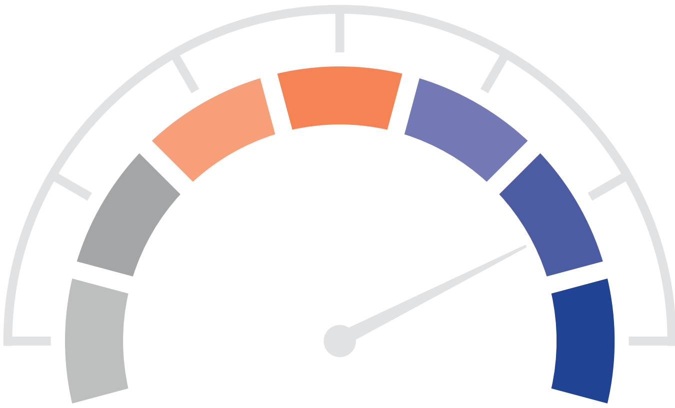

Pursuing a *Progressive Route*

ANNUAL REPORT 2013

NFH
التمويل الوطني

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

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His Royal Highness Prince
Khalifa Bin Salman Al Khalifa

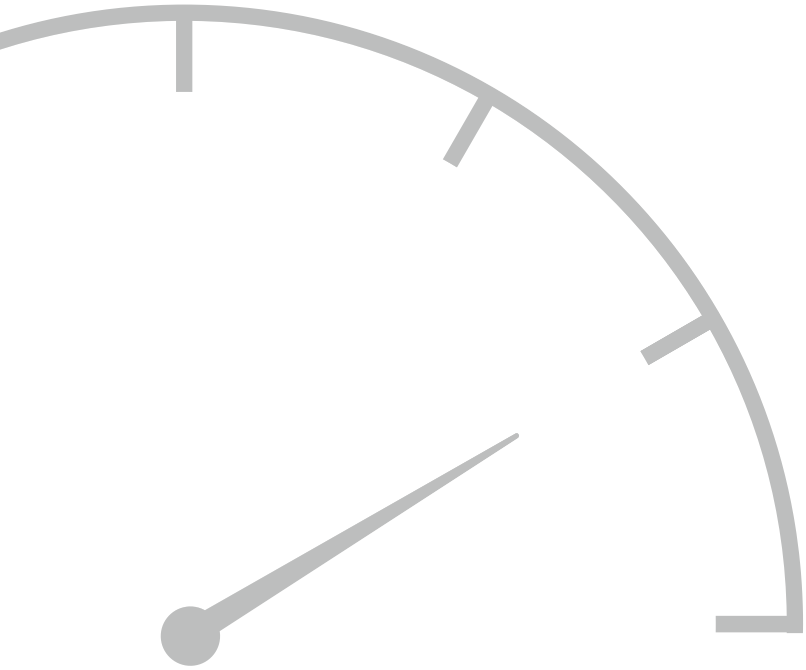
The Prime Minister
of the Kingdom of Bahrain

His Majesty King
Hamad Bin Isa Al Khalifa

The King
of the Kingdom of Bahrain

His Royal Highness Prince
Salman Bin Hamad Al Khalifa

The Crown Prince
of the Kingdom of Bahrain,
Deputy Supreme Commander and
First Deputy Prime Minister



Pursuing a *Progressive Route*

NFH posted a successful overall performance in 2013 – financially, strategically, and operationally. The Company continued to implement and build upon the performance-related initiatives and programmes introduced the previous year, while also launching a number of new strategic and business initiatives.

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COMPANY PROFILE

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

VISION, MISSION AND VALUES

OUR VISION
We aspire to be the provider-of-choice for auto financing solutions.

OUR MISSION
We are committed to establishing enduring and mutually-beneficial relationships with our clients, which are distinguished by:

- The provision of innovative and flexible auto financing solutions
- The delivery of personalised, speedy and responsive customer service
- The adoption of the highest standards of ethical behaviour

VALUES
Our business activities and relationships with all stakeholders are governed by the following core values:

- Consistency
- Integrity
- Performance
- Service
- Innovation
- Teamwork

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

2013 at a *Glance*

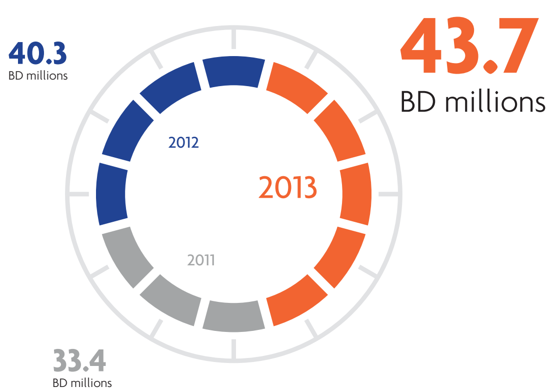
DESPITE INCREASED COMPETITION DURING THE YEAR, NFH GREW ITS NET PROFIT BY 17% AND INCREASED ITS MARKET SHARE TO 14.4%

- Board approval for listing on Bahrain Bourse
- Corporate governance framework enhanced
- New HR & Admin policies approved
- New Credit Policy Manual issued
- Collections improved by 40%
- Higher number and value of loans disbursed
- Market share increased to 14.4%
- New website with special facilities launched
- First phase of new SMS service introduced
- New core banking system ready to go live in 2014
- HQ expansion and refurbishment completed
- Customer satisfaction rating of 96% achieved

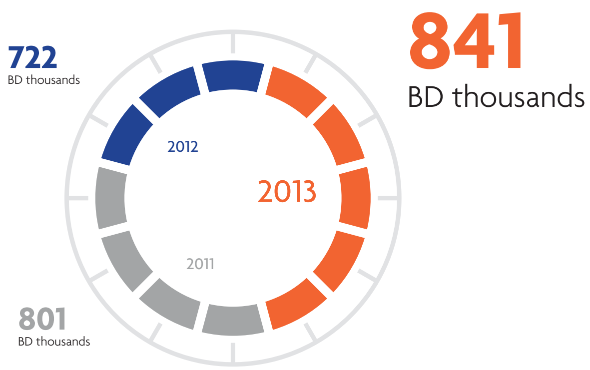
Financial *Highlights*

(Bahraini Dinars)	2013	2012	2011	2010	2009
Total Assets	43,662,983	40,290,522	33,420,011	33,632,420	33,367,007
Total Liabilities	31,839,926	28,933,694	22,785,135	23,423,559	24,052,270
Total Equity	11,823,057	11,356,828	10,634,876	10,208,861	9,314,737
Total Income	2,796,647	2,510,739	2,259,991	2,243,854	2,199,210
Profit for the Year	841,229	721,952	801,015	894,124	907,566
Share Capital	7,500,000	7,500,000	7,500,000	7,500,000	7,500,000

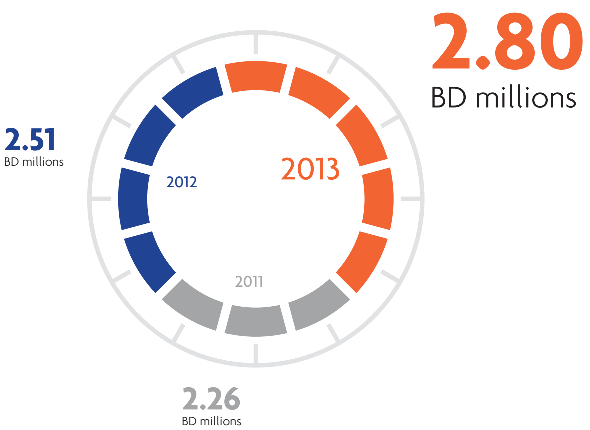
Total Assets



Profit for the Year



Total Income



Board of *Directors*

Farouk Yousif 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

Director:
Investcorp Bank, 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
Bahrain Water Bottling & Beverages, Bahrain

Mahmood Al Soufi
Non-Executive Director, Chairman of Executive Committee since 2006

Chief Executive Officer:
Bahrain National Holding Company, Bahrain

Chairman:
UltraTune Middle East W.L.L., Bahrain
Gulf Aluminum Rolling Mill Co (Garmco), Bahrain
Masy Holding, Bahrain

Member of Board of Directors;
Gulf Insurance Institute, Bahrain
United Insurance Company, Bahrain
Al Kindi Specialised Hospital, Bahrain

Al Sayyida Rawan Ahmed Al-Said
Non-Executive Director, Member of Audit & Corporate Governance Committee since 2008

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

Chairperson:
Oman Investment Corporation, Oman
Al Kawther Fund (Islamic Compliant Fund), Oman

Deputy Chairman:
Oman Orix Leasing Company, Oman

Member of Board of Directors:
National Bank of Oman, Oman
Oman Oil Marketing Company, Oman
National Investment Funds Company, Oman
National Life & General Insurance Company (NLGIC), Oman
International General Insurance (IGI), Jordan

Mohammed Farouk Almoayyed
Non-Executive Director, Member of Executive Committee since 2006

Managing Director:
Almoayyed International Group, Bahrain

Member of Board of Directors:
Y. K. Almoayyed & Sons, Bahrain
Almoayyed Contracting Group, Bahrain
Bahrain Maritime and Mercantile International (BMMI), Bahrain
Banader Hotels Company BSC, Bahrain
Mirai Restaurant WLL, Bahrain
Lanterns Restaurant, Bahrain
Global Sourcing and Supply, Bahrain
Bayader Company Restaurant Management SPC, Bahrain
The Bahrain Chamber of Commerce & Industry

Talal Fuad Kanoo
Non-Executive Director, Member of Executive Committee since 2006

Chairman:
Al Ahli Club, Bahrain

Director:
Ebrahim Khalil Kanoo Group Corporate Services, Bahrain

Member of Board of Directors:
Bahrain National Holding Co., Bahrain
Bahrain International Circuit, Bahrain
Ebrahim Khalil Kanoo BSC (c), Bahrain
Motor City, Bahrain

Bader Abdulmohsin Almutlaq
Non-Executive Director, Member of Audit & Corporate Governance Committee since 2012

Managing Partner:
Almutlaq Group, KSA

Chairman:
Almutlaq Furniture, KSA

Member of Board of Directors:
Almutlaq Group, KSA
Middle East Battery Company, KSA
Taleem Educational Services Company, KSA

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

Chairman:
Al Khaleej Takaful Group, Qatar

Member of the Board of Directors:
Doha Bank, Qatar

Khalid Shaheen Saqer
Independent Non-Executive Director, Member of Executive Committee, Member of Remuneration & Nomination Committee since 2011

Member of Board of Directors, Member of Audit Committee:
BFC Group Holdings, Bahrain

Member of Board of Directors, Member of the Executive Committee:
Bank Al-Khair B.S.C. (Closed), Bahrain

Fellow:
Institute of Directors, UK

Kalyan Sunderam
MBA , CFA, PRM & ACIB
Independent Non-Executive Director, Chairman of Audit & Corporate Governance Committee since 2012

Chief Risk Officer:
First Energy Bank, Bahrain

Member Education Committee:
Professional Risk Managers' International Association, USA

Chairman's *Statement*

Farouk Yousif Khalil Almoayyed
Chairman

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 2013. I AM PLEASED TO REPORT THAT WE WERE SUCCESSFUL IN POSTING AN IMPROVED FINANCIAL PERFORMANCE AND GROWING THE BUSINESS, AS WE CONTINUED TO PURSUE A PROGRESSIVE ROUTE.

The continued recovery of the Kingdom's economy during the year led to an improvement in local market conditions, with new vehicle registrations being on par with the average for the past five years. This had a positive effect on our business, which was reflected in the Company's financial results for 2013.

Net profit increased by 17 per cent to BD 841.2 thousand compared with BD 721.9 thousand in 2012; while total operating income grew by 11 per cent to BD 2.79 million from BD 2.51 million the previous year, with basic and diluted earnings per share increasing to Bahraini fils 11.2 (2012: 9.6 fils). At the end of 2013, shareholders' equity stood at BD 11.82 million (2012: BD 11.36 million), resulting in an improved return on average equity of 7.3 per cent (2012: 6.6 per cent). Total operating expenses rose to BD 1.96 million (2012: BD 1.79 million), including very conservative provisions of BD 575.7 thousand (2012: BD 550.6 thousand) against impairment on loans to customers. At the end of the year, total assets had grown by 8 per cent to BD 43.66 million, compared with BD 40.29 million in 2012.

Based on these results, the Board of Directors is pleased to propose a cash dividend of 5 per cent of the paid-up capital (BD 375 thousand) out of retained earnings, subject to approval of the shareholders at the Annual General Meeting to be held on 26 February 2014.

The vehicle financing sector in Bahrain remained highly competitive in 2013, marked by heavy discounting promotions by competitors. NFH continued to respond in a proactive manner, stepping up marketing activities and taking an innovative approach to capture new business. As a result, the value of total loans disbursed during the year rose to BD 21.1 million compared with BD 20.3 million in 2012; while the Company's market share improved to 14.4 per cent.

17 %

Increase in net profit underlines the strong financial results of NFH in 2013

During the year, NFH made excellent progress in finalising preparations for the implementation of a new core banking system in early 2014. The new system 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 Company also continued to invest in staff training and development; and provide promising career opportunities for Bahraini nationals, who now comprise 95.6 per cent of the workforce.

NFH further strengthened its corporate governance and risk management frameworks in 2013 to ensure compliance with the regulatory requirements of the Central Bank of Bahrain and the Ministry of Industry & Commerce. The Board of Directors has given approval for the future private listing of NFH on the Bahrain Bourse. Such a move will enhance the status and reputation of the Company, provide it with greater visibility, and support future business growth. The timing is subject to regulatory approval and the right market conditions.

During the year, the Company's two Qatari shareholders announced their decision to relinquish their shareholding due to a ruling by their respective Sharia Supervisory Boards. Their shares will be purchased by the Company's three Bahraini shareholders, following the finalisation of legal formalities. I take this opportunity to thank Sheikh Abdulla Mohammed Jabor Al Thani and Al Khaleej Insurance & Reinsurance Company for their enduring loyalty and support since the inception of National Finance House.

Looking ahead, the Board has a cautiously optimistic outlook for NFH in 2014. The Economic Development Board has forecast Bahrain's overall economic growth to stabilise at around 4 per cent next year, which should have a positive impact on our business.

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 and enlightened reforms; and encouragement of the private sector and financial services industry. I also thank the Central Bank of Bahrain for its continued advice and guidance during the year.

Finally, I 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 2013.

Farouk Yousif Khalil Almoayyed
Chairman

Chief Executive's *Report*

I AM DELIGHTED TO REPORT THAT NFH POSTED ANOTHER STRONG BUSINESS AND OPERATIONAL PERFORMANCE IN 2013, WHICH IS DETAILED IN THE FOLLOWING REVIEW OF OPERATIONS. WE CONTINUED TO BUILD UPON THE INITIATIVES INTRODUCED THE PREVIOUS YEAR, WHICH ARE DESIGNED TO TRANSFORM OUR COMPANY INTO A MORE PROFESSIONAL, RESPONSIBLE, ACCOUNTABLE AND RESPONSIVE ORGANISATION.

The Company's financial results for 2013 illustrate our success in growing the business. Key highlights include an increase in the number and value of loans disbursed, and an improvement in market share to 14.4 per cent. This constitutes a significant achievement, given that the market did not grow during the year, and remained intensely competitive. The key to our success continues to be an unrelenting commitment to the highest levels of customer service and satisfaction.

14.4 %

NFH continued to grow its market share during 2013

The most important operational development during the year involved the planned implementation of our new core banking system. Excellent progress was made in customising modules to meet departments' specific requirements; and training a cadre of 20 key users, who will be responsible for training staff in using the system to its full potential. Independent testing of the system was successfully carried out by external consultants, which validated the readiness of the system for going live in early 2014.

Constituting the largest capital investment by NFH to date, the new system will integrate, centralise and automate all aspects of the business, both front and back office. It will provide measurable benefits in terms of enhanced productivity, efficiency and customer service; together with greater accuracy, control, security and speed of processing.

We also continued to focus on enhancing our human capital. A new employee appraisal system was fully implemented, incorporating measurable business goals and key performance indicators, which are designed to enhance individual and team performance and accountability. The results to date are extremely encouraging.

Looking ahead, we are in the process of developing a new strategic plan and business model, which will guide our future growth and development, and increase market share and profitability. A key element of our strategy is the planned private listing of NFH on the Bahrain Bourse. Compliance with the strict listing regulations and increased disclosures will act as a critical differentiator, and pave the way for a potential future IPO.

In conclusion, I would like to thank our Board of Directors for its encouragement, support and counsel; and pay tribute to the commitment and hard work of our management and staff during the year. The NFH team enters 2014 with renewed confidence and determination, as we continue to pursue a progressive route.

Venkatachalam PS
Chief Executive Officer

Management *Team*

(1) **Venkatachalam PS**
Chief Executive Officer

(2) **May Al-Mahmood**
Head of Financial Control & Compliance Officer

(3) **Seddeeqa Almunfaredi**
Head of Operations, Credit Administration & MLRO

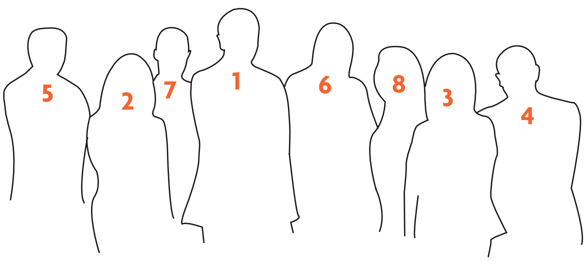
(4) **Ali Redha Mohammed**
Head of Retail

(5) **Tariq Abdulaziz Fathalla Ahmed**
Head of Collection

(6) **Naheed Najaf**
Head of Special Projects & Complaints Officer

(7) **Hussain Eid**
Manager – Information Technology

(8) **Fatima Abdulla Yousif Ali**
Human Resources & Administration



WINNING RELATIONSHIPS

THROUGH THE ESTABLISHMENT OF BUSINESS PARTNERSHIPS WITH LEADING VEHICLE DEALERS, NFH PROVIDES CUSTOMERS WITH A ONE-STOP-SHOP SOLUTION FOR FINANCING AND INSURANCE. THIS UNDERLINES OUR COMMITMENT TO DEVELOP ENDURING RELATIONSHIPS WITH OUR CUSTOMERS BASED ON THE HIGHEST LEVELS OF SERVICE AND SATISFACTION.

Review of *Operations*

RETAIL & MARKETING

Vehicle Financing

In 2013, the automobile market in Bahrain slowed less than expected after the record growth of 50 per cent recorded the previous year. With new vehicle registrations in line with the average for the past five years, NFH achieved a slight increase in the number and value of loans disbursed. The majority of loans were for the purchase of cars by individuals, with heavy vehicle and construction equipment financing remaining flat. In a period of intensified competition and little growth in the automobile market, NFH was successful in increasing its share to 14.4 per cent.

During the year, the Company's service desks at the Toyota, Nissan, Kia and Majestic car showrooms performed well, providing finance for the majority of new vehicle sales. The Company considers that this differentiating approach is more cost-effective and customer-convenient than opening new branches.

Marketing

Marketing activities in 2013 included collaborative advertising campaigns with car showrooms where NFH has service desks. Special promotional campaigns during Ramadan – which offered reduced interest rates, extended grace periods and free life insurance – generated an excellent response and set a new record for business during the Holy Month. NFH also continued its programme of special offers for employees of some of Bahrain's major local companies and public sector organisations. In order to enhance visibility and awareness, the exterior signage at the head office branch was enlarged and repositioned.

COLLECTIONS

The comprehensive review of all collection policies and processes was completed and approved in 2013. Due to enhanced credit criteria (which is monitored on a monthly basis) and better underwriting, together with a focus on cash collections rather than restructuring or rescheduling loans, collections improved by 40 per cent over the previous year. As part of its proactive approach to managing existing and potential defaults, NFH met with customers facing financial difficulties, to offer advice on how to improve their cash flow situation.

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 enhance the 'customer experience' with a number of new initiatives. These include the launch of the Company's new website, with features including a 'live-chat' facility, and the ability to conduct transactions and make payments online; together with the first phase of a new SMS service. In order to speed up the transaction process at branches and showroom service desks, greater credit authorisation authority was delegated to staff within certain limits and controls. In addition, the new redesigned sales area at the head office branch was opened. This offers enhanced comfort and convenience, with metrics for monitoring queuing and time-per-transaction to ensure a more responsive service.

The very high level of satisfaction by NFH customers was maintained during the year. The annual Call Centre report for 2013, which logs the results of regular 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 per cent.

OPERATIONS

The Company continued to streamline its operating infrastructure during the year. A major review and revision of all NFH policies and processes was completed and approved; while a new Credit Policy Manual, with integrated procedures for Credit and Operations, was introduced. In addition, extensive planning for the implementation of the new core banking system in 2014 was carried out. This included revising documentation, customising certain key operational modules, and conducting introductory training for back office staff. Also during the year, NFH reviewed its database and authorised signatories in readiness for the launch of the Corporate Credit Bureau by The Benefit Company.

HUMAN RESOURCES & ADMINISTRATION

Human Resources

During 2013, a major review of HR policies and procedures, including job descriptions and the staff appraisals process, was completed and approved; while the succession plan was reviewed and amended. The Company made good progress in its planned evolvement as a performance-oriented organisation, with measurable goals being used as part of annual staff appraisals to calculate increments and bonuses. The implementation of the new Employee of the Month scheme was well received by staff, together with initiatives to enhance team-working and social integration. At the end of the year, the headcount stood at 45, with Bahrainis comprising 96 per cent 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 2013. An online anti-money laundering (AML) training and certification course was conducted for an initial tranche of 25 staff; and a strategic planning and leadership seminar was held for management. As part of the Company's health and safety policy, special training for first aid and fire fighting was provided. Staff also attend regular courses on customer service, quality and communications at the Bahrain Institute of Banking & Finance.

Administration

A new Administration Policy was implemented during the year, with processes and procedures covering premises, maintenance, fixed assets, and security. The expansion and refurbishment of the head office was completed, with NFH leasing and occupying an additional two floors in the existing building. Improvements include an enlarged and refurbished customer service area, a new office layout, and a dedicated location 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. The key focus during 2013 was on finalising plans for the implementation of a new core banking system, which is due to go live in early 2014. Independent testing of the system was carried out by independent consultants, and modules were customised to meet different departments' requirements. Special training was provided for 20 key users, who will then be responsible for training other staff.

Other IT developments include the launch of the Company's new website and the first phase of a new SMS service; and Board approval for the new IT policy and procedures manual. In line with CBB regulations, a business continuity exercise involving all departments was successfully carried out, together with testing of the disaster recovery site, with no lost transactions. To ensure the highest levels of information security, two internal and external penetration tests were conducted during the year.

COMPLIANCE

Throughout 2013, 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. During the year, the Company reviewed its anti-money laundering (AML) and counter-terrorism financing (CFT) policy, and conducted AML/CFT training for staff.

Policies, processes and procedures for the fully-independent Complaints Unit were formally approved in 2013. These cover the receipt, logging, monitoring, follow-up and resolution of complaints, which are reported on a regular basis to the CBB. During 2013, very few complaints were received, and all were successfully resolved; with more suggestions than complaints being logged.

ENHANCING EFFICIENCY

DURING 2013, NFH FINALISED PLANS FOR THE IMPLEMENTATION OF A NEW CORE BANKING SYSTEM. IT WILL INTEGRATE, CENTRALISE AND AUTOMATE ALL ASPECTS OF THE BUSINESS – BOTH FRONT AND BACK OFFICE – AND PROVIDE GREATER EFFICIENCY, CONTROL, SECURITY, AND SPEED OF PROCESSING.

Corporate Governance *Report*

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

Developments in 2013

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.

Effective 12 February 2013, NFH is subject to the requirements of the specific modules of Volume 5, which provides a comprehensive regulatory and supervisory framework for financing companies. Previously, NFH was complying with Volume 1 (conventional banks). The Company undertook a detailed review of Volume 5 to ensure effective compliance with regulatory rules and corporate governance best practices. New regulations have been communicated throughout the Company, and steps have been taken to ensure that NFH is compliant with these regulations.

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 (3)	Entity Represented	Date of Appointment	No. of other Board Committees of which Member / Chairperson (4)	No. of other Directorships held (5)	No. of Board meetings attended	% of meetings attended
Farouk Yousif Khalil Almoayyed, Chairman	NED	Bahrain National Holding Company	13 Feb 2008	1 (Chairperson)	10	4	100%
Fuad Ebrahim Kanoo, Deputy Chairman	NED	E.K. Kanoo	13 Feb 2008	1 (Member)	4	2	50%
Mahmood Al Soufi	NED	Bahrain National Holding Company	26 Apr 2006	1 (Chairperson)	6	4	100%
Talal Fuad Ebrahim Kanoo	NED	Bahrain National Holding Company	26 Apr 2006	1 (Member)	5	4	100%
Mohammed Farouk Almoayyed	NED	Y.K. Almoayyed & Sons	26 Apr 2006	1 (Member)	9	2	50%
Al Sayyida Rawan Ahmed Al Said	NED	Oman National Investment Corporation Holding	25 Dec 2008	1 (Member)	-	3	75%
Bader Abdulmohsin Almutlaq	NED	Al-Mutlaq Group	16 May 2012	1 (Member)	-	3	75%
Sheikh Abdulla Mohammed Jabor Al Thani	NED	Al Khaleej Insurance & Reinsurance	22 Feb 2007	-	-	1	25%
Khaled Shaheen Saqer Shaheen	INED	-	16 Aug 2011	2 (Member)	4	4	100%
Kalyan Sunderam	INED	-	24 Dec 2012	1 (Chairperson)	-	3	75%

1. BOARD OF DIRECTORS (CONTINUED)

Composition of Board and other related matters:

Notes:

1. The Board of Directors of the Company met four times during the year on 4 March, 3 June, 6 November and 23 December 2013.
2. The current Directors were appointed at the Annual General Meeting held on 5 April 2012 for a period of three years renewable.
3. NED: Non-Executive Director; INED: Independent Non-Executive Director.
4. It includes the Chairmanship / Membership in the Executive Committee, Audit & Corporate Governance Committee, and Remuneration & Nomination Committee.
5. This number excludes the other Directorships / Committee memberships held in private limited companies and in overseas companies.
6. 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 Chief Executive Officer.
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	2
Talal Fuad Ebrahim Kanoo	Non-Executive Director	5 September 2006	2
Mohammed Farouk Y. Almoayyed	Non-Executive Director	24 June 2008	2
Khaled Shaheen Saqer	Independent Non-Executive	4 March 2013	2

Notes:

1. The Executive Committee met two times during the year on 2 June and 7 October 2013.
2. 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 the Chairperson 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
Kalyan Sunderam, Chairperson	Independent Non-Executive	4 March 2013	3
Al Sayyida Rawan Ahmed Al Said	Non-Executive Director	13 October 2009	3
Bader Abdulmohsin Almutlaq	Non-Executive Director	16 October 2012	2

Notes:

1. The Audit & Corporate Governance Committee met three times during the year on 19 February, 3 June and 6 November 2013.
2. During the year Khaled Shaheen Saqer Shaheen, an Independent Non-Executive Director, resigned from the Audit & Corporate Governance Committee and joined the Executive Committee.
3. 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 Nomination & Remuneration 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	1
Fuad Ebrahim Kanoo	Non-Executive Director	28 December 2010	-
Khaled Shaheen Saqer	Independent Non-Executive	20 November 2011	1

2. BOARD COMMITTEES (CONTINUED)

2.3 Nomination & Remuneration Committee (continued)

Notes:

1. The Remuneration & Nomination Committee met once during the year on 23 December 2013.
2. On 27 March 2011, the Central Bank of Bahrain approved merging the Remuneration Committee with the Nomination Committee into a single committee.
3. The main role of the Remuneration & Nomination Committee is to:
   - 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 Chief Executive Officer's performance in light of the company's corporate goals, agreed strategy, objectives and business plans.

3. REMUNERATION

Non-Executive Directors Remuneration

The remuneration of members of the board of directors comprises a fixed and a variable component. The Fixed Remuneration comprises the sitting fees per meeting attended by the Board member. The Variable Remuneration comprises a percentage of the net profit for one financial year. Board members' remuneration is linked to their attendance and performance. In aggregate, Directors were paid a total of BD 63,600 as annual remuneration and sitting fees for their contribution to the Board and Board Committees held during 2013.

Managerial Remuneration

The remuneration of the Chief Executive Officer is determined by the Nomination & Remuneration Committee and approved by the Board on a yearly basis, based on his performance. The remuneration of all permanent employees comprises a fixed and a variable component. Fixed remuneration is determined by the position held by each employee, length of service in that position, responsibility and job complexity, performance, and local market salary practices for identical positions in similar financial institutions. The Fixed Remuneration comprises the gross salary plus the fringe benefits that are attributed to all the employees of the Company. The Variable Remuneration comprises bonuses. The staff bonus pool must be approved by the Board of Directors, and should be linked to the overall performance of the Company and the performance of the business unit. The bonus is distributed amongst senior managers and other employees based on their individual performance and/or the performance of the business unit.

Remuneration of Approved Persons & Material Risk Takers

The Company's policy is to remunerate all approved persons and material risk-takers fairly and responsibly to be sufficient enough to attract, retain and motivate persons of the quality needed to run the Company successfully, but avoid paying more than is necessary for that purpose. The remuneration of approved persons and material risk takers is subject to the CBB remuneration practices.

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 ethical standards of personal and professional behaviour; and requires staff to display integrity, mutual respect 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.

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 2013.

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 semi-annual 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 semi-annual reviewed interim financial results, and the audited annual financial results of the Company 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.

5. COMMUNICATIONS WITH STAKEHOLDERS (CONTINUED)

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

During the year, both Al Khaleej Takaful Insurance & Reinsurance Company and Sheikh Abdulla Mohammed Jabor Al Thani, two of the Company's shareholders from the State of Qatar expressed their intention to sell their total stake of 10% in National Finance House (NFH) which is equivalent to 7,500,000 shares. The decision to sell their shares was mainly due to their Sharia Supervisory Boards prohibiting any investments in non-Islamic companies. Shares offered for sale were first allotted to the existing shareholders. An Extraordinary General Assembly meeting was held during November 2013 to sell the shares amounting to 7,500,000 ordinary shares on a pro-rata basis among the existing three Bahraini shareholders who were interested in purchasing the shares. The legalities and formalities related to selling the shares and amending our articles of association are still in progress.

The following is the list of NFH shareholders as at 31st December 2013:

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 2013 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 Chief Executive Officer 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)
Chief Executive Officer
Joined NFH in 2012

Venkat PS has over 29 years' experience in banking and technology. Prior to joining NFH, he held senior management positions in Bahrain Saudi Bank, where he was closely involved in the merger process with Al Salam Bank. He previously worked with Bank Dhofar in Muscat, and the 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 a Postgraduate Diploma 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 20 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, USA; 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 19 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 15 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.

7. MANAGEMENT (CONTINUED)

Tariq Abdulaziz Fathalla Ahmed
Head of Collections
Joined NFH in 2012

Tariq Fathalla Ahmed has over 18 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 15 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.

Hussain Eid
Manager – Information Technology
Joined NFH in 2007

Hussain Eid has 13 years' experience in IT and banking. He joined NFH from Bahrain Credit, and previously worked for Citibank. Hussain holds a BSc in IT Science from Birla Institute of Technology, and Diplomas in Business Information Systems and Computer Engineering from the University of Bahrain; and he is currently studying for his MBA. He is certified in ITIL Foundation course, and has completed courses in Microsoft (MCSE & MCSA).

Fatima Abdulla Yousif Ali
Human Resources & Administration
Joined NFH in 2011

Fatima Yousif Ali's career spans 26 years, of which 23 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 2013. During the year, BD 15,400 was charged by the external auditors against the services rendered by them to the Company (BD 11,500 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 2013, BD 1,800 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-1.3.4 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 attended one board meeting in 2013 being 25% of all Board meetings held during the year while, two board members attended two meetings out of the four Board meetings held. NFH informed the CBB on 31 December 2013 on non-compliance to rules related to board attendance along with any mitigating circumstances affecting their non-attendance. The matter was also discussed in the Board of Directors meeting held on 26 February 2014.

2) HC-1.3.14 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.

3) 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.

9. COMPLIANCE (CONTINUED)

Non-Compliance with High Level Controls Module of CBB Rulebook (continued)

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.

4) HC-1.5.2 states that at least one-third of the Board must be independent directors for licensees with a controller. Minority shareholders must generally look to independent directors' diligent regard for their interests, in preference to seeking specific representation on the board.

Two board members are independent out of a total of 10 board members (20%). All the shareholders have a representative on the Company's Board of Directors. Moreover, Board members have extensive business experience and specialist skills across a range of sectors, including accounting, finance, retailing, manufacturing, insurance and human resources. This enables them to provide balanced and independent advice and judgement in the decision-making process.

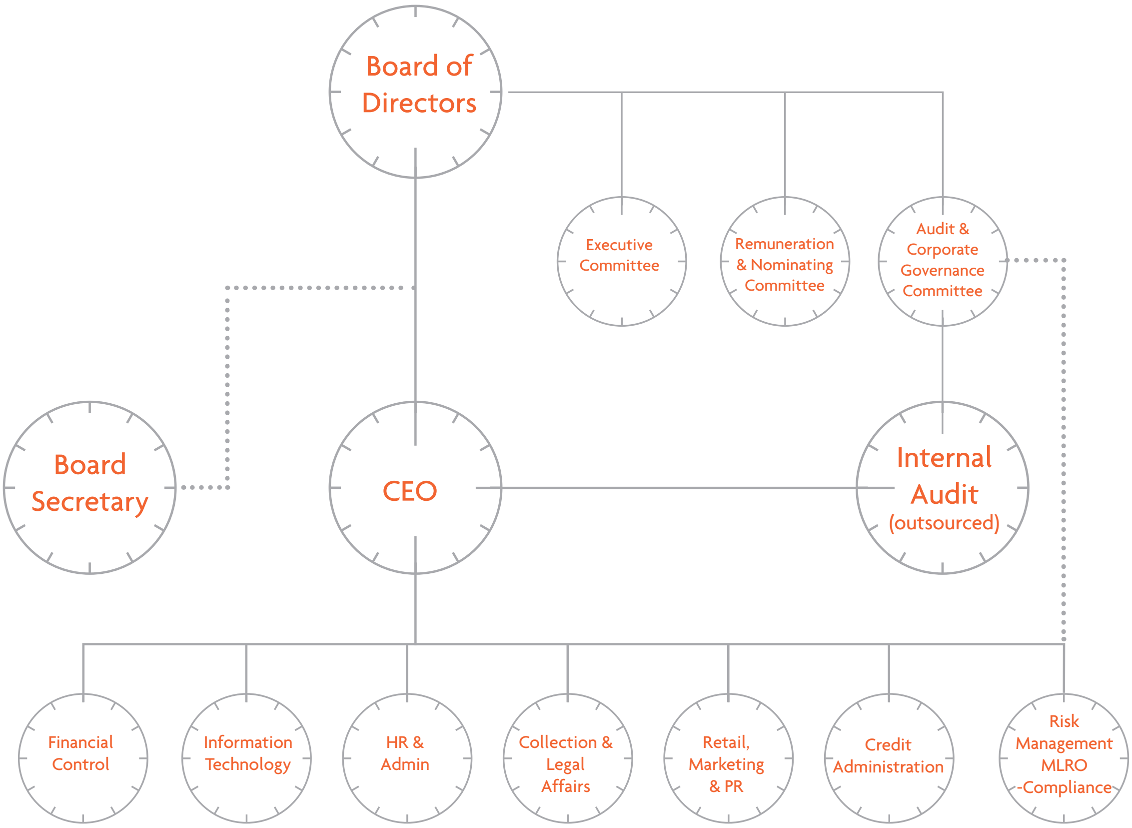
5) HC-1.8.2 & HC-3.2.1 state that the Board must establish an Audit Committee of at least three directors, of which the majority must be independent, including the Chairman.

The majority of the Company's Audit & Corporate Governance Committee members are not independent as there are only two independent Directors on the Board – one of them is the Chairman of Audit & Corporate Governance Committee and the other is a member of the Executive Committee. Given the current structure of Board, it would be difficult to comply with this regulation. Based on the final decision of the CBB on this matter, further actions will be initiated if necessary.

6) HC-4.2.2 & HC-5.3.2 state 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.

GOVERNANCE AND 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.

The Company is regularly assessing and reviewing its risk management policies, processes and procedures; and ensuring 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.

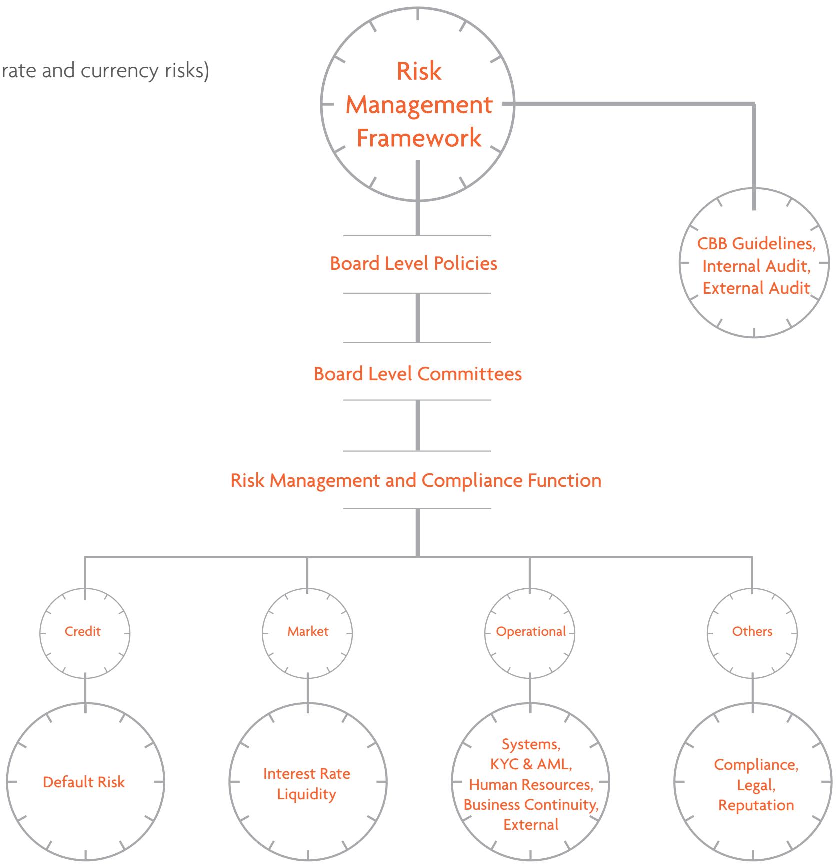
Risk Philosophy & Approach

- 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 Chief Executive Officer 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 CEO 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:

CEO, Head of Financial Control, Head of Operations & Credit Administration, 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:

CEO, Head of Financial Control, Head of Retail, Head of Operations & Credit Administration, 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 and reviews credit policies and procedures, oversees the operation of the credit process, and approves loans within its authorisation limits.

ALCO Committee

Members:

CEO, Head of Operations & Credit Administration, 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 FUNCTION

The risk-related role and responsibilities of the Risk Management & Compliance function 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 includes data recovery and information security. During 2013, a business continuity exercise involving all departments was successfully carried out; together with testing of various disaster recovery scenarios. Also during the year, information security measures were improved by conducting regular Vulnerability Assessment & Penetration Testing (VAPT), and addressing the risks identified in a timely manner.

FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

31 December 2013

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 2013, and the statements of profit or loss and other 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 2013, 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 Volume 5 of the Central Bank of Bahrain (CBB) Rule Books, 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 Book (Volume 5, applicable provisions of Volume 6 and CBB directives) or the terms of the Company's memorandum and articles of association having occurred during the year that might have had a material adverse effect on the business of the Company or on its financial position; and satisfactory explanations and information have been provided to us by the management in response to all our requests.

KPMG

Manama, Kingdom of Bahrain
26 February 2014

STATEMENT OF FINANCIAL POSITION

as at 31 December 2013 (Bahraini Dinars)

	Note	**2013**	2012
ASSETS			
Cash and cash equivalents	4	1,528,693	3,614,665
Loans to customers	5	41,550,227	36,418,052
Furniture, fixtures, equipment and capital work in progress	6	382,389	167,191
Other assets		201,674	90,614
Total assets		**43,662,983**	40,290,522
LIABILITIES AND EQUITY			
Liabilities			
Bank borrowings	8	29,210,664	26,238,432
Other liabilities	9	2,629,262	2,695,262
Total liabilities		**31,839,926**	28,933,694
Equity			
Share capital	10	7,500,000	7,500,000
Share premium		112,500	112,500
Statutory reserve		496,056	411,933
Retained earnings		3,714,501	3,332,395
Total equity (page 35)		**11,823,057**	11,356,828
Total equity and liabilities		**43,662,983**	40,290,522

The Board of Directors approved the financial statements consisting of pages 33 to 54 on 26 February 2014 and signed on its behalf by:

Farouk Yousif Khalil Almoayyed
Chairman

Fuad Ebrahim Kanoo
Deputy Chairman

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2013 (Bahraini Dinars)

	Note	2013	2012
Interest income	11	3,650,201	3,183,084
Interest expense		(1,180,142)	(961,416)
Net interest income		**2,470,059**	2,221,668
Fees and commission income		755,490	690,640
Fees and commission expense		(428,902)	(401,569)
Net fee and commission income		**326,588**	289,071
Total income		**2,796,647**	2,510,739
Staff costs		775,228	718,393
Other expenses	12	518,476	465,954
Depreciation	6	86,037	53,847
Net impairment loss on loans to customers	5	575,677	550,593
Total expenses		**1,955,418**	1,788,787
Profit for the year		**841,229**	721,952
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**841,229**	721,952
Basic earnings per share	10	**11.2 fils**	9.6 fils

The Board of Directors approved the financial statements consisting of pages 33 to 54 on 26 February 2014 and signed on its behalf by:

Farouk Yousif Khalil Almoayyed
Chairman

Fuad Ebrahim Kanoo
Deputy Chairman

The notes on pages 37 to 54 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2013 (Bahraini Dinars)

2013	**Share capital**	**Share premium**	**Statutory reserve**	**Retained earnings**	**Total equity**
At 1 January 2013	7,500,000	112,500	411,933	3,332,395	11,356,828
Total comprehensive income for the year (page 34)	-	-	-	841,229	841,229
Dividends declared for 2012	-	-	-	(375,000)	(375,000)
Transfer to statutory reserve	-	-	84,123	(84,123)	-
At 31 December 2013	**7,500,000**	**112,500**	**496,056**	**3,714,501**	**11,823,057**
2012					
At 1 January 2012	7,500,000	112,500	339,738	2,682,638	10,634,876
Total comprehensive income for the year (page 34)	-	-	-	721,952	721,952
Transfer to statutory reserve	-	-	72,195	(72,195)	-
At 31 December 2012	7,500,000	112,500	411,933	3,332,395	11,356,828

The notes on pages 37 to 54 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

for the year ended 31 December 2013 (Bahraini Dinars)

	Note	**2013**	2012
Operating activities			
Interest, fees and commission received		4,401,355	3,873,594
Loans disbursed		(21,126,302)	(20,285,337)
Loan repayments		14,865,857	15,966,117
Payments for staff salaries and related costs		(751,181)	(712,675)
Payments for other operating expenses		(606,447)	(866,045)
Net cash used in operating activities		**(3,216,718)**	(2,024,346)
Investing activities			
Purchase of furniture, fixtures and equipment	6	(301,914)	(116,730)
Sale of furniture, fixtures and equipment		4,336	130
Net cash used in investing activities		**(297,578)**	(116,600)
Financing activities			
Proceeds from bank borrowings		7,000,000	10,000,000
Repayment of bank borrowings		(4,027,768)	(5,351,847)
Interest paid		(1,168,908)	(1,002,182)
Dividends paid		(375,000)	-
Net cash from financing activities		**1,428,324**	3,645,971
Net (decrease) / increase in cash and cash equivalents		**(2,085,972)**	1,505,025
Cash and cash equivalents at 1 January		3,614,665	2,109,640
Cash and cash equivalents as at 31 December	4	**1,528,693**	3,614,665

The notes on pages 37 to 54 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013 (Bahraini Dinars)

1. REPORTING ENTITY

National Finance House BSC (c) ("the Company") is a closed joint stock Company incorporated and registered in the Kingdom of Bahrain and operates as a consumer finance company under license from the Central Bank of Bahrain.

2. BASIS OF PREPARATION

a. Statement of compliance

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

b. Basis of measurement

The financial statements have been prepared under the historical cost convention.

c. Functional and presentation currency

Financial statements are presented in Bahraini Dinars, which is the Company's functional.

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

e. Standards, amendments and interpretations issued and effective from 1 January 2013

The following standards, amendments and interpretations, which became effective in 2013, are relevant to the Company:

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 adoption of this amendment had no significant impact on the financial statements.

IAS 19 – Employee benefits (2011)
IAS 19 (2011) changes the definition of short-term and other long-term employee benefits to clarify the distinction between the two.

The adoption of this amendment had no significant impact on the financial statements.

2. BASIS OF PREPARATION (CONTINUED)

e. Standards, amendments and interpretations issued and effective from 1 January 2013 (continued)

IFRS 7 (amendment) – Disclosures

The amendments to IFRS 7 introduce new disclosure requirements about the impact of netting arrangements on an entity's financial position. Based on the new disclosure requirements the Company has 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.

The adoption this amendment had no significant impact on the financial statements.

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. It unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7.

As a result, the Company has included additional disclosures in this regard. Please refer to note 13. In accordance with the transitional provisions of IFRS 13, the Company has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the Company's assets and liabilities.

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. Standards 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 2013.

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.

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.

The mandatory effective date of IFRS 9 is not specified but will be determined when the outstanding phases are finalised. However, application of IFRS 9 is 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.

Given the nature of the Company's operations, this standard is not expected to have a significant impact on the Company's financial statements.

IAS 19 - Employee Benefits

IAS 19 Employee Benefits (Amendments to IAS 19) apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service. The amendments are effective for annual periods beginning on or after 1 January 2014. Early application is permitted.

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

IAS 32 – Offsetting financial assets and financial liabilities (2011)

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 this amendment.

IAS 36 – On recoverable amount disclosures for non-financial assets

Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36) have expanded disclosures of recoverable amounts when the amounts are based on fair value less costs of disposals and impairment is recognised.

The amendments are effective for annual periods beginning on or after 1 January 2014. Earlier application is permitted. An entity shall not apply those amendments in periods (including comparative periods) in which it does not also apply IFRS 13.

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

g. Early adoption of standards

The Company did not early adopt new or amended standards in 2013.

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 income and expense

Interest income and expense on interest on financial assets and financial liabilities at amortised cost on an effective interest rate basis are recognised in the statement of profit or loss and other 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 financial liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

(ii) De-recognition

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

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) Identification and measurement of impairment

At each reporting 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 assets, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, indications that a borrower will enter bankruptcy, the restructuring of a loan by the Company on terms that the Company would not consider otherwise, 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.

The Company considers evidence of impairment for loans both at specific asset and collective level. All individually significant loans are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not identified.

Loans that are not individually significant are collectively assessed for impairment by grouping together loans with similar credit risk characteristics.

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 asset's original effective interest rate. Impairment losses are recognised in the profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired assets continues to be recognised through the unwinding of the discount. If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through profit or loss.

The Company writes off a loan, either partially of in full, and any related allowance for impairment losses, when the Company determines that there is no realistic prospect of recovery.

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 bank deposits maturing within 90 days from the date of acquisition.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2013 (Bahraini Dinars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

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.

4. CASH AND CASH EQUIVALENTS

	2013	2012
Cash in hand and at bank	1,528,693	3,614,665
	1,528,693	3,614,665

5. LOANS TO CUSTOMERS

	2013	2012
Gross loans	43,343,417	37,655,712
Less: impairment allowance	(1,793,190)	(1,237,660)
	41,550,227	36,418,052

The movement of impairment allowance was as follows:

	2013	2012
At 1 January	1,237,660	701,413
Charge for the year	575,677	550,593
Write off during the year	(20,147)	(14,346)
At 31 December	**1,793,190**	1,237,660

6. FURNITURE, FIXTURES, EQUIPMENT AND CAPITAL WORK IN PROGRESS

	Furniture and equipment	Computer software	Computer hardware	Motor Vehicles	Capital work in progress	2013 Total	2012 Total
Cost							
At 1 January	287,369	91,242	99,824	11,878	97,339	587,652	482,422
Additions	129,932	2,820	25,833	-	143,329	301,914	116,730
Disposals	(67,086)	-	-	(11,878)	-	(78,964)	(11,500)
Transfers	97,339	-	-	-	(97,339)	-	-
At 31 December	**447,554**	**94,062**	**125,657**	**-**	**143,329**	**810,602**	587,652
Depreciation							
At 1 January	239,474	77,331	93,060	10,596	-	420,461	371,314
Charge for the year	70,486	7,174	7,564	813	-	86,037	53,847
Disposals	(66,876)	-	-	(11,409)	-	(78,285)	(4,700)
At 31 December	**243,084**	**84,505**	**100,624**	**-**	**-**	**428,213**	420,461
Net book value							
At 31 December 2013	**204,470**	**9,557**	**25,033**	**-**	**143,329**	**382,389**	-
At 31 December 2012	47,895	13,911	6,764	1,282	97,339	-	167,191

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2013 (Bahraini Dinars)

7. RELATED PARTY TRANSACTIONS

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

Related party transactions	**2013**	2012
Expenses		
Insurance premium charges (shareholder)	135,812	106,659

Related party balances	**2013**	2012
Payable for vehicles financed (shareholders)	1,619,422	2,356,242
Prepaid expenses (shareholders)	13,554	12,747
Payable to insurance companies (shareholders)	210	957
Other payables (shareholders)	418,872	-

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:

	2013	2012
Key management compensation	210,108	207,487
Board of directors remuneration and committee attendance allowances	66,715	37,523
Staff loan disbursed	23,600	2,400

Balances with key management personnel

	2013	2012
Staff loan	20,998	2,000

8. BANK BORROWINGS

	2013	2012
Repayable within one year	7,507,858	3,657,400
Repayable after one year	21,702,806	22,581,032
	29,210,664	26,238,432

These are term loans which 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% to 4.51% p.a. (2012: 3.12% to 4.59% p.a.). Of the total borrowings, BD 26.5 million (2012: BD 24.2 million) is secured by assignment of customer loans and the balance BD 2.7 million (2012: BD 2 million) is unsecured.

9. OTHER LIABILITIES

	2013	2012
Payable for vehicles financed	1,935,746	2,488,339
Payable to insurance companies	210	957
Accrued expenses	274,524	205,966
Other payables	418,782	-
	2,629,262	2,695,262

10. SHARE CAPITAL

	2013	2012
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	**11.2 fils**	9.6 fils

The earnings per share is calculated by dividing the net income of BD 841,229 (2012: BD 721,952) by the numbers of shares outstanding at the end of the year of 75 million shares (2012: 75 million shares).

The Board of Directors proposed a cash dividend of 5% (2012: 5%) of the paid-up capital. This amounts to BD 375,000 (2012: 375,000).

In addition the Board of Directors proposed a distribution of BD 41,000 (2012: BD 26,000) as Board of Directors remuneration.

11. INTEREST INCOME

	2013	2012
Interest on loans to customers	3,643,812	3,170,750
Interest on bank term deposits	6,389	12,334
	3,650,201	3,183,084

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2013 (Bahraini Dinars)

12. OTHER EXPENSES

	2013	2012
Rent	70,177	58,014
Communication expense	32,453	25,514
Office expenses	196,735	146,351
Printing and stationery expense	18,609	18,746
Computer maintenance and support expenses	45,165	39,220
Legal and professional charges	71,407	84,016
Advertising and publicity expense	42,930	38,443
Board of directors remuneration	41,000	26,000
Impairment of other assets	-	21,320
Other	-	8,330
	518,476	465,954

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 Chief Executive Officer 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 responsibility for the management of credit risk rests with the management, Credit Committee, comprising four members, Head of Retail, Head of Operations & Credit Administration, Head of Finance and Head of Collection reporting to the. 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 Retail and Credit Administration Departments. Larger facilities require approval by Chief Executive Officer, 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 Chief Executive Officer 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 allowance comprise of collective loss allowance established for groups of similar assets in respect of losses that have been incurred but not yet identified.

Exposure to credit risk

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

	2013	2012
Cash and cash equivalents	1,527,493	3,613,465
Loans to customers	41,550,227	36,418,052
	43,077,720	40,031,517

13 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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.

	2013	2012
Concentration by sector		
Corporate	9,137,863	10,218,537
Retail	32,412,364	26,199,515
Financial institutions	1,527,493	3,613,465
	43,077,720	40,031,517

All loans are domestic and are granted to borrowers within the Kingdom of Bahrain. Following is the ageing analysis of loans:

2013	**Gross amount**	**Impairment allowance**	**Net amount**
Current	36,809,920	45,644	36,764,276
Past due:			
0 – 90 days	3,858,172	49,219	3,808,953
90 – 180 days	422,565	66,679	355,886
› 180 days	2,252,760	1,631,648	621,112
	43,343,417	**1,793,190**	**41,550,227**

2012	Gross amount	Impairment allowance	Net amount
Current	32,409,842	30,131	32,379,711
Past due:			
0 – 90 days	3,097,666	34,997	3,062,699
90 – 180 days	473,880	47,541	426,339
› 180 days	1,674,324	1,124,991	549,333
	37,655,712	1,237,660	36,418,052

Total non-performing loans as defined by the CBB at 31 December 2013 were BD 2,675,325 (2012: BD 2,148,204). During the year ended 31 December 2013, loans amounting to BD 51,133 (2012: BD 25,745) were restructured.

The Company renegotiates loans to customers in financial difficulties (referred to as ‘forbearance activities’) to maximise collection opportunities and minimise the risk of default. Under the Company’s forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms. The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Company Audit and Corporate Governance Committee regularly reviews reports on forbearance activities.

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. Percentage of credit exposure (loans to customers) that is subject to collateral requirements was 96%, (2012: 97%) the principal type of collateral is the vehicle financed.

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 Chief Executive Officer 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.

13 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

Management of liquidity risk (continued)

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

31 December 2013	**Carrying amount**	**Contractual cash flows**	**6 months or less**	**6 - 12 months**	**More than 12 months**
Borrowings from banks	29,210,664	32,598,432	2,947,372	5,675,146	23,975,914
Accounts payable	1,935,956	1,935,956	1,935,956	-	-
	31,146,620	**34,534,388**	**4,883,328**	**5,675,146**	**23,975,914**

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

Market risks

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

Interest rate risk

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

31 December 2013	**Fixed rate**	**Floating rate**	**Non-interest bearing**	**Total**
Cash and cash equivalents	-	-	1,528,693	1,528,693
Loans to customers	41,550,227	-	-	41,550,227
Other assets	-	-	201,674	201,674
	41,550,227	**-**	**1,730,367**	**43,280,594**
Other liabilities	-	-	2,629,262	2,629,262
Borrowings from banks	-	29,210,664	-	29,210,664
	-	**29,210,664**	**2,629,262**	**31,839,926**

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

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 2012.

	Profit or loss		**Equity**	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
31 December 2013				
Borrowings from banks	**(304,521)**	**304,521**	**(304,521)**	**304,521**
31 December 2012				
Borrowings from banks	(221,958)	221,958	(221,958)	221,958

13 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Interest rate risk (continued)

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

A summary of the Company's interest rate gap position on non-trading portfolios is as follows:

	Carrying amount	**Less than 3 months**	**3 - 6 months**	**6 - 12 months**	**1 - 6 years**	**More than 6 years**	**Non-interest bearing**
31 December 2013							
Cash and cash equivalents	1,528,693	-	-	-	-	-	1,528,693
Loans to customers	41,550,227	2,675,531	3,195,575	5,912,399	29,765,367	1,355	-
Other assets	201,674	-	-	-	-	-	201,674
	43,280,594	**2,675,531**	**3,195,575**	**5,912,399**	**29,765,367**	**1,355**	**1,730,367**
Borrowings from banks	29,210,664	1,099,534	1,262,034	5,146,290	21,702,806	-	-
Other liabilities	2,629,262	-	-	-	-	-	2,629,262
	31,839,926	**1,099,534**	**1,262,034**	**5,146,290**	**21,702,806**	**-**	**2,629,262**

	Carrying amount	Less than 3 months	3 - 6 months	6 - 12 months	1 - 6 years	More than 6 years	Non-interest bearing
31 December 2012							
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

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 price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk. When available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If an asset or a liability measured at fair value has a bid price and an ask price, the Company measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The Company recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Bank borrowings are at floating rate and are re-priced periodically hence the carrying value represents its approximate fair value. (level 2)

Loans to customers are classified as level 3, the average interest rate of the loan portfolio is in line with current market rates for similar facilities and hence after consideration of adjustment for prepayment risk and impairment charges it is expected that the carrying value would not be materially different to fair value of these assets.

The fair values of all other financial assets and financial liabilities approximate their carrying value due to their short term nature.

Operational risks

Operational risk is the risk of unexpected losses resulting from inadequate or failed internal controls or procedures, systems failures, fraud, business interruption, compliance breaches, human error, management failure or inadequate staffing. Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Company's operations and are faced by all business entities.

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

This responsibility is supported by the development of overall Company standards for the management of operational risk in the following areas:

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2013 (Bahraini Dinars)

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Operational risks (continued)

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 and Corporate Governance Committee and senior management of the Company.

Classification of financial assets and financial liabilities

All financial assets and financial liabilities on classified as “loans and advances” and “liabilities” at amortised cost.

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 2013 Company’s paid-up share capital is BD 7,500,000 (2012: BD 7,500,000) and the borrowing to capital and reserves ratio on 31 December 2013 is 2.47 (2012: 2.31).

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. COMPARATIVES

Certain prior year amounts have been re-grouped to confirm the current year’s presentation. Such regrouping did not affect previously reported comprehensive income or equity.