SHARPER BUSINESS
CUSTOMER FOCUSED

NFH
التمويل الوطني

ANNUAL REPORT 2010

NATIONAL FINANCE HOUSE B.S.C. (closed)

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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
of the Kingdom of Bahrain
and Deputy Supreme
Commander

SHARPER BUSINESS. CUSTOMER FOCUSED.

SINCE 2006 WHEN WE OPENED OUR FIRST BRANCH NEAR ADHARI PARK WE HAVE GROWN TO OFFER EVER MORE EFFICIENT, TARGETED AND RELIABLE SERVICES TO A GROWING CUSTOMER BASE. THIS HAS ALSO BEEN ACCOMPANIED BY A GROWING REPUTATION AS A CUSTOMER FOCUSED ORGANISATION OFFERING PERSONALISED SERVICES.

THE INTRODUCTION OF A NEW CALL CENTRE STAFFED BY KNOWLEDGEABLE AND FRIENDLY CUSTOMER SERVICE AGENTS, EASY PARKING AT ALL OUR LOCATIONS AND A NEW USER-FRIENDLY WEBSITE EXPERIENCE MAKES US THE ONE-STOP-SHOP FOR ALL YOUR VEHICLE FINANCING AND INSURANCE NEEDS AND SO MUCH MORE.

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COMPANY PROFILE

COMPANY PROFILE

National Finance House (NFH) specialises in providing consumer and corporate financing for the purchase of private, commercial and heavy vehicles, supplemented by independent insurance brokerage services.

Established in 2005 and commencing operations in 2006, NFH operates under a Financing Company licence issued by the Central Bank of Bahrain. Capitalised at BD 7.5 million, the Company is backed by a strong and diversified shareholding base of prominent investors across the GCC region.

In just four years, the Company has built a dominant market share in the competitive vehicle financing segment of the Kingdom of Bahrain, and has established a reputation for the highest levels of customer service and the fastest processing of loan applications.

Through its wholly-owned subsidiary, National Finance House Insurance Services Company, NFHI acts as an insurance broker for motor, building and home contents, travel, life, and health and medical insurance.

NFH SHAREHOLDERS

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

Sultanate of Oman
Oman National Investment Corporation Holding

Kingdom of Saudi Arabia
Almutlaq Group

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

VISION, MISSION AND VALUES

OUR VISION

To be the first-choice provider of finance solutions.

OUR MISSION

Building on the vast experience of our team, NFH aims to deliver innovative financial solutions and services, bringing knowledge, experience and creativity to every client relationship.

OUR CORE VALUES

Integrity: We will act fairly, honestly, ethically and respectfully in all our business transactions.
Innovation: We will be creative, flexible and innovative, both in developing opportunities and in solving problems.
Excellence: We will strive to achieve excellence in every area of our operations, and to provide our customers with a first class, personal, speedy and responsive service.

2010 AT A GLANCE

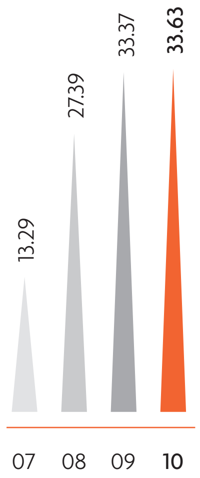
DESPITE CHALLENGING AND DIFFICULT MARKET CONDITIONS, THE COMPANY'S NET PROFIT FOR THE YEAR REACHED BD 894,124 WITH MARKET SHARE GROWING BY OVER 13%.

- Total Equity rose by 10 %
- First year dividends declared of 5 % of paid up capital
- Loans to customers grew by 1 %
- Total revenue increased by 2 %
- Return on Average Equity of 9.4 %
- Return on Average Total Assets of 2.7 %
- Market share grew to over 13%
- Corporate Governance and Risk Management Framework enhanced
- Management Team expanded
- Unique level of 100% Bahrainisation
- Call Centre team and services expanded
- Disaster Recovery Site installed and tested
- New website launched, featuring unique Live Chat

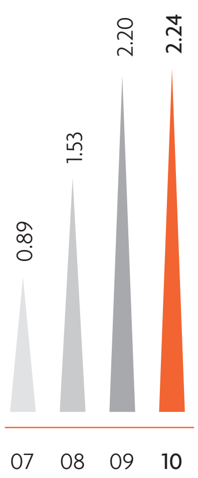
FINANCIAL HIGHLIGHTS

(Bahraini Dinars)	2010	2009	2008	2007
Total Assets	33,632,420	33,367,007	27,388,319	13,293,054
Total Liabilities	23,423,559	24,052,270	18,981,148	5,415,459
Total Equity	10,208,861	9,314,737	8,407,171	7,877,595
Operating Income	2,243,854	2,199,210	1,527,275	889,363
Profit for the year	894,124	907,566	529,576	242,475
Share Capital	7,500,000	7,500,000	7,500,000	7,500,000

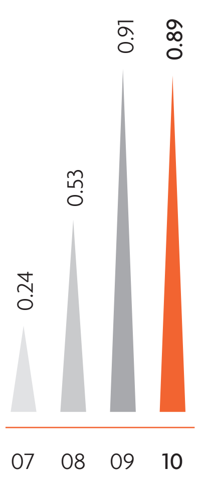
Total Assets
BD millions



Operating Income
BD millions



Profit for the year
BD millions



BOARD OF DIRECTORS

Farouk Yousuf Khalil Almoayyed

Chairman
Since 2006

Chairman: Y. K. Almoayyed & Sons, Bahrain; Y. K. Almoayyed & Sons Property Co., Bahrain; Almoayyed International Group, Bahrain; National Bank of Bahrain, Bahrain; Bahrain National Holding Co., Bahrain; Bahrain Duty Free Shop Complex, Bahrain; Gulf Hotels Group, Bahrain; Ahlia University, Bahrain

Deputy Chairman: Bahrain Emirates Insurance Co., Bahrain

Director: Investcorp Bank, Bahrain

Chairman of Board of Trustees: Ibn Khuldoon National School, Bahrain

Fuad Ebrahim Kanoo

Deputy Chairman
Since 2006

Chairman: Al Ahli Club, Bahrain; NFH Insurance Services Co., Bahrain

Vice Chairman: Ebrahim Khalil Kanoo Group, Bahrain

Member of Board of Directors: General Trading & Food Processing Co., Bahrain; Bahrain Water Bottling & Beverages, Bahrain

Mahmood Al Soufi

Non-Executive Director
Chairman of Executive Committee
Since 2006

Chief Executive Officer: Bahrain National Holding Co., Bahrain

Chairman: MASY Holding, Bahrain; Ultra Tune Middle East WLL, Bahrain

Member of Board of Directors: Bahrain National Life Assurance Co. BSC; Gulf Insurance Institute, Bahrain; United Insurance Co., Bahrain; Bahrain Emirates Insurance Co., Bahrain; Al Kindi Specialized Hospital, Bahrain

Tariq Mutlaq Almutlaq

Non-Executive Director
Member of Audit Committee
Since 2007

Managing Partner: Almutlaq Group, K.S.A

President: Almutlaq Real Estate Investment Co., K.S.A

Chairman: Almutlaq Real Estate Investment Co., K.S.A; Alwaha Petrochemical Co., K.S.A; Shuaa Capital Saudi Arabia, K.S.A; Electronic Payment Solutions, K.S.A

Vice Chairman: Arabia Insurance Co., K.S.A; NFH Insurance Services Co., Bahrain

Member of Board of Directors; Almutlaq Group, K.S.A; NAPCO Group Co., K.S.A; Sahara Petrochemical Co., K.S.A; National Installment Co., K.S.A; ACWA Power International, K.S.A; Saudi Orix Leasing Co., K.S.A

Al Sayyida Rawan Ahmed Al-Said

Non-Executive Director
Member of Audit Committee
Since 2008

Managing Director & Group CEO: Oman National Investment Corporation Holding, Oman

Chairman: Oman Investment Corporation, Oman; GCC NIFCO Fund

Deputy Chairman: National Equity Fund, Oman

Member of Board of Directors: National Investment Funds Co. (NIFCO), Oman; National Bank of Oman, Oman; Oman Oil Marketing Co., Oman; Royal & Sun Alliance, Oman; Oman Orix Leasing Co., Oman

Chairman of Audit Committee: National Bank of Oman, Oman

Member of the Audit Committee: Oman Oil Marketing Co., Oman

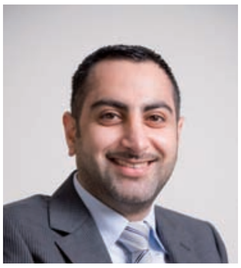
Member of the Risk Committee: National Bank of Oman, Oman

Mohammed Farouk Almoayyed

Non-Executive Director
Member of Executive Committee
Since 2006

Managing Director: Almoayyed International Group, Bahrain

Member of Board of Directors: Y.K. Almoayyed & Sons, Bahrain; Almoayyed Contracting Group, Bahrain; Bahrain Maritime and Mercantile International (BMMI), Bahrain; Banader Hotels Co. BSC, Bahrain; Mirai Restaurant WLL, Bahrain; NFH Insurance Services Co., Bahrain



Talal Fuad Kanoo

Non-Executive Director
Member of Executive Committee
Since 2006

Director: Ebrahim Khalil Kanoo Group Corporate Services, Bahrain

Member of Board of Directors: Bahrain National Holding Co., Bahrain; Bahrain International Circuit, Bahrain

Executive Director; Motor City, Bahrain

Sh. Abdulla Mohd Jabor Al Thani

Non-Executive Director
Since 2007

Chairman: Al Khaleej Takaful Group, Qatar

Member of the Board of Directors: Doha Bank, Qatar

Abdul Hakim Al Adhamy

Independent Non-Executive Director
Chairman of Audit Committee
Since 2009

Member of Board of Directors: Bahrain National Holding Co., Bahrain

Director & Chairman of Audit Committee: Bahrain National Insurance Co., Bahrain; Bahrain National Life Assurance Co., Bahrain; Ebrahim Khalil Kanoo Group, Bahrain; Capital Management House, Bahrain

Member of the Audit, Risk, Corporate Governance & Compliance Committee: Kuwait Finance House, Bahrain

Member of the Audit Committee: Dubai Commercial Bank, U.A.E.

CHAIRMANS' STATEMENT

ON BEHALF OF THE BOARD OF DIRECTORS, IT IS MY PLEASURE TO PRESENT THE ANNUAL REPORT OF NATIONAL FINANCE HOUSE BSC AND ITS SUBSIDIARIES, FOR THE YEAR ENDED 31 DECEMBER 2010. I AM DELIGHTED TO ANNOUNCE THAT THE GROUP CONTINUED TO MAINTAIN A STRONG FINANCIAL PERFORMANCE OVER THE LAST FIVE CONSECUTIVE YEARS SINCE ITS INCEPTION, REMARKING CONTINUED PROFITABLE RESULTS, CONSISTENT BUSINESS GROWTH, INNOVATIVE CUSTOMER SERVICE INITIATIVES, ENHANCED INSTITUTIONAL CAPABILITY, AND SOUND STRATEGIC PROGRESS.

Farouk Yousif Khalil Almoayyed
Chairman

This encouraging performance was achieved despite challenging and difficult market conditions arising from the ongoing impact of the global financial crisis on the GCC region. A stressed banking sector, lethargic credit activity, a decline in business growth and consumer confidence, a drop in new vehicle registrations, and increased competition in the vehicle financing sector, were among the many challenges facing the Group during 2010.

Against this backdrop, I am pleased to report that the Group posted another strong financial performance in 2010. Net profit for the year was BD 894,124 compared with BD 907,566 for 2009. Shareholders' equity grew by 10% to BD 10.2 million, resulting in a return on average equity of 9.2%. Total operating income increased to BD 2.24 million compared to BD 2.20 million in 2009, while total operating expenses rose to BD 1.35 million, reflecting higher salaries and related costs due to a rise in the Group's headcount. Total loans to customers given in 2010 amounted to BD 13.7 million. At the end of the year, total assets stood at BD 33.6 million, representing a growth of 1% over 2009.

These results reflect the continued strong financial track record of the Group, underlined by its policy to adopt a conservative lending approach while maintaining portfolio quality, and to control expenses. They also illustrate the success of our vehicle financing and newly-established insurance brokerage activities, despite difficult market conditions and intense competition. I am particularly pleased to report that the Group was able to maintain a high market share in vehicle financing market of 13% during 2010, reinforcing the exceptional progress that the Group has made since commencing operations just four years ago.

We continued to improve both the quality and scope of service to our customers during the year, with a number of new initiatives. These include the launch of the new website with enhanced features, and the expansion of the Call Centre with additional staff and new services. I am delighted to report that new customers in 2010 rated their satisfaction with the Company at 97%, which underlines the success of our staff in delivering superior levels of customer service.

Throughout the year, we continued to enhance the institutional capability and organisational efficiency of the Group. We reviewed and revised our corporate governance policy in line with new Code of Corporate Governance for the Kingdom of Bahrain issued by the Ministry of Industry & Commerce during the year, and additional requirements of the Central Bank of Bahrain. At the same time, we strengthened our risk management function.

In light of improving the efficiency of our back office operations, the Group continued enhancing its Information Technology and investing in the training and development of our staff. We continued our support for the local community during the year, with particular focus on developing the potential of young people, as well as making donations to a number of charitable institutions.

The Board of Directors is pleased to propose cash dividends of 5% of the paid-up capital (BD 375,000) out of the retained earnings as at 31 December 2010, subject to Shareholders' approval at the forthcoming Annual General Meeting to be held on 30 March 2011.

Looking ahead, 2011 will undoubtedly be another challenging and unpredictable year. However, there are encouraging signs of a moderate revival in the global economic environment, while the outlook for the GCC region remains positive. With our successful performance in 2010, we remain cautiously optimistic about the future prospects for the Group.

During the year, there were changes to the Company's shareholding structure and the composition of the Board: Gulf Finance Corporation (GFC) sold its 10% stake in the Company to four other shareholders; and Mr. Ali Rashid Al Amin and Mr. Abdul Hakim Al Adhamy resigned from the Board.

I would like to thank GFC for their support during our formative years, and to thank both Mr. Al Amin and Mr. Al Adhamy for their valuable contribution during their term of office.

On behalf of the Board of Directors, I 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 & 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 the Group for their hard work and dedication during 2010.

Farouk Yousif Khalil Almoayyed
Chairman
1 March 2011

GENERAL MANAGERS' REPORT

I AM PLEASED TO REPORT THAT NFH POSTED ANOTHER STRONG OPERATIONAL PERFORMANCE IN 2010, DURING WHICH WE CONTINUED TO GROW OUR BUSINESS IN LINE WITH THE NEEDS AND EXPECTATIONS OF OUR CUSTOMERS.

Jassim Khalaf,
General Manager

Our progress during the year is covered in detail by the Review of Operations, but I would just like to highlight some of key achievements and developments. For the fourth consecutive year, we increased our market share of the vehicle financing segment, while our insurance brokerage subsidiary, NFHI, posted strong growth in its first full year of operations. Importantly, we 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 at the end of the year remained under control.

During 2010, we increased our headcount, strengthened the management team, and maintained our investment in training and development. Besides, we continued to streamline our back office operating processes and procedures.

New customer service initiatives introduced in 2010 include the launch of our new website and the expansion of our Call Centre. I am delighted to report that we achieved a 97 % customer satisfaction rating in 2010, and maintained our reputation for providing the fastest loan approval processing time.

The outlook for 2011 remains extremely challenging. We have set ourselves some ambitious business goals and objectives by building upon our successful performance in 2010, we believe these to be achievable. New initiatives and investments planned for 2011 include the introduction of new products and services such as personal loans; the expansion of service delivery channels, including a branch at Muharraq, online payment service and new payment kiosks; and the signing of additional dealer relationships. I am confident that these will support a continued successful performance by NFH in 2011, which marks the fifth year of operations for our young but fast-growing Company.

I would like to thank our Directors for their continued guidance, support and encouragement; and to pay special tribute to the professionalism and commitment of our management and staff. During a most challenging year, they have once again contributed to the continued growth and success of NFH.

Jassim Khalaf
General Manager

WIDER CHOICE

WE STARTED OPERATIONS IN 2006 WITH ONE BRANCH SITUATED AT OUR HEAD OFFICE NEAR ADHARI PARK. IN 2009, WE OPENED A NEW BRANCH OFFICE IN SITRA, TOGETHER WITH SERVICE DESKS AT THE TOYOTA AND NISSAN SHOWROOMS. ALL LOCATIONS OFFER EASY PARKING AND A ONE-STOP-SHOP SERVICE FOR CUSTOMERS' COMPLETE VEHICLE FINANCING AND INSURANCE REQUIREMENTS.

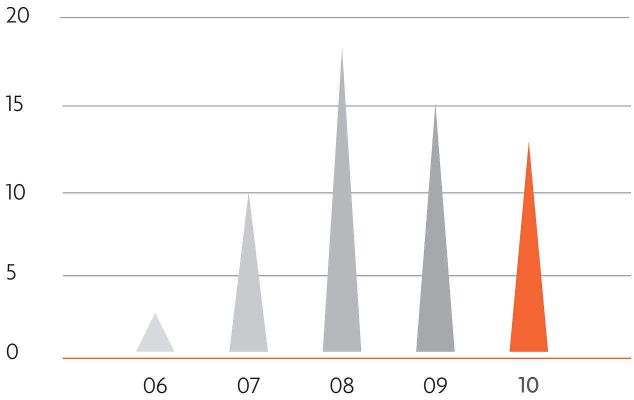
REVIEW
OF OPERATIONS

VEHICLE FINANCING

Difficult local market conditions during 2010 resulted in reduced consumer and corporate spending on new vehicles in Bahrain. New vehicle registrations dropped by 3% compared to 2009. New credit registrations, which accounted for 38% of total registrations in 2010, fell by 9%. NFH advanced 1,805 loans with a total value of BD 13.67 million during the year, compared with 1,975 loans totalling BD 15.97 million in 2009. Despite increased competition and heavy discounting promotions by some financial institutions in 2010, NFH successfully continued to maintain a strong market share for the fourth consecutive year, rising to 13%.

The Company's branch office at Sitra, which was opened in 2009, has proved to be very popular with our customers and car delaers. The dedicated service desks at the Toyota and Nissan showrooms, which were also established last year, have likewise been well-received. These provide customers with a more personalised service and faster on-site approval for their vehicle financing applications, together with complementary insurance brokerage services. During 2010, NFH maintained its reputation for providing the fastest loan approval processing time in the industry.

Loans Financed
millions



CUSTOMER SERVICE

In a highly competitive market, superior customer service is a strategic differentiator and key factor in the continued growth of NFH. A number of key initiatives designed to enhance customer service were introduced in 2010. They include the launch of the Company's revamped website, which features a unique Live Chat service – the first of its kind in Bahrain for a Finance Company – allowing customers to communicate online with a Call Centre customer service agent. The website also enables customers to make vehicle financing and insurance applications online. During the year, the Call Centre team was expanded to keep pace with the growing number of enquiries, both for vehicle financing and insurance, and to provide additional services. These include a weekly telephone call to new customers to ensure their satisfaction with NFH services; the average satisfaction rating for 2010 was 97%.

MARKETING

During 2010, NFH conducted a series of promotional campaigns to increase awareness of NFH and its products and services, covering both vehicle financing and insurance. These included press and outdoor advertisements, with new campaigns featuring a lady's handbag and man's wallet with the messages 'Fits your budget' and 'Covers all your needs'. A special Ramadan promotion, 'Hit two birds with one stone', with a Toyota Prado as the main prize, was highly successful.

NFH also continued its programme of special offers to employees of some of Bahrain's major local companies. In addition, the Company introduced the NFH & Aali Football Championship in collaboration with Aali Sports & Cultural Club, and provided sponsorship for Bahrain Sports Club, both of which provide excellent exposure for NFH whilst supporting the development of the Kingdom's youth.

PEOPLE

NFH maintained its recruitment drive during 2010 to support the Company's growth and expansion, with the number of staff rising to 48 at the end of the year. The Company remained the only financial institution in the Kingdom with a 100% Bahraini headcount. A number of staff promotions took place during the year, including three at a senior management level.

NFH continued to invest in staff training and professional development, working closely with the Bahrain Institute of Banking & Finance, and providing courses in non-financial skills such as sales and marketing, customer service, communications and customer relationship management. A special workshop was organised with external consultants to enhance cooperation between front office and back office staff, and improve the quality of services provided to the Company's customers.

TECHNOLOGY

During 2010 a new Disaster Recovery Site was installed and tested to support the Company's business continuity plan, while information security was significantly enhanced; other developments include the launch of the Company's new website, and the installation of a new IT system for NFH Insurance Services. At the same time, plans were developed for the introduction of payments online and new payment kiosks in 2011.

OPERATIONS

Following a comprehensive review of its back office systems during the year, NFH updated a number of internal processes and procedures to enhance support for front office services. This will enable the provision of more accurate, speedy, efficient and convenient services to NFH customers, as well as enhanced reporting for management decision-making. Also during the year, loan approval processes were reviewed in line with the Company's tightened credit criteria; and plans were developed to support the introduction of new products and additional delivery channels as part of the Company's new three-years strategy.

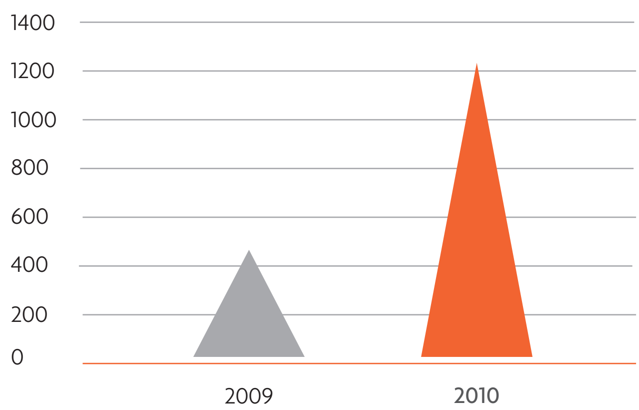
SUBSIDIARY

NFH Insurance Services Company (NFHI)

The Company's wholly-owned subsidiary, NFHI, which provides insurance services, enjoyed a growing and eventful first full year of operations in 2010. Net premium income increased by 216% and the number of policies almost tripled compared with 2009, providing important fee income and increased liquidity for the parent company. During the year, NFHI expanded its team, invested in staff training, launched an Insurance-core system "I-Core", and signed new agreements with leading local, regional and international insurance companies, both conventional and takaful (Sharia-compliant).

Through its relationships with insurance companies, NFHI provides customers with a convenient one-stop-shop service, offering the most competitive rates and benefits for motor, building and home contents, travel, life, and medical insurance covers. The Company's services are provided through the NFH main branch and Sitra branch, the Toyota and Nissan showroom service desks, and also via the Call Centre and NFH website.

Number of policies



MANAGEMENT TEAM

FROM LEFT TO RIGHT:

Jassim Khalaf
General Manager
Joined NFH in 2008

Jassim Khalaf has 22 years' experience in banking and financial services. Prior to joining NFH, he was AGM - Credit & Marketing at Bahrain Credit. He previously worked for Arab Investment Company, Arab Insurance Group, and National Bank of Bahrain. Jassim holds an MBA in Finance from King Fahad University of Petroleum & Minerals, Dhahran, Saudi Arabia; a BSc in Business Administration from St Edward's University, Texas, USA; and an RSAI in Accounting from Gulf Polytechnic, Bahrain. He is a Board member and Managing Director of NFH Insurance Services.

Outhair Falah
Head of Retail
Joined NFH in 2006

Outhair Falah has 19 years' experience in sales and marketing. Prior to joining NFH, he spent 14 years with Bahrain Credit where his latest position was Assistant Vice President – Marketing. Outhair holds an Advanced Diploma in Banking & Finance from the Bahrain Institute of Banking and Finance.

Naheed Najaf
General Manager
Joined NFH in 2008

Naheed Najah has 13 years' experience in insurance services. Prior to joining to NFH, she spent 10 years with Bahrain Credit, where her latest position was Insurance Operations Manager. Naheed holds an MBA from the University of Strathclyde, UK; a BSc in Banking & Finance from the University of Bahrain; and a Management Insurance Diploma from the Bahrain Institute of Banking and Finance. She is currently studying for her ACII (Associated Chartered Insurance Institute) qualification.

May Al-Mahmood
Head of Financial Control
Joined NFH in 2006

May Al-Mahmood has 18 years' experience in banking and external auditing. Prior to joining NFH, she was Financial Controller at AlBaraka Islamic Bank. She was previously a Senior Auditor at KPMG Fakhro. A Certified Public Accountant from Colorado State Board of Accountancy, May holds an MBA in Finance from the University of Hull, UK; and a BSc in Accounting from the University of Bahrain.

Hafedh Shams
Manager – Marketing & PR
Joined NFH in 2006

Hafedh Shams has 10 years' experience in marketing and customer service. Prior to joining NFH, he was with Ahli United Bank, and previously worked for Bahrain Airport Services. Hafedh holds a Diploma of Commerce from the Queensland Institute of Business & Technology, Australia; and a Diploma in Computing Studies from Bahrain Training Institute.

Seddeeqa Almunfaredi
Head of Operations
Joined NFH in 2006

Seddeeqa Almunfaredi has 16 years' experience in banking. Prior to joining NFH, she was with Ahli United Bank (AUB) and its predecessor Al-Ahli Commercial Bank for 10 years. Her latest position was Senior Manager - Retail Credit & Operations. Seddeeqa holds an Executive MBA in Marketing, and a BSc in Business Administration, both from the University of Bahrain.

Ameera Al Saqqay
HR & Administration Officer
Joined NFH in 2008

Ameera Al Saqqay has 8 years' business experience, of which five have been spent in human resources. Prior to joining NFH, she was HR Officer at Al Rashid Group, having previously worked for YK Almoayyed & Sons. Ameera holds a BSc in Banking & Finance from Kingdom University, Bahrain; a Diploma in HRD from the Expert Group Institute; and Diplomas in Banking & Finance and Business & Finance from Bahrain Training Institute.

Hussain Eid
Manager – Information Technology
Joined NFH in 2007

Hussain Eid has 11 years' experience in IT and banking. He joined NFH from Bahrain Credit, and previously worked for Citibank and Al Walaa Computer Systems. Hussain holds a BSc in IT Science from Birla Institute of Technology, and Diplomas in Business Information Systems and Computer Engineering from the University of Bahrain. Professionally certified by PMP, ITIL and Microsoft (MCSE & MCSA), he is currently studying for his MBA.

Hussain Al Sayegh
Head of Collections & Legal Affairs
Joined NFH in 2008

Hussain Al Sayegh has 18 years' experience in credit risk management. Prior to joining NFH, he spent 15 years with American Express Middle East, where he worked in risk management, product development, customer service and marketing. His latest position was Credit & Risk Management Supervisor. Hussain holds a Certificate in Accounting from the Institute of Commercial Management, UK.

NOT IN PHOTO:

Mr. Ali Ridha Mohammed
Sitra Branch Manager
Joined NFH in 2008

Ali Ridha Mohammed has 13 years' experience in financial services. Prior to joining NFH, he spent 10 years with Bahrain Credit, where his latest position was Branch Manager. Ali holds an MBA in Finance from AMA International University; and a BSc in Banking & Finance, and Diplomas in Banking & Finance and Commercial Studies, from the University of Bahrain.

Mr. Mazin Ebrahim
Assistant Branch Manager – Main Branch
Joined NFH in 2006

Mazin Ebrahim has 8 years' experience in financial services. He joined NFH as Senior Compliance Officer, and was appointed to his present position in 2008. He previously worked with Bahrain Credit. Mazin holds a Diploma in Accounting from the University of Bahrain.

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.

DEVELOPMENTS IN 2010

The Central Bank of Bahrain (CBB) issued new requirements incorporating the Corporate Governance Code of the Kingdom of Bahrain issued by the Ministry of Industry and Commerce. The new rules which are fully effective from 1st January 2011, include the new Corporate Governance Code requirements, existing CBB requirements, and new Board attendance rules.

NFH prepared a detailed assessment of actions needed to address any shortfalls in compliance with the new rules to CBB Corporate Governance Code including establishing Corporate Governance Committee and Remuneration & Nominating Committee. NFH is currently working on updating its Corporate Governance policies and drafting the charters for the new Board committees.

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 interest of the Company and its shareholders. This structure is designed to establish and maintain an environment in which the highest standards of ethical business conduct are adopted, and to facilitate effective monitoring, and encourage 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 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.

Board Committees

The Board has established three committees to assist the Board in carrying out its responsibilities. These committees are Executive Committee, Audit & Corporate Governance Committee and Remuneration and Nomination Committee.

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 & Corporate Governance Committee

This committee consists of a minimum of three 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.

Nominating & Remuneration Committee

The Remuneration & Nominating Committee comprises of three Non-Executive Directors who are mainly responsible for identifying members of board of directors, reviewing the remuneration policies for the board and senior management and making recommendations regarding allowances and expenses for attendance of Board meetings and Board level Committee meetings.

GREATER CONVENIENCE

CUSTOMERS CAN DISCUSS THEIR COMPLETE VEHICLE FINANCING AND INSURANCE NEEDS FROM THE COMFORT OF THEIR OWN HOME OR OFFICE. IN 2009, WE OPENED OUR CALL CENTRE, STAFFED WITH KNOWLEDGEABLE AND FRIENDLY CUSTOMER SERVICE AGENTS. THEN IN 2010, WE LAUNCHED OUR NEW WEBSITE, WHICH FEATURES A UNIQUE LIVE CHAT SERVICE AND AN ONLINE APPLICATION FACILITY.

CORPORATE GOVERNANCE AND RISK MANAGEMENT CONTINUED

Board Committees (continued)

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 four committees: Management Committee, Credit Committee, Risk Management 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 behavior, 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.

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 established a Risk Management Committee which focuses primarily on 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. The Committee consists of the General Manager, Head of Financial Control, Head of Operations and Risk Manager.

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 authorization 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 has in place a comprehensive business continuity plan to ensure that NFH can continue to function effectively in the event of an emergency, disaster or systems failure. A fully-fledged disaster recovery site, located at the Sitra branch office, has been installed and tested.

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 subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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

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 ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from 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 consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control 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 policies 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 consolidated financial position of the Group as at 31 December 2010, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other regulatory requirements
As required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain Law, we report that the Company has maintained proper accounting records and the consolidated financial statements are in agreement therewith; the financial information contained in the chairman's report is consistent with the consolidated financial statements; we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain Law, the terms of the Company's license or the terms of the Company's memorandum and articles of association having occurred during the year that might have had a material adverse effect on the business of the Company or on its financial position; and satisfactory explanations and information have been provided to us by the management in response to all our requests.

KPMG

1 March 2011
Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2010 (Bahraini Dinars)

	Note	2010	2009
ASSETS			
Cash and cash equivalents	4	2,216,672	2,221,732
Loans to customers	5	31,130,485	30,811,416
Furniture, fixtures and equipment	6	181,312	256,211
Other assets		103,951	77,648
Total assets		**33,632,420**	33,367,007
LIABILITIES AND EQUITY			
Liabilities			
Bank borrowings	8	22,222,222	22,888,889
Other liabilities	9	1,201,337	1,163,381
Total liabilities		**23,423,559**	24,052,270
Equity			
Share capital	10	7,500,000	7,500,000
Share premium		112,500	112,500
Statutory reserve		259,636	170,224
Retained earnings		2,336,725	1,532,013
Total equity (page 23)		**10,208,861**	9,314,737
Total equity and liabilities		**33,632,420**	33,367,007

Chairman

Deputy Chairman

The Board of Directors approved the consolidated financial statements consisting of pages 21 to 40 on 1 March 2011.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2010 (Bahraini Dinars)

	Note	2010	2009
Interest income	11	3,105,619	3,036,945
Interest expense		(1,016,207)	(991,578)
Net interest income		**2,089,412**	2,045,367
Fees and commission income		375,588	334,172
Fees and commission expense		(221,146)	(180,329)
Net fee and commission income		**154,442**	153,843
Total operating income		**2,243,854**	2,199,210
Salaries and related costs		759,111	702,122
General and administrative expenses	12	401,655	384,014
Depreciation	6	92,729	85,813
Impairment on loans to customers		96,235	119,695
Total operating expenses		**1,349,730**	1,291,644
Profit for the year		**894,124**	907,566
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**894,124**	907,566
Basic earnings per share	10	11.9 fils	12.1 fils

Chairman

Deputy Chairman

The Board of Directors approved the consolidated financial statements consisting of pages 21 to 40 on 1 March 2011.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2010 (Bahraini Dinars)

2010	Share capital	Share premium	Statutory reserve	Retained earnings	Total equity
At 1 January	7,500,000	112,500	170,224	1,532,013	9,314,737
Profit for the year (page 22)	-	-	-	894,124	894,124
Total comprehensive income for the year	**-**	**-**	**-**	**894,124**	**894,124**
Transfer to statutory reserve	-	-	89,412	(89,412)	-
At 31 December	**7,500,000**	**112,500**	**259,636**	**2,336,725**	**10,208,861**

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 22)	-	-	-	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

The consolidated financial statements consist of pages 21 to 40

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2010 (Bahraini Dinars)

	Note	2010	2009
OPERATING ACTIVITIES			
Interest, fees and commission received		3,481,128	3,371,117
Loans disbursed		(13,676,176)	(15,972,980)
Loan repayments		13,340,211	7,849,898
Payments for staff salaries and related costs		(756,746)	(709,642)
Payments for other operating expenses		(667,198)	(525,556)
Cash flows from operating activities		**1,721,219**	(5,987,163)
INVESTING ACTIVITIES			
Purchase of furniture, fixtures and equipment	7	(17,862)	(84,534)
Sale of furniture, fixtures and equipment		111	-
Cash flows from investing activities		**(17,751)**	(84,534)
FINANCING ACTIVITIES			
(Repayment)/ proceeds from bank borrowings		(666,667)	7,888,889
Interest paid		(1,041,861)	(924,746)
Cash flows from financing activities		**(1,708,528)**	6,964,143
Net (decrease) / increase in cash and cash equivalents		**(5,060)**	892,446
Cash and cash equivalents at 1 January		2,221,732	1,329,286
Cash and cash equivalents as at 31 December	4	**2,216,672**	2,221,732

The consolidated financial statements consist of pages 21 to 40

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010 (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 on an instalment basis, including instalment for the purchase of motor vehicles, non motorized vehicles, equipment, machinery, household effects etc.

During 2009, 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"), Bahrain Commercial Companies Law 2001 and the Central Bank of Bahrain Law 2006.

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 judgments in applying accounting policies on the amounts recognised in the consolidated 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 2010 (Bahraini Dinars)

2. BASIS OF PREPARATION (CONTINUED)

e. Standards, amendments and interpretations effective on or after 1 January 2010

The following standards, amendments and interpretations, which became effective in 2010, are relevant to the Group:

IAS 27 Consolidated and Separate Financial Statements (amended 2008)

The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost; any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Group applied IAS 27 (revised) prospectively from 1 January 2010 to transactions with non-controlling interests and for transactions resulting in loss of control. The change in accounting policy was applied prospectively and had no material impact on the consolidated financial statements.

Improvements to IFRSs (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 are effective for annual periods beginning on or after 1 January 2010 with earlier adoption permitted. There were no material changes to the current accounting policies of the Group as a result of these amendments.

f. Standard and interpretations issued but not yet effective

The following standards and interpretations have been issued and are expected to be relevant to the Group but not yet effective for the year ended 31 December 2010.

IFRS 9 'Financial Instruments'

Standard issued November 2009 [IFRS 9 (2009)]

IFRS 9 (2009) "Financial Instruments" is the first standard issued as part of a wider project to replace IAS 39 "Financial instruments: recognition and measurement". IFRS 9 (2009) retains and simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment and hedge accounting continues to apply. The 2009 standard did not address financial liabilities.

Standard issued October 2010 [IFRS 9 (2010)]

IFRS 9 (2010) adds the requirements related to the classification and measurement of financial liabilities, and derecognition of financial assets and liabilities to the version issued in November 2009. It also includes those paragraphs of IAS 39 dealing with how to measure fair value and accounting for derivatives embedded in a contract that contains a host that is not a financial asset, as well as the requirements of IFRIC 9 "reassessment of Embedded Derivatives"

The Group is yet to assess IFRS 9's full impact. Given the nature of the Group's operations, this standard is expected to have pervasive impact on the Group's financial statements.

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. Prior periods need not be restated if an entity adopts the standard for reporting periods beginning before 1 January 2012.

IAS 24 (Revised) "related party disclosures"
It was issued in November 2009 and is mandatory for periods beginning on or after 1 January 2011. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. When the revised standard will be applied, the Group and the parent will need to disclose transactions between its subsidiaries and its associates. The Group is currently putting systems in place to capture the necessary information.

Improvements to IFRSs (2010)
Improvements to IFRS issued in 2010 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 are effective for the Group's 2011 annual financial statements 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 2010.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010 (Bahraini Dinars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b. Interest

Interest income and expense are recognised in the statement of comprehensive income 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 statement of comprehensive income 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 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 Group 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 Group becomes a party to the contractual provisions of the instrument.

ii. De-recognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. The Group 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 statement of financial position 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 statement of financial position 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. 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 statement of comprehensive income 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 statement of comprehensive income.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010 (Bahraini Dinars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Group's non financial assets is reviewed at each statement of financial position 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 statement of comprehensive income.

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 statement of comprehensive income.

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 Group 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 Social Insurance Organisation 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 statement of financial position date.

4. CASH AND CASH EQUIVALENTS

	2010	2009
Cash in hand and at bank	977,938	2,111,890
Bank term deposits	1,238,734	109,842
	2,216,672	2,221,732

5. LOANS TO CUSTOMERS

	2010	2009
Gross loans	31,606,720	31,191,416
Less: impairment allowance	(476,235)	(380,000)
At 31 December	31,130,485	30,811,416

The movement in the allowance for impairment was as follows:

	2010	2009
At 1 January	380,000	260,305
Charge for the year	96,235	119,695
At 31 December	476,235	380,000

6. FURNITURE, FIXTURES AND EQUIPMENT

	Furniture and equipment	Computer software	Computer hardware	Motor Vehicles	2010 Total	2009 Total
Cost						
At 1 January	269,387	83,585	86,431	11,878	451,281	366,747
Additions	7,192	9,259	1,411	-	17,862	84,534
Disposals	(138)	-	-	-	(138)	-
At 31 December	276,441	92,844	87,842	11,878	469,005	451,281
Depreciation						
At 1 January	102,593	43,134	45,875	3,468	195,070	109,257
Charge for the year	54,382	16,840	19,131	2,376	92,729	85,813
Disposals	(106)	-	-	-	(106)	-
At 31 December	156,869	59,974	65,006	5,844	287,693	195,070
Net book value						
At 31 December 2010	119,572	32,870	22,836	6,034	181,312	-
At 31 December 2009	166,794	40,451	40,556	8,410	256,211	256,211

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010 (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 Group.

Related party transactions	2010	2009
Expenses		
Insurance premium charges (shareholder)	66,416	55,533
Software maintenance charges (shareholder)	-	5,000

Related party balances	2010	2009
Amounts payable for vehicles financed (shareholders)	478,588	582,029
Accrued expenses (shareholders)	-	3,700
Prepaid expenses (shareholders)	9,584	8,871
Amounts payable to insurance companies (shareholder)	557	1,057

Transactions with key management personnel

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

	2010	2009
Key management compensation	264,072	264,364
Board of directors remuneration and committee attendance allowances	40,700	19,500
Staff loan disbursed	30,000	20,000

Balances with key management personnel

	2010	2009
Staff loan disbursed	31,315	18,000

8. BANK BORROWINGS

	2010	2009
Repayable within one year	4,666,667	4,666,667
Repayable after one year	17,555,555	18,222,222
	22,222,222	22,888,889

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 3.71 % to 5.09 % p.a. (2009: 3.83 % to 5.41% p.a.).Of the above borrowings, BD 5.22 million (2009: BD 5.89 million) is secured by assignment of receivables (to the extent of 120% of such loan outstanding) and the remaining BD 17 million (2009: BD 17 million) is unsecured.

9. OTHER LIABILITIES

	2010	2009
Amounts payable for vehicles financed		
• to related parties (major shareholders)	478,588	582,029
• to other parties	358,317	175,486
Amount payable to insurance companies		
• to related parties (major shareholders)	557	1,057
• to other parties	62,747	62,298
Accrued expenses		
• to related parties – Board members	22,000	3,700
• to other parties	279,128	338,811
	1,201,337	1,163,381

10. SHARE CAPITAL

	2010	2009
Authorised		
500,000,000 ordinary shares of 100 fils each	50,000,000	50,000,000
Issued capital		
75,000,000 ordinary shares of 100 fils each	7,500,000	7,500,000
Paid up capital		
75,000,000 ordinary shares of 100 fils each	7,500,000	7,500,000
Basic earnings per share	11.9 fils	12.1 fils

The Board of Directors has proposed a cash dividend of 5% (2009: Nil) of the paid-up capital. This amounts to BD 375,000. Proposed dividends are in accordance with the Company's articles of association and are subject to approval by the shareholders at the Annual General Meeting.

The earnings per share is calculated by dividing the net income of BD 894,124 (2009: BD 907,566) by the number of shares outstanding at the end of the year of 75 million shares (2009: 75 million shares).

11. INTEREST INCOME

	2010	2009
Interest earned on loans to customers	3,067,745	3,030,386
Interest income from term deposits	37,874	6,559
	3,105,619	3,036,945

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12. GENERAL AND ADMINISTRATIVE EXPENSES

	2010	2009
Rent	45,000	44,000
Communication expense	21,507	22,119
Office expenses	141,997	119,408
Printing and stationery expense	18,232	17,504
Computer maintenance and support expenses	30,339	24,821
Legal and professional charges	70,030	62,240
Advertising and publicity expense	52,550	93,922
Board of directors remuneration	22,000	-
	401,655	384,014

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Risk management framework and overview

The risks associated with the Group's business are credit risk, market risk, liquidity risk and operational risk. The Group 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 Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

Financial instruments comprise of financial assets and financial liabilities. Financial assets of the Group consist of cash and cash equivalents, loans to customers and other assets. Financial liabilities of the Group 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 Group has the overall responsibility for the establishment and oversight of the Group'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 Group'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 Group'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 Group'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 Group to suffer a loss in terms of cash flow or market value. Credit risk is the predominant risk type faced by the Group in its financing activities both on and off balance sheet. The Group 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 Group'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 Group's credit policies and procedures, with credit approval authorities delegated from the Group'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 Group 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 Group 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 Group 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:

	2010	2009
Cash and cash equivalents	2,215,032	2,220,412
Loans to customers	31,130,485	30,811,416
	33,345,517	33,031,828

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13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Concentration of credit risk

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

	2010	2009
Concentration by sector		
Corporate	16,508,989	18,336,846
Retail	14,621,496	12,474,570
Financial institutions	2,215,032	2,220,412
	33,345,517	33,031,828

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:

	2010	2009
Impaired loans	575,564	-
Less: Specific impairment allowance	(157,110)	-
	418,454	-
Past due but not impaired	3,178,075	2,735,990
Less: Collective impairment allowance	(264,982)	(346,416)
Carrying amount	2,913,093	2,389,574
Neither past due nor impaired	27,853,081	28,455,426
Less: Collective impairment allowance	(54,143)	(33,584)
Carrying amount	27,798,938	28,421,842
Carrying amount	31,130,485	30,811,416

Non-performing loans are identified as loans which are past due by 90 days or more. Total non-performing loans as at 31 December 2010 were BD 1,741,389 (2009: BD 1,129,198).

Impaired loans are loans for which the Group determines that it is probable that it will be unable to collect all principal and interest either through repayment or collateral disposal 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 Group 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 Group.

The Group writes off a loan balance (and any related allowances for impairment losses) when Group 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 Group 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 Group will encounter difficulty in raising funds to meet commitments associated with financial instruments.

Management of liquidity risk

The Group'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 Group'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 Group, 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 Group is monitored by the General Manager and Financial Controller. Surplus and deficit of short and long term positions of the Group are managed as appropriate by the Finance Department. The Group 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 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 Group's financial liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity.

31 December 2010	Carrying amount	Contractual cash flows	6 months or less	6 - 12 months	More than 12 months
Borrowings from banks	22,222,222	23,785,287	4,801,452	746,121	18,237,714
Accounts payable	900,209	900,209	900,209	-	-
	23,122,431	**24,685,496**	**5,701,661**	**746,121**	**18,237,714**

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

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13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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 Group'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 Group is exposed is interest rate risk with its asset and liability management activities.

Interest rate risk

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

	Fixed rate	Floating rate	Non-interest bearing	Total
31 December 2010				
Cash and cash equivalents	-	1,238,734	977,938	2,216,672
Loans to customers	31,130,485	-	-	31,130,485
Other assets	-	-	103,951	103,951
	31,130,485	1,238,734	1,081,889	33,451,108
Other liabilities	-	-	1,201,337	1,201,337
Borrowings from banks	-	22,222,222	-	22,222,222
	-	22,222,222	1,201,337	23,423,559
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

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 2009.

	Statement of comprehensive income		Equity	
	100 bp increase	100 bp decrease	100 bp Increase	100 bp decrease
31 December 2010				
Borrowings from banks	(118,455)	118,455	(118,455)	118,455
31 December 2009				
Borrowings from banks	(194,654)	194,654	(194,654)	194,654

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 Group's loans to customers are predominantly of a fixed rate nature and the Group 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 Group'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 2010							
Cash and cash equivalents	2,216,672	1,238,734	-	-	-	-	977,938
Loans to customers	31,130,485	3,086,190	2,968,404	5,498,483	19,242,915	334,493	-
Other assets	103,951	-	-	-	-	-	103,951
	33,451,108	4,324,924	2,968,404	5,498,483	19,242,915	334,493	1,081,889
Borrowings from banks	22,222,222	1,166,667	3,166,667	333,333	17,555,555	-	-
Other liabilities	1,201,337	-	-	-	-	-	1,201,337
	23,423,559	1,166,667	3,166,667	333,333	17,555,555	-	1,201,337
31 December 2009							
Cash and cash equivalents	2,221,732	109,842	-	-	-	-	2,111,890
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	2,696,004	2,409,666	4,746,154	19,795,497	1,273,937	2,189,538
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

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's exposure to currency risk is not significant as a significant portion of the Group'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 Group are not materially different from their carrying values.

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13. 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 Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations and are faced by all business entities.

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

Capital management

The Central Bank of Bahrain sets and monitors capital requirements for the Group. According to the conventional financing company license granted by the Central Bank of Bahrain the Group 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 Group. As on 31 December 2010 Group's paid-up share capital is BD 7,500,000 (2009: BD 7,500,000) and the borrowing to capital and reserves ratio on 31 December 2010 is 2.18 (2009: 2.46).

The Group '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 Group 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.