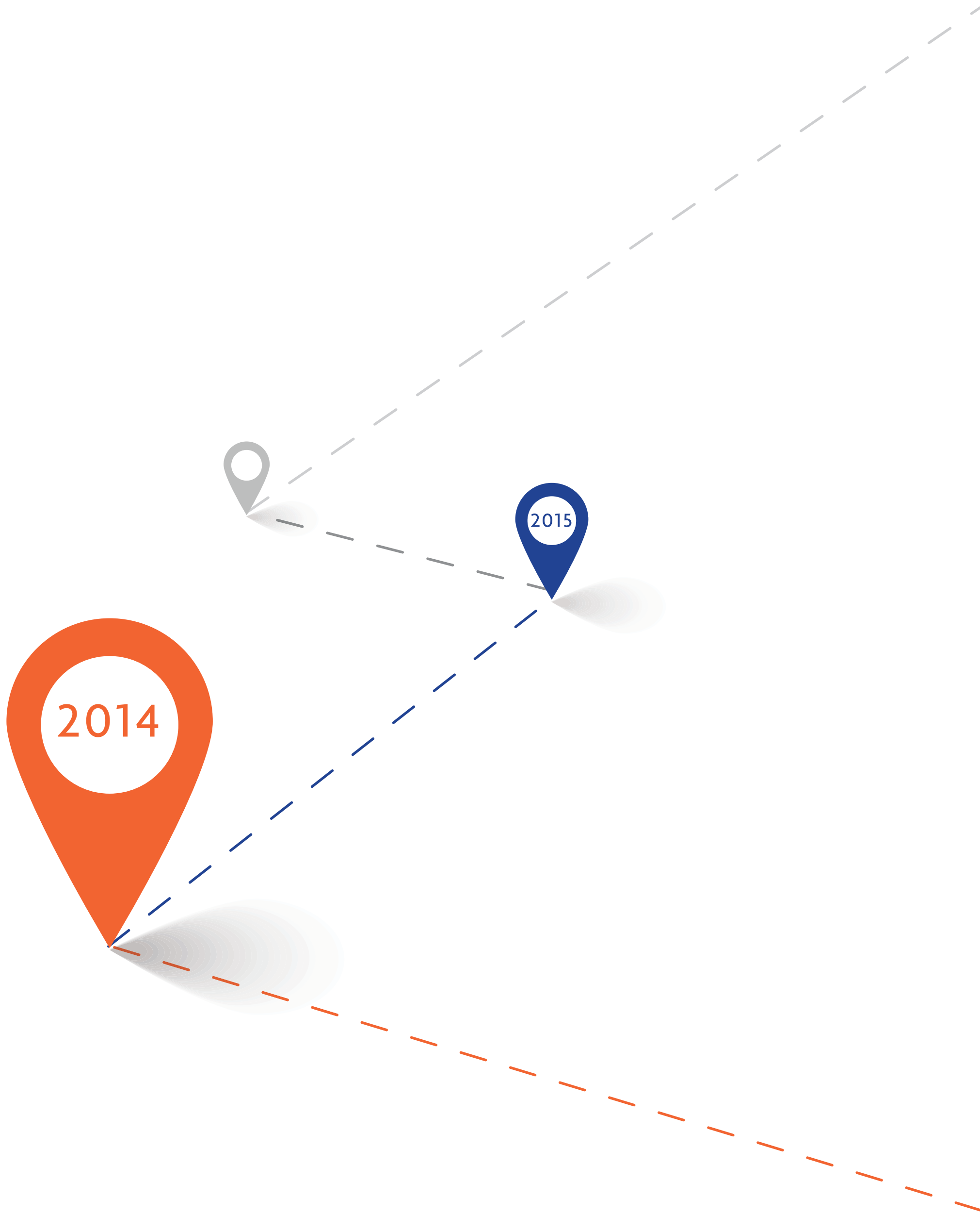
A milestone year



2014 ANNUAL REPORT

NFH
التمويل الوطني

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

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CONTENTS

His Royal Highness Prince
Khalifa Bin Salman Al Khalifa

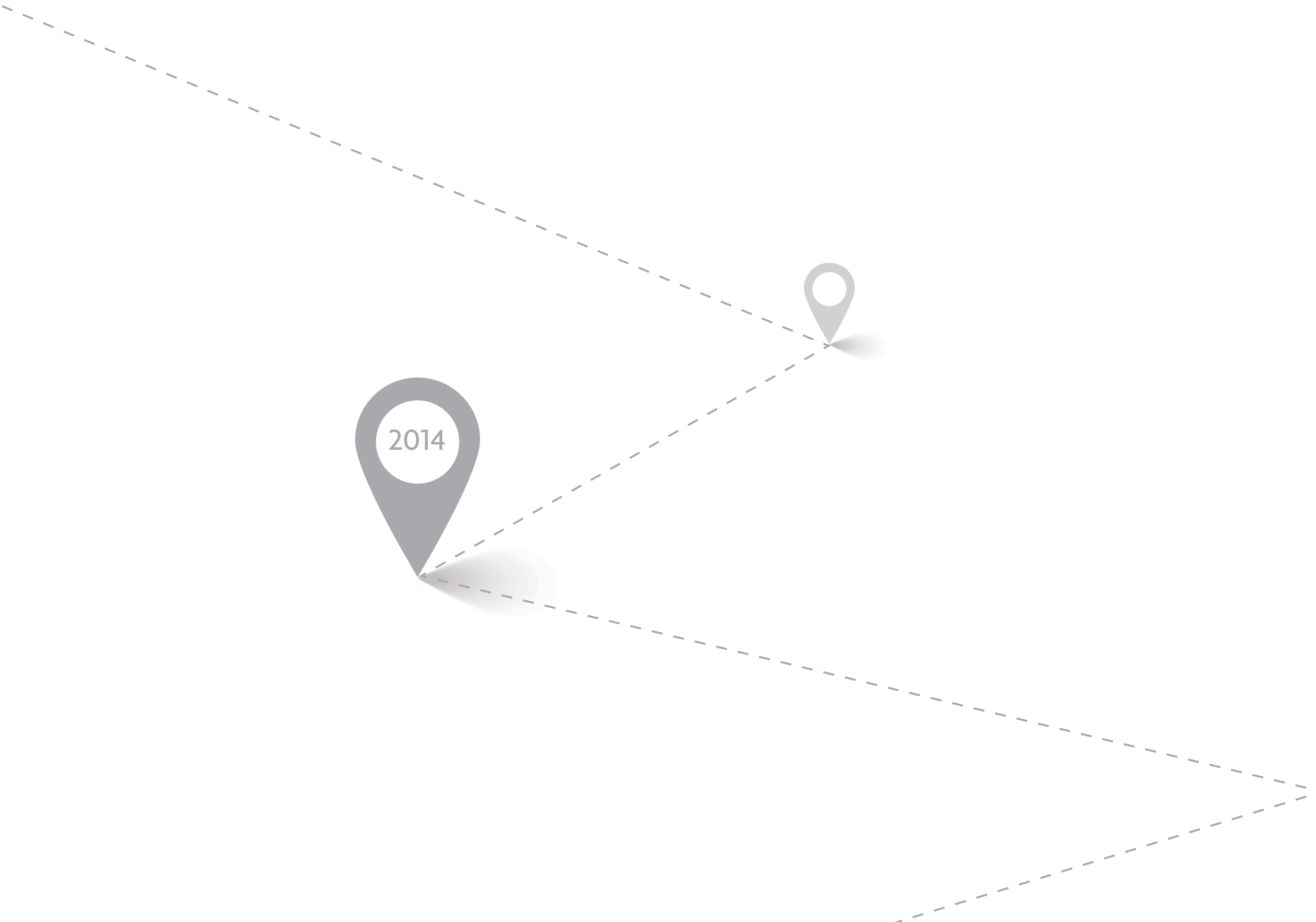
The Prime Minister
of the Kingdom of Bahrain

His Majesty King
Hamad Bin Isa Al Khalifa

The King
of the Kingdom of Bahrain

His Royal Highness Prince
Salman Bin Hamad Al Khalifa

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



A milestone year

NFH celebrated a milestone year in 2014. Key highlights include achieving net profit in excess of BD 1 million for the first time, and finalising plans for the implementation of a new core banking system in early 2015. In addition, the Company posted strong business growth, introduced new customer service initiatives, and established a dedicated risk management function.

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

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

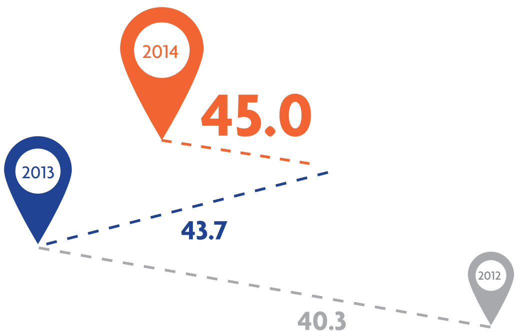
2014
at a *Glance*

DESPITE INTENSIFIED COMPETITION DURING THE YEAR, NFH POSTED A RECORD PROFIT OF BD 1.01 MILLION AND ACHIEVED NET GROWTH OF 4 PERCENT IN VEHICLE FINANCING

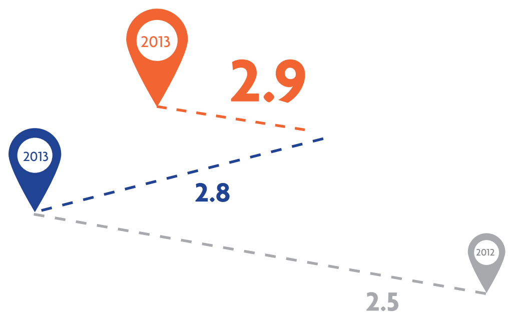
- Established new dedicated Risk Management function
- Introduced new Corporate Sales team
- Completed initial stage of user acceptance testing for new core banking system for go-live in 2015
- Enhanced online payment system on website
- Finalised plans for launch of special applications for mobile devices in 2015
- NPL to Gross Loans reduced to 3.37%
- Achieved customer satisfaction rating of 98%
- Complied with latest regulatory requirements from the Central Bank of Bahrain
- Identified a number of interesting opportunities through which to diversify the business

Financial *Highlights*

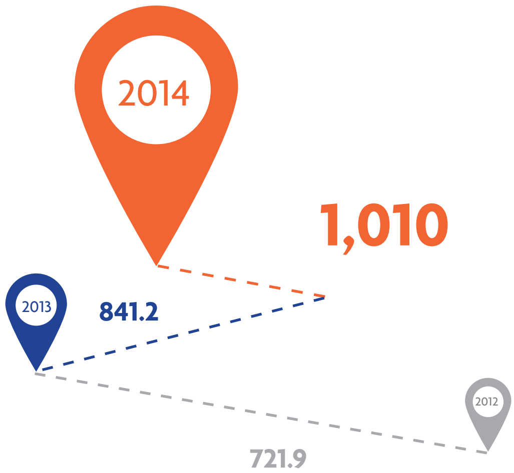
(Bahraini Dinars)	**2014**	2013	2012	2011	2010
Total Assets	45,031,442	43,662,983	40,290,522	33,420,011	33,632,420
Total Liabilities	32,573,306	31,839,926	28,933,694	22,785,135	23,423,559
Total Equity	12,458,136	11,823,057	11,356,828	10,634,876	10,208,861
Total Income	2,928,248	2,796,647	2,510,739	2,259,991	2,243,854
Profit for the year	1,010,079	841,229	721,952	801,015	894,124
Share Capital	7,500,000	7,500,000	7,500,000	7,500,000	7,500,000



Total Assets
(BD millions)



Total Income
(BD millions)



Profit for the Year
(BD thousands)

Board of *Directors*

Farouk Yousif Khalil Almoayyed
Chairman, Non-Independent Non-Executive, Chairman of Remuneration & Nomination Committee since 2006

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

Member of Board of Directors:
Investcorp Bank, Bahrain

Fuad Ebrahim Kanoo
Deputy Chairman, Non-Independent Non-Executive
Member of Remuneration & Nomination Committee since 2006

Vice Chairman:
Ebrahim Khalil Kanoo Group, Bahrain

Member of Board of Directors:
Trafco Group BSC, Bahrain
Bahrain Water Bottling & Beverages Co. SPC, Bahrain

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

Chief Executive Officer:
Takaful Oman Insurance SAOG, Oman

Chairperson:
Al Kawther Fund (Islamic Compliant Fund)
Oman National Investment Funds Company (NIFCO) Fund, Oman
Oman Investment Corporation SAOC, Oman

Deputy Chairperson:
National Equity Fund (NEF), Oman
Takaful Oman Insurance SAOG, Oman

Member of Board of Directors:
National Bank of Oman, Oman
Oman National Investment Company Holding SAOG, Oman
Oman Oil Marketing Company, Oman
National Investment Funds Company, Oman
Public Authority for SME Development, Oman
International General Insurance (IGI), Jordan
Ministry of Justice - Investment Committee of Orphans & Incapacitated Funds, Oman

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

Managing Director:
Almoayyed International Group, Bahrain

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

Talal Fuad Kanoo
Non-Executive Director, Chairman 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 Company, Bahrain
Ebrahim Khalil Kanoo BSC (c), Bahrain
Motor City Holding BSC (c), Bahrain

Bader Abdulmohsin Almutlaq
Non-Independent 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

Sameer Ebrahim Al Wazzan
Non-Independent Executive Director, Member of Executive Committee Since 2014

Chief Executive Officer:
Bahrain National Holding Company, Bahrain

Member of Board of Directors:
United Insurance Company, Bahrain
Al Kindi Specialised Hospital, Bahrain
UltraTune Middle East W.L.L., Bahrain
Arabian Shield Insurance Cooperative, KSA
Doha Bank Assurance Company, Qatar

Khalid Shaheen Saqer
Independent Non-Executive Director, Vice Chairman of Executive Committee, Chairman of Strategic Options 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 AlKhair B.S.C. (Closed), Bahrain

Founder:
Hermes Consulting SPC, Bahrain

Executive Chairman:
Khalid Shaheen & Sons Trading Co. WLL, Bahrain

Fellow:
Institute of Directors, UK

Kalyan Sunderam
MBA, CFA, PRM & ACIB
Independent Non-Executive Director, Chairman of Audit & Corporate Governance Committee
Member of Strategic Options 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 2014. I AM DELIGHTED TO REPORT THAT WE HAVE ACHIEVED A MILESTONE FINANCIAL PERFORMANCE. WE HAVE CONTINUED TO GROW THE BUSINESS, AND FURTHER STRENGTHENED OUR INSTITUTIONAL CAPABILITY.

With the Kingdom of Bahrain maintaining its trend of economic growth during the year, there was a subsequent improvement in market conditions and consumer confidence. This had a positive effect on our business, which is reflected in the Company's financial results.

I am very pleased to report that net profit increased by 20 per cent to a new high of BD 1.01 million compared with BD 841.2 thousand in 2013. Total operating income grew to BD 2.93 million from BD 2.79 million the previous year, with basic and diluted earnings per share increasing to Bahraini fils 13.5 (2013: 11.2 fils). At the end of 2014, shareholders' equity had risen to BD 12.46 million (2013: BD 11.82 million), resulting in an improved return on average equity of 8.3 per cent (2013: 7.3 per cent). Total operating expenses reduced to BD 1.92 million (2013: BD 1.95 million), including lower provisions of BD 356.3 thousand (2013: BD 575.7 thousand) against impairment on loans to customers. At the end of the year, total assets had increased to BD 45.03 million from BD 43.66 million at the end of 2013.

Based on the Company's 2014 financial results, the Board of Directors is proposing a cash dividend of 6 per cent of the paid-up capital (BD 450 thousand) out of retained earnings, subject to approval by the Shareholders at the Annual General Meeting to be held on 25 February 2015.

In 2014, the Company's net profit exceeded BD 1 million for the first time and profitability grew by 20% to BD 1.01 million compared to BD 841.2 thousand in 2013.

The competitive nature of Bahrain's vehicle financing sector in Bahrain intensified during 2014, marked by new entrants and heavy discounting promotions. With a continued focus on delivering superior customer service rather than competing on price, NFH was successful in achieving a net growth of 4 per cent in vehicle financing, and disbursed loans valued at BD 19 million. The total loan book stood at BD 43.2 million at the end of the year, compared with BD 41.6 million at the end of 2013.

During the year, we finalised plans for the implementation of a new core banking system in the first quarter of 2015. Constituting the largest capital investment by NFH to date, the new system will provide NFH with a highly-robust support and control infrastructure. The Company also continued to invest in staff training and development; providing promising career opportunities for Bahraini nationals, who comprise 96 per cent of the workforce.

NFH further strengthened its corporate governance and risk management frameworks in 2014 to ensure ongoing compliance with the regulatory requirements of the Central Bank of Bahrain and the Ministry of Industry & Commerce. The Board also reviewed the Company's strategy and business model, and appointed KPMG to identify and recommend new funding options; while proposals from Management to diversify the Company's activities and revenue streams will be reviewed in 2015.

During the year, Mr. Mahmood Al Soufi, representing Bahrain National Holding, resigned from the Board of Directors. I would like to thank him for his valuable contribution since the establishment of NFH, and wish him well in all future endeavours. In turn I welcome his replacement, Mr. Sameer Al Wazzan, who brings with him over 32 years' experience in the insurance industry.

Looking ahead, we have a cautiously optimistic outlook for the Company in 2015. The Bahrain Economic Development Board expects the Kingdom's economy to grow by 3.6 per cent this year and to remain robust in 2015, despite concerns over the decline in oil prices. GDP growth will be driven by the Government's commitment to continue investing in major infrastructure projects, which will be funded by the US$ 10 billion Gulf Development Fund.

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 their 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.

I take this opportunity to extend my appreciation to our shareholders for their financial support and unwavering confidence; and to our customers and business partners for their enduring trust and loyalty. Finally, I acknowledge the continued hard work and commitment of our management and staff; and their highly-valued contribution to making 2014 a milestone year for NFH.

Farouk Yousif Khalil Almoayyed
Chairman of the Board

Chief Executive's *Report*

Venkatachalam PS
Chief Executive Officer

I am delighted to report that 2014 was a milestone year for NFH. Key highlights include net profit passing the BD 1 million mark for the first time, and finalising plans for the implementation of our new core banking system. We also posted another strong business and operational performance, which is detailed in the following Review of Operations.

The Company's record financial results for 2014 illustrate our success in continuing to grow the business, highlighted by a net growth of 4 per cent in vehicle financing activities. This is a significant achievement, given the intensified competition from retail banks in Bahrain during 2014. The year witnessed the entry of new banks and some previous players re-entering the market, all of which engaged in heavy discounting promotions. The key to our success continues to be an unrelenting commitment to the highest levels of customer service, including speed of processing loan applications, rather than competing on price.

In this respect, we continued to improve the 'customer experience' with a number of new milestones and initiatives. These include establishing a new dedicated Corporate Sales team to specifically address the fleet financing requirements of large companies. In addition, we enhanced the online payment system on the website to provide real-time functionality; and finalised plans for the launch of special applications for mobile devices next year. Encouragingly, the Call Centre report for 2014 showed that customers rated their satisfaction with the service received from NFH at 98 per cent, which is the highest rating achieved by the Company to date.

During the year, we further strengthened the Company's institutional capability. In a significant development, we completed the initial stage of user acceptance testing for our new core banking system, which is planned to go live during the first quarter of 2015. This is later than originally planned, due to the decision to ensure that all modules and functionalities are in place, rather than adopting a phased introduction. The new system will integrate, centralise and automate all aspects of the business, both front and back office. This will enable greater accuracy, control, security and speed of processing; while providing measurable benefits in terms of enhanced productivity, efficiency and customer service.

I am pleased to report that we continued to make good progress in transforming NFH into a performance-oriented organisation, with measurable goals being used as part of annual staff appraisals to calculate increments and bonuses. We also maintained our investment in the training and professional development of our people, who are the Company's most valuable assets. At the same time, we enhanced our corporate governance and risk management control frameworks. We continued to ensure the Company's compliance with the latest regulatory requirements, including the new format for Prudential Information Reporting for Financing Companies and Microfinance Institutions (PIRFM); Sound Remunerations Policy; and Foreign Account Tax Compliance Act (FATCA); which were issued by the CBB during the year. In view of increasingly volatile economic and market conditions, we also established a dedicated Risk Management function under a newly-appointed Risk Manager.

Looking to the future, we have identified a number of interesting opportunities through which to diversify our business activities and generate additional sources of revenue. Detailed proposals will be presented to the Board in 2015 for its review.

In conclusion, I would like to thank our Board of Directors for its encouragement, support and counsel. I also pay tribute to the positive attitude and performance of our management and staff during this milestone year for NFH.

Venkatachalam PS
Chief Executive Officer

Management *Team*

① **Venkatachalam PS**
Chief Executive Officer

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

③ **Ali Redha Mohammed**
Head of Retail

④ **Tariq Abdulaziz Fathalla Ahmed**
Head of Collections

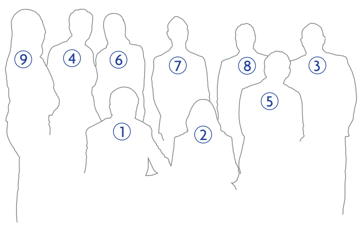
⑤ **Mahdi Murad**
Risk Manager

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

⑦ **Hussain Eid**
Manager – Information Technology

⑧ **Ali Jassim**
Credit Administration Manager

⑨ **Fatima Abdulla Yousif Ali**
Human Resources & Administration



RECORD FINANCIAL RESULTS

IN 2014, THE COMPANY'S NET PROFIT EXCEEDED BD 1 MILLION FOR THE FIRST TIME. PROFITABILITY GREW BY 20 PER CENT TO BD 1.01 MILLION COMPARED WITH BD 841.2 THOUSAND IN 2013, WHILE TOTAL OPERATING INCOME INCREASED TO BD 2.93 MILLION. THE PERCENTAGE OF NPL REDUCED TO 3.37% IN 2014 FROM 6.17% IN 2013.

THIS NEW MILESTONE ILLUSTRATES THE SUCCESS OF NFH IN CONTINUING TO GROW THE BUSINESS IN AN INCREASINGLY-COMPETITIVE MARKET ENVIRONMENT. DESPITE HEIGHTENED COMPETITION, THE COMPANY POSTED A NET GROWTH OF 4 PERCENT IN VEHICLE FINANCING, AND DISBURSED LOANS VALUED AT BD 19 MILLION.

Review of *Operations*

RETAIL & MARKETING

Vehicle Financing

New vehicle registrations in the Kingdom of Bahrain during 2014 were in line with the average for the past five years, with no significant increase. However, competition intensified severely, with more banks entering the segment, and offering heavily-discounted financing rates. Despite this, NFH achieved a 4 per cent net growth in vehicle financing, disbursing loans valued at BD 19 million and meeting its business targets for the year. The majority of loans were for the purchase of cars by individuals, with heavy vehicle and construction equipment financing remaining flat. Due to the heightened competition – together with more selective underwriting and stricter credit criteria – NFH's market share declined slightly in 2014, but the quality of its loan portfolio improved.

During the year, the Company's service desks at the Toyota, Nissan, Kia and Majestic car showrooms continued to perform extremely 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 additional new branches.

Marketing

Marketing activities in 2014 included special promotional campaigns during Ramadan offering special interest rates, extended grace periods, and free life insurance. These generated an excellent response, which was on par with the record set for business during the Islamic Holy Month last year. NFH also continued its programme of special offers for employees of some of Bahrain's major local companies and public sector organisations. In addition, a new range of innovative promotional gifts was introduced for customers.

CUSTOMER SERVICE

In a highly competitive market, superior customer service and loan processing times continue to act as key competitive advantages and strategic differentiators for NFH. During the year, the Company continued to improve the 'customer experience' with a number of new initiatives. These include: enhancing the online payment system on the website to provide real-time functionality, which resulted in more customers using online applications; and finalising plans for the launch of special applications for mobile devices in 2015. In addition, a new hire purchase service was introduced; while the agreement with Ahli United Bank to enable customers to make loan repayments through its branch network continued to prove popular, with more customers utilising this service during 2014.

In line with the Company's proactive approach to serving customers and meeting their specific needs, a new Corporate Sales team was established during the year. This dedicated team will address the fleet financing requirements of large companies, as well as offering special rates and services for their employees.

The very high level of satisfaction by NFH customers was maintained during the year. The annual Call Centre report for 2014, which logs the results of regular telephone calls to new and existing customers by Customer Service staff, showed that customers rated their satisfaction with the service received from NFH at 98 per cent, which is the highest rating achieved by the Company to date.

COLLECTIONS

In 2014, there was a continued improvement in collections over the previous year, which contributed to the reduction in delinquency rates. This resulted from enhanced credit criteria, adequate credit administration procedures, and an effective and efficient mechanism to monitor the lending function. Additionally, there was a renewed focus on cash collections, which increased significantly, rather than on restructuring or rescheduling loans. The number of legal actions, which are only taken as a last resort, reduced during the year. As part of its proactive approach to managing existing and potential defaults, NFH continued to provide business advisory services to its customers, and further extension of credit to alleviate promising problem loans. The percentage of NPL to Gross Loans reduced to 3.37% at the end of 2014 compared to 6.17% in 2013.

CREDIT ADMINISTRATION

NFH further strengthened its credit criteria during the year by ensuring that credit operations and processes are in line with the Company's defined strategies and risk mitigation measures, and that they comply with regulatory requirements. The Company also reviewed its database and authorised signatories to ensure compliance with the new Corporate Credit Bureau that was launched by the Benefit Company in 2014.

In addition, extensive planning for the implementation of the new core banking system was carried out. This included customising certain key operational modules; uploading all supporting documentation and loan agreements to the new system; and conducting introductory training for back office staff. The new system will facilitate the automation of reports for different areas of the business, and speed up the provision of timely information to management for enhanced decision making.

HUMAN RESOURCES

NFH continued to make 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 a new Employee of the Year scheme was well received by staff, together with initiatives to enhance teamworking and social integration. At the end of the year, the headcount had increased to 47, with Bahrainis comprising 96 per cent of the total workforce, one of the highest levels among financial institutions in the Kingdom.

NFH continued to invest in staff training and professional development in 2014. This is provided primarily through the Bahrain Institute of Banking & Finance, covering customer service, quality and communications. Regulatory training during the year included anti-money laundering (AML) training and fraud risk awareness training and certification courses. In addition, as part of the Company's health and safety policy, special training for first aid and fire fighting was provided for staff at the head office and Sitra branch.

INFORMATION TECHNOLOGY

The initial stage of user acceptance testing was completed by the year-end for the Company's new core banking system, which is planned to go live in the first quarter of 2015. This is later than originally planned, due to the decision to ensure that all modules and functionalities are firmly in place, rather than adopting a phased introduction. A special 'train-the-trainer' programme was conducted for a number of key staff, who will then be responsible for training other staff in using the system to its full potential. 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.

Other IT developments include enhancing the online payment system on the website to provide real-time functionality; and finalising plans for the launch of special applications for mobile devices in 2015. In line with Central Bank of Bahrain (CBB) regulations, a business continuity planning (BCP) exercise was conducted. This involved testing the BCP centre and disaster recovery site at Sitra, with the involvement of all departments. To ensure the highest levels of information security, vulnerability assessment and penetration testing (VAPT) was also conducted during the year.

COMPLAINTS UNIT

Policies, processes and procedures for the Company's independent Complaints Unit were formally implemented during the year. These cover the receipt, logging, monitoring, follow-up and resolution of complaints, which are reported on a regular basis to the CBB. In 2014, very few serious complaints were received, with the majority being successfully resolved within two days compared with the regulatory five days stipulated by the CBB. Overall, more suggestions than complaints were logged during the year.

COMPLIANCE

Throughout 2014, NFH continued to strengthen its corporate governance framework to ensure compliance with the regulations of the Central Bank of Bahrain (CBB) and other statutory bodies; and also the requirements of the Code of Corporate Governance of the Kingdom of Bahrain issued by the Ministry of Industry & Commerce. Key developments during the year include complying with the new format for Prudential Information Reporting for Financing Companies and Microfinance Institutions (PIRFM); Sound Remunerations Policy; and Foreign Account Tax Compliance Act (FATCA); which were issued by the CBB.

RISK MANAGEMENT

In line with best practice, NFH established a separate Risk Management department in 2014; and appointed a new Risk Manager, following approval by the Central Bank of Bahrain. Key developments during the year include commencing a comprehensive risk audit; reviewing the Company's anti-money laundering (AML) and counter-terrorism financing (CFT) policy; and conducting AML/CFT training for staff.

CUSTOMER SERVICE COMMITMENT

NFH IS COMMITTED TO DELIVERING THE HIGHEST LEVELS OF CUSTOMER SERVICE. DURING 2014, THE COMPANY CONTINUED TO IMPROVE THE 'CUSTOMER EXPERIENCE' WITH A NUMBER OF NEW MILESTONES AND INITIATIVES. THESE INCLUDE ESTABLISHING A NEW DEDICATED CORPORATE SALES TEAM TO SPECIFICALLY ADDRESS THE FLEET FINANCING REQUIREMENTS OF LARGE COMPANIES. IN ADDITION, A NEW HIRE PURCHASE SERVICE WAS INTRODUCED; THE ONLINE PAYMENT SYSTEM ON THE WEBSITE WAS ENHANCED TO PROVIDE REAL-TIME FUNCTIONALITY; AND PLANS WERE FINALISED FOR THE LAUNCH OF SPECIAL APPLICATIONS FOR MOBILE DEVICES IN 2015.

Risk Management *Report*

NFH has put in place a robust Risk Management Framework to ensure the identification of all risks to which the Company may be exposed; and the effective implementation of all necessary policies, procedures and systems to monitor, manage and mitigate these risks. A regular assessment and review of risk management policies, processes and procedures is conducted to ensure that the Company's risk policies and tolerance are in compliance with the guidelines of the Central Bank of Bahrain; in line with the strategic direction and risk appetite specified by the Board; and that they are well-documented and regularly communicated throughout the organisation.

RISK PHILOSOPHY & APPROACH

- The Company has a conservative risk appetite which has led to its consistently sound asset quality and sustainable operating performance.
- 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, and in line with the business strategy adopted.
- 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. It has established the Executive Committee for developing and monitoring risk management policies in their specific areas. The Board 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 Risk Manager & MLRO, and three risk-related committees.

Risk Management Committee

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

The Credit Committee chaired by the Chief Executive Officer, 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.

Asset & Liability Committee

The Asset & Liability Committee (ALCO) chaired by the Chief Executive Officer, 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, reviewing the interest rate charged on loans and addressing strategic issues concerning liquidity.

RISK MANAGEMENT FUNCTION

The Risk Management function, which is independent of business line management, is primarily accountable for establishing and maintaining the Company's risk management framework and supporting policies. The function is also responsible for providing risk oversight and independent reporting of risk to the Executive Management, Board-level Committees, and the Board.

The role and responsibilities of the Risk Management function are to:

- 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
- 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 2014, 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.

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 2014

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

During 2014, NFH continued to strengthen its corporate governance framework to ensure compliance with the regulations of the Central Bank of Bahrain (CBB) and other statutory bodies; and also the requirements of the Code of Corporate Governance of the Kingdom of Bahrain issued by the Ministry of Industry & Commerce. Key developments during the year include complying with the new format for Prudential Information Reporting for Financing Companies and Microfinance Institutions (PIRFM); and the Sound Remunerations Policy, which were issued by the CBB.

During January 2014, the CBB issued new specific Financing Company modules related to Business Conduct, Operational Risk Management, Liquidity Risk Management, Training & Competency and Public Disclosure. The Company undertook a detailed review of the new modules 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 nine directors of which two 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)	3	3	75%
Talal Fuad Ebrahim Kanoo	ED	Bahrain National Holding Company	26 Apr 2006	1 (Member)	4	3	75%
Mohammed Farouk Almoayyed	ED	Y.K. Almoayyed & Sons	26 Apr 2006	1 (Member)	10	4	100%
Al Sayyida Rawan Ahmed Al Said	NED	Oman National Investment Corporation Holding	25 Dec 2008	1 (Member)	-	4	100%
Bader Abdulmohsin Almutlaq	ED	Al-Mutlaq Group	16 May 2012	1 (Member)	-	4	100%
Sameer Ebrahim Al Wazzan	ED	Bahrain National Holding Company	15 Apr 2014	1 (Member)	3	3	100%
Khaled Shaheen Saqer Shaheen	INED	-	16 Aug 2011	2 (Member)	4	4	100%
Kalyan Sunderam	INED	-	24 Dec 2012	1 (Chairperson)	-	4	100%

Composition of Board and other related matters:

Notes:

1. The Board of Directors of the Company met four times during the year on 26 February, 26 May, 21 September and 8 December 2014.
2. The current Directors were appointed at the Annual General Meeting held on 5 April 2012 for a period of three years renewable. The next election / re-election of the Board of Directors for a three-year term is scheduled for 25 February 2015.
3. Effective from 18 March 2014, Mr. Mahmood Al Soufi, who represented Bahrain National Holding Company (BNH) resigned from NFH Board of Directors and was replaced by Mr. Sameer Ebrahim Al Wazzan, the CEO of BNH, who has over 32 years' experience in the insurance industry.
4. NED: Non-Executive Director; ED: Executive Director, INED: Independent Non-Executive Director.
5. It includes the Chairmanship / Membership in the Executive Committee, Audit & Corporate Governance Committee, Remuneration & Nomination Committee and Strategic Funding Committee.
6. This number excludes the other Directorships / Committee memberships held in private limited companies and in overseas companies.
7. Mohammed Farouk Almoayyed is the son of the Chairman, and Talal Fuad Kanoo is the son of the Deputy Chairman. None of the other Directors have any inter-relationship.

2. BOARD COMMITTEES

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

2.1 Executive Committee

This Committee consists of four 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
Talal Fuad Ebrahim Kanoo, Chairperson	Executive Director	5 September 2006	2
Khaled Shaheen Saqer Shaheen	Independent Non-Executive	4 March 2013	3
Mohammed Farouk Y. Almoayyed	Executive Director	24 June 2008	2
Sameer Ebrahim Al Wazzan	Executive Director	15 April 2014	2

Notes:

1. The Executive Committee met three times during the year on 30 April, 10 September and 26 November 2014.
2. During the year, Mr. Sameer Al Wazzan was appointed by the Board of Directors as a member in the Executive Committee.
3. The main role of the Executive Committee is to:
   - Oversee the financial and business performance of the Company.
   - Guide the Company in its relations with shareholders and other key stakeholders, including regulators and media.
   - Maintain effective working relationships and open avenue for communication between the Board and Management team.

- Take overall responsibility for establishing the business objectives and targets of the Company, and the strategic direction and control of the Company's business activity, within the authorities delegated to it by the Board.
- Develop a group strategy for Board approval, and monitor its implementation.
- Credit approvals within a range specified by the Board.
- Review the policies, business plan and annual budget for approval of the Board.
- Receive and consider regular reports from businesses within the Company so as to monitor and drive through improvements in financial performance.
- Approve expenditure and other financial commitments within the authorities delegated to the Committee, and make recommendations to the Board seeking the necessary approval for proposals beyond its powers.
- Any other issues delegated by the Board from time to time.

2.2 Audit & Corporate Governance Committee

This Committee consists of three 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	4
Al Sayyida Rawan Ahmed Al Said	Non-Executive Director	13 October 2009	3
Bader Abdulmohsin Almutlaq	Executive Director	16 October 2012	4

Notes:

1. The Audit & Corporate Governance Committee met four times during the year on 26 February, 26 May, 21 September and 8 December 2014.
2. The main role of the Audit & Corporate Governance Committee is to:
   - Assist the Board of Directors in ensuring and maintaining oversight of the Company's financial reporting system, internal controls, 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 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	Executive Director	28 December 2010	2
Fuad Ebrahim Kanoo	Executive Director	28 December 2010	1
Khaled Shaheen Saqer Shaheen	Independent Non-Executive	20 November 2011	2

Notes:

1. The Remuneration & Nomination Committee met twice during the year on 26 February and 8 December 2014.
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 directors including Independent Non-Executive Directors.
   - 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.

2.4 Strategic Options Committee

This Committee consists of two Independent Non-Executive Directors. 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
Khaled Shaheen Saqer Shaheen, Chairperson	Independent Non-Executive	3 June 2013	5
Kalyan Sunderam	Independent Non-Executive	3 June 2013	5

Notes:

1. The Strategic Options Committee met five times during the year on 15 January, 7 May, 20 August, 9 October and 20 November 2014.
2. The main role of the Strategic Options Committee is to assist the Board in exploring various funding options and ensure that the Company has the relevant funding to support the implementation of its strategic objectives and growth plans.
3. The Committee was formed in 2013 and shall be automatically dissolved once the duties and responsibilities of the Committee are discharged.

3. REMUNERATION

Board of Directors Remuneration

The remuneration of Independent Directors comprises a fixed component while the remuneration of other 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 70,800 as annual remuneration and sitting fees for their contribution to the Board and Board Committees held during 2014.

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 is approved by the Nomination & Remuneration Committee/Board of Directors, and is 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 2014.

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, semi-annual 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.

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

In 2013, 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 the Company's articles of association were finalised during September 2014.

The following is the list of NFH shareholders as at 31st December 2014:

Shareholder's Name	**Country**	**% of Ownership**	**Par Value per Share**	**No. of Shares**	**BD Amount of Ownership**
Bahrain National Holding Company	Bahrain	34.93%	0.100	26,195,240	2,619,524
E.K. Kanoo	Bahrain	18.00%	0.100	13,502,700	1,350,270
Y.K. Almoayyed & Sons	Bahrain	18.00%	0.100	13,502,700	1,350,270
Oman National Investment Corporation Holding	Oman	17.47%	0.100	13,100,000	1,310,000
Al-Mutlaq Group	K.S.A.	11.60%	0.100	8,699,360	869,936
		100%		**75,000,000**	**7,500,000**

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 five 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 experience of over 3 decades in the financial sector with proficiency 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 21 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.

Ali Redha Mohammed (MBA)
Head of Retail
Joined NFH in 2008

Ali Redha Mohammed has over 16 years' experience in retail banking and financial services. Prior to joining NFH, he spent 10 years with Bahrain Credit, where his final position was Branch Manager. Ali holds an MBA in Finance from AMA International University, Bahrain; and a BSc in Banking & Finance, and a Diploma in Commercial Studies, both from the University of Bahrain.

Tariq Abdulaziz Fathalla Ahmed
Head of Collections
Joined NFH in 2012

Tariq Fathalla Ahmed has over 19 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.

Mahdi Murad

Risk Manager

Joined NFH in 2014

Mahdi Murad has over 12 years' experience in credit and risk management in the banking industry. Prior to joining NFH, he was Senior Risk Officer in the Credit Administration and Risk Management Department with National Bank of Abu Dhabi-Bahrain. He previously worked for United Bank Limited-Bahrain and HSBC-Bahrain. Mahdi holds a BSc in Banking and Finance from the University of Bahrain; and Certification in the Fundamentals of Financial Risk Management (FFRM) and Advance Financial Risk Management (AFRM). He is currently pursuing his MBA in Risk Management along with Certification as an Associate Professional Risk Manager (APRM).

Naheed Najaf (MBA)

Head of Special Projects & Complaints Officer

Joined NFH in 2008

Naheed Najaf has over 16 years' experience in insurance services. Prior to joining 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 (MBA)

Manager – Information Technology

Joined NFH in 2007

Hussain Eid has 14 years' experience in IT and banking. He joined NFH from Bahrain Credit, and previously worked for Citibank. Hussain holds an MBA from University of Strathclyde, a BSc in IT Science from Birla Institute of Technology, and Diplomas in Business Information Systems and Computer Engineering from the University of Bahrain. He is certified in ITIL Foundation course, and has completed courses in Microsoft (MCSE & MCSA).

Ali Jasim Shaker Radhi

Credit Administration Manager

Joined NFH in 2007

Ali Jassim has 14 years' experience in the banking industry. Prior to joining NFH, he was Senior Cash Officer in the Operation section with Citibank-Bahrain. Ali holds a First Diploma in Business and Finance from Bahrain Training Institute.

Fatima Abdulla Yousif Ali

Human Resources & Administration

Joined NFH in 2011

Fatima Yousif Ali's career spans 27 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 2014. During the year, BD 15,400 was charged by the external auditors against the services rendered by them to the Company (BD 8,000 for audit, and BD 7,400 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 2014, BD 7,600 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 Deputy Money Laundering Reporting Officer (DMLRO) 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-1.3.14 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 he is also being proposed for re-election. Nevertheless, NFH is of the view that this does not impact the efficiency and competence of the Board of Directors, as Mr. Farouk Almoayyed grants adequate attention to his responsibilities as Chairman of the Board. In addition, there are no conflicts of interest between his other directorships and that of NFH.

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

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

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

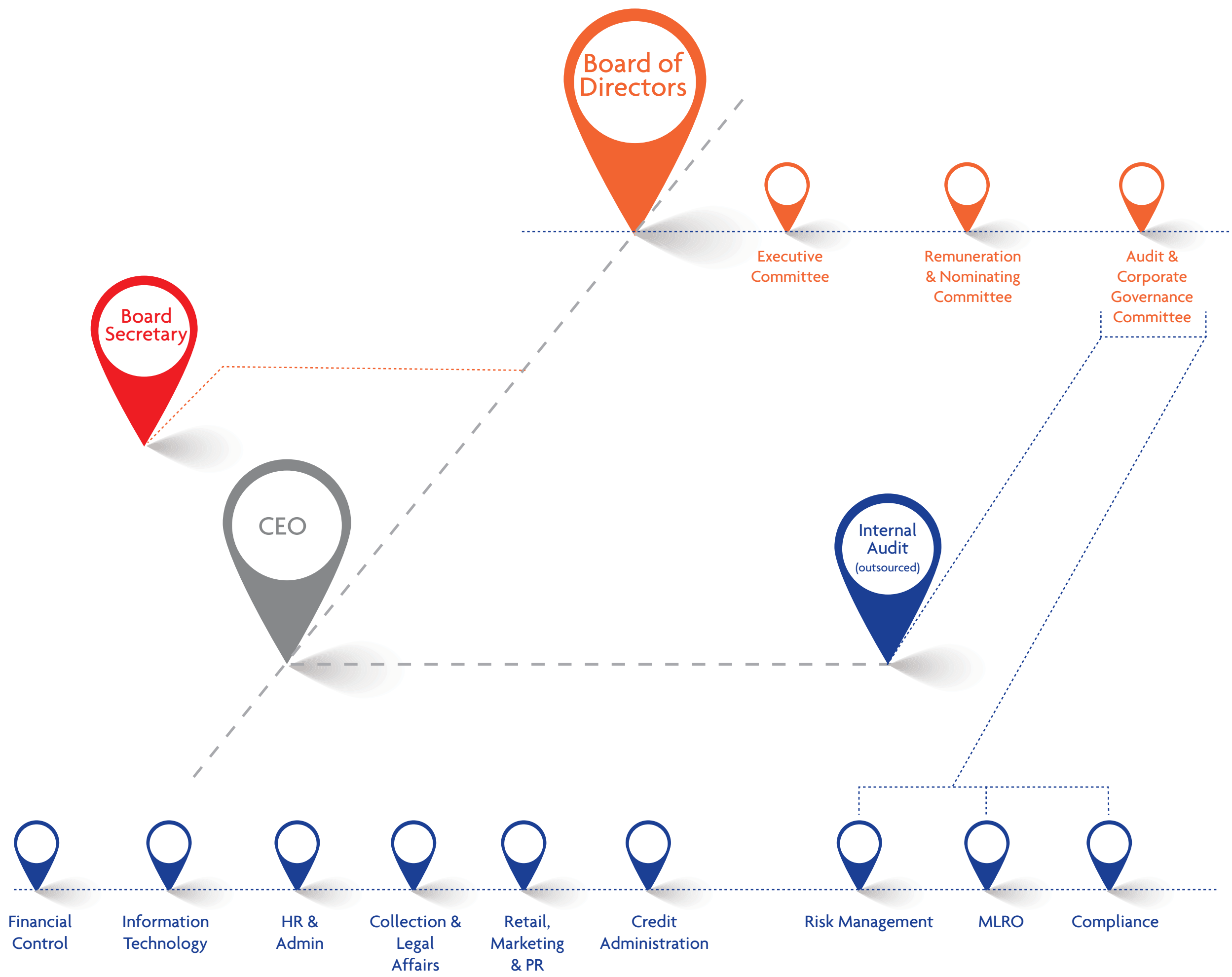
3) HC-1.8.2 & HC-3.2.1 state that the Board must establish an Audit Committee of at least three Directors, of which the majority must be Independent, including the Chairman.

   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.

4) 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



NEW CORE BANKING SYSTEM

IIN A KEY OPERATIONAL MILESTONE, THE INITIAL STAGE OF USER ACCEPTANCE TESTING FOR THE COMPANY'S NEW CORE BANKING SYSTEM WAS COMPLETED BY THE END OF THE YEAR, AND IS PLANNED TO GO LIVE IN THE FIRST QUARTER OF 2015. THE NEW SYSTEM WILL PROVIDE NFH WITH A HIGHLY-ROBUST SUPPORT AND CONTROL INFRASTRUCTURE. CONSTITUTING THE LARGEST CAPITAL INVESTMENT BY NFH TO DATE, IT WILL FACILITATE GREATER ACCURACY, CONTROL, SECURITY AND SPEED OF PROCESSING; WHILE PROVIDING MEASURABLE BENEFITS IN TERMS OF ENHANCED PRODUCTIVITY, EFFICIENCY AND CUSTOMER SERVICE.

FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

31 December 2014

Report on the financial statements

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 2014, 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 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 2014, 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 Book, we report that:

a) the Company has maintained proper accounting records and the financial statements are in agreement therewith;
b) the financial information contained in the chairman’s report is consistent with the financial statements;
c) we are not aware of any violations during the year of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions 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 that would have had a material adverse effect on the business of the Company or on its financial position; and
d) satisfactory explanations and information have been provided to us by management in response to all our requests.

KPMG

KPMG Fakhro
Partner Registration No. 100
25 February 2015

STATEMENT OF FINANCIAL POSITION

as at 31 December 2014 (Bahraini Dinars)

	Note	2014	2013
ASSETS			
Cash and cash equivalents	4	1,162,268	1,528,693
Loans to customers	5	43,190,053	41,550,227
Furniture, fixtures, equipment and capital work in progress	6	464,892	382,389
Other assets		214,229	201,674
Total assets		**45,031,442**	43,662,983
LIABILITIES AND EQUITY			
Liabilities			
Bank borrowings	8	30,957,432	29,210,664
Other liabilities	9	1,615,874	2,629,262
Total liabilities		**32,573,306**	31,839,926
Equity			
Share capital	10	7,500,000	7,500,000
Share premium		112,500	112,500
Statutory reserve		597,064	496,056
Retained earnings		4,248,572	3,714,501
Total equity (page 35)		**12,458,136**	11,823,057
Total equity and liabilities		**45,031,442**	43,662,983

The Board of Directors approved the financial statements consisting of pages 33 to 54 on 25 February 2015 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 PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2014 (Bahraini Dinars)

	Note	2014	2013
Interest income	11	3,921,163	3,650,201
Interest expense		(1,314,533)	(1,180,142)
Net interest income		**2,606,630**	2,470,059
Fees and commission income		691,758	755,490
Fees and commission expense		(370,140)	(428,902)
Net fee and commission income		**321,618**	326,588
Total income		**2,928,248**	2,796,647
Staff costs		845,422	775,228
Other expenses	12	632,383	518,476
Depreciation	6	84,059	86,037
Impairment on loans to customers	5	356,305	575,677
Total expenses		**1,918,169**	1,955,418
Profit for the year		**1,010,079**	841,229
Other comprehensive income		**-**	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,010,079**	841,229
Basic earnings per share	10	**13.5 fils**	11.2 fils

The Board of Directors approved the financial statements consisting of pages 33 to 54 on 25 February 2015 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 2014 (Bahraini Dinars)

2014	**Share capital**	**Share premium**	**Statutory reserve**	**Retained earnings**	**Total equity**
At 1 January 2014	7,500,000	112,500	496,056	3,714,501	11,823,057
Total comprehensive income for the year (page 34)	-	-	-	1,010,079	1,010,079
Dividends declared for 2013 (note 10)	-	-	-	(375,000)	(375,000)
Transfer to statutory reserve	-	-	101,008	(101,008)	-
At 31 December 2014	**7,500,000**	**112,500**	**597,064**	**4,248,572**	**12,458,136**

2013					
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 (note 10)	-	-	-	(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

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 2014 (Bahraini Dinars)

	Note	**2014**	2013
Operating activities			
Interest, fees and commission received		4,598,330	4,401,355
Loans disbursed		(19,095,702)	(21,126,302)
Loan repayments		16,437,812	14,865,857
Payments for staff salaries and related costs		(779,716)	(751,181)
Payments for other operating expenses		(1,434,152)	(606,447)
Net cash used in operating activities		**(273,428)**	(3,216,718)
Investing activities			
Purchase of furniture, fixtures and equipment	6	(167,457)	(301,914)
Sale of furniture, fixtures and equipment		71	4,336
Net cash used in investing activities		**(167,386)**	(297,578)
Financing activities			
Proceeds from bank borrowings		8,000,000	7,000,000
Repayment of bank borrowings		(6,253,232)	(4,027,768)
Interest paid		(1,297,379)	(1,168,908)
Dividends paid		(375,000)	(375,000)
Net cash from financing activities		**74,389**	1,428,324
Net decrease in cash and cash equivalents		**(366,425)**	(2,085,972)
Cash and cash equivalents at 1 January		1,528,693	3,614,665
Cash and cash equivalents as at 31 December	4	**1,162,268**	1,528,693

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 2014 (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 licence 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 currency.

d. Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, 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. New standards, amendments and interpretations effective from 1 January 2014

The following standards, amendments and interpretations, which became effective as of 1 January 2014, are relevant to the Company:

- **Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities**

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'. The amendments have been applied retrospectively.

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

2. BASIS OF PREPARATION (CONTINUED)

f. New standards, amendments and interpretations issued but not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2015, and have not been applied in preparing these financial statements. Those which are relevant to the Company are set out below. The Company does not plan to early adopt these standards.

- **IFRS 9 - Financial Instruments**

IFRS 9 published in July 2014, replaces the existing IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 9.

- **IFRS 15 – Revenue from Contracts with Customers**

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted.

The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 15.

- **Annual improvements to IFRSs 2010-2012 cycle and 2011-2013 cycle**

The annual improvements to IFRSs to 2010-2012 and 2011-2013 cycles include a number of amendments to various IFRSs. Most amendments will apply prospectively for annual periods beginning on or after 1 July 2014; earlier application is permitted (along with the special transitional requirement in each case), in which case the related consequential amendments to other IFRSs would also apply.

The amendments are not expected to have any material impact on the financial statements of the Company.

g. Early adoption of standards

The Company did not early adopt new or amended standards in 2014.

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.

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 Company is recognised as a separate asset or liability.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Financial assets and liabilities (continued)

(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, and computer software	5 years
Computer hardware	3 years

g. Cash and cash equivalents

Cash and cash equivalent represents cash in hand and bank accounts.

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 per cent 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j. Borrowings from banks

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

	2014	2013
Cash in hand and at bank	1,162,268	1,528,693
	1,162,268	1,528,693

5. LOANS TO CUSTOMERS

	2014	2013
Gross loans	44,177,621	43,343,417
Less: impairment allowance	(987,568)	(1,793,190)
	43,190,053	41,550,227

The movement of impairment allowance was as follows:

	2014	2013
At 1 January	1,793,190	1,237,660
Charge for the year	356,305	575,677
Written off during the year	(1,161,927)	(20,147)
At 31 December	**987,568**	1,793,190

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

	Furniture and equipment	Computer software	Computer hardware	Capital work in progress	2014 Total	2013 Total
Cost						
At 1 January	447,554	94,062	125,657	143,329	810,602	587,652
Additions	55,982	9,444	69,778	32,253	167,457	301,914
Disposals	(9,092)	-	-	-	(9,092)	(78,964)
At 31 December	**494,444**	**103,506**	**195,435**	**175,582**	**968,967**	810,602
Depreciation						
At 1 January	243,084	84,505	100,624	-	428,213	420,461
Charge for the year	61,745	4,782	17,532	-	84,059	86,037
Disposals	(8,197)	-	-	-	(8,197)	(78,285)
At 31 December	**296,632**	**89,287**	**118,156**	**-**	**504,075**	428,213
Net book value						
At 31 December 2014	**197,812**	**14,219**	**77,279**	**175,582**	**464,892**	-
At 31 December 2013	204,470	9,557	25,033	143,329	-	382,389

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	2014	2013
Expenses		
Insurance premium charges (shareholder)	139,853	135,812

Related party balances	2014	2013
Payable for vehicles financed (shareholders)	843,502	1,619,422
Prepaid expenses (shareholders)	11,904	13,554
Payable to insurance companies (shareholders)	-	210
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:

	2014	2013
Key management compensation	216,261	210,108
Board of directors remuneration and committee attendance allowances	69,977	66,715
Staff loan disbursed	-	23,600

Balances with key management personnel

	2014	2013
Staff loan	3,328	20,998

8. BANK BORROWINGS

	2014	2013
Repayable within one year	8,727,803	7,507,858
Repayable after one year	22,229,629	21,702,806
	30,957,432	29,210,664

These are term loans which have floating interest rates, which are subject to re-pricing some on a monthly or some on half-yearly basis. The effective interest rate on borrowings was within the range of 2.86% to 4.48% p.a. (2013: 3.00% to 4.51% p.a.). Of the total borrowings, BD 28.9 million (2013: BD 26.5 million) is secured by assignment of customer loans and the balance BD 2 million (2013: BD 2.7 million) is unsecured.

9. OTHER LIABILITIES

	2014	2013
Payable for vehicles financed	1,273,987	1,935,746
Accrued expenses	341,887	274,524
Payable to insurance companies	-	210
Other payables	-	418,782
	1,615,874	2,629,262

10. SHARE CAPITAL

	2014	2013
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	**13.5 fils**	11.2 fils

The earnings per share is calculated by dividing the net income of BD 1,010,079 (2013: BD 841,229) by the numbers of shares outstanding at the end of the year of 75 million shares (2013: 75 million shares).

The Board of Directors propose a cash dividend of 6% (2013: 5%) of the paid-up capital. This amount to BD 450,000 (2013: 375,000).

In addition the Board of Directors propose a distribution of BD 18,750 (2013: BD 41,000) as Board of Directors remuneration.

11. INTEREST INCOME

	2014	2013
Interest on loans to customers	3,907,472	3,643,812
Interest on bank term deposits	13,691	6,389
	3,921,163	3,650,201

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2014 (Bahraini Dinars)

12. OTHER EXPENSES

	2014	2013
Rent	70,497	70,177
Communication expense	33,613	32,453
Office expenses	299,342	196,735
Printing and stationery expense	17,279	18,609
Computer maintenance and support expenses	44,553	45,165
Legal and professional charges	109,906	71,407
Advertising and publicity expense	38,443	42,930
Board of directors remuneration	18,750	41,000
	632,383	518,476

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 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 sets 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 rest with the management, Credit Committee, comprising five members, Head of Retail, Manager of Operations & Credit Administration, Head of Finance, Risk Manager and Head of Collection reporting to the Chief Executive Officer. 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.

13 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Exposure to credit risk

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

	2014	2013
Cash and cash equivalents	1,161,068	1,527,493
Loans to customers	43,190,053	41,550,227
	44,351,121	43,077,720

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.

	2014	2013
Concentration by sector		
Corporate	11,603,965	9,137,863
Retail	31,586,088	32,412,364
Financial institutions	1,161,068	1,527,493
	44,351,121	43,077,720

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

2014	**Gross amount**	**Impairment allowance**	**Net amount**
Current	38,465,920	31,834	38,434,086
Past due:			
0 – 89 days	4,223,357	31,621	4,191,736
90 – 180 days	326,145	39,682	286,463
› 180 days	1,162,199	884,431	277,768
	44,177,621	**987,568**	**43,190,053**

2013	Gross amount	Impairment allowance	Net amount
Current	36,809,920	45,644	36,764,276
Past due:			
0 – 89 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

Total non-performing loans as defined by the CBB at 31 December 2014 were BD 1,488,344 (2013: BD 2,675,325). During the year ended 31 December 2014, loans amounting to BD 80,349 (2013: BD 51,133) 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%, (2013: 96%) 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.

13 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

Management of liquidity risk (continued)

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.

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 2014	**Carrying amount**	**Contractual cash flows**	**6 months or less**	**6 - 12 months**	**More than 12 months**
Borrowings from banks	30,957,432	34,049,042	4,003,126	5,876,589	24,169,327
Accounts payable	1,273,987	1,273,987	1,273,987	-	-
	32,231,419	**35,323,029**	**5,277,113**	**5,876,589**	**24,169,327**

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

Market risk

Market risk is the risk that changes in market prices, such as interest rate and credit spreads (not relating to changes in the issuer's credit standing) will affect the 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 to customers and borrowings from banks. The distribution of financial instruments between interest rate categories is summarised below:

31 December 2014	**Fixed rate**	**Floating rate**	**Non-interest bearing**	**Total**
Cash and cash equivalents	-	-	1,162,268	1,162,268
Loans to customers	43,190,053	-	-	43,190,053
Other assets	-	-	214,229	214,229
	43,190,053	**-**	**1,376,497**	**44,566,550**
Borrowings from banks	-	30,957,432	-	30,957,432
Other liabilities	-	-	1,615,874	1,615,874
	-	**30,957,432**	**1,615,874**	**32,573,306**

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
Borrowings from banks	-	29,210,664	-	29,210,664
Other liabilities	-	-	2,629,262	2,629,262
	-	29,210,664	2,629,262	31,839,926

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 2013.

	Profit or loss		**Equity**	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
31 December 2014				
Borrowings from banks	**(351,489)**	**351,489**	**(351,489)**	**351,489**
31 December 2013				
Borrowings from banks	(304,521)	304,521	(304,521)	304,521

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 2014							
Cash and cash equivalents	1,162,268	-	-	-	-	-	1,162,268
Loans to customers	43,190,053	2,976,869	3,458,822	6,450,648	30,299,126	4,588	-
Other assets	214,229	-	-	-	-	-	214,229
	44,566,550	**2,976,869**	**3,458,822**	**6,450,648**	**30,299,126**	**4,588**	**1,376,497**
Borrowings from banks	30,957,432	1,723,629	1,668,054	5,336,120	22,044,439	185,190	-
Other liabilities	1,615,874	-	-	-	-	-	1,615,874
	32,573,306	**1,723,629**	**1,668,054**	**5,336,120**	**22,044,439**	**185,190**	**1,615,874**

	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

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 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 units.

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.

13 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Operational risks (continued)

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

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

Compliance with Company standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit 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 licence 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 2014 Company’s paid-up share capital is BD 7,500,000 (2013: BD 7,500,000) and the borrowing to capital and reserves ratio on 31 December 2014 is 2.48 (2013: 2.47).

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 re-grouping did not affect previously reported comprehensive income or equity.