GEARING UP FOR THE FUTURE

NFH
التـمـويل الـوطـني

ANNUAL REPORT 2012

CONTENTS

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His Royal Highness Prince Khalifa Bin Salman Al Khalifa

The Prime Minister of the Kingdom of Bahrain

His Majesty King Hamad Bin Isa Al Khalifa

The King of the Kingdom of Bahrain

His Royal Highness Prince Salman Bin Hamad Al Khalifa

The Crown Prince, Deputy Supreme Commander and First Deputy Prime Minister

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

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

Since inception, 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.

NFH Shareholders

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

Sultanate of Oman
Oman National Investment Corporation Holding

Kingdom of Saudi Arabia
Almutlaq Group

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

VISION, MISSION AND VALUES

VISION

We aspire to be the first-choice provider of finance solutions.

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.

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.

- Disbursed record number and value of loans
- Established additional bank credit lines
- Maintained average market share at 14%
- Opened customer service desks at two additional car showrooms
- Achieved customer satisfaction rating of 96%
- Re-engineered and redesigned website
- Signed new agreement with Ahli United Bank (AUB) for NFH customers to make payments at AUB branches
- Finalised succession planning across all areas
- Selected vendor for new core banking system
- Expanded working space at the head office
- Strengthened corporate governance and risk management frameworks
- Implemented new Business Continuity Plan
- Established new IT Steering Committee
- Formed new independent Customer Complaints Unit

Profit for the year

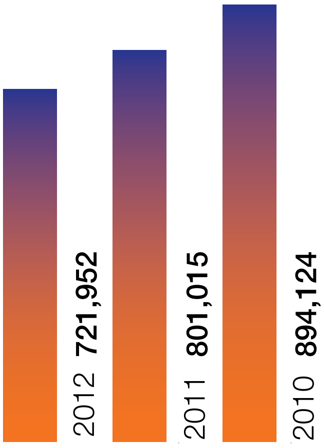
721,952

Total Assets

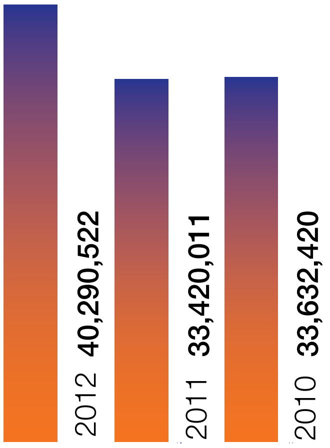
40,290,522

Operating Income

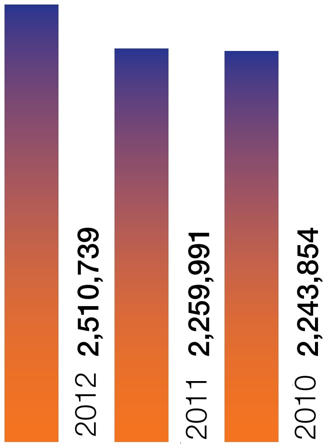
2,510,739



Profit for the year



Total Assets



Operating Income

(Bahraini Dinars)	2012	2011	2010	2009	2008
Total Assets	**40,290,522**	33,420,011	33,632,420	33,367,007	27,388,319
Total Liabilities	**28,933,694**	22,785,135	23,423,559	24,052,270	18,981,148
Total Equity	**11,356,828**	10,634,876	10,208,861	9,314,737	8,407,171
Operating Income	**2,510,739**	2,259,991	2,243,854	2,199,210	1,527,275
Profit for the year	**721,952**	801,015	894,124	907,566	529,576
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

Chairman of Remuneration & Nomination Committee

Since 2006

Chairman

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

Member of Board of Directors

Investcorp Bank, Bahrain

Chairman of Board of Trustees:

Ibn Khuldoon National School, Bahrain

Fuad Ebrahim Kanoo
Deputy Chairman

Member of Remuneration & Nomination Committee
Since 2006

Vice Chairman

Ebrahim Khalil Kanoo Group, Bahrain

Member of Board of Directors

General Trading & Food Processing Company, Bahrain
Gulf Union Insurance & Reinsurance Co., Bahrain

Mahmood Al Soufi
Non-Executive Director

Chairman of Executive Committee

Since 2006

Chief Executive Officer

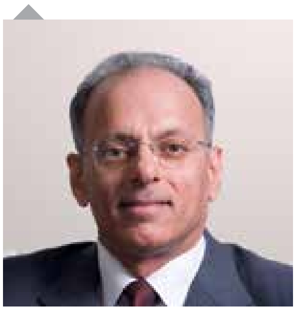
Bahrain National Holding Company, Bahrain

Chairman

UltraTune Middle East W.L.L., Bahrain

Member of Board of Directors

Gulf Insurance Institute, Bahrain
United Insurance Company, Bahrain
Al Kindi Specialized Hospital, Bahrain



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 Bank of Oman, Oman
Oman Orix Leasing Company, Oman
Oman Oil Marketing Company, Oman
National Investment Funds Company, Oman
Oman Investment Corporation, 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
Bahrain Maritime and Mercantile International (BMMI), Bahrain
Banader Hotels Company BSC, Bahrain
Mirai Restaurant WLL, Bahrain
Bayader Company for Restaurant Management SPC, Bahrain
Global Sourcing and Supply Holding (GSS) SPC, Bahrain

Talal Fuad Kanoo
Non-Executive Director
Member of Executive Committee
Since 2006

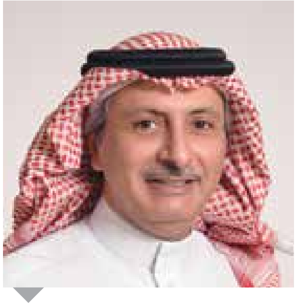
Chairman
Al Ahli Club, Bahrain

Member of Board of Directors
Bahrain National Holding Company, Bahrain
Ebrahim Khalil Kanoo BSC (c), Bahrain
Motor City, Bahrain

Sh. Abdulla Mohd Jabor Al Thani
Non-Executive Director
Since 2007

Chairman
Alkhaleej Takaful Group, Qatar

Member of Board of Directors
Doha Bank, Qatar
Uni Trans Company, Qatar



Bader Abdulmohsin Almutlaq
Non-Executive Director
Since 2012

Managing Partner
Almutlaq Group, KSA

Chairman
Almutlaq Furniture, KSA

Member of Board of Directors
Almutlaq Group, KSA
Middle East Battery Company, KSA

Khalid Shaheen Saqer
Independent Non-Executive Director
Chairman of Audit Committee
Member of Remuneration & Nomination Committee
Since 2011

Member of Board of Directors, Member of Audit Committee
Bank Al-Khair B.S.C., Saudi Arabia
BFC Group Holdings, Bahrain

Independent Non-Executive Director, Chairman of Audit Committee, Member of Remuneration & Nomination Committee
Al-Khair Capital, Saudi Arabia

Chairman
Hermes Consulting S.P.C., Bahrain

Fellow
Institute of Directors, UK

Kalyan Sunderam
Independent Non-Executive Director
Since Dec 2012

Chief Risk Officer
First Energy Bank, Bahrain

Member Education Committee
Professional Risk Managers' International Association, USA

Profit for the year (BD)

2012

721,952

On behalf of the Board of Directors, it is my privilege to present the financial statements of National Finance House (NFH) for the year ended 31 December 2012. Despite being another challenging year, I am pleased to report that NFH posted a strong overall financial and operational performance. At the same time, we focused on gearing up the Company for the future, with the implementation of a number of new initiatives.

Economic Market Background

Although still challenging and unpredictable, local market conditions witnessed an improvement in 2012, with new vehicle registrations in the Kingdom of Bahrain increasing significantly over the previous year, which had a positive effect on our business. Nevertheless, the vehicle financing and insurance sectors in the Kingdom remained highly competitive, resulting in a further softening of rates and erosion of margins. NFH responded in a proactive manner, stepping up marketing and using innovative means through which to secure new business agreements.

The revision of Bahrain's outlook by the credit rating agency Standard & Poor's (S&P) from a negative to more restrained but stable economy, is considered a vote of confidence in the Kingdom's economic reform programme; and reflects the country's strong external and fiscal positions, which will contribute positively to reviving various segments of Bahrain's economy in 2012. S&P also affirmed its positive outlook for the country's local and international currency sovereign credit rating at BBB/A-2.

Financial Performance

I am pleased to report that NFH posted a strong overall financial performance in 2012, with total operating income increasing by 11% to BD 2.51 million compared with BD 2.26 million the previous year. Due to unpredictable market conditions, the Company took the prudent step of booking very conservative provisions of BD 550.6 thousand against impairment on loans to customers. This affected net profit for the year, which decreased from BD 801 thousand in 2011 to BD 722 thousand. Shareholders' equity grew to BD 11.36 million (2011: BD 10.63 million), resulting in a return on average equity of 6.6% (2011: 7.7%). Total operating expenses rose to BD 1.79 million (2011: BD 1.46 million), mainly due to the impairment on loans

Farouk Yousif Khalil Almoayyed
Chairman

We continued to improve both the quality and scope of service to our customers during the year, with a number of new initiatives.

to customers. Net interest income rose slightly to BD 2.22 million (2011: BD 2.06 million), while net fee and commission income increased by 47% to BD 289 thousand (2011: BD 197 thousand). At the end of the year, total assets had grown to BD 40.29 million, compared with BD 33.42 million in 2011. 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 pleased to propose a cash dividend of 5% of the paid-up capital (BD 375 thousand) out of retained earnings as at 31 December 2012, subject to approval of the Company's shareholders at the forthcoming Annual General Meeting to be held on 4 March 2013.

Business Achievements

Improved market conditions resulted in NFH disbursing record total loans of BD 20.29 million compared with BD 14.32 million in 2011. Despite increased competition and heavy discounting promotions by competitors during the year, I am pleased to report that NFH maintained a dominant market share of 14%. A key development during the year was the establishment of new customer service desks at the Kia Motors and Majestic Car showrooms, which complements our existing arrangements at the Toyota and Nissan dealerships, which were expanded in 2012.

The Company's wholly-owned subsidiary, National Finance House Insurance Services Company, was liquidated in 2012. As an alternative to providing insurance brokerage services, NFH signed an agreement with Bahrain National Holding for its two subsidiary insurance companies to provide customers with a comprehensive range of motor, life and medical insurance cover. This agreement, which will enable NFH to maximise shareholder synergy, is subject to final regulatory approval from the Central Bank of Bahrain.

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 Ahli United Bank for NFH customers to make payments at the bank's branches; and enhancing the capacity and capability of the Call Centre. The results of a customer satisfaction survey showed that new customers in 2012 rated their satisfaction with NFH at 96%, which underlines the success of our staff in continuing to deliver 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 96% of the workforce. Equally significant is our investment in information technology, and in 2012 we appointed a vendor for a new core banking system. During the year, we also restructured the organisation, and comprehensively overhauled the Company's operating infrastructure, in order to improve efficiency, productivity and internal controls; together with a greater focus on performance and accountability.

Corporate Responsibility

Throughout the year, we continued to strengthen our corporate governance and risk management framework to ensure compliance with the regulations of the Central Bank of Bahrain, and the requirements of the Code of Corporate Governance of the Kingdom of Bahrain. A key development in 2012 was the implementation of the Company's new business continuity plan. We also continued to deliver the Company's corporate social responsibility programme, which includes sponsorship of local social and sports clubs, with a particular focus on the development of the Kingdom's youth.

Acknowledgements

During the year, there were changes to the composition of the Board of Directors, with Mr. Shaheen Amin and Mr. Tariq Mutlaq Almutlaq resigning from the Board. I would like to thank our outgoing directors for their valuable contributions during their tenure of office; and in turn welcome Mr. Bader Mutlaq Almutlaq and Mr. Kalyan Sunderam, who joined the Board in 2012, and whose expertise, qualifications and experience will be of great benefit to the Company.

I would like to take this opportunity to welcome Mr. Venkatachalam PS, who joined NFH as General Manager in February. Putting his extensive banking experience into practice, Mr. Venkat has made an excellent start to strengthening the management of the Company and gearing it up for the future.

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. A special acknowledgement is also due to Government ministries and bodies, especially the Central Bank of Bahrain and the Ministry of Industry & Commerce, for their continued guidance.

I also extend my appreciation to our 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 2012. Based on our performance during the year, and the initiatives we have introduced to gear up NFH for future growth and development, we remain cautiously optimistic about the future prospects for our Company in 2013.

Farouk Yousif Khalil Almoayyed
Chairman

I am delighted to report that NFH achieved a strong overall performance in 2012, highlighted by improved top line financial results, record vehicle purchase loans and major new business achievements. These are covered in brief by the Chairman's Statement and in more detail by the Review of Operations, so I would like to concentrate on another key highlight of the year - the initiatives that we introduced to enhance our institutional capability and gear up the Company for the future.

Venkatachalam PS
General Manager

As part of this restructuring, we placed particular focus on the Company's human capital.

During the first quarter of the year, we embarked upon a major exercise to transform the Company, with the objective of turning NFH into a more professional, responsible, accountable and responsive organisation. This involved a major enhancement of our operating infrastructure, including strengthening internal controls with the appointment of an Internal Controller; and re-engineering all policies and processes in line with international best practice.

As part of this restructuring, we placed particular focus on the Company's human capital. Our objective is to make NFH a more performance-oriented and accountable institution, with measurable goals and key performance indicators for all departments and individuals. This involves a significant change in the Company's culture; and entails not just looking at performance but also at staff motivation.

Accordingly, we restructured the management team and promoted a number of staff; introduced a new employee appraisal system, which includes identifying training and development needs; completed a new succession planning exercise; and launched a new Employee of the Month award, together with other initiatives to improve teamwork and social integration.

We also focused on enhancing our information and communications technology infrastructure, which acts as a key strategic driver and business enabler. This included speeding up and finalising the selection of a vendor for the Company's new core banking system, which will integrate, centralise and automate all aspects of the business, both front and back office; and provide measurable benefits in accuracy, control, security and speed of processing.

The new system will also automate and enhance the scope and timeliness of reporting to aid decision-making by management. Additionally, we implemented the Company's new business continuity plan, significantly enhancing information security, and reconfiguring and testing the disaster recovery site. A new IT Steering Committee was established to monitor the progress in implementing our new IT strategy in line with current and future business needs.

We also tackled the issue of office space, which has constrained our planned growth, and impacted the Company's efficiency and productivity. By leasing and occupying two extra floors of the existing head office building, we have been able to extend the customer service area on the ground floor, improve the general working environment, and provide more space for critical IT and Operations activities.

Concurrently, we took steps to further strengthen our corporate governance and risk management framework in line with international standards and global best practice.

This included revising the charters and terms of reference for all Board and Management Committees, and enhancing our Risk Management and Compliance function. Full details are included in separate Corporate Governance and Risk Management Reports in this annual report.

As a result of these developments, we are well on our way to becoming a stronger, more professional, better-managed and responsive organisation.

The foundations that we have put in place will enable us to develop a new three-year strategy and business plan that will guide our future growth and development, and increase market share and profitability.

In conclusion, I would like to thank the Board of Directors for its encouragement, support and counsel; and pay tribute to the commitment and hard work of the management and staff during the year. The NFH team enters 2013 with renewed confidence, optimism and determination, better prepared to gear up to future challenges.

Venkatachalam PS
General Manager

MANAGEMENT TEAM

1. Venkatachalam PS
General Manager

2. May Al-Mahmood
Head of Financial Control & Compliance Officer

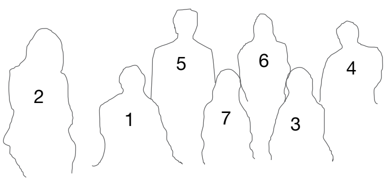
3. Seddeeqa Almunfaredi
Head of Operations & MLRO

4. Ali Redha Mohammed
Head of Retail

5. Tariq Abdulaziz Fathalla Ahmed
Head of Collections & Legal Affairs

6. Naheed Najaf
Head of Special Projects & Complaints Officer

7. Fatima Abdulla Yousif Ali
Head of Human Resources & Administration



+47%

Increase in net fee and commission income

Strengthening the Organisation

In 2012, we embarked upon a major exercise to transform NFH into a more professional, accountable and performance-oriented organisation. This entailed a major enhancement of our operating infrastructure - re-engineering all policies and processes in line with global best practice; and strengthening our human capital, information technology, internal controls and governance framework. The Company's annual staff appraisal process is now based on measurable business goals and key performance indicators to enhance individual performance and accountability.

Enhancing Customer Service

In a highly competitive market, superior customer service has proved to be a key competitive advantage and strategic differentiator for NFH. During 2012, our customer service initiatives focused on providing greater convenience and choice. We established point-of-purchase customer service desks at two additional car showrooms. We also offered customers the opportunity to make payments through AUB branches, and continued to enhance our online payments system.

Retail & Marketing

Vehicle Financing

In 2012, the automobile market in Bahrain posted a new all-time volume record, growing by an astonishing 49.6% from the previous year. NFH disbursed a record increase in loans with total value of BD 20.3 million during the year, compared with BD 14.32 million in 2011; which was considerably above target, and represented a 42% growth rate.

The majority of loans were for the purchase of cars by individuals, with heavy vehicle and construction equipment financing remaining flat. Despite increasing competition, NFH maintained a high share in the automobile market at around 14%.

During the year, the Company increased the number of staff employed in the service desks at the Toyota and Nissan showrooms; and signed new agreements with the official Kia dealer and Majestic car showroom to handle vehicle financing applications. The Company considers that this differentiating approach is more cost-effective and customer-convenient than opening new branches.

Marketing

Marketing activities in 2012 included press and outdoor advertisements, and promotional campaigns to increase awareness of NFH. Special promotions during the holy month of Ramadan offered special rates and benefits to individual customers, including reduced interest rates, extended grace periods, and free life insurance. NFH also continued its programme of special offers for employees of some of Bahrain's major local companies and public sector organisations.

Collections

The Collections department was reorganised during the year, with the addition of a Head of Collections & Legal Affairs and new staff; and a complete review of all collection policies and processes. Due to enhanced credit criteria and better underwriting, collections improved by 37% over the previous year. As part of its proactive approach to managing existing and potential defaults, NFH met with customers facing financial difficulties to discuss options for rescheduling or restructuring their loans.

Insurance

The Company's wholly-owned subsidiary, National Finance House Insurance Services Company, was liquidated in 2012. As an alternative to providing insurance brokerage services, NFH signed agency agreements with BNH subsidiaries - Bahrain National Insurance Company and Bahrain National Life Assurance Company - to provide customers with a comprehensive range of motor, life and medical insurance cover. This agreement will enable NFH to maximise shareholder synergy.

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 ways to further enhance the 'customer experience', and implemented a number of new initiatives.

In 2012, NFH took the decision to outsource its Call Centre in order to improve capacity and capability, and thereby enhance the level of service to customers. The new online payments facility, which was introduced last year, witnessed a significant uptake by customers in 2012. A dedicated touch screen PC was made available in branches to demonstrate the ease and convenience of this new facility. NFH plans to further enhance the online payment system by extending it to mobile phones and other mobile devices in 2013.

With the aim of improving customer convenience and choice, the Company signed an agreement with Ahli United Bank (AUB) to enable customers to make loan repayments through AUB branches, while a direct debit service is planned for early 2013. In addition, the Company's website was re-engineered and redesigned with customers in mind, and is due to be launched early next year.

The very high level of satisfaction by NFH customers was maintained in 2012. The annual Call Centre report for 2012, which logs the results of proactive weekly telephone calls to all new customers and selective existing customers by Customer Service staff, showed that customers rated their satisfaction with the service received from NFH at 96%.

Operations

The Company's operating infrastructure was comprehensively overhauled during the year. This entailed a major review and revision of 28 NFH policies and processes, including a new Credit Policy Manual with integrated procedures for Credit and Operations; and the implementation of the Company's new business continuity plan, involving a successful data recovery testing exercise as part of the commissioning of the new disaster recovery site. In addition, a new IT Steering Committee was established to monitor the implementation of the Company's new core banking system, and the planned enhancement of the IT infrastructure in 2013. Focus was also placed on improving day-to-day internal controls, underlined by the appointment of an Internal Controller as part of Financial Control.

+96%

Of NFH workforce are Bahraini nationals

Human Resources & Administration

Human Resources

During 2012, NFH undertook a major review of Human Resources policies and procedures, including job descriptions and the staff appraisals process; together with identifying any updates necessitated by changes to Bahrain's Labour Law.

The Company made good progress in its planned evolvement as a performance-oriented organisation, with measurable goals being introduced and used as part of annual staff appraisals to reinforce accountability.

A new succession plan was completed, with all key roles being adequately covered. To improve staff motivation, a new Employee of the Month scheme was launched, together with initiatives to enhance teamworking and social integration.

A number of senior management vacancies were successfully filled internally, while several promotions were made. At the end of the year, the headcount stood at 50, with Bahrainis comprising 96% of the total workforce, one of the highest among financial institutions in the Kingdom.

Training

NFH continued to invest in staff training and professional development during 2012. A training needs analysis of all departments and individuals was conducted, and structured development plans were devised. Working closely with the Bahrain Institute of Banking & Finance, focus was placed on customer service, quality and communications, together with technical areas such as anti-money laundering.

Administration

A new Administration Policy was developed during the year, with processes and procedures covering premises, maintenance, fixed assets, and security. The expansion of the head office was completed, with NFH leasing and occupying an additional two floors in the existing building. This includes an extended and refurbished customer service area, and a new location with extra space for back office operations and information technology.

Information Technology

Investment in information and communications technology (ICT) acts as a key business enabler and strategic differentiator for NFH. During 2012, emphasis was placed on the implementation of a new core banking system, which is due to be completed in the third quarter of 2013.

The vendor selection short-listing process was finalised, and a vendor was appointed during the year. Constituting the largest capital investment by NFH to date, the new system is designed to meet the needs of current business activities and accommodate future expansion plans.

Building Upon Firm Foundations

As a result of the initiatives introduced in 2012, we are well on our way to transforming NFH into a stronger, more professional, and performance-oriented organisation. The solid foundations that we have put in place will enable us to develop a new three-year strategy and business plan for the Company, which will guide our future growth and development, increase market share and profitability, and provide enhanced returns for our shareholders.

It will integrate, centralise and automate all aspects of the business, both front and back office, and provide measurable benefits in accuracy, control, security and speed of processing. The new system will also automate and enhance the scope and timeliness of reporting to aid decision-making by management; and support the Company's environmental policy by enabling less use of paper, printers and energy.

During the year, a new IT Policy and Procedure Manual was developed in line with new trends in technology, taking into account new infrastructural changes in the organisation. To ensure the highest levels of information security, internal and external penetration testing was conducted during the year; while the disaster recovery site was reconfigured and successfully tested.

Compliance

Throughout 2012, NFH continued to strengthen its corporate governance and risk management frameworks to ensure compliance with the regulations of the Central Bank of Bahrain (CBB) and other statutory bodies; and also the requirements of the Code of Corporate Governance of the Kingdom of Bahrain issued by the Ministry of Industry & Commerce.

Key developments during the year include a revision of the charters and terms of reference for all Board Committees; the establishment of a new management-level IT Steering Committee; the strengthening of the Risk Management & Compliance Function; and the creation of a new segregated Complaints Unit.

Policies, processes and procedures for the fully-independent Complaints Unit were developed in 2012. These cover the receipt, logging, monitoring, follow-up and resolution of complaints.

All complaints received by the Call Centre are transferred to the Complaints Unit. In addition, Complaints & Suggestions Boxes have been installed in all branch offices.

During 2012, very few complaints were received, and all were successfully resolved; with more suggestions than complaints being logged.

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 2012

Adoption of a balanced corporate governance strategy is integral to business prosperity and corporate accountability. It promotes transparency in the Company, and inspires and strengthens stakeholders' confidence by ensuring commitment to sustainable growth in the value of NFH.

During 2012, NFH updated its Corporate Governance policies, including Board Charters, Conflict of Interest Policy, Code of Ethics & Business Conduct, Whistleblower Policy, Disclosure Policy, Board Induction & Training Policy, and Board Evaluation Policy.

Company philosophy

The Company's philosophy is to maintain a working environment of the highest integrity, and promote a culture that upholds 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 Yousif Khalil Almoayyed, Chairman	NED	Bahrain National Holding Company	13 February 2008	13	1 (Chairperson)	3	100%
Fuad Ebrahim Kanoo, Deputy Chairman	NED	E.K. Kanoo	13 February 2008	4	1 (Member)	2	67%
Mahmood Al Soufi	NED	Bahrain National Holding Company	26 April 2006	7	1 (Chairperson)	3	100%
Talal Fuad Ebrahim Kanoo	NED	Bahrain National Holding Company	26 April 2006	6	1 (Member)	3	100%
Mohammed Farouk Almoayyed	NED	Y.K. Almoayyed & Sons	26 April 2006	9	1 (Member)	1	33%
Al Sayyida Rawan Ahmed Al Said	NED	Oman National Investment Corporation Holding	25 December 2008	2	1 (Member)	3	100%
Bader Abdulmohsin Almutlaq	NED	Al-Mutlaq Group	16 May 2012	1	-	2	100%
Sheikh Abdulla Mohammed Jabor Al Thani	NED	Al Khaleej Insurance & Reinsurance	22 February 2007	4	-	-	0%
Khaled Shaheen Saqer Shaheen	INED	-	16 August 2011	6	1 (Chairperson) 1 (Member)	3	100%
Kalyan Sunderam	INED	-	24 December 2012	-	-	-	-

Composition of Board and other related matters:

Notes:

1. The Board of Directors of the Company met three times during the year on 5 April, 16 October and 19 December 2012.
2. The current Directors were appointed at the Annual General Meeting held on 5 April 2012 for a period of three years renewable.
3. During the year, Tariq Mutlaq Almutlaq who represents Almutlaq Group, one of the shareholders with a stake of 11.6% in NFH, resigned from the Board of Directors. Also, Shaheen Amin, 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 the 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	3
Shaheen Amin	Independent Non-Executive	20 November 2011	1

2. Board Committees Continued

2.1 Executive Committee Continued

Notes:

1. The Executive Committee met four times during the year on 17 May, 16 August, 23 October and 12 December 2012.
2. During the year Shaheen Amin, an Independent Non-Executive Director, resigned from the Board and Executive Committee.
3. The main role of the Executive Committee is to:
   - Oversee the financial and business performance of the Company.
   - Guide the Company in its relations with shareholders and other key stakeholders, including regulators and media.
   - Maintain effective working relationships and open avenue for communication between the Board and Management team.
   - Take overall responsibility for establishing the business objectives and targets of the Company, and the strategic direction and control of the Company's business activity, within the authorities delegated to it by the Board.
   - Develop a group strategy for Board approval, and monitor its implementation.
   - Credit approvals within a range specified by the Board.
   - Review the policies, business plan and annual budget for approval of the Board.
   - 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 within the authorities delegated to the Committee, and make recommendations to the Board seeking the necessary approval for proposals beyond its powers.
   - 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 Shaheen, Chairperson	Independent Non-Executive	20 November 2011	4
Al Sayyida Rawan Ahmed Al Said	Non-Executive Director	13 October 2009	4
Bader Abdulmohsin Almutlaq	Non-Executive Director	16 October 2012	-

Notes:

1. The Audit & Corporate Governance Committee met four times during the year on 27 March, 6 May, 6 August and 7 November 2012.
2. The main role of the Audit & Corporate Governance Committee is to:
   - Assist the Board of Directors in ensuring and maintaining oversight of the Company's financial reporting system, internal control, risk management processes, audit functions, compliance with legal and regulatory requirements, and Corporate Governance guidelines.
   - Assist the Board in the appointment of external and internal auditors in the context of their independence, compensation and terms of engagement.
   - Review and supervise the implementation of, enforcement of, and adherence to, the Company's Code of Business Conduct.
   - Monitor the Compliance and Anti-Money Laundering functions.
   - Review and reassess the adequacy of the Corporate Governance framework, guidelines, policies and controls, and recommend any proposed changes to the Board for approval, from time to time.

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 Yousif Khalil Almoayyed, Chairperson	Non-Executive Director	28 December 2010	-
Fuad Ebrahim Kanoo	Non-Executive Director	28 December 2010	-
Khaled Shaheen Saqer Shaheen	Independent Non-Executive	20 November 2011	-

Notes:

1. No meeting of the Remuneration & Nomination Committee was held during the year.
2. On 27 March 2011, the Central Bank of Bahrain approved merging the Remuneration Committee with the Nomination Committee into a single committee.
   - The main role of the Remuneration & Nomination Committee is to:
   - Ensure that the Board comprises individuals who are best able to discharge the responsibilities of a Director; and that they have an appropriate mix of skills, experience and expertise.
   - Evaluate and recommend the composition of the Board of Directors and Board Committees.
   - 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 Committee meetings.
   - Determine the processes for evaluating the effectiveness of individual directors and the Board as a whole.
   - Ensure that plans are in place for orderly succession of the Senior Management team.
   - Evaluate the General Manager's performance in light of the company's corporate goals, agreed strategy, objectives and business plans.

3. Remuneration

Non Executive Directors Remuneration

In aggregate, Directors were paid a total of BD 37,523 as annual remuneration and sitting fees for their contribution to the Board and Board Committees held during 2012 (Refer to note 7 in the financial statements). 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 Ethics & Business Conduct

The Board has approved a comprehensive Code of Ethics & Business 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 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 Conflict of Interest Policy

The Board has approved a Conflict of Interest Policy to ensure high standards of Corporate Governance and ethical business dealings. The Policy identifies areas of conflict of interest, and internal policies and controls designed to prevent and manage conflict of interest. It also identifies disclosure requirements of conflict of interest.

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.

There was one occasion related to the Head Office refurbishment in which Mr. Mohammed Almoayyed absented himself from voting due to a possible conflict of interest. Three bids were received for the refurbishment of the Head Office, including a bid from Almoayyed Interiors. Bids were opened in the presence of the Chairman of Audit & Corporate Governance Committee, and the Project Manager. Further negotiations were held with all contractors, and accordingly the Executive Committee recommended selecting Almoayyed Interiors, since their project completion period was 4 months compared to 6 months in the case of other bidders. Further negotiation was held with Almoayyed Interiors to bring the price down to the lowest bid of BD 239 thousand. The Board in their meeting held on 16 October 2012 ratified the decision of the Executive Committee in their selection of Almoayyed Interiors.

4.3 Related Party Transactions

Transactions with related parties are disclosed in detail in Note 7 to the Financial Statements annexed to the Financial Statements for 2012.

4. Disclosures Continued

4.4 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). They 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
Sheikh Abdulla Mohammed 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 31 December 2012 are as follows:

Name of the Director	Country	% Of Ownership	Par Value per share	No. of Shares	BD Amount of Ownership
Sheikh Abdulla Mohammed 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, Asset & Liability Committee and IT Steering Committee.

Senior Management Profiles

Venkatachalam PS (CGEIT, CRISC, CISM, CISA, CICA, CCS, CAIIB)

General Manager

Joined NFH in 2012

Venkat PS has over 28 years' experience in banking and technology. Prior to joining NFH, he held Senior Management position in Bahrain Saudi Bank, where he was closely involved in the merger process with Al Salam Bank. He previously worked in with Bank Dhofar in Muscat and State Bank of India. Venkat is a Member of Information System Audit Control and Assurance, USA; a Member of the Institute of Internal Control, USA; and a Member of the Indian Institute of Bankers. He was a Board member of the Bahrain Benefit Switch Company from 2005 to 2012. He holds a BSc degree from Bangalore University, and Post Graduate in Computer applications from Madurai Kamaraj University, India.

May Al-Mahmood (CPA, MBA)

Head of Financial Control & Compliance Officer

Joined NFH in 2006

May Al-Mahmood has over 19 years' experience in banking and external auditing. Prior to joining NFH, she was Financial Controller at AlBaraka Islamic Bank; and 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 (MBA)

Head of Operations & MLRO

Joined NFH in 2006

Seddeeqa Almunfaredi has over 18 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 final position was Senior Manager - Retail Credit & Operations. Seddeeqa holds an MBA in Executive Management with a Marketing concentration, and a BSc in Business Administration, both from the University of Bahrain.

Ali Redha Mohammed (MBA)

Head of Retail

Joined NFH in 2008

Ali Redha Mohammed has over 14 years' experience in retail banking and financial services. Prior to joining NFH, he spent 10 years with Bahrain Credit, where his final position was Branch Manager. Ali holds an MBA in Finance from AMA International University, Bahrain; and a BSc in Banking & Finance, and a Diploma in Commercial Studies, both from the University of Bahrain.

Tariq Abdulaziz Fathalla Ahmed

Head of Collections & Legal Affairs

Joined NFH in 2012

Tariq Fathalla Ahmed has over 17 years' experience in collection and legal affairs. Prior to joining NFH, he was managing the collection department at Bahrain Credit. Tariq holds an Advanced Diploma in Banking Studies from the Bahrain Institute of Banking and Finance.

Naheed Najaf (MBA)

Head of Special Projects & Complaints Officer

Joined NFH in 2008

Naheed Najaf has over 14 years' experience in insurance services. Prior to joining to NFH, she spent 10 years with Bahrain Credit, where her final 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 Diploma in Commercial Studies & Management Insurance from the Bahrain Institute of Banking and Finance. She is currently studying for her ACII (Associated Chartered Insurance Institute) qualification.

Fatima Abdulla Yousif Ali

Human Resources & Administration

Joined NFH in 2011

Fatima Yousif Ali's career spans 25 years, of which 22 have been spent in the field of human resources. Prior to joining NFH, she worked with Taib Bank, Capivest Investment Bank and Gulf Air, all based in Bahrain.

8. Auditors

The Shareholders of the Company appointed KPMG, one of the leading accounting firms in Bahrain, as the external auditors for 2012. During the year, BD 19,500 was charged by the external auditors against the services rendered by them to the Company (BD 15,600 for audit, and BD 3,900 for other services).

The internal audit function is outsourced to Grant Thornton Abdulaal Gulf Audit, a leading professional services firm offering audit and advisory services to businesses across the Kingdom of Bahrain since 2000. During 2012, BD 1,700 per quarter 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-1.3.3 states that the Board must meet frequently to enable it to discharge its responsibilities effectively but in no event less than four times a year.

   The Board met three times during 2012, although it was able to discharge its responsibilities in relation to high level controls through reviewing and approving all NFH charters, high level policies and authorities, BCP and succession plan, which were updated in 2012 and circulated to them between board meetings for their review. The Board is also supported by the Executive Committee which met four times in 2012, and the Audit & Corporate Governance Committee which also met four times in 2012.

2) HC-1.3.4 states Individual board members must attend at least 75% of all Board meetings in a given financial year to enable the Board to discharge its responsibilities effectively.

   One of the board members was not able to attend meetings in 2012 on account of his pre-scheduled appointments. The Board notified the member in writing that he is required to attend at least 75% of meetings in a given financial year, and requested him to nominate a director who can actively participate in the Board meetings in the event he cannot actively participate. The board member requested to set the dates for Board meetings in 2013 in advance so that he could attend the meetings.

3) 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.

4) 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.

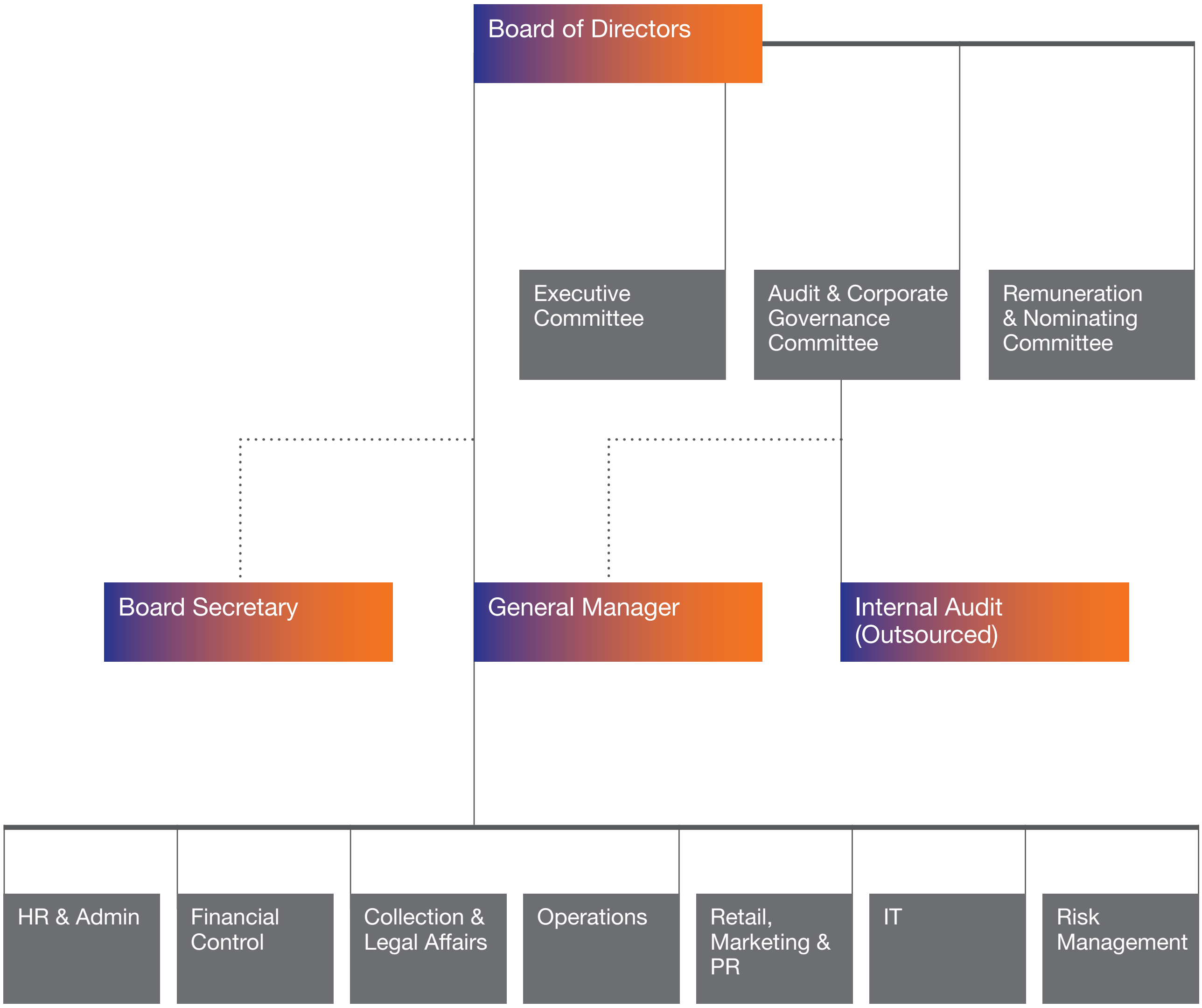
5) HC-3.2.1 states that the board must establish an Audit Committee of at least three directors, of which the majority must be independent, including the Chairman.

   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.

6) 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 judgement 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



RISK MANAGEMENT REPORT

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.

During 2012, the Company assessed and reviewed its risk management policies, processes and procedures; and ensured that its risk policies and tolerance are in line with the strategic direction and risk appetite specified by the Board; and are well - documented and clearly communicated throughout the Company.

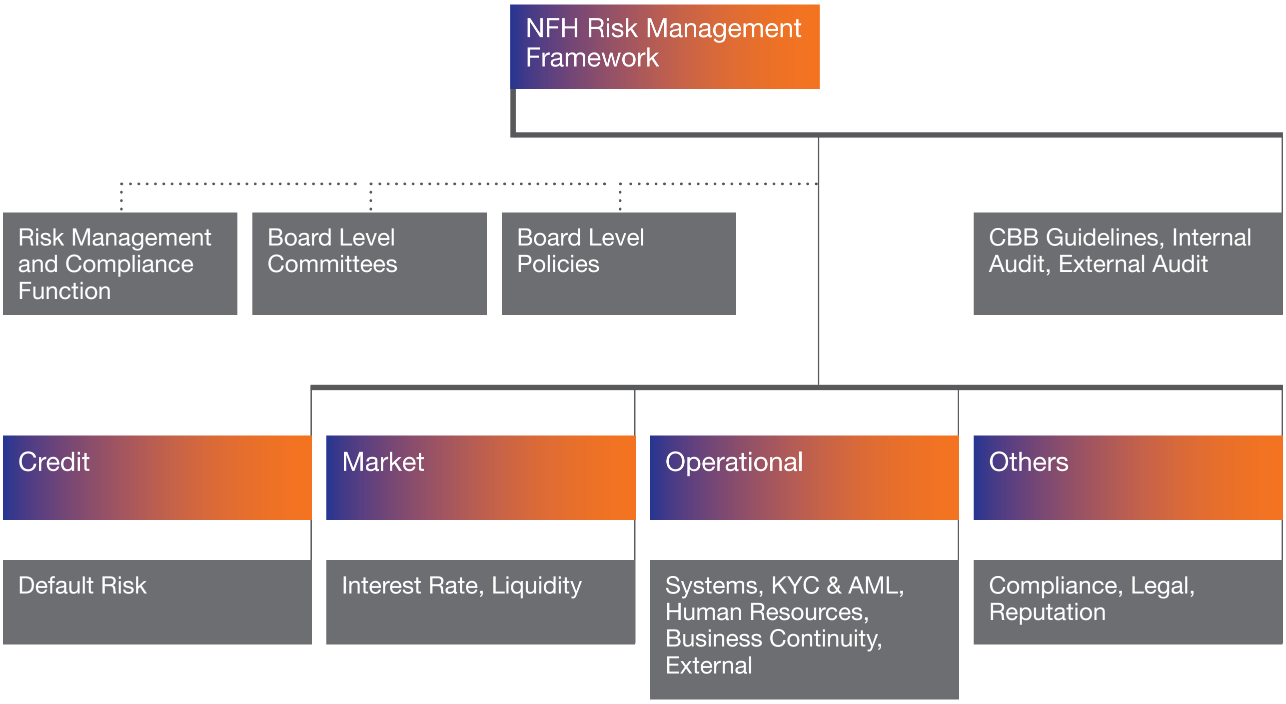
Risk Philosophy & Approach

- The Company has a conservative risk appetite, and does not believe in taking high risk to achieve its goals.
- Shareholder value is built over a strong and safe risk matrix to ensure safety and liquidity.
- The Company accepts a reasonable risk appropriate to its type of business.
- Normal risk amounts are calculated by the use of techniques such as Credit Provisioning and Operational Loss Assessment.
- The Risk Management Framework establishes and authorises Board-mandated corporate behaviours and risk tolerances.

Risk Exposure

The Company's business is exposed to following main risks:

- Credit risk
- Liquidity risk
- Market risk (including interest rate and currency risks)
- Operational risk
- Compliance risk
- Capital management



Responsibilities

Board of Directors

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.

Management

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 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.

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, Head of Financial Control and Head of Retail

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, both under 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.

Risk Management & Compliance Department

The risk-related role and responsibilities of the Risk Management & Compliance Department are:

- Implement the Risk Management Framework on a Company-wide basis, and identify risk owners
- Effectively identify, assess, monitor, mitigate and report risks among all business units and departments
- Provide expert advice on risk management
- Independently monitor and report incidents in key risk areas such as credit risk, market risk and operational risk
- Ensure that risk limits are observed and that the policy is complied with
- Develop appropriate MIS and reporting systems, and provide reliable data to the decision-making authorities with views and recommendations
- Identify key risk areas for each major business line, and define key risk indicators and values for easy understanding, by generating a Risk Dashboard for the Board and Senior Management
- Oversee operational risk incidents and loss management in the Company, and maintain a database of operational loss events and their causes
- Promote risk awareness among all employees
- Conduct risk profiling of new products and services, and suggest appropriate controls
- Ensure that an effective internal control system is in place to take care of risk controls

Business Continuity

The Company is committed to providing uninterrupted service of all key business resources required to support critical business activities. This is achieved through identifying potential threats to the Company and providing a framework for a response that safeguards employees, stakeholders and customers. The Company's Business Continuity Plan, which was approved by the Board of Directors in 2012, includes data recovery and information security. During the year, information security was improved by the implementation of new applications such as Vulnerability Assessment & Penetration Testing (VA/PT), with internal and external VA/PT testing being successfully conducted. In addition, the Company's disaster recovery site, which is located at the Sitra Branch, was totally reconfigured and tested.

FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the accompanying financial statements of National Finance House BSC (c) ("the Company"), which comprise the statement of financial position as at 31 December 2012, and the 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 financial statements

The Board of Directors of the Company is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2012, and its financial performance and its 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 financial statements are in agreement therewith; the financial information contained in the directors' report is consistent with the 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

27 February 2013
Manama, Kingdom of Bahrain

STATEMENT OF FINANCIAL POSITION

As at 31 December 2012 (Bahraini Dinars)

	Note	2012	2011
ASSETS			
Cash and cash equivalents	4	3,614,665	2,109,640
Loans to customers	5	36,418,052	31,097,537
Furniture, fixtures, equipment and capital work in progress	6	167,191	111,108
Other assets		90,614	101,726
Total assets		**40,290,522**	33,420,011
LIABILITIES AND EQUITY			
Liabilities			
Bank borrowings	8	26,238,432	21,590,279
Other liabilities	9	2,695,262	1,194,856
Total liabilities		**28,933,694**	22,785,135
Equity			
Share capital	10	7,500,000	7,500,000
Share premium		112,500	112,500
Statutory reserve		411,933	339,738
Retained earnings		3,332,395	2,682,638
Total equity (page 32)		**11,356,828**	10,634,876
Total equity and liabilities		**40,290,522**	33,420,011

Chairman

Deputy Chairman

The Board of Directors approved the financial statements consisting of pages 30 to 46 on 27 February 2013.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012 (Bahraini Dinars)

	Note	2012	2011
Interest income	11	3,183,084	3,052,699
Interest expense		(961,416)	(989,502)
Net interest income		**2,221,668**	2,063,197
Fees and commission income		690,640	469,534
Fees and commission expense		(401,569)	(272,740)
Net fee and commission income		**289,071**	196,794
Total operating income		**2,510,739**	2,259,991
Salaries and related costs		718,393	741,489
General and administrative expenses	12	465,954	408,688
Depreciation	6	53,847	83,621
Impairment on loans to customers		550,593	225,178
Total operating expenses		**1,788,787**	1,458,976
Profit for the year		**721,952**	801,015
Other comprehensive income		**-**	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**721,952**	801,015
Basic earnings per share	10	**9.6 fils**	10.7 fils

Chairman

Deputy Chairman

The Board of Directors approved the financial statements consisting of pages 30 to 46 on 27 February 2013.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012 (Bahraini Dinars)

2012	Share capital	Share premium	Statutory reserve	Retained earnings	Total equity
At 1 January	7,500,000	112,500	339,738	2,682,638	10,634,876
Profit for the year (page 31)	-	-	-	721,952	721,952
Total comprehensive income for the year	-	-	-	**721,952**	**721,952**
Transfer to statutory reserve	-	-	72,195	(72,195)	-
At 31 December	**7,500,000**	**112,500**	**411,933**	**3,332,395**	**11,356,828**

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 31)	-	-	-	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

The financial statements consist of pages 30 to 46

STATEMENT OF CASH FLOWS

For the year ended 31 December 2012 (Bahraini Dinars)

	Note	2012	2011
Operating activities			
Interest, fees and commission received		3,873,594	3,522,233
Loans disbursed		(20,285,337)	(14,318,596)
Loan repayments		15,966,117	14,126,366
Payments for staff salaries and related costs		(712,675)	(772,569)
Payments for other operating expenses		(866,045)	(628,109)
Cash flows (used in) / from operating activities		**(2,024,346)**	1,929,325
Investing activities			
Purchase of furniture, fixtures and equipment	6	(116,730)	(13,417)
Sale of furniture, fixtures and equipment		130	-
Cash flows used in investing activities		**(116,600)**	(13,417)
Financing activities			
Proceeds from bank borrowings		10,000,000	750,000
Repayment of bank borrowings		(5,351,847)	(1,381,943)
Interest paid		(1,002,182)	(1,015,997)
Dividends paid		-	(375,000)
Cash flows from / (used in) financing activities		**3,645,971**	(2,022,940)
Net increase / (decrease) in cash and cash equivalents		**1,505,025**	(107,032)
Cash and cash equivalents at 1 January		2,109,640	2,216,672
Cash and cash equivalents as at 31 December		**3,614,665**	2,109,640

The financial statements consist of pages 30 to 46

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 grants 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.

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 2010 with registration no. 71382.

As per Directors' resolution dated 20 November 2011, the Board of NFH as a sole shareholder of National Finance House Insurance Services Company SPC ("NFHI") agreed to liquidate NFHI. The liquidators' final statement account of NFHI was issued on 5 July 2012.

2 BASIS OF PREPARATION

a. Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), Bahrain Commercial Companies Law 2001 and the Central Bank of Bahrain Law 2006.

b. Basis of measurement

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

d. Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation and critical judgements in applying accounting policies on the amounts recognised in the financial statements are described in the following notes:

- Note 3 (c) (vi) and 3 (i) – Impairment; and
- Note 3 (f) – Estimates of useful lives.

e. Standards, amendments and interpretations issued and effective from 1 January 2012

The following standards, amendments and interpretations, which became effective in 2012, are relevant to the Company:

IFRS 7 (amendment) - Disclosures

The amendments to IFRS 7 introduce new disclosure requirements about transfers of financial assets 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 adoption this amendment had no significant impact on the financial statements.

Improvements to IFRSs (2011)

Improvements to IFRS issued in 2011 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 significant changes to the current accounting policies of the Company 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 Company but not yet effective for the year ended 31 December 2012.

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 after 1 July 2012 with an option of early application.

The Company is not expecting a significant impact from the adoption of this amendment.

IAS 19 - Employee Benefits

IAS 19 (2011) changes the definition of short-term and other long-term employee benefits to clarify the distinction between the two. For defined benefit plans, removal of the accounting policy choice for recognition of actuarial gains and losses is not expected to have any impact on the Company. However, the Company may need to assess the impact of the change in measurement principles of the expected return on plan assets. IAS 19 (2011) is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

The Company is not expecting a significant impact from the adoption of this amendment.

IFRS 7 and IAS 32 – Offsetting financial assets and financial liabilities

Disclosures – Offsetting Financial Assets and Financial Liabilities (amendments to IFRS 7) introduces disclosures about the impact of netting arrangements on an entity's financial position. The amendments are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. Based on the new disclosure requirements the Company will have to provide information about what amounts have been offset in the statement of financial position and the nature and extent of rights of set off under master netting arrangements or similar arrangements.

Offsetting Financial Assets and Financial Liabilities (amendments to IAS 32) clarify the offsetting criteria IAS 32 by explaining when an entity currently has a legally enforceable right to set off and when gross settlement is equivalent to net settlement. The amendments are effective for annual periods beginning on or after 1 January 2014 and interim periods within those annual periods. Earlier application is permitted.

The Company is not expecting a significant impact from the adoption of these amendments.

The IFRS 9 'Financial Instruments'

The IFRS 9 (2009) requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivables.

The standard requires that derivatives embedded in contracts with a host that is a financial asset within the scope of the standard are not separated; instead the hybrid financial instrument is assessed in its entirety as to whether it should be measured at amortised cost or fair value.

IFRS 9 (2010) introduces a new requirement in respect of financial liabilities designated under the fair value option to generally present fair value changes that are attributable to the liability's credit risk in other comprehensive income rather than in profit or loss. Apart from this change, IFRS 9 (2010) largely carries forward without substantive amendment the guidance on classification and measurement of financial liabilities from IAS 39.

IFRS 9 is effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. The IASB decided to consider making limited amendments to IFRS 9 to address practice and other issues. The Company has commenced the process of evaluating the potential effect of this standard but is awaiting finalisation of the limited amendments before the evaluation can be completed.

The Company is not expecting a significant impact from the adoption of this standard.

IFRS 13 – Fair value measurement

IFRS 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. Subject to limited exceptions, IFRS 13 is applied when fair value measurements or disclosures are required or permitted by other IFRSs.

Although many of the IFRS 13 disclosure requirements regarding financial assets and financial liabilities are already required, the adoption of IFRS 13 will require the Company to provide additional disclosures. These include fair value hierarchy disclosures for non-financial assets/liabilities and disclosures on fair value measurements that are categorised in Level 3.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013.

g. Early adoption of standards

The Company did not early adopt new or amended standards in 2012.

3 SIGNIFICANT ACCOUNTING POLICIES

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

a. Interest

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

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

b. Fees and commission income and expenses

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

c. Financial assets and liabilities

(i) Recognition

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

(ii) Derecognition

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

(iii) Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

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

(iv) Amortised cost measurement

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

(v) Fair value measurement

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

(vi) Identification and measurement of impairment

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

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

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

d. Loans and advances

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

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

e. Furniture, fixtures, equipment and capital work in progress

Furniture, fixtures and equipment are stated at cost less accumulated depreciation and impairment allowances. Work in progress in respect of capital expenditure is classified as capital work in progress.

f. 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

g. Cash and cash equivalents

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

h. 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.

i. Impairment of non-financial assets

The carrying amount of the Company'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.

j. Borrowings from banks

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

k. Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

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

l. 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 Company at the statement of financial position date.

(Bahraini Dinars)

4 CASH AND CASH EQUIVALENTS

	2012	2011
Cash in hand and at bank	3,614,665	1,359,057
Bank term deposits	-	750,583
	3,614,665	2,109,640

5 LOANS TO CUSTOMERS

	2012	2011
Gross loans	37,655,712	31,798,950
Less: impairment allowance	(1,237,660)	(701,413)
At 31 December	**36,418,052**	31,097,537

The movement in the allowance for impairment was as follows:

	2012	2011
At 1 January	701,413	476,235
Charge for the year	550,593	225,178
Write off during the year	(14,346)	-
At 31 December	**1,237,660**	701,413

6 FURNITURE, FIXTURES, EQUIPMENT AND CAPITAL WORK IN PROGRESS

	Furniture and equipment	Computer software	Computer hardware	Motor Vehicles	Capital work in progress	2012 Total	2011 Total
Cost							
At 1 January	285,090	94,565	90,889	11,878	-	482,422	469,005
Additions	5,279	5,177	8,935	-	97,339	116,730	13,417
Disposals	(3,000)	(8,500)	-	-	-	(11,500)	-
At 31 December	**287,369**	**91,242**	**99,824**	**11,878**	**97,339**	**587,652**	482,422
Depreciation							
At 1 January	206,568	72,769	83,757	8,220	-	371,314	287,693
Charge for the year	35,906	6,262	9,303	2,376	-	53,847	83,621
Disposals	(3,000)	(1,700)	-	-	-	(4,700)	-
At 31 December	**239,474**	**77,331**	**93,060**	**10,596**	**-**	**420,461**	371,314
Net book value At 31 December 2012	**47,895**	**13,911**	**6,764**	**1,282**	**97,339**	**167,191**	**-**
At 31 December 2011	78,522	21,796	7,132	3,658	-	-	111,108

7 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These represent transactions with shareholders and directors of the Company.

Related party transactions	2012	2011
Expenses		
Insurance premium charges (shareholder)	106,659	86,117

Related party balances	2012	2011
Amounts payable for vehicles financed (shareholders)	2,356,242	814,564
Prepaid expenses (shareholders)	12,747	9,812
Amounts payable to insurance companies (shareholder)	957	271

Transactions with key management personnel

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

	2012	2011
Key management compensation	207,487	84,382
Board of directors remuneration and committee attendance allowances	37,523	39,900
Staff loan disbursed	2,400	18,600

Balances with key management personnel

	2012	2011
Staff loan	2,000	-

8 BANK BORROWINGS

	2012	2011
Repayable within one year	3,657,400	19,805,556
Repayable after one year	22,581,032	1,784,723
	26,238,432	21,590,279

Term loans have floating interest rates, which are subject to re-pricing on a monthly / half-yearly basis. The effective interest rate on borrowings was within the range of 3.12 % to 4.59 % p.a. (2011: 3.06 % to 4.57% p.a.). Of the above borrowings, BD 24.2 million (2011: BD 4.6 million) is secured by assignment of customer loans and the remaining BD 2 million (2011: BD 17 million) is unsecured.

9 OTHER LIABILITIES

	2012	2011
Amounts payable for vehicles financed		
• to related parties (major shareholders)	2,356,242	814,564
• to other parties	132,097	121,887
Amount payable to insurance companies		
• to related parties (major shareholders)	957	271
• to other parties	-	24,803
Accrued expenses		
• to related parties (major shareholders)	28,000	26,000
• to other parties	177,966	207,331
	2,695,262	1,194,856

10 SHARE CAPITAL

	2012	2011
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 and diluted earnings per share	**9.6 fils**	10.7 fils

The earnings per share is calculated by dividing the net income of BD 721,952 (2011: BD 801,015) by the numbers of shares outstanding at the end of the year of 75 million shares (2011: 75 million shares).

The Board of Directors propose a cash dividend of 5% (2011: Nil) of the paid-up capital. This amount to BD 375,000 (2011: Nil).

In addition the Board of Directors propose a distribution of BD 26,000 (2011: BD 26,000) as Board of Directors remuneration.

11 INTEREST INCOME

	2012	2011
Interest earned on loans to customers	3,170,750	3,022,291
Interest income from term deposits	12,334	30,408
	3,183,084	3,052,699

12 GENERAL AND ADMINISTRATIVE EXPENSES

	2012	2011
Rent	58,014	45,935
Communication expense	25,514	21,325
Office expenses	146,351	161,530
Printing and stationery expense	18,746	18,572
Computer maintenance and support expenses	39,220	32,806
Legal and professional charges	84,016	72,888
Advertising and publicity expense	38,443	29,632
Board of directors remuneration	26,000	26,000
Impairment of other assets	21,320	-
Other	8,330	-
	465,954	408,688

13 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Risk management framework and overview

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

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

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

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

Credit risk

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

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

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

All loans are with local individuals and locally incorporated entities. The credit risk on these loans is actively managed and rigorously monitored in accordance with well-defined credit policies and procedures. The creditworthiness of each borrower is evaluated prior to sanctioning of facilities. Credit review procedures are in place for corporate customers to identify at an early stage, exposures which require more detailed monitoring and review. Appropriate procedures for follow-up and recovery (including recourse to legal action) are in place to monitor the credit risk on loans.

The Company is not exposed to any significant concentration of credit risk arising from exposures to a single debtor or to Company of debtors having similar characteristics such that their ability to meet their obligations is expected to be affected similarly by changes in economic or other conditions. The maximum credit risk exposure of the loans to customer is the carrying value amount net of the unearned interest income and net of impairment allowance. The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of loans and receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified.

13 Financial instruments and risk management (continued)

Exposure to credit risk

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

	2012	2011
Cash and cash equivalents	3,613,465	2,107,680
Loans to customers	36,418,052	31,097,537
	40,031,517	33,205,217

Concentration of credit risk

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

	2012	2011
Concentration by sector		
Corporate	10,218,537	12,273,100
Retail	26,199,515	18,824,437
Financial institutions	3,613,465	2,107,680
	40,031,517	33,205,217

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:

	2012	2011
Individually impaired loans	1,913,157	1,038,277
Less: Specific impairment allowance	(869,801)	(407,228)
	1,043,356	631,049
Past due but not impaired	3,361,045	4,222,836
Neither past due nor impaired	32,381,510	26,537,837
	35,742,555	30,760,673
Less: Collective impairment allowance	(367,859)	(294,185)
	35,374,696	30,466,488
	36,418,052	31,097,537

Non-performing loans are identified as loans which are past due by 90 days or more. Total non-performing loans as at 31 December 2012 were BD 2,148,204 (2011: BD 1,990,627).

Individually impaired loans are loans for which the Company 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 Company believes that impairment is not appropriate on the basis of the level of security or collateral available and / or the stage of collection of amounts owed to the Company.

An analysis of past due but not impaired loans, by age is provided below:

	2012	2011
Less than 3 months	3,068,931	3,206,886
3 – 6 months	176,210	602,037
6 – 12 months	66,357	377,706
More than 12 months	49,547	36,207
	3,361,045	4,222,836

During the year ended 31 December 2012, loans amounting to BD 22,272 (2011: BD 899,659) were restructured.

The Company writes off a loan balance (and any related allowances for impairment losses) when Company determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

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

Liquidity risk

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

Management of liquidity risk

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

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

The liquidity position of the Company is monitored by the General Manager and Financial Controller. Surplus and deficit of short and long term positions of the Company are managed as appropriate by the Finance Department. The Company ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

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

31 December 2012	Carrying amount	Contractual cash flows	6 months or less	6 - 12 months	More than 12 months
Borrowings from banks	26,238,432	30,103,016	2,369,393	2,357,720	25,375,903
Accounts payable	2,489,296	2,489,296	2,489,296	-	-
	28,727,728	**32,592,312**	**4,858,689**	**2,357,720**	**25,375,903**

31 December 2011	Carrying amount	Contractual cash flows	6 months or less	6 - 12 months	More than 12 months
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

Market risks

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

13 Financial instruments and risk management (continued)

Interest rate risk

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

31 December 2012	Fixed rate	Floating rate	Non-interest bearing	Total
Cash and cash equivalents	-	-	3,614,665	3,614,665
Loans to customers	36,418,052	-	-	36,418,052
Other assets	-	-	90,614	90,614
	36,418,052	**-**	**3,705,279**	**40,123,331**
Other liabilities	-	-	2,695,262	2,695,262
Borrowings from banks	-	26,238,432	-	26,238,432
	-	**26,238,432**	**2,695,262**	**28,933,694**
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

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 2011.

	Statement of comprehensive income		Equity	
31 December 2012	100 bp increase	100 bp decrease	100 bp Increase	100 bp decrease
Borrowings from banks	**(159,180)**	**159,180**	**(159,180)**	**159,180**
31 December 2011				
Borrowings from banks	(94,617)	94,617	(94,617)	94,617

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

31 December 2012	Carrying amount	Less than 3 months	3-6 months	6 - 12 months	1-6 years	More than 6 years	Non- interest bearing
Cash and cash equivalents	3,614,665	-	-	-	-	-	3,614,665
Loans to customers	36,418,052	2,747,167	2,979,336	5,350,907	24,521,089	819,553	-
Other assets	90,614	-	-	-	-	-	90,614
	40,123,331	**2,747,167**	**2,979,336**	**5,350,907**	**24,521,089**	**819,553**	**3,705,279**
Borrowings from banks	26,238,432	914,349	914,349	1,828,698	19,585,661	2,995,375	-
Other liabilities	2,695,262	-	-	-	-	-	2,695,262
	28,933,694	**914,349**	**914,349**	**1,828,698**	**19,585,661**	**2,995,375**	**2,695,262**
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

Currency risk

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

Fair values

Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable willing parties in an arm's length transaction. Differences can therefore arise between book values under the historical cost method and fair value estimates. Underlying the definition of fair value is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms. The fair values of financial assets and liabilities of the Company are not materially different from their carrying values.

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

13 Financial instruments and risk management (continued)

Operational risk (continued)

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

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

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

Capital management

The Central Bank of Bahrain sets and monitors capital requirements for the Company. According to the conventional financing Company license granted by the Central Bank of Bahrain the Company should maintain a minimum paid-up capital of BD 5,000,000 and the borrowings may not exceed five times the capital and reserves (shareholders equity) of the Company. As on 31 December 2012 Company's paid-up share capital is BD 7,500,000 (2011: BD 7,500,000) and the borrowing to capital and reserves ratio on 31 December 2012 is 2.31 (2011: 2.03).

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

14 RECLASSIFICATIONS

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