash and cash equivalents	2,221,732	1,329,286
Loans to customers	30,811,416	25,770,166
	33,033,148	27,099,452

Concentration of credit risk

The Company monitors concentration of credit risk by sector. An analysis of concentrations of credit risk on financial assets at the reporting date is shown below.

	2009	2008
Concentration by sector		
Corporate	18,336,846	16,000,005
Retail	12,474,570	9,770,161
Financial institutions	2,220,412	1,328,686
	33,031,828	27,098,852

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:

	2009	2008
Individually impaired and written off – carrying amount	-	-
Past due but not impaired	353,304	74,776
Less: Collective impairment allowance	(75,859)	(748)
Carrying amount	277,445	74,028
Neither past due nor impaired	30,838,112	25,955,695
Less: Collective impairment allowance	(304,141)	(259,557)
Carrying amount	30,533,971	25,696,138
Carrying amount	**30,811,416**	25,770,166

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009 (Bahraini Dinars)

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Credit risk (continued)

Non-performing loans are identified as loans which are past due by 90 days or more. Total non-performing loans as at 31 December 2009 were BD 1,129,198 (2008: BD 179,091).

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009 (Bahraini Dinars)

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Liquidity risk (continued)

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 2009	Carrying amount	Contractual cash flows	6 months or less	6 - 12 months	More than 12 months
Borrowings from banks	22,888,889	25,419,623	4,836,750	780,817	19,802,056
Accounts payable	820,870	820,870	820,870	-	-
	23,709,759	**26,240,493**	**5,657,620**	**780,817**	**19,802,056**

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009 (Bahraini Dinars)

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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 below:

	Fixed rate	Floating rate	Non-interest earning	Total
31 December 2009				
Cash and cash equivalents	-	109,842	2,111,890	2,221,732
Loans to customers	30,811,416	-	-	30,811,416
Other assets	-	-	77,648	77,648
	30,811,416	**109,842**	**2,189,538**	**33,110,796**
Other liabilities	-	-	1,163,381	1,163,381
Borrowings from banks	-	22,888,889	-	22,888,889
	-	**22,888,889**	**1,163,381**	**24,052,270**
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009 (Bahraini Dinars)

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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 2008.

	Income statement		**Equity**	
	100 bp increase	100 bp decrease	100 bp Increase	100 bp decrease
31 December 2009				
Borrowings from banks	**194,654**	**194,654**	**194,654**	**194,654**
31 December 2008				
Borrowings from banks	77,137	77,137	77,137	77,137

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	Non- interest bearing
31 December 2009							
Cash and cash equivalents	2,221,732	2,221,732	-	-	-	-	-
Loans to customers	30,811,416	2,586,162	2,409,666	4,746,154	19,795,497	1,273,937	-
Other assets	77,648	-	-	-	-	-	77,648
	33,110,796	**4,807,894**	**2,409,666**	**4,746,154**	**19,795,497**	**1,273,937**	**77,648**
Borrowings from banks	22,888,889	1,166,667	3,166,667	333,333	18,222,222	-	-
Other liabilities	1,163,381	-	-	-	-	-	1,163,381
	24,052,270	**1,166,667**	**3,166,667**	**333,333**	**18,222,222**	**-**	**1,163,381**
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	17,269,585	1,266,605	-
Other assets	31,377	-	-	-	-	-	31,377
	27,130,829	3,167,041	1,796,674	3,599,547	17,269,585	1,266,605	31,377
Borrowings from banks	15,000,000	3,000,000	-	-	12,000,000	-	-
Other liabilities	3,981,148	-	-	-	-	-	3,981,148
	18,981,148	3,000,000	-	-	12,000,000	-	3,981,148

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009 (Bahraini Dinars)

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009 (Bahraini Dinars)

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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 2009 Company's paid-up share capital is BD 7,500,000 (2008: BD 7,500,000) and the borrowing to capital and reserves ratio on 31 December 2009 is 2.46 (2008:1.8).

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.

14. RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform to the presentation in the current year. Such reclassifications do not affect previously reported net profit or other comprehensive income.