OUR FIRST FIVE YEARS

performance with agility

NFH
التمويل الوطني

ANNUAL REPORT 2011

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

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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
of the Kingdom of Bahrain

OUR FIRST FIVE YEARS *performance with agility*

DURING OUR FIRST FIVE YEARS OF OPERATIONS, WE HAVE ACHIEVED A CONSISTENT FINANCIAL PERFORMANCE, BUILT A DOMINANT MARKET SHARE, AND EARNED A REPUTATION FOR THE HIGHEST LEVELS OF CUSTOMER SERVICE AND AGILITY IN PROCESSING LOAN APPLICATIONS.

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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. Capitalized 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 five 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 agility in processing loan applications.

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 Mohamed bin Jabor Al Thani

VISION, MISSION AND VALUES

OUR VISION

We aspire 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 provide our customers with a first class, personal, speedy and responsive service.

FIVE YEARS of progress

Agreement signed with the Benefit Company.

Online payment facility introduced.

Dedicated Finance Manager appointed at Nissan showroom.

First-of-its-kind 'Live Chat' service launched.

NFHI insurance brokerage subsidiary established.

Dedicated service desks established at Toyota and Nissan showrooms.

Credit facilities signed with major local, regional and international banks.

First branch office opened in Sitra.

Call Centre launched.

Shareholding base expanded with the addition of the Al Mutlaq Group from the Kingdom of Saudi Arabia, and Sheikh Abdulla Mohamed Jabor Al Thani and Al Khaleej Insurance & Reinsurance Company, from the State of Qatar.

Capital increased from BD 5 million to BD 7.5 million.

SEPTEMBER 2006

New Head Office opened by the Governor of the Central Bank of Bahrain.

Vendors shortlisted for new core banking system.

100% Bahrainisation since inception.

DECEMBER 2011

Customer satisfaction level maintained at 96%.

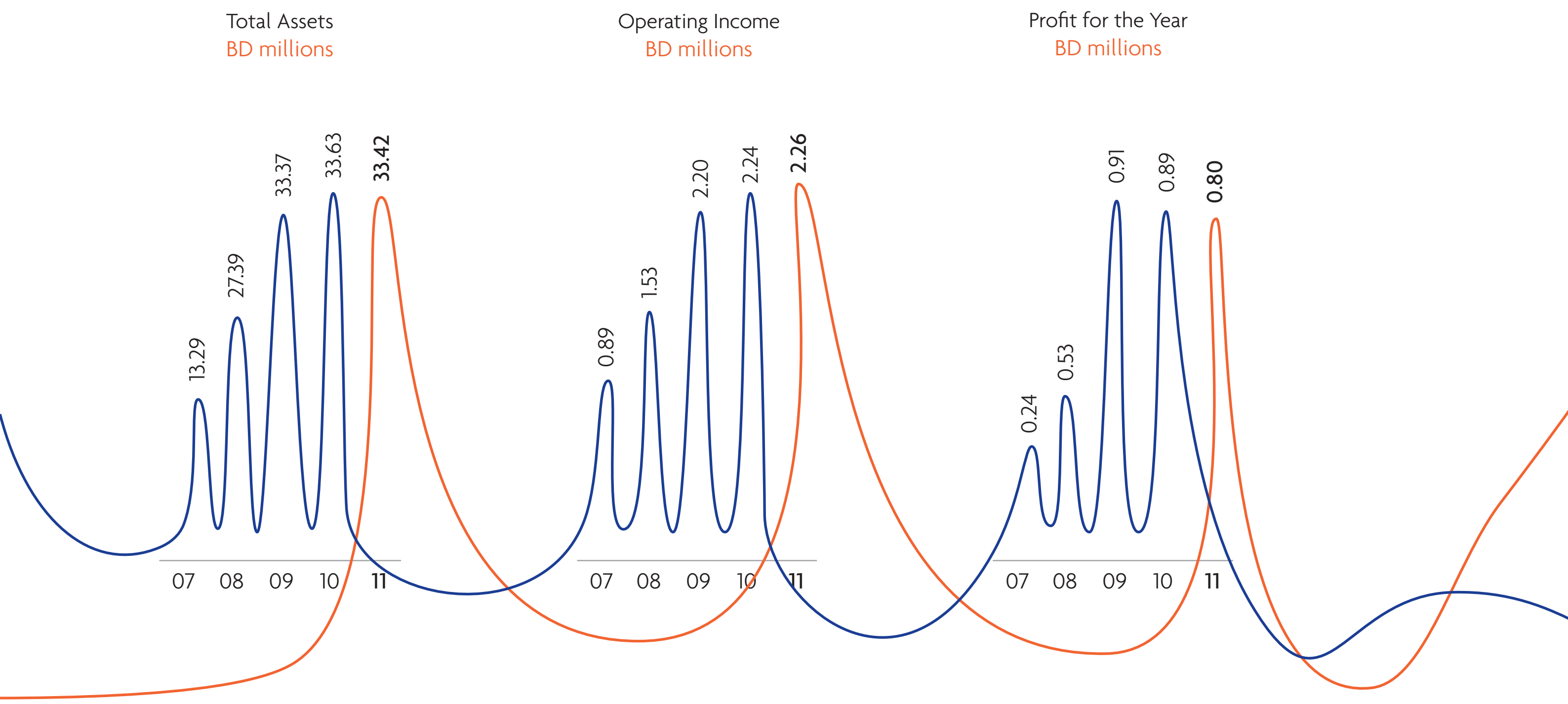
2011 AT A GLANCE

DESPITE CHALLENGING MARKET CONDITIONS DURING THE YEAR, THE COMPANY INCREASED THE NUMBER OF LOANS ADVANCED TO BD 14.32 MILLION, AND ACHIEVED A NET PROFIT OF BD 801,015

- Celebrated first five years of operations.
- Increased average market share to 15%.
- Achieved customer satisfaction rating of 96%.
- Implemented new financing arrangement with Nissan dealer.
- Signed agreement with the Benefit Company.
- Introduced new online payment facility.
- Maintained 100% Bahrainisation.
- Shortlisted vendors for new core banking system.
- Formed Business Continuity Planning committee.
- Strengthened Corporate Governance framework.
- Appointed two new Independent Directors.

FINANCIAL HIGHLIGHTS

(Bahraini Dinars)	**2011**	2010	2009	2008	2007
Total Assets	33,420,011	33,632,420	33,367,007	27,388,319	13,293,054
Total Liabilities	22,785,135	23,423,559	24,052,270	18,981,148	5,415,459
Total Equity	10,634,876	10,208,861	9,314,737	8,407,171	7,877,595
Operating Income	2,259,991	2,243,854	2,199,210	1,527,275	889,363
Profit for the year	801,015	894,124	907,566	529,576	242,475
Share Capital	7,500,000	7,500,000	7,500,000	7,500,000	7,500,000



BOARD OF DIRECTORS

Farouk Yousuf Khalil Almoayyed - Chairman

Member of Remuneration & Nomination Committee, since 2006
Chairman: Y. K. Almoayyed & Sons, Bahrain; Almoayyed International Group, Bahrain; National Bank of Bahrain, Bahrain; Bahrain Duty Free Shop Complex, Bahrain; Bahrain Hotels Group, Bahrain; Ahlia University, Bahrain; Ashrafs, Bahrain
Director: Investcorp Bank, Bahrain; Insurance Holding Company, Bahrain
Chairman of Board of Trustees: Ibn Khuldoon National School, Bahrain

Fuad Ebrahim Kanoo - Deputy Chairman

Member of Remuneration & Nomination Committee, since 2006
Director: Gulf Union Insurance & Re-Insurance Co., Bahrain
Vice Chairman: Ebrahim Khalil Kanoo Group, Bahrain
Member of Board of Directors: General Trading & Food Processing Company, Bahrain; Bahrain Water Bottling & Beverages, Bahrain

Mahmood Al Soufi - Non-Executive Director

Chairman of Executive Committee, since 2006
Chief Executive Officer: Bahrain National Holding Company, Bahrain
Chairman: MASY Holding, Bahrain; Ultra Tune Middle East WLL, Bahrain
Member of Board of Directors: Gulf Insurance Institute, Bahrain; United Insurance Company, Bahrain; Bahrain Emirates Insurance Company, 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.
Chairman: Almutlaq Real Estate Investment Company, K.S.A.; Alwaha Petrochemical Company, K.S.A.; Shuaa Capital Saudi Arabia, K.S.A; Electronic Payment Solutions, K.S.A.
Vice Chairman: Arabia Insurance Company, K.S.A.
Member of Board of Directors: Almutlaq Group, K.S.A.; NAPCO Group Company, K.S.A.; Sahara Petrochemical Company, K.S.A.; National Installment Company, K.S.A.; ACWA Power International, K.S.A.; Saudi ORIX Leasing Company, K.S.A.

Al Sayyida Rawan Ahmed Al-Said - Non-Executive Director

Member of Audit Committee, since 2008
Managing Director & Group Chief Executive Officer, Oman National Investment Company Holding, Oman
Chairperson: Oman Investment Corporation, Oman
Member of Board of Directors: National Investment Funds Company (NIFCO), Oman, National Bank of Oman, Oman; Oman Oil Marketing Company, Oman; Royal & Sun Alliance, Oman; Oman ORIX Leasing Company, Oman; Oman National Investment Company Holding, 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 Company BSC, Bahrain; Mirai Restaurant WLL, 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 Company, Bahrain; Bahrain International Circuit, Bahrain
Executive Director: Motor City, Bahrain

Shaikh Abdulla Mohamed Jabor Al Thani - Non-Executive Director

Since 2007
Chairman: Al Khaleej Takaful Group, Qatar
Member of the Board of Directors: Doha Bank, Qatar

Shaheen Amin - Independent Non-Executive Director

Member of Executive Committee, since 2011
General Manager: Saudi ORIX Leasing Company, K.S.A.
Member of the Board of Directors: ORIX Leasing Pakistan Limited, Pakistan; ORIX Egypt Leasing SAE, Egypt

Khalid Shaheen - Independent Non-Executive Director

Chairman of Audit Committee
Member of Remuneration & Nomination Committee, since 2011
Member of Board of Directors: Bahrain Financing Company; Bank Alkhair
Executive Director: Shaheen Group of Companies
Managing Director: Hermes Consulting
Member of the Appeals Committee: Bahrain Stock Exchange, Bahrain
Fellow: Institute of Directors, UK

CHAIRMAN'S STATEMENT

Farouk Yousuf Khalil Almoayyed
Chairman

ON BEHALF OF THE BOARD OF DIRECTORS, IT IS MY PRIVILEGE TO PRESENT THE ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS OF NATIONAL FINANCE HOUSE (NFH) FOR THE YEAR ENDED 31 DECEMBER 2011. IN WHAT PROVED TO BE AN EXTREMELY CHALLENGING YEAR, I AM PLEASED TO REPORT THAT NFH POSTED A STRONG OVERALL PERFORMANCE, REINFORCING THE EXCELLENT PROGRESS THAT THE COMPANY HAS MADE DURING ITS FIRST FIVE YEARS OF OPERATIONS.

ECONOMIC AND MARKET BACKGROUND

NFH faced even tougher market conditions in 2011 than the previous year. The global financial crisis, economic downturn and regional situation continued to impact the GCC during the year. This affected business and consumer confidence, with a consequent reduction in commercial activity and consumer spending. This resulted in reduced corporate and individual spending on new vehicles, and a subsequent drop in new vehicle registrations. In addition, the increasingly competitive nature of the vehicle financing and insurance sectors in Bahrain resulted in a further softening of rates and erosion of margins.

FINANCIAL PERFORMANCE

Against this backdrop, I am pleased to report that NFH posted an encouraging financial performance in 2011. Net profit for the year was BD 801 thousand compared with BD 894 thousand for 2010. Shareholders' equity grew to BD 10.63 million (2010: BD 10.21 million), resulting in a return on average equity of 7.53% (2010: 8.76%). Total operating income increased to BD 2.26 million (2010: BD 2.24 million), while total operating expenses rose to BD 1.46 million (2010: BD 1.35 million). Net interest income was BD 2.06 million (2010: BD 2.09 million), with net fee and commission income increasing to BD 197 thousand (2010: BD 154 thousand). At the end of the year, total assets stood at BD 33.42 million, compared with BD 33.63 million in 2010.

In the light of ongoing market volatility and uncertainty, the Company took the prudent step of booking provisions of BD 225 thousand against impairment on loans to customers. These results reflect the continued strong financial track record of NFH, underlined by its policy to adopt a conservative lending approach while maintaining portfolio quality, and to control expenses. The Board of Directors is recommending the following appropriations out of the net profit for the approval of the Company's shareholders:

- BD 80,102 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 720,913 to be transferred to Retained Earnings.

BUSINESS ACHIEVEMENTS

The challenging socio-economic background in Bahrain during 2011 affected business and consumer confidence. This resulted in reduced corporate and individual spending on new vehicles. The tragic earthquake and tsunami in Japan earlier in the year also affected the availability of Japanese vehicles. Due to these factors, new vehicle registrations declined by 7.7% compared to 2010. New credit registrations, which accounted for 39% of total registrations, declined by 3.5% in 2011. Total loans advanced by NFH in 2011 increased to BD 14.32 million from BD 13.68 million in 2010. Despite increased competition and heavy discounting promotions by competitors during the year, I am pleased to report that NFH increased its dominant market share to 15% compared with 13% in 2010.

OPERATIONAL DEVELOPMENTS

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 a new agreement with the official Nissan dealer in Bahrain for the appointment of a dedicated NFH Finance Officer at the showroom to handle all financing applications and documentation, thereby allowing salespersons to concentrate solely on selling. This arrangement, the first of its kind in Bahrain, proved to be very successful, resulting in NFH achieving a 60% share of financing for Nissan vehicles. Also during the year, NFH signed an agreement with the Benefit Company that facilitated the introduction of a new online payment facility, which has proved to be very popular. The results of a customer satisfaction survey showed that new customers in 2011 rated their satisfaction with NFH at 96%, which underlines the success of our staff in delivering superior levels of customer service.

This reflects the Company's continued investment in staff training and development, and providing career opportunities for Bahraini nationals, who comprise 100% of the workforce. Equally significant is our investment in information technology, which acts as a critical business enabler and strategic differentiator. We are in the process of finalising a new core banking system. Constituting a major capital investment, the new system is designed to meet the needs of current business activities and accommodate future expansion plans. It will integrate and automate all aspects of the business, from vehicle financing and insurance to human resources and operations.

GOVERNANCE

Throughout the year, we continued to enhance the institutional capability of NFH. We reviewed and revised our corporate governance policy in line with the new Code of Corporate Governance for the Kingdom of Bahrain, and the latest requirements of the Central Bank of Bahrain. At the same time, we strengthened our risk management framework and internal controls. This included reviewing loan approval procedures, tightening credit criteria, and enhancing the reporting process for collections. In addition, a special committee was formed to work with consultants on developing a new business continuity plan. This will be presented to the Board of Directors and the Central Bank of Bahrain for approval in 2012.

We also continued to implement the Company's corporate social responsibility programme during the year. This includes sponsorship of local social and sports clubs, with a particular focus on the development of the Kingdom's youth; plus making donations to a number of charitable institutions and deserving causes.

LOOKING AHEAD

During our first five years of operations, we have achieved a consistent financial performance, built a dominant market share, earned a reputation for the highest levels of customer service, and introduced an insurance brokerage service. The next five years will see the Company building upon this learning experience to ensure the continued growth and development of NFH. We will continue the organisational restructuring which started towards the end of 2011, introduce new innovative products and services; expand our presence in Bahrain and into other GCC countries; and secure stable funding to finance our strategic goals and business objectives. The Board and management of NFH remain cautiously optimistic about the Company's prospects in 2012; and we have a positive outlook for the future social stability and economic prosperity of the Kingdom of Bahrain.

ACKNOWLEDGEMENTS

During the year, there were changes to the composition of the Board: Mr. Abdul Hakim Al Adhamy resigned as an Independent Non-Executive Director, and two new Independent Non-Executive Directors were appointed. I would like to thank Mr. Al Adhamy for his valuable contribution since 2009; and welcome Mr. Khalid Shaheen Saqer Shaheen and Mr. Shaheen Mohammed Ameen, who bring with them a wealth of expertise and experience.

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.

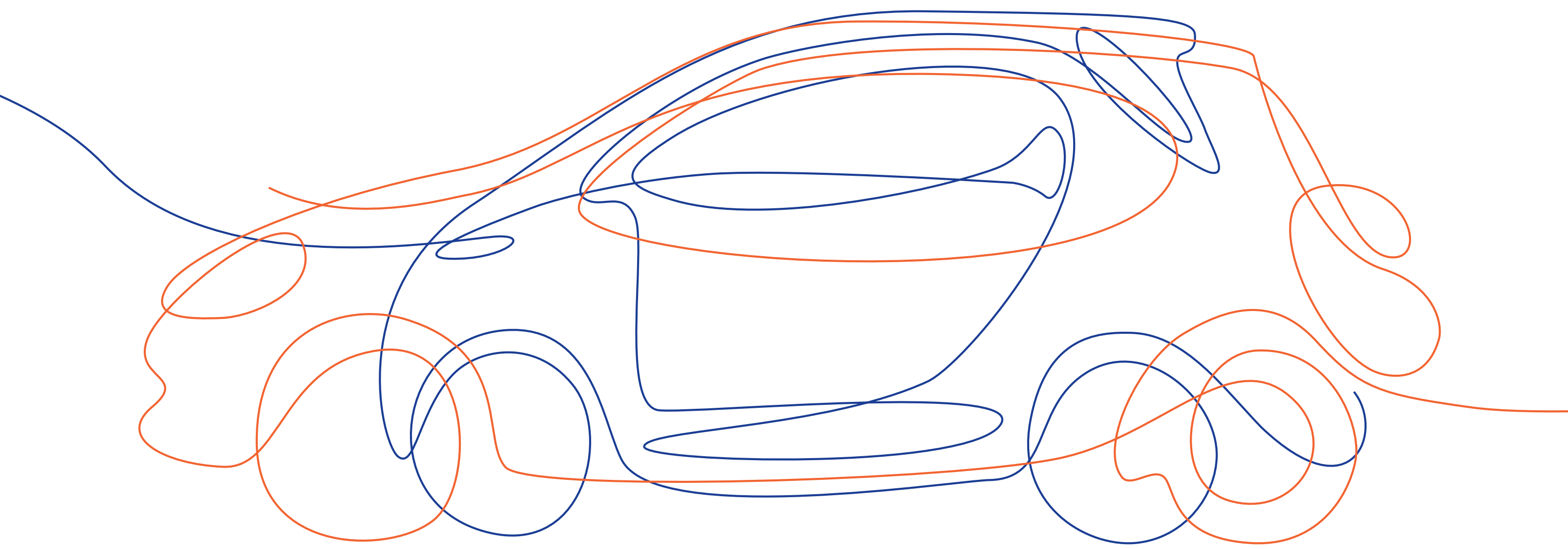
I also extend my appreciation to my fellow shareholders for their financial support and unwavering confidence; to our customers and business partners for their trust and loyalty; and to the management and staff of NFH for their hard work and dedication during 2011.

Farouk Yousuf Khalil Almoayyed
Chairman

OUR FIRST FIVE YEARS

performance with agility

Since commencing operations in September 2006, NFH has posted an impressive financial performance. The Company's capital has increased by 50 per cent, total assets have grown four-fold, and shareholders' equity has risen by 40 per cent. Net profit has more than tripled, while total revenues have increased seven-fold. The number of customer loans disbursed has more than tripled, resulting in NFH building a dominant market share of 15 per cent.



MANAGEMENT REVIEW

NATIONAL FINANCE HOUSE ACHIEVED ANOTHER STRONG OPERATIONAL PERFORMANCE IN 2011. THE COMPANY'S KEY FOCUS REMAINED ON ENHANCING CUSTOMER SERVICE, INVESTING IN PEOPLE AND TECHNOLOGY, AND STRENGTHENING BACK OFFICE SYSTEMS AND PROCESSES.

VEHICLE FINANCING

The challenging socio-economic background and situation in Bahrain during 2011 resulted in reduced spending on new vehicles by businesses and individuals. Despite a drop in new credit registrations, which accounted for just under 40% of total registrations in 2011, NFH increased the number of loans advanced to BD 14.32 million during the year, compared with BD 13.68 million in 2010. In an increasingly competitive market, NFH was successful in growing its market share from 13% to 15%. During the year, NFH signed an agreement with the official Nissan dealer for a dedicated Finance Officer to handle all vehicle financing applications at the showroom. The first of its kind in Bahrain, this arrangement resulted in NFH achieving a 60% share of financing for Nissan vehicles.

INSURANCE

The Company's wholly-owned subsidiary, National Finance House Insurance Services Company (NFHI), provides insurance brokerage services for NFH customers. Despite challenging market conditions and increased competition, NFHI increased the total number of policies issued by 39%. In only its second full year of operations, the Company achieved profitability. Towards the end of the year, the Board approved a change in the status of NFHI from an insurance broker to that of an exclusive agency for Bahrain National Insurance Company (bni) and Bahrain National Life Assurance Company (bnl). This strategic development, which will enable NFH to maximise shareholder synergy, is subject to approval from the Central Bank of Bahrain.

OPERATIONS

NFH witnessed an increase in loan delinquency and non-performing loans in 2011 due to the unrest in Bahrain, which particularly affected corporate customers. Accordingly, the Company reviewed its procedures for loan approvals, amended credit criteria, and enhanced the collections reporting process. NFH adopted a proactive approach to existing and potential defaults from customers facing financial difficulties, by discussing options for rescheduling or restructuring their loans. As a result, the number of non-performing loans at the end of the year remained under control. During the year, NFH formed a special committee to work with consultants on a new business continuity plan while the new disaster recovery site at the Sitra branch was successfully setup.

CUSTOMER SERVICE

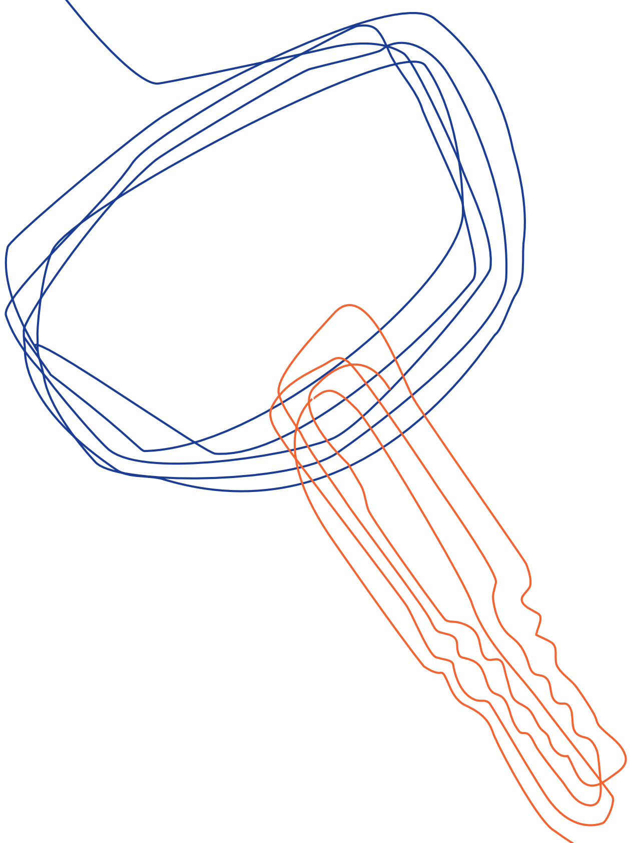
In a highly competitive market, superior customer service has proved to be a key competitive advantage and strategic differentiator for NFH. During the year, the Company continued to seek new innovative ways to further enhance the 'customer experience'. The signing of an agreement with the Benefit Company in January 2011, was followed in May by the launch of an online payments facility, initially by ATM debit cards, via Company's website. Customers can also check the status of their loans and choose between single and multiple instalments. A dedicated touch screen PC was made available in NFH branches to demonstrate the ease and convenience of this new facility, which has enjoyed a good initial take-up by customers. Also proving popular during the year was the Live Chat service – launched in 2010 as the first of its kind in Bahrain – which allows customers to communicate online with a Call Centre customer service agent. More customers are also using the NFH Call Centre, which provides advice and information as well as handling enquiries and complaints. Customer service agents make a proactive weekly telephone call to all new customers to check their satisfaction with NFH; the average satisfaction rating for 2011 was 96%.

HUMAN RESOURCES & ADMINISTRATION

People are the Company's most important assets, and NFH continues to invest in their training and professional development, working closely with the Bahrain Institute of Banking & Finance. A number of staff promotions took place during the year, including one at a senior management level; and NFH remained one of the very few financial institutions in the Kingdom with a 100% Bahraini headcount.

OUR KEY TO YOUR CONFIDENCE

At NFH, a spirit of excellence drives the way we act and conduct our business affairs. This is underlined by the professionalism of our people, our principles of integrity and transparency, and our caring attitude. As a dedicated, specialist vehicle financing house, we can offer you a more focused and responsive standard of service. We will help you obtain financing with the minimum of hassle and delay, supported by a contract that is easy to understand and contains no hidden surprises. So when you receive the key to your new vehicle, you can drive away with complete confidence.



MANAGEMENT REVIEW CONTD.

TECHNOLOGY

Investment in Information and Communications Technology (ICT) acts as a key business enabler and strategic differentiator for NFH. During 2011, the selection phase of the vendor for the Company's new core banking system progressed well. Following presentations and reference site visits, potential vendors were shortlisted and a final selection will be made in early 2012. Constituting a major capital investment, the new system is designed to meet the needs of current business activities and accommodate future expansion plans. It will integrate and automate all aspects of the business – from vehicle financing and insurance to human resources and operations. The system will also enhance the scope and timeliness of reporting to aid decision making by management, plus support the Company's 'Go Green' strategy – enabling less use of paper, printers and energy. Following introduction of the new online payment system, NFH is now exploring potential vendors for the planned introduction of intelligent self-service kiosks.

MARKETING

During 2011, NFH continued its marketing activities, which included press and outdoor advertisements, and promotional campaigns. A special Ramadan promotion offered individual customers reduced interest rates, an extended grace period of 60 days, and free life insurance. Due to market conditions, this was extended until the end of the year, and proved successful in generating new business. Other campaigns included special rates and a car raffle at the Nissan showroom to coincide with the introduction of the new Nissan-NFH Finance Manager service. NFH also continued its programme of special offers to employees of some of Bahrain's major local companies. As part of the Company's strategy to improve communications with existing and potential customers, a new e-mail news update service was introduced, with visitors being able to subscribe via the NFH website.

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 effective implementation of all necessary policies, procedures and systems to monitor, manage and mitigate these risks.

Responsibilities

The Board of Directors 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 specific areas. The Board of Directors sets the Company's overall risk parameters and tolerance, and the significant risk management policies. The Executive Committee reviews and reports to the Board on the Company's risk profiles 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 tolerance defined by the Board of Directors. The risk management 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 General Manager is supported by a qualified management team, and three risk-related committees: Risk Management Committee, Credit Committee, and Asset & Liability Committee.

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

Risk Management Committee

Members: General Manager, Head of Financial Control, Head of Operations, and Risk Manager

Role: The Risk Management Committee is responsible for identifying all risks to which NFH may be exposed; and for implementing necessary policies, procedures and systems to effectively monitor and manage these risks.

NFH IS MOVING TOWARDS A NEW SYSTEM WHICH WILL BE DESIGNED TO MEET THE NEEDS OF CURRENT BUSINESS ACTIVITIES AND ACCOMMODATE FUTURE EXPANSION PLANS. IT WILL INTEGRATE AND AUTOMATE ALL ASPECTS OF THE BUSINESS – FROM VEHICLE FINANCING AND INSURANCE TO HUMAN RESOURCES AND OPERATIONS. THE SYSTEM WILL ALSO ENHANCE THE SCOPE AND TIMELINESS OF REPORTING TO AID DECISION MAKING BY MANAGEMENT, PLUS SUPPORT THE COMPANY'S 'GO GREEN' STRATEGY – ENABLING LESS USE OF PAPER, PRINTERS AND ENERGY.

Credit Committee

Members: General Manager, Head of Financial Control, Head of Retail, Head of Operations, and Head of Collection & Legal Affairs
Role: The Credit 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

Members: General Manager, Head of Operations, and Head of Financial Control
Role: The Asset & Liability Committee (ALCO) is a sub-committee of the Management Committee. 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. The Committee is also responsible for managing the Company's liquidity risk, and reviewing the interest rate charged on loans.

Business Continuity

In 2011, NFH formed a special committee to work with consultants on a new business continuity plan for the Company. The plan is being drafted per industry best practice and will be presented to the Board of Directors approval in 2012. Currently, data recovery is handled by a new disaster recovery site set up at the Sitra branch.

CORPORATE GOVERNANCE REPORT

NATIONAL FINANCE HOUSE (NFH) IS COMMITTED TO ESTABLISHING AND MAINTAINING THE HIGHEST STANDARDS OF CORPORATE GOVERNANCE IN LINE WITH INDUSTRY BEST PRACTICE, IN ORDER TO ENSURE FAIRNESS FOR ALL STAKEHOLDERS, AND TO ACHIEVE THE HIGHEST LEVELS OF ORGANISATIONAL EFFICIENCY AND EFFECTIVENESS.

DEVELOPMENTS IN 2011

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 effective from 1st January 2011, include the new Corporate Governance requirements, CBB requirements, and Board attendance rules.

NFH prepared a detailed assessment of actions needed to address any shortfalls in compliance with the new requirements. The Company established a Corporate Governance Committee by merging it with the Audit Committee, and also established a Remuneration & Nomination Committee. During 2011, NFH updated its Corporate Governance policies and charters for both existing and new Board committees.

COMPANY'S PHILOSOPHY

The Company's philosophy is to maintain a working environment of the highest integrity, and promote a culture that upholds the best practices under the Code of Corporate Governance, which is vital for growing a successful business. The Company recognises that transparency, fairness, compliance and accountability are the pillars of any good system of 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 is designed to establish and maintain an environment which adopts the highest standards of ethical business conduct, 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.

1. BOARD OF DIRECTORS

The Board consists of 10 Non-Executive Directors of which 2 are Independent Directors. 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.

Name & designation of the director	Category (4)	Entity represented	Date of appointment	No. of other directorships held (5)	No. of other board committees of which member / chairperson (6)	No. of board meetings attended	% of meetings attendance by law
Farouk Yousuf Khalil Almoayyed Chairman	NED	Bahrain National Holding Company	13 February 2008	10	1 (Chairperson)	3	75%
Fuad Ebrahim Kanoo Deputy Chairman	NED	E.K. Kanoo	13 February 2008	4	1 (Member)	2	50%
Mahmood Al Soufi	NED	Bahrain National Holding Company	26 April 2006	7	1 (Chairperson)	3	75%
Talal Fuad Ebrahim Kanoo	NED	Bahrain National Holding Company	26 April 2006	4	1 (Member)	3	75%
Mohammed Farouk Almoayyed	NED	Y.K. Almoayyed & Sons	26 April 2006	6	1 (Member)	3	75%
Al Sayyida Rawan Ahmed Al Said	NED	Oman National Investment Corporation Holding	25 December 2008	6	1 (Member)	3	75%
Tariq Mutlaq Almutlaq	NED	Al-Mutlaq Group	22 February 2007	12	1 (Member)	1	25%
Shaikh Abdulla Mohamed Jabor Al Thani	NED	Al Khaleej Insurance & Reinsurance	22 February 2007	2	-	-	0%
Khaled Shaheen Saqer	INED	-	16 August 2011	3	1 (Chairperson) 1 (Member)	1	100%
Shaheen Amin	INED	-	2 November 2011	2	1 (Member)	1	100%

Composition of Board and other related matters:

Notes:

1. The Board of Directors of the Company met three times during the year on 1st March 2011, 27th June 2011 and 20th November 2011.
2. The current Directors were appointed at the Annual General Meeting held on 2nd March 2009 for a period of three years renewable.
3. During the year, Abdul Hakim Al Adhamy, an Independent Non-Executive Director, resigned from the Board.
4. NED: Non-Executive Director; INED: Independent Non-Executive Director.
5. This number excludes the Directorships / Committee memberships held in private limited companies and in overseas companies.
6. It includes the Chairmanship / Membership in the Executive Committee, Audit & Corporate Governance Committee, and Remuneration & Nomination Committee.
7. Mohammed Farouk Almoayyed is the son of the Chairman, and Talal Fuad Kanoo is the son of the Deputy Chairman. None of the other Directors have any inter-relationship.

2. BOARD COMMITTEES

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

2.1 Executive Committee

This Committee consists of four Non-Executive Directors and the General Manager.

Details of the members and their attendance in meetings held during the year are as follows:

Name & designation	Category of directorship	Date of appointment	No. of meetings attended
Mahmood Al Soufi, Chairperson	Non-Executive Director	16 May 2006	4
Talal Fuad Ebrahim Kanoo	Non-Executive Director	5 September 2006	4
Mohammed Farouk Y. Almoayyed	Non-Executive Director	24 June 2008	4
Shaheen Amin	Independent Non-Executive	20 November 2011	-

Notes:

1. The Executive Committee met four times during the year on 22nd February 2011, 20th June 2011, 31st October 2011 and 25th December 2011.
2. The main role of the Executive Committee is to:
   - Oversee the financial, operational and safety performance of the Company.
   - Guide the Company in its relations with shareholders and other key stakeholders, including staff, regulators, and media.
   - Develop a group strategy for the Board approval.
   - Implement Board strategy.
   - Credit approvals within a range specified by the Board.
   - Review and recommend write-off of receivables.
   - Receive and consider regular reports from businesses within the Company so as to monitor and drive through improvements in financial performance.
   - Approve expenditure and other financial commitments that are above the authorities delegated to the Committee, and make recommendations to the Board seeking the necessary approval.
   - Any other issues delegated by the Board from time to time

2.2 Audit & Corporate Governance Committee

This Committee consists of three Non-Executive Directors of which one is an Independent Director.

The composition of the Committee, as well as the particulars of attendance at the Committee during the year, is given in the table below:

Name & designation	Category of directorship	Date of appointment	No. of meetings attended
Khaled Shaheen Saqer, Chairperson	Independent Non-Executive	20 November 2011	-
Al Sayyida Rawan Ahmed Al Said	Non-Executive Director	13 October 2009	1
Tariq Mutlaq Almutlaq	Non-Executive Director	4 November 2007	-

Notes:

1. The Audit & Corporate Governance Committee met once during the year on 28th February 2011.
2. On 27th March 2011 the Central Bank of Bahrain approved merging the Audit Committee with the Corporate Governance Committee, and accordingly the Committee's Charter was updated and adopted.
3. During the year Abdul Hakim Al Adhamy, the ex-chairperson of the Audit Corporate Governance Committee, resigned from the Board and sub-board Committees.
4. The main role of the Audit & Corporate Governance Committee is to:
   - Assist the Board in oversight of financial statements in general, and with particular reference to the review of annual and quarterly financial statements.
   - Assist the Board in the appointment of external and internal auditors in the context of their independence, compensation and terms of engagement.

- Oversee the Company's compliance with legal and regulatory requirements.
- Review and supervise the implementation of, enforcement of, and adherence to, the Company's Code of Conduct.
- Review and recommend the Company's policies and procedures.

2.3 Remuneration & Nomination Committee

This Committee consists of three Non-Executive Directors of which one is an Independent Director.

The composition of the Committee and the number of meetings attended by each member during the year are shown as follows:

Name & designation	Category of directorship	Date of appointment	No. of meetings attended
Farouk Yousuf Khalil Almoayyed, Chairperson	Non-Executive Director	28 December 2010	-
Fuad Ebrahim Kanoo	Non-Executive Director	28 December 2010	-
Khaled Shaheen Saqer	Independent Non-Executive	20 November 2011	-

Notes:

1. No meeting of the Remuneration & Nomination Committee was held during the year.
2. On 27th March 2011 the Central Bank of Bahrain approved merging the Remuneration Committee with the Nomination Committee into a single committee.
3. The main role of the Remuneration & Nomination Committee is to:
   - Evaluate and recommend the composition of the Board of Directors and sub committees thereof.
   - Consider and recommend the appointment of Independent Non-Executive Directors (INEDs) and other NEDs.
   - Review the remuneration policies for the Board and senior management.
   - Make recommendations regarding allowances and expenses for attendance of Board meetings and Board-level Committee meetings.
   - Determine the processes for evaluating the effectiveness of individual directors and the Board as a whole.
   - Ensure that the composition of the Board provides stakeholders with competencies and skills to motivate high-performing talent, strategic insight, expertise in finance, good understanding of management, ability for crisis management, and industry specific experience.

3. REMUNERATION

Non-Executive Directors Remuneration

In aggregate, Directors were paid a total of BD 39,900 as annual remuneration and sitting fees for their contribution in the Board and sub-Board Committees held during 2011 (Refer to note 7). The sum of annual remuneration is not associated with the overall Company's performance and efficiency. However, time and effort dedicated by Directors are measured to determine the total remuneration.

Managerial Remuneration

The appointment and remuneration of the General Manager is determined by the Executive Committee and approved by the Board on a yearly basis based on his performance.

The staff bonus pool is approved by the Board of Directors, and is distributed amongst senior managers and other employees based on their individual performance.

4. DISCLOSURES

4.1 Code of Business 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. The Code of Business Conduct adopted by NFH has been posted on the website of the Company.

4.2 Related Party Transactions

Transactions with related parties are disclosed in detail in Note 7 annexed to the Financial Statements for 2011. During the year, there were no potential conflicts of interest of any member of the Board of Directors between their duties to the Company and their private interests and/or other duties.

CORPORATE GOVERNANCE REPORT CONTD.

4.3 Mandatory & Non-Mandatory Clauses

The Company has complied with all mandatory requirements to fairly reflect the financial position of the Company and its performance during the relevant financial period, in accordance with the International Financial Reporting Standards (IFRS) and as laid down by the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the terms of the Company's licence, or the terms of the Company's Memorandum and Articles of Association. The non-mandatory requirements complied with, have been disclosed at the relevant places.

In preparing the financial statements, the Directors have selected suitable accounting policies and applied them consistently; made judgements and estimates that are reasonable and prudent; ensured that all applicable accounting standards have been followed; and prepared financial statements on the going concern basis, as the Directors have a reasonable expectation, having made enquiries, that the Company has adequate resources to continue in operational existence for the foreseeable future.

5. 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.

The quarterly and annual results of the Company are published in two local newspapers, one in Arabic and one in English, and a copy is submitted to the Central Bank of Bahrain. During the year, the quarterly reviewed interim financial results and the audited annual financial results of the Company prepared on a consolidated basis, were published in two leading newspapers – Gulf Daily News (English) and Al-Watan Newspaper (Arabic). These were also promptly put on the Company's website www.nfh.com.bh. All previous annual reports and quarterly interim financial results of the Company, and other official news releases of relevance to the stakeholders, are also made available on the Company's website for a reasonable period of time.

Annual reports are mailed to all shareholders, relevant regulatory bodies, main bankers and other stakeholders. Management discussion and analysis is given as part of the annual report, which assures transparency and fair presentation of the business operations.

6. SHAREHOLDERS

Shareholder's name	Country	% of ownership	Par value per share	No. of shares	BD amount of ownership
Bahrain National Holding Company	Bahrain	30.003%	0.100	22,502,346	2,250,235
Oman National Investment Corporation Holding	Oman	17.467%	0.100	13,100,000	1,310,000
E.K. Kanoo	Bahrain	15.465%	0.100	11,599,147	1,159,915
Y.K. Almoayyed & Sons	Bahrain	15.465%	0.100	11,599,147	1,159,915
Al-Mutlaq Group	K.S.A.	11.600%	0.100	8,699,360	869,936
Al Khaleej Insurance & Reinsurance	Qatar	5.000%	0.100	3,750,000	375,000
Shaikh Abdulla Mohamed Jabor Al Thani	Qatar	5.000%	0.100	3,750,000	375,000
		100%		75,000,000	7,500,000

Shareholding of Non-Executive Directors

Details of the equity shares held by Non-Executive Directors as at 31st December 2011 are as follows:

Name of the Director	Country	% of ownership	par value per share	No. of shares	BD amount of ownership
Shaikh Abdulla Mohamed Jabor Al Thani	Qatar	5.000%	0.100	3,750,000	375,000

7. 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 Asset & Liability Committee.

Senior Management

May Al-Mahmood

Head of Financial Control

Acting General Manager (appointed from 21st November 2011)

Joined NFH in 2006. May Al-Mahmood has 19 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.

Seddeeqa Almunfaredi

Head of Operations

Responsible for Information Technology.

Acting Head of Collections and Legal Affairs (appointed on 22nd November 2011)

Joined NFH in 2006. Seddeeqa Almunfaredi has 17 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.

Ali Redha

Acting Head of Retail (appointed on 22nd November 2011)

Joined NFH in 2008. Ali Redha has 14 years' experience in Retail Banking. Prior to joining NFH, he spent 10 years with Bahrain Credit in which his designation was Branch Manager. Ali Redha holds an MBA from AMA International University; a BSc in Banking & Finance from the University of Bahrain; and a Diploma in Commercial Studies from the University of Bahrain.

Naheed Najaf

Head of Insurance Services

Joined NFH in 2008. Naheed Najaf has 14 years' experience in insurance services. Prior to joining NFH, she spent 11 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.

8. AUDITORS

The Shareholders of the Company appointed KPMG, one of the leading accounting firms in Bahrain, as the external auditors for 2011. During the year, BD 11,600 was charged by the external auditors against the services rendered by them to the Company (BD 9,500 for audit, and BD 2,100 for other services).

The internal audit function is outsourced to BDO, a reputable accounting firm in Bahrain with over 31 years' experience. During 2011, BD 7,200 was charged by the internal auditors against the auditing services rendered by them to the Company.

9. 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.

There were no instances of material non-compliance, and no strictures or penalties were imposed on the Company by the Central Bank of Bahrain or any statutory authority, on any matter during the year.

Non-Compliance with High Level Controls Module of CBB Rulebook

1) HC-1.3.13 states that a director should not hold more than three directorships in public companies in Bahrain, with the provision that no conflict of interest may exist, and the Board should not propose the election or re-election of any director who does.

NFH's Chairman, Mr. Farouk Almoayyed, holds more than three directorships in public companies in Bahrain in which they are also being proposed for re-election. Nevertheless, NFH is of the view that this does not impact the efficiency and competence of the Board of Directors, as Mr. Farouk Almoayyed grants adequate attention to his responsibilities as Chairman of the Board. In addition, there are no conflicts of interest between his other directorships and that of NFH.

2) HC-1.4.6 states that the Chairman of the board should be an independent director so that there will be an appropriate balance of power and greater capacity of the board for independent decision making.

NFH's Chairman, Mr. Farouk Almoayyed is not an independent director. However, taking into consideration the business dealings that NFH has with Almoayyed Group under the administration of Mr. Farouk Almoayyed, the Company is of the view that this does not compromise the high standards of corporate governance that the Company maintains, such as:

a) NFH pursues strict policies to manage conflicts of interest in Board decisions.
b) Arms-length Principle is applied, followed by transparent tendering and approval processes.

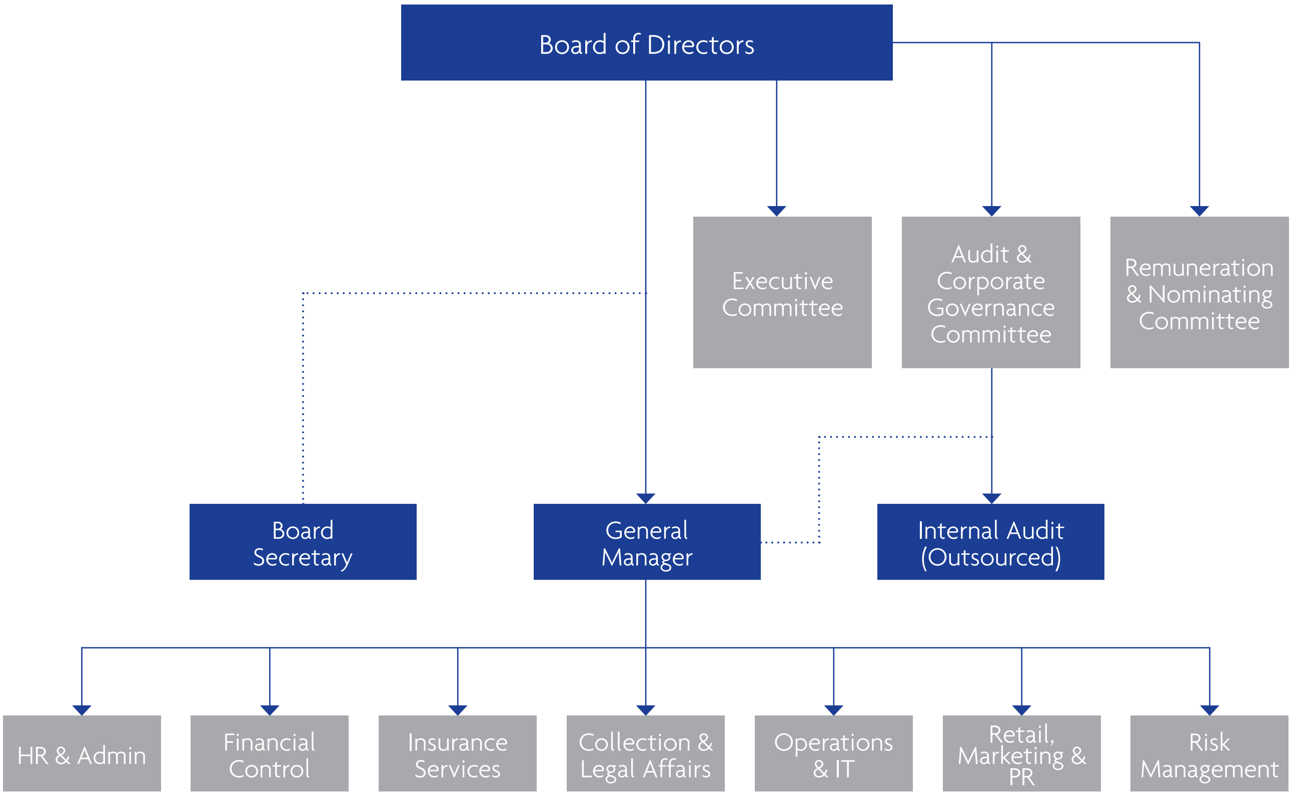
3) HC-3.2.1 states that the board must establish an Audit Committee of at least three directors, of which the majority must be independent, including the Chairman.

The majority of Audit Committee members are not independent. Only one out of three is independent, and that is the Chairman, Mr. Khaled Shaheen Saqer Shaheen. Based on the final decision of the CBB on this matter, further actions will be initiated if necessary.

4) HC-4.2.2 states that The Nomination Committee must include only independent directors or, alternatively, only non-executive directors of whom a majority must be independent directors and the chairman must be an independent director. This is consistent with international best practice and it recognises that the Nominating Committee must exercise judgment free from personal career conflicts of interest.

The majority of the Nomination Committee members are not independent, including the Chairman himself. Only one out of three is independent, and that is Mr. Khaled Shaheen Saqer Shaheen. Based on the final decision of the CBB on this matter, further actions will be initiated if necessary.

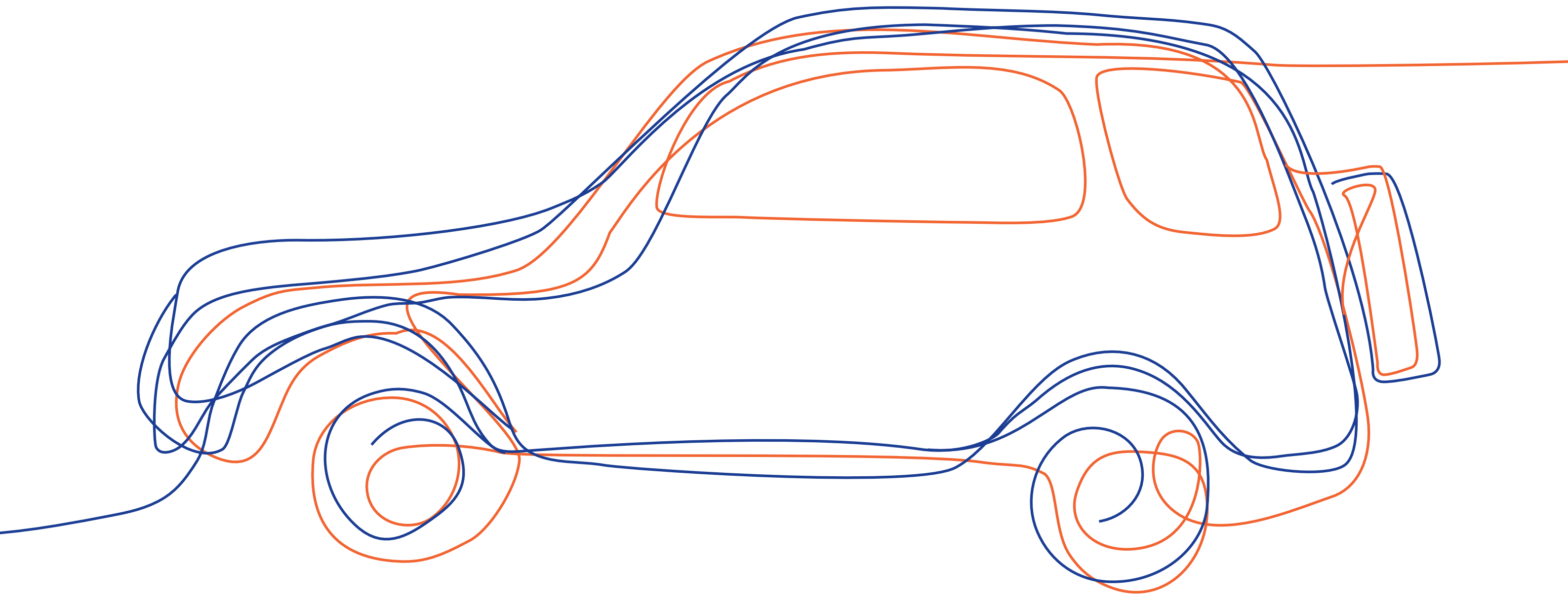
ORGANISATION STRUCTURE



OUR FIRST FIVE YEARS

performance with agility

Since commencing operations in September 2006, NFH has built a reputation for providing the highest levels of customer service with agility. Key initiatives include the opening of a branch office in Sitra, establishing dedicated service desks at the Toyota and Nissan showrooms, and launching a Call Centre. The client-focused approach of the Company's staff, who have more than doubled in the past five years, has resulted in NFH achieving an impressive 96 per cent customer satisfaction rating.



CONSOLIDATED FINANCIAL STATEMENTS

Contents

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 2011, 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 2011, 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 (CBB) Rule Books (Volume 5), 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 directors' report is consistent with the consolidated financial statements; we are not aware of any violations of the Bahrain Commercial Companies and the Central Bank of Bahrain Law, the CBB Rule Books (Volume 5) and CBB directives 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

Manama, Kingdom of Bahrain
5 April 2012

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2011 (Bahraini Dinars)

	Note	2011	2010
ASSETS			
Cash and cash equivalents	4	2,109,640	2,216,672
Loans to customers	5	31,097,537	31,130,485
Furniture, fixtures and equipment	6	111,108	181,312
Other assets		101,726	103,951
Total assets		33,420,011	33,632,420
LIABILITIES AND EQUITY			
Liabilities			
Bank borrowings	8	21,590,279	22,222,222
Other liabilities	9	1,194,856	1,201,337
Total liabilities		22,785,135	23,423,559
Equity			
Share capital	10	7,500,000	7,500,000
Share premium		112,500	112,500
Statutory reserve		339,738	259,636
Retained earnings		2,682,638	2,336,725
Total equity		10,634,876	10,208,861
Total equity and liabilities		33,420,011	33,632,420

Chairman

Deputy Chairman

The Board of Directors approved the consolidated financial statements consisting of pages 30 to 50 on 5 April 2012.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011 (Bahraini Dinars)

	Note	2011	2010
Interest income	11	3,052,699	3,105,619
Interest expense		(989,502)	(1,016,207)
Net interest income		**2,063,197**	2,089,412
Fees and commission income		469,534	375,588
Fees and commission expense		(272,740)	(221,146)
Net fee and commission income		196,794	154,442
Total operating income		**2,259,991**	2,243,854
Salaries and related costs		741,489	759,111
General and administrative expenses	12	408,688	401,655
Depreciation	6	83,621	92,729
Impairment on loans to customers		225,178	96,235
Total operating expenses		**1,458,976**	1,349,730
Profit for the year		**801,015**	894,124
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**801,015**	894,124
Basic earnings per share	10	**10.7 fils**	11.9 fils

Chairman

Deputy Chairman

The Board of Directors approved the consolidated financial statements consisting of pages 30 to 50 on 5 April 2012.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011 (Bahraini Dinars)

2011	Share capital	Share premium	Statutory reserve	Retained earnings	Total equity
At 1 January	7,500,000	112,500	259,636	2,336,725	10,208,861
Profit for the year (page 33)	-	-	-	801,015	801,015
Total comprehensive income for the year	-	-	-	801,015	801,015
Dividends declared for 2010	-	-	-	(375,000)	(375,000)
Transfer to statutory reserve	-	-	80,102	(80,102)	-
At 31 December	7,500,000	112,500	339,738	2,682,638	10,634,876

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 33)	-	-	-	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

The consolidated financial statements consist of pages 30 to 50.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011 (Bahraini Dinars)

	Note	2011	2010
Operating activities			
Interest, fees and commission received		3,522,233	3,481,128
Loans disbursed		(14,318,596)	(13,676,176)
Loan repayments		14,126,366	13,340,211
Payments for staff salaries and related costs		(772,569)	(756,746)
Payments for other operating expenses		(628,109)	(667,198)
Cash flows from operating activities		1,929,325	1,721,219
Investing activities			
Purchase of furniture, fixtures and equipment	6	(13,417)	(17,862)
Sale of furniture, fixtures and equipment		-	111
Cash flows used in investing activities		(13,417)	(17,751)
Financing activities			
Proceeds from bank borrowings		750,000	-
Repayment from bank borrowings		(1,381,943)	(666,667)
Interest paid		(1,015,997)	(1,041,861)
Dividends paid		(375,000)	-
Cash flows used in financing activities		(2,022,940)	(1,708,528)
Net decrease in cash and cash equivalents		(107,032)	(5,060)
Cash and cash equivalents at 1 January		2,216,672	2,221,732
Cash and cash equivalents as at 31 December	4	2,109,640	2,216,672

The consolidated financial statements consist of pages 30 to 50.

NOTES TO THE 2011 CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011 (Bahraini Dinars)

1. REPORTING ENTITY

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. It provides consumer finance services and grant short term and medium term loans to individuals and incorporated entities for the purpose of financing all type of purchase of an instalment basis, including instalment for the purchase of motor vehicles, non motorized vehicles, equipment, machinery, household effects etc.

Effective on 6 December 2005, the Company became licensed and regulated by the Central Bank of Bahrain ("CBB") to operate as a finance company. The consolidated financial statements of the Company as at and for the year ended 31 December 2011 comprise the Company and its subsidiary (together referred to as "the Group").

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. In the meeting of board of directors held at 20 November 2011, the Company shareholders approved to liquidate NFHI. In addition the NFHI management obtained the approval of CBB to start the liquidation process on 15 January 2012.

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.

The consolidated financial statements of the Group were authorized for issue by the directors on 5 April 2012.

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

These 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 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.

e. Standards, amendments and interpretations effective on or after 1 January 2011

The following standards, amendments and interpretations, which became effective in 2011, are relevant to the Group:

IAS 24 (Revised) “related party disclosures”

The revised standard was issued in November 2009. 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. The adoption of the revised standard did not have any significant impact on the related party disclosure of the Group.

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. 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 2011.

IAS 1 (amendment) - Presentation of items of other comprehensive income

The amendments to IAS 1 require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendment is effective for annual periods beginning on or after 1 July 2012. The application of this amendment will have no significant impact on the financial statements of the Group.

IFRS 7 (amendment) – Disclosures

The amendments to IFRS 7 introduce new disclosure requirements;

Transfer of financial assets:

Transfers of financial assets are required to be disclosed including disclosures for financial assets that are not derecognised in their entirety; and financial assets that are derecognised in their entirety but for which the entity retains continuing involvement. The amendments are effective for annual periods beginning on or after 1 July 2011, but entities are not required to provide the disclosures for any period presented that begins before the date of initial application of the amendments.

Offset of financial assets and liabilities:

Disclosures are required for financial assets and financial liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements. The amendments to IFRS are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The amendments are to be applied retrospectively.

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.

2. BASIS OF PREPARATION (CONTINUED)

IFRS 9 'Financial Instruments' (continued)

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"

Adoption of IFRS 9 is mandatory from 1 January 2015. The Group is considering the implications of the standard, the impact and timing of its adoption.

IFRS 13 - Fair value measurement

IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other IFRSs. It does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

The standard is effective for annual periods beginning on or after 1 January 2013.

g. Early adoption of standards

The Group did not early adopt new or amended standards in 2011.

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 Group 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

Intra-group 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 consolidated 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 consolidated 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 consolidated 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Financial assets and liabilities (continued)

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, less any impairment losses.

f. Furniture, fixtures and equipment

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

g. Depreciation

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

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

h. Cash and cash equivalents

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

i. Statutory reserve

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

j. Impairment of non-financial assets

The carrying amount of the 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.

NOTES TO THE 2011 CONSOLIDATED FINANCIAL STATEMENTS CONTD.

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4. CASH AND CASH EQUIVALENTS

	2011	2010
Cash in hand and at bank	1,359,057	977,938
Bank term deposits	750,583	1,238,734
	2,109,640	2,216,672

5. LOANS TO CUSTOMERS

	2011	2010
Gross loans	31,798,950	31,606,720
Less: impairment allowance	(701,413)	(476,235)
At 31 December	31,097,537	31,130,485

The movement in the allowance for impairment was as follows:

	2011	2010
At 1 January	476,235	380,000
Charge for the year	225,178	96,235
At 31 December	701,413	476,235

6. FURNITURE, FIXTURES AND EQUIPMENT

	Furniture and equipment	Computer software	Computer hardware	Motor vehicles	2011 Total	2010 Total
Cost						
At 1 January	276,441	92,844	87,842	11,878	469,005	451,281
Additions	8,649	1,721	3,047	-	13,417	17,862
Disposals	-	-	-	-	-	(138)
At 31 December	285,090	94,565	90,889	11,878	482,422	469,005
Depreciation						
At 1 January	156,869	59,974	65,006	5,844	287,693	195,070
Charge for the year	49,699	12,795	18,751	2,376	83,621	92,729
Disposals	-	-	-	-	-	(106)
At 31 December	206,568	72,769	83,757	8,220	371,314	287,693
Net book value						
At 31 December 2011	78,522	21,796	7,132	3,658	111,108	-
At 31 December 2010	119,572	32,870	22,836	6,034	-	181,312

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	2011	2010
Expenses		
Insurance premium charges (shareholder)	86,117	66,416

Related party balances	2011	2010
Amounts payable for vehicles financed (shareholders)	814,564	478,588
Prepaid expenses (shareholders)	9,812	9,584
Amounts payable to insurance companies (shareholder)	271	557

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:

	2011	2010
Key management compensation	84,382	264,072
Board of directors remuneration and committee attendance allowances	39,900	40,700
Staff loan disbursed	18,600	30,000

Balances with key management personnel

	2011	2010
Staff loan disbursed	-	31,315

8. BANK BORROWINGS

	2011	2010
Repayable within one year	19,805,556	4,666,667
Repayable after one year	1,784,723	17,555,555
	21,590,279	22,222,222

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 3.06 % to 4.57 % p.a. (2010: 3.71 % to 5.09 % p.a.). Of the above borrowings, BD 4.59 million (2010: BD 5.22 million) is secured by assignment of receivables (to the extent of 120% of such loan outstanding) and the remaining BD 17 million (2010: BD 17 million) is unsecured.

NOTES TO THE 2011 CONSOLIDATED FINANCIAL STATEMENTS CONTD.

For the year ended 31 December 2011 (Bahraini Dinars)

9. OTHER LIABILITIES

	2011	2010
Amounts payable for vehicles financed		
• to related parties (major shareholders)	814,564	478,588
• to other parties	121,887	358,317
Amount payable to insurance companies		
• to related parties (major shareholders)	271	557
• to other parties	24,803	62,747
Accrued expenses		
• to related parties (major shareholders)	26,000	22,000
• to other parties	207,331	279,128
	1,194,856	1,201,337

10. SHARE CAPITAL

	2011	2010
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	10.7 fils	11.9 fils

The earnings per share is calculated by dividing the net income of BD 801,015 (2010: BD 894,124) by the numbers of shares outstanding at the end of the year of 75 million shares (2010: 75 million shares).

11. INTEREST INCOME

	2011	2010
Interest earned on loans to customers	3,022,291	3,067,745
Interest income from term deposits	30,408	37,874
	3,052,699	3,105,619

12. GENERAL AND ADMINISTRATIVE EXPENSES

	2011	2010
Rent	45,935	45,000
Communication expense	21,325	21,507
Office expenses	161,530	141,997
Printing and stationery expense	18,572	18,232
Computer maintenance and support expenses	32,806	30,339
Legal and professional charges	72,888	70,030
Advertising and publicity expense	29,632	52,550
Board of directors remuneration	26,000	22,000
	408,688	401,655

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.

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 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:

	2011	2010
Cash and cash equivalents	2,107,680	2,215,032
Loans to customers	31,097,537	31,130,485
	33,205,217	33,345,517

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.

	2011	2010
Concentration by sector		
Corporate	12,273,100	16,508,989
Retail	18,824,437	14,621,496
Financial institutions	2,107,680	2,215,032
	33,205,217	33,345,517

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:

	2011	2010
Impaired loans	1,038,277	575,564
Less: Specific impairment allowance	(407,228)	(157,110)
	631,049	418,454
Past due but not impaired	4,347,168	3,178,075
Neither past due nor impaired	26,413,505	27,853,081
	30,760,673	31,031,156
Less: Collective impairment allowance	(294,185)	(319,125)
	30,466,488	30,712,031
	31,097,537	31,130,485

Non-performing loans are identified as loans which are past due by 90 days or more. Total non-performing loans as at 31 December 2011 were BD 1,990,627 (2010: BD 1,741,389).

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.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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.

	Carrying amount	Contractual cash flows	6 months or less	6 - 12 months	More than 12 months
31 December 2011					
Borrowings from banks	21,590,279	22,418,263	3,869,967	16,458,443	2,089,853
Accounts payable	961,525	961,525	961,525	-	-
	22,551,804	23,379,788	4,831,492	16,458,443	2,089,853

	Carrying amount	Contractual cash flows	6 months or less	6 - 12 months	More than 12 months
31 December 2010					
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

Market risk

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 2011				
Cash and cash equivalents	-	750,583	1,359,057	2,109,640
Loans to customers	31,097,537	-	-	31,097,537
Other assets	-	-	101,726	101,726
	31,097,537	750,583	1,460,783	33,308,903
Other liabilities	-	-	1,194,856	1,194,856
Borrowings from banks	-	21,590,279	-	21,590,279
	-	21,590,279	1,194,856	22,785,135
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

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 2010.

	Statement of comprehensive income		Equity	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
31 December 2011				
Borrowings from banks	(94,617)	94,617	(94,617)	94,617
31 December 2010				
Borrowings from banks	(118,455)	118,455	(118,455)	118,455

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Interest rate risk (continued)

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for re-pricing bands. The 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 2011							
Cash and cash equivalents	2,109,640	750,583	-	-	-	-	1,359,057
Loans to customers	31,097,537	3,009,120	2,805,050	5,052,273	19,592,242	638,852	-
Other assets	101,726	-	-	-	-	-	101,726
	33,308,903	3,759,703	2,805,050	5,052,273	19,592,242	638,852	1,460,783
Borrowings from banks	21,590,279	2,729,168	729,168	16,097,225	2,034,718	-	-
Other liabilities	1,194,856	-	-	-	-	-	1,194,856
	22,785,135	2,729,168	729,168	16,097,225	2,034,718	-	1,194,856

	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

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.

Operational risk

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.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Capital management

The Central Bank of Bahrain sets and monitors capital requirements for the Group. According to the conventional financing Group 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 2011 Group's paid-up share capital is BD 7,500,000 (2010: BD 7,500,000) and the borrowing to capital and reserves ratio on 31 December 2011 is 2.02 (2010: 2.17).

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.