Annual Report 2018

NFH
التمويل الوطني

SUSTAINING GROWTH IN A **CHALLENGING MARKET**

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Visit our corporate website for more information.

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His Royal Highness Prince Khalifa Bin Salman Al Khalifa

The Prime Minister of the Kingdom of Bahrain

His Majesty King Hamad Bin Isa Al Khalifa

The King of the Kingdom of Bahrain

His Royal Highness Prince Salman Bin Hamad Al Khalifa

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

Company Profile

and Vision, Mission and Values

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 Group is backed by a strong shareholding base of prominent institutional investors from 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.

NFH has established a wholly-owned subsidiary, National Finance House Auto Mall S.P.C., for the purpose of sale and trade of motor vehicles. NFH Auto Mall provides a one-stop shopping experience for the selection, financing, registration and insurance of new and used vehicles, all in one convenient location.

OUR VISION

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

SHAREHOLDERS

Kingdom of Bahrain

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

Kingdom of Saudi Arabia

Almutlaq Group

Sultanate of Oman

Oman International Development and Investment Company

OUR MISSION

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

> Provision of innovative and flexible auto financing solutions

> Delivery of personalised, speedy and responsive customer service

> Adoption of the highest standards of ethical behaviour

OUR VALUES

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

> Consistency

> Integrity

> Performance

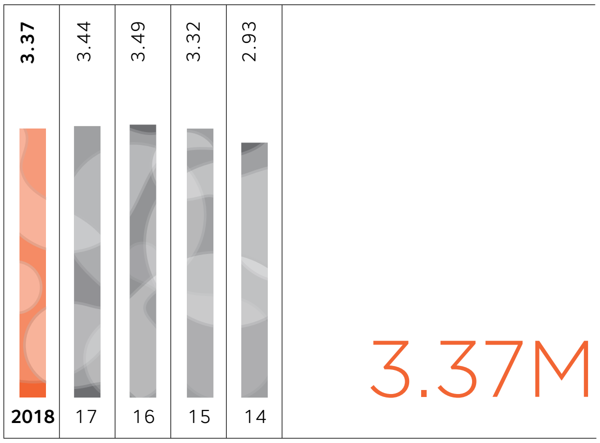
> Service

> Innovation

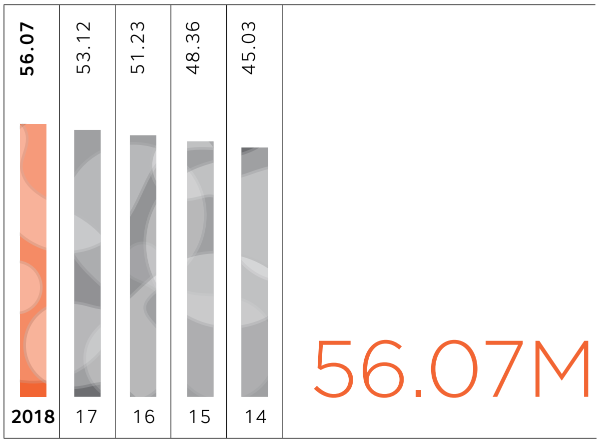
> Teamwork

Financial Highlights

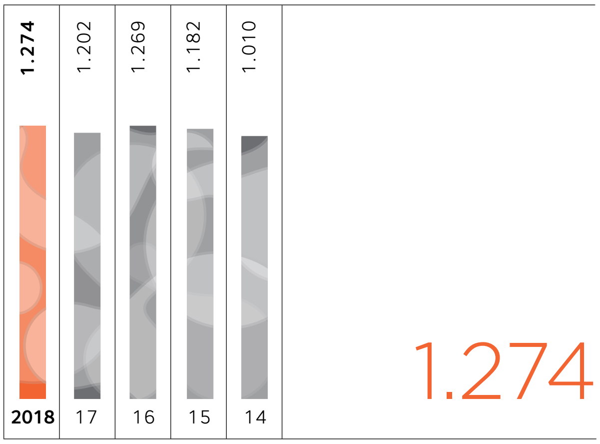
Total Income
(BD Millions)



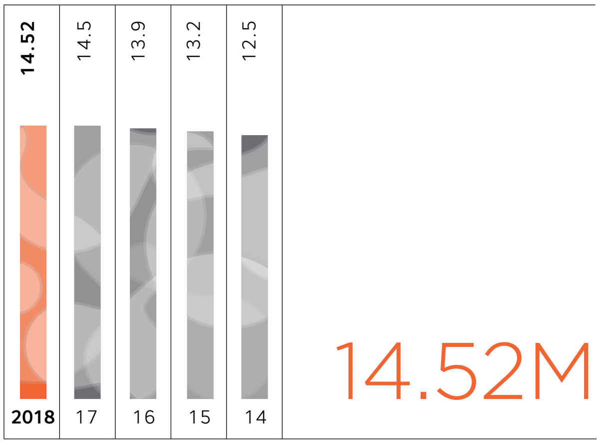
Total Assets
(BD Millions)



Profit for the Year
(BD Millions)



Total Equity
(BD Millions)



Five Year Financial Summary
(Bahraini Dinars)

	2018	2017	2016	2015	2014
Total Assets	56,074,839	53,118,641	51,232,814	48,357,282	45,031,442
Total Liabilities	41,557,464	38,582,879	37,299,071	35,167,644	32,573,306
Total Equity	14,517,375	14,535,762	13,933,743	13,189,638	12,458,136
Total Income	3,371,347	3,436,731	3,486,740	3,324,745	2,928,248
Profit for the Year	1,273,626	1,202,019	1,269,105	1,181,502	1,010,079
Share Capital	7,500,000	7,500,000	7,500,000	7,500,000	7,500,000
Dividends	600,000	600,000	600,000	525,000	450,000

Operational Highlights

MARKET SHARE
INCREASE IN SHARE OF VEHICLE FINANCING TO 17.24%

INSURANCE
INTRODUCED NEW INSURANCE SERVICES FOR CUSTOMERS THROUGH AGENCY AGREEMENTS SIGNED WITH BNI AND BNL

CUSTOMER SERVICE
LAUNCHED NEE INTERACTIVE WEBSITE WITH ENHANCED FEATURES AND SECURITY; ALSO SUCCESSFULLY TESTED MOBILE APP FOR LAUNCH IN EARLY 2019

SOCIAL MEDIA
NEW DIGITAL MARKETING STRATEGY UTILISES INSTAGRAM, TWITTER, YOUTUBE AND FACEBOOK SOCIAL MEDIA CHANNELS

EXPANDED TEAM
HEADCOUNT GREW TO 53 STAFF CONSTITUTING 93% BAHRAINI NATIONALS AND 25% WOMEN

NFH AUTO MALL
PLANNED TO OPEN IN Q2 2019, THE MALL WILL PROVIDE A CONVENIENT ONE-STOP SHOP FOR THE SELECTION, FINANCING, REGISTRATION AND INSURANCE OF NEW AND USED VEHICLES

SERVICE REACH
VEHICLE FINANCING SERVICE NOW OFFERED AT 9 LOCATION WHICH INCLUDES OUR BRANCHES, AUTO DEALER AND SUB-DEALERS

QUICK LOAN APPROVAL
FAST AND EASY PROCESSING AND APPROVAL OF LOANS

HAPPY CUSTOMERS
CONTINUED TO MAINTAIN HIGH CUSTOMER SATISFACTION RATING OF OVER 97%

CYBER SECURITY
BENCHMARKED AGAINST ISO/IEC 27032 INTERNATIONAL STANDARDS FOR ENHANCED INFORMATION SECURITY

Board of Directors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MEMBERS OF THE BOARD OF DIRECTORS ARE PROMINENT LOCAL / REGIONAL BUSINESSMEN, AND PROFESSIONALS WITH FINANCIAL INDUSTRY BACKGROUND AND EXPERTISE

1. Talal Fuad Kanoo

Chairman (Executive)
Chairman of Remuneration & Nomination Committee
Appointed to the Board in 2006

Managing Director & Chairman of the Executive Committee
- Ebrahim Khalil Kanoo Group, Bahrain

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

2. Mohammed Farouk Almoayyed

Deputy Chairman (Executive)
Chairman of Executive Committee
Appointed to the Board in 2006

Chairman
- Almoayyed International Group, Bahrain

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

3. Redha Abdulla Faraj

Board Member (Non-Executive)
Member of Audit, Risk & Compliance Committee
Appointed to the Board in 2018

Member
- Shura Council, Bahrain
- Minors Estate Fund Council, Bahrain

Member of the Board of Directors and Chairman of Audit, Risk & Compliance Committee
- Bahrain National Holding Company BSC, Bahrain
- Bahrain National Insurance Company BSC (c), Bahrain
- Bahrain National Life Assurance Company BSC (c), Bahrain
- Bahrain Maritime and Mercantile International (BMMI), Bahrain
- Y.K. Almoayyed & Sons Group, Bahrain
- Almoayyed International Group, Bahrain
- Almoayyed Contracting Group, Bahrain
- National Concrete Company, Bahrain
- Banader Hotels Company BSC, Bahrain
- i Assist Middle East WLL, Bahrain

Founder
- Al Faraj Consulting Company WLL, Bahrain
- Al Faraj Horizon Developments Company WLL, Bahrain

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4. Sameer Ebrahim Al Wazzan

Board Member (Executive)
Member of Executive Committee
Appointed to the Board in 2014

Chief Executive Officer
- Bahrain National Holding Company, Bahrain

Vice Chairman & Member of the Audit Committee
- Arabian Shield Cooperative Insurance Company, KSA

Member of the Board of Directors & Chairman of the Audit Committee
- United Insurance Company, Bahrain

Member of the Board of Directors
- Al Kindi Specialised Hospital, Bahrain
- Doha Bank Assurance Company, Qatar

5. Robert Pancras

Board Member (Executive)
Member of Executive Committee
Appointed to the Board in 2018

Chief Executive Officer
- National Finance Co. SAOG, Sultanate of Oman

6. Khaled Saleh Alkhattaf

CPA, MSA
Board Member (Non-Executive)
Member of Audit, Risk & Compliance Committee
Appointed to the Board in 2016

Chief Executive Officer
- Lafana Holding Company, KSA

Member of Board of Directors, Chairman of Executive Committee
- Gulf Investment Corporation, Kuwait

Member of Risk & Audit Management Committee
- Public Pension Agency, KSA

7. Khalid Shaheen Saqer Shaheen

Board Member (Independent)
Vice Chairman of Executive Committee
Vice Chairman of Audit, Risk & Compliance Committee
Vice Chairman Member of Remuneration & Nomination Committee
Appointed to the Board in 2011

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

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

Member of the Disciplinary Board
- Bahrain Bourse

Member of the Advisory Board
- Bahrain Association of Banks (BAB)

Fellow
- Institute of Directors, UK

Member
- National Association of Corporate Directors, USA

8. Kalyan Sunderam

MBA, CFA, PRM, ACIB
Board Member (Independent)
Chairman of Audit, Risk & Compliance Committee
Member of Remuneration & Nomination Committee
Appointed to the Board in 2012

Managing Director
- Kronin Management Consultants S.P.C, Bahrain

Executive Director
- CFA Society, Bahrain

Member of Education Committee
- Professional Risk Managers' International Association, USA

Chairman's Statement

BASED ON OUR ACHIEVEMENTS DURING THE YEAR, AND SUPPORTED BY BAHRAIN'S CONTINUED ECONOMIC DIVERSIFICATION AND GROWTH, WE REMAIN CAUTIOUSLY OPTIMISTIC ABOUT THE PROSPECTS FOR NFH IN 2019

TALAL FUAD KANOO
Chairman of the Board

On behalf of the Board of Directors, it is my privilege to present the annual report and the consolidated financial statements of National Finance House (NFH) for the year ended 31 December 2018. In what proved to be another challenging year for Bahrain's vehicle financing sector, I am pleased to report that NFH achieved an excellent overall performance, highlighted by strong financial results, robust business growth and enhanced returns to shareholders.

The Group continued to post positive financial results in 2018, with profitability exceeding BD 1 million for the fifth consecutive year. During the year, the Group registered a remarkable growth in business: the value of disbursed loans grew to BD 25.64 million while market share in the automobile business rose to 17.24 per cent, the highest recorded since NFH commenced operations. At the end of the year, the total loan book had increased by 8.5 per cent from BD 48.93 million at end-2017 to BD 53.10 million. Net profit for the year increased by 6 per cent to BD 1.27 million from BD 1.20 million in 2017, with basic earnings per share rising to Bahraini fils 17 compared with 16 fils the previous year.

At the end of 2018, shareholders' equity totalled BD 14.52 million (2017: BD 14.54 million), and return on average equity of 8.77 per cent (2017: 8.44 per cent). At the end of the year, total assets had increased to BD 56.07 million compared with BD 53.12 million at the end of 2017. Based on the Group's 2018 financial results, the Board of Directors is proposing a cash dividend of 8 per cent of the paid-up capital (BD 600 thousand) out of retained earnings for approval by the Shareholders at

BD1.27M

Net profit exceeded BD 1 million for the fifth consecutive year

8%

Proposed cash dividend to shareholders

the Annual General Meeting to be held on 27 February 2019.

One of the key reasons for our business success is that we continue to strategically focus on auto financing, and align all the success factors for optimum performance and enhanced customer satisfaction. The opening of NFH Auto Mall during 2019 will complement the Group's core business of auto finance by offering multiple in-house services all under one roof, thereby providing a convenient one-stop shop for our customers.

In light of continuing volatile economic and market conditions, we took additional steps to bolster the Group's institutional capability during 2018. This involved growing our human capital, enhancing our technology infrastructure, and strengthening our corporate governance and risk management frameworks.

Looking ahead, we expect 2019 to be another highly-challenging year, as the Kingdom of Bahrain and the GCC continue to adjust to a new economic reality and changing market dynamics. However, the unfolding fiscal reforms and economic transformation measures being introduced across the region will have a beneficial long-term impact on the diversity and sustainability of GCC economies in an era of lower oil prices. The Group will maintain its focus on proactively addressing all challenges and identifying new business opportunities. Based on our achievements during the year, and supported by Bahrain's continued economic diversification and growth, we remain cautiously optimistic about the prospects for NFH in 2019.

With regret, I report that Mr. Farouk Almoayyed resigned from the Board during the year, having served as a Director since the Group's inception and as Chairman since 2007. During his distinguished tenure, he has guided the growth and development of NFH into a highly-respected player in Bahrain's vehicle financing sector. His unique vision, inspired leadership and wise counsel will be sorely missed. As the newly-appointed Chairman, I am grateful for the confidence and trust that has been placed in me. I look forward to working together with my fellow directors and the management team in continuing to grow and shape the future of our Group, and to building enhanced value for our shareholders.

Mr. Fuad Ebrahim Kanoo and Mr. Shrikanth Shenoy also resigned from the Board, and I take this opportunity to thank them for their valuable contributions. In turn, I welcome two new Directors – Mr. Redha Abdulla Faraj and Mr. Robert Pancras – whose diverse experience and expertise will be of great benefit to the Board. I also take this opportunity to thank Mr. Venkatachalam PS, who resigned as Chief Executive Officer, for his remarkable contribution to the Group over the past seven years.

In conclusion, 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.

In addition, I extend my sincere 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 professionalism and commitment of our management and staff, and their highly-valued contribution to the Group's success in yet another challenging year.

Talal Fuad Kanoo
Chairman of the Board

Chief Executive Officer's Report

A KEY FACTOR IN OUR SUCCESS CONTINUES TO BE THE ENDURING RELATIONSHIPS THAT WE HAVE ESTABLISHED WITH OUR BUSINESS PARTNERS, AND WHICH WE CONTINUED TO NURTURE DURING 2018.

Venkatachalam P S
Chief executive officer

I am delighted to report that 2018 proved to be another successful year for NFH, highlighted by a number of significant operational achievements. These include diversifying our revenue streams while growing our core business; introducing new initiatives to enhance customer satisfaction; and further strengthening our control and support infrastructure.

Expanding our business activities through which to diversify revenues is a key strategic objective for the Group. Notable developments in 2018 include the completion of fitting-out works for the new NFH Auto Mall at Sitra, which we expect to be fully operational during the second quarter of 2019. The Mall will provide customers with a convenient one-stop shop for the selection, financing, registration and insurance of their chosen vehicles. In 2018, we introduced insurance services for customers, following the signing of new agency agreements with the BNI and BNL subsidiaries of Bahrain National Holding. The initial take-up has been extremely encouraging, with 40 per cent of disbursed loans now incorporating insurance contracts.

These two new business streams will complement the Group's core vehicle financing activities, which performed strongly during the year. Both the value and volume of disbursed loans grew during the year, contributing to a significant rise in market share to 17.24 per cent.

A number of key marketing initiatives contributed to the growth in business. These include implementation of a new digital marketing approach utilising social media channels such as Instagram, 17.24%

Despite a highly-competitive and contracting market, NFH continued to grow market share

8.5%

Growth in total loan book

Twitter, YouTube and Facebook; and a highly-successful promotional campaign during the Holy Month of Ramadan, which surpassed all previous records.

A key factor in our success continues to be the enduring relationships that we have established with our business partners, and which we continued to nurture during 2018. Our dedicated service desks at the Toyota, Nissan and Royal Class Motors showrooms and new desks established during the year at Kia and Motor City showrooms performed strongly, accounting for the majority of new financing contracts. In addition, we signed new co-branding agreements with additional sub-dealer car showrooms through which to raise awareness of our Group.

An equally important competitive differentiator is our unrelenting commitment to deliver superior customer service and faster loan processing times. To further enhance the 'customer experience', we launched a new interactive website with a redesigned online payment portal; and finalised testing of a new mobile application for introduction in early 2019. Encouragingly, results of the latest annual Call Centre Survey show that our customers rate their satisfaction with service received from NFH at a high 97 per cent.

During the year, we continued to strengthen our internal controls, corporate governance and risk management in order to enhance the Group's ability to face increasingly volatile economic and market conditions. Key developments include the appointment of a Head of Internal Audit, a function which was previously outsourced. We are also in the process of recruiting a dedicated senior person for managing the operational risk and internal control function.

As a service-oriented business, with people constituting the Group's most important asset, it is encouraging to note that NFH continues to enjoy a very high level of staff retention. During 2018, the headcount increased to 53 people, with Bahraini nationals accounting for 93 per cent of total staff, one of the highest levels in the Kingdom's financial services sector. We also continued to invest in training and development, with a particular focus on supporting staff to enhance their technical skills and obtain appropriate professional certifications.

A customised training programme was conducted by external consultants for 30 staff from Retail, Credit Administration and Risk Management, covering all processes of the loan cycle; while three employees obtained professional certifications in the areas of Risk Management, Accounting and Governance of Enterprise IT.

Looking ahead, key challenges include the impact of volatile oil prices; constrained liquidity and higher cost of funding; ongoing fiscal reforms, including the introduction of a value-added tax (VAT) in January 2019; and continuing global and regional geo-political tensions. In response, we will maintain our prudent and responsive approach to doing business, and continue to enhance our core strengths and competencies.

On a personal note, having spent over 35 years in the banking and financial services sector, I have decided to call an end to my professional career, and focus instead on pursuing a number of personal interests and family-related activities. My time with NFH has not been without its challenges, but overall has proved to be a highly enjoyable and stimulating experience.

My achievements as Chief Executive Officer would not have been possible without the encouragement and guidance of the Board of Directors; and the positive attitude and commitment of management and staff. Would like to take this opportunity to wish the Company and new management success in the future.

Venkatachalam PS
Chief Executive Officer

Management Team


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1. **Venkatachalam PS**
   Chief Executive Officer
2. **May Al-Mahmood**
   Head of Financial Control & Compliance Officer
3. **Ali Redha Mohammed**
   Head of Retail
4. **Mahdi Murad**
   Head of Risk & MLRO
5. **Tariq Abdulaziz Fathalla Ahmed**
   Head of Collections
6. **Mahmood Mohammed Fraidoon**
   Head of Information Technology
7. **Fatima Abdulla Yousif Ali**
   Human Resources
8. **Navin Pai**
   Head of Internal Audit

NFH BENEFITS FROM A STABLE, HIGH-CALIBRE AND WELL-QUALIFIED MANAGEMENT TEAM, WITH PROVEN EXPERIENCE AND EXPERTISE ACROSS A VARIETY OF DISCIPLINES.

SUSTAINING GROWTH

The Group's net profitability has exceeded BD 1 million for the past five consecutive years. This sustainable achievement has been underlined by robust business and operational growth, and enhanced returns to shareholders.

NFH Auto Mall

Planned to open in the second quarter of 2019, the new NFH Auto Mall will provide customers with a convenient one-stop shop for the selection, financing, registration and insurance of a wide range of leading automobile brands and quality used cars.

SAME-DAY LOAN APPROVAL

FAST AND EASY PROCESSING AND APPROVAL OF LOANS

Review of Operations

During 2018, NFH grew its market share of vehicle financing, introduced new insurance services, and further enhanced the 'customer experience'; while continuing to strengthen its institutional capability.

RETAIL & MARKETING

Vehicle Financing

The challenges during the year included customers' continuing preference for cheaper, more fuel-efficient automobiles, combined with the growing trend towards the purchase of used vehicles, which resulted in the average price per car dropping by around 10 per cent during 2018. Despite this, NFH posted a strong performance, with the total value of loans disbursed increasing to BD 25.6 million, a net growth of 20 per cent for the total number of loans, and market share jumping to a record 17.24 per cent. The Group's existing service desks at the Toyota, Nissan and Royal Class Motors showrooms continued to perform strongly; while additional service desks were opened at Motor City, Majestic Motors and Kia Motors. In addition, new NFH co-branding agreements were signed with Ghassan Care Centre, Mondial Car Centre (MCC) and Shoneez Motors.

Insurance

Following the agency agreements recently signed with the bni and bnl subsidiaries of Bahrain National Holding, NFH commenced offering insurance services to customers in March 2018. The initial take-up was highly encouraging, with over 40 per cent of new loans incorporating insurance cover.

NFH Auto Mall

Fitting-out works for the Group's new Auto Mall in Sitra, which incorporates a refurbished branch office, were completed during the year. However, unexpected municipal works along Shaikh Jaber Al-Ahmad Al Sabah Highway prevented access to the new complex, resulting in the planned opening being postponed to the first quarter of 2019. The NFH Auto Mall, which is scheduled to open in the second quarter of 2019, will provide customers with a convenient one-stop shop for the selection, financing, registration and insurance of a wide range of new and used vehicles.

Marketing

Marketing activities in 2018 included the Group's annual promotional campaign during the Holy Month of Ramadan, which proved to be the most successful to date; together with ongoing direct marketing campaigns with dealers. NFH also implemented its new digital marketing strategy during the year, utilising social media channels such as Instagram, Twitter You Tube and Facebook, which have already attracted a strong following.

CYBER SECURITY

HIGH PRIORITY CONTINUED TO BE PLACED ON CYBER SECURITY, WITH NFH BENCHMARKING ITS SYSTEMS AGAINST ISO/IEC 27032 STANDARDS FOR THE SAFETY OF ONLINE TRANSACTIONS AND PERSONAL INFORMATION OVER THE INTERNET.

97%
RATING

In 2018, customers rated their satisfaction with the service received from NFH at 97 per cent

CUSTOMER SERVICE

Superior customer service and faster loan processing times continue to act as key competitive differentiators. During 2018, NFH maintained its focus on further enhancing the 'customer experience'. This included the launch of a totally redesigned website with new user-friendly features and active social media links; and final testing of a new mobile application for loan instalment payments, which is planned for introduction in early 2019.

The very high level of satisfaction by NFH customers was maintained during the year. The annual Call Centre report for 2018 showed that customers rated their satisfaction with the service at 97 per cent, which remained on par with the highest ratings achieved to date by the Group.

COLLECTIONS

In 2018, 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 and adequate credit administration procedures; and an effective and efficient mechanism to monitor the lending function. The focus on cash collections was maintained, together with a more proactive approach to managing existing and potential defaults. Throughout the year, NFH continued to provide business advisory services to its customers, and further extension of credit to alleviate more promising problem loans.

During 2018, credit facilities amounting to BD 71,384 (2017: BD 40,351) were restructured and due to minor nature of restructuring concession, there was no significant impact on the Company's provisions on loans and advances impairment and present and future earnings.

NEW SERVICE DESK

SERVICE DESKS WERE OPENED AT MOTOR CITY, MAJESTIC MOTORS AND KIA MOTORS. IN ADDITION, NEW NFH CO-BRANDING AGREEMENTS WERE SIGNED WITH GHASSAN CARE CENTRE, MONDIAL CAR CENTRE (MCC) AND SHONEEZ MOTORS.

CREDIT ADMINISTRATION

The Group comprehensively reviewed and amended its credit administration policy in 2018; and further strengthened credit criteria in line with changing economic and market conditions. NFH also reviewed its Know Your Customer (KYC) procedures, credit rates and authority levels. The Group maintained full compliance with the requirements of the Credit Reference Bureau for individual and corporate clients.

CUSTOMER COMPLAINTS

All policies, processes and procedures for the Group's independent Complaints Unit were reviewed during the year. These cover the receipt, logging, monitoring, follow-up and resolution of complaints, which are reported on a quarterly basis to the Central Bank of Bahrain (CBB). In 2018, the number of serious complaints remained very low compared with service-oriented market norms. The majority of complaints were handled immediately and successfully resolved within the same day, considerably below the regulatory five days stipulated by the CBB.

HUMAN RESOURCES

During 2018, the Group continued to enhance its human capital framework through the successful recruitment of additional specialists. The headcount increased from 50 to 53 employees, with Bahrainis now comprising 93 per cent of the total workforce; while female staff account for 25 per cent of all employees. NFH continued to invest in staff training and professional development, which is provided either in-house or through accredited external institutions such as the Bahrain Institute of Banking & Finance. A customised training programme, which took place over four consecutive weekends, was conducted by external consultants for 30 staff from Retail, Credit Administration and Risk Management. Covering all processes of the loan cycle, the aim of the programme was to reduce human error, enhance productivity and improve delivery times.

The Group also continued to support staff to enhance their professional qualifications through programmes supported by Tamkeen. During 2018, three employees obtained professional certifications in the areas of Risk Management, Accounting and Governance of Enterprise IT. Regulatory training during the year included special courses on anti-money laundering and combating terrorism financing (AML/CTF); and business continuity planning and cyber security awareness.

INFORMATION TECHNOLOGY

NFH further strengthened its information and communications technology (ICT) infrastructure in 2018. Key developments include a new website with the latest back-end technology, and an enhanced version of the online payment portal; and final testing of a new mobile banking application. In addition, specialised software systems were installed for the refurbished branch office and service desk at the new NFH Auto Mall; together with a new back-up inline disaster recovery site in accordance with ISO 27001 international standards.

High priority continued to be placed on cyber security, with NFH benchmarking its systems against ISO/IEC 27032 standards for the safety of online transactions and personal information over the internet. In line with CBB regulations, two business continuity planning (BCP) exercises were conducted. These involved successful testing of the BCP centre and disaster recovery site at Sitra (which features full online replication), with the involvement of all departments. To ensure the highest levels of information security,

Review of Operations continued

two internal and external vulnerability assessment and penetration tests (VAPT) were also conducted, with no major risks being identified.

COMPLIANCE

NFH maintained its ongoing 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.

The Group has implemented IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers from 1 January 2019, and finalised preparations for the introduction of value added tax (VAT). IFRS 9 is adopted without restating comparatives. The impact of the adoption of this standard and the new accounting policies are disclosed in detail in Notes annexed to the Financial Statements for 2018. IFRS 15 did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

Full details are included in the Corporate Governance Report of this annual report.

RISK MANAGEMENT

The Group further strengthened its risk management framework, and risk-related policies and procedures during the year. Focus continued to be placed on credit administration policy and procedures; business continuity planning and cyber security; and anti-money laundering. Full details are included in the Risk Management Review of this annual report. To strengthen our governance and maintain an effective operational risk and internal control framework, we are in the process of appointing a senior Operational Risk and Internal Control Officer during the first quarter of 2019 as a part of our Risk Management team.

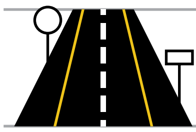
93%
Bahrainization

The headcount increased from 50 to 53 employees, with Bahrainis now comprising 93 per cent of the total workforce

Feature Article

PIONEERING ROAD SAFETY INVENTIONS

In the early 20th century, growing road congestion caused by the rapid increase of vehicles, prompted inventors to discover ways of controlling traffic and making roads safer for motorists and pedestrians. Initially met with resistance, their eventual success in not only saving lives but also in making driving a more pleasant experience, led to wider acceptance and their embodiment in national traffic laws.



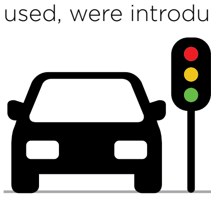
ROAD CENTRE LINE

The idea of using a painted centre line on roads has been credited to Edward Hines of Michigan, USA. He conceived the idea in 1911 after watching a leaking milk wagon leave a white trail along a road. The first yellow line appeared in Oregon in 1917, and a period of intense debate ensued on the preferred colour. In 1971, the Manual on Uniform Traffic Control Devices mandated yellow as the standard colour of lines separating opposing traffic nationwide, with white lines dividing traffic in the same direction.

The first road markings which appeared in the UK in 1918, adopted the white line. During the 1920s the rise of painted lines on UK roads grew dramatically; but it was not until 1926 that official guidelines of where and how white lines on roads should be used, were introduced.

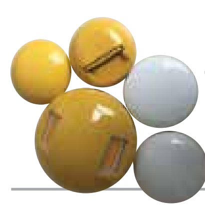
STOP SIGN

The ‘Stop’ sign originated in Detroit in 1915, and took the form of a square metal sheet with black lettering on a white background. There were a variety of shapes and colours used for stop signs across the USA until 1922, when the American Association of State Highway Officials (AASHO) standardized the use of black lettering on a yellow background colour, with an octagonal shape for easier recognition. Yellow had to be used because there was no fade-resistant red dye available at the time. In 1954 however, following the successful introduction of fade-resistant porcelain enamel by sign makers, the Joint Committee on Uniform Traffic Control Devices mandated the national use of a red background with white lettering for all stop signs.



TRAFFIC LIGHTS

Modern traffic lights are an American invention. In 1912, a Detroit policeman named Lester Wire invented a traffic signal incorporating red and green lights with a buzzer to warn pedestrians that the signal was about to change. In 1920, this basic design was modified by William Potts, another Detroit policeman, and was the first to feature the tri-colored red, amber and green lights widely used today. Cleveland-based inventor and businessman Garrett Morgan improved and patented this design in 1923. He later sold it for US$ 40,000 to General Electric, who then began building and marketing traffic lights on a national scale.



CAT’S EYES

The ‘reflecting roadstud’ was invented by Englishman Percy Shaw in 1933. Driving home one night, the fog was so bad that he was unable to see the reflection of his headlights in the tram tracks that he normally used to navigate by. Then his headlights suddenly picked out the eyes of a cat crossing the road, which gave him the idea of replicating a cat’s eyes to guide motorists along unlit roads. Taking out a patent in 1934, he founded the Reflecting Roadstuds Company to manufacture his invention, trademarked Catseyes. At its peak, his factory was turning out a million of these devices annually, which were exported worldwide.

His device took the form of two pairs of glass beads facing in opposite directions contained in an elasticated rubber moulding attached to a cast iron base. This was partly buried in the road and fixed in position with asphalt. His clever design meant that when vehicles drove over the cat's eye, the rubber was squashed into the road, with the glass beads dropping safely beneath the road surface and remaining undamaged.

SPEED LIMITS

The earliest attempts to regulate the speed of motor vehicles occurred in the UK during the late 19th century. The Locomotive Act of 1865 set the maximum speed at 2 mph in the city and 4 mph in the country; but this was subsequently raised to 14 mph in 1896. Widely ignored by motorists and difficult to enforce, speed limits were actually abolished in 1930. Eventually though, a new act in 1934 set a maximum speed limit of 30 mph in 'built-up' areas. There was no speed limit on motorways until 1965, when a national maximum limit of 70 mph was imposed.

The first efforts to regulate vehicle speeds in the US took place in 1901 in Connecticut, when a maximum speed of 12 mph in cities and 15 mph on country roads, was introduced. Initial adoption across the country was slow and inconsistent, until rising fuel prices in the early 1970s resulted in many US states adopting speed limits. In 1974, a national speed limit of 55 mph was imposed; but was later abolished in 1995, with control returning to individual states.

PEDESTRIAN CROSSINGS

From the earliest experiments in the UK during the 1930s to control traffic so that pedestrians could cross roads safely, there is now a bewildering 'menagerie' of different types of pedestrian crossings, affectionately named after animals and birds.

ZEBRA CROSSING

Originally, pedestrian crossings were marked by metal studs in the road and poles on the side. Over time, different painted markings were introduced to help enhance safety, culminating in the easily-recognised black and white stripes that were first installed in 1951. These were called zebra crossings due to their distinctive markings resembling this animal.

PELICON CROSSING

In 1969, a new pedestrian-operated crossing with lights to control traffic was unveiled. This was officially called the pelicon – meaning 'pedestrian light-controlled' crossing – but the name pelican was soon adopted by the public. At this crossing, pedestrians press a button that changes the traffic lights to red after a timed delay, with a flashing green man indicating that it is safe to cross.

PUFFIN CROSSING

This crossing was introduced in 1992, with puffin standing for 'pedestrian user-friendly intelligent'. It is similar to a pelican crossing, except that its sequences are controlled by sensors mounted on the lights, rather than a timer. These sensors can detect whether pedestrians are on the crossing, and control the colour of the lights accordingly.

TOUCAN CROSSING

Literally meaning 'two-can', this crossing is designed for pedestrians and cyclists to use at the same time. The area of a toucan crossing is wider, leaving plenty of room for cyclists to ride across, unlike other crossings at which they have to dismount and walk.

PEGASUS CROSSING

Aptly named after the mythical winged white stallion, this pelican-like crossing caters for equestrians, with a second higher-placed button for use by a mounted rider.

OTHER INVENTIONS

These include street lighting, roundabouts and cycle lanes; together with traffic-calming or control devices such as road humps, yellow boxes and rumble countdown zones. In addition, the introduction of national highway codes has provided a set of standard rules for different road users; while unified road sign designs have helped to avoid confusion and accidents. Improvements in highway engineering have also resulted in the safer, quicker and more effective transportation of people and goods.

NFH has consistently grown its market share, which reached a record 17.24 per cent in 2018. This has been underscored by a sustainable growth in both the value and number of loans disbursed.

SUSTAINING GROWTH

Risk Management Review

NFH has put in place a Risk Management Framework to ensure the identification of all risks to which the Group may be exposed; and the effective implementation of all necessary policies, procedures and systems to monitor, manage and mitigate these risks. An annual assessment and review of all risk management policies, processes and procedures is conducted to ensure that the Group's risk policies and risk 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.

KEY DEVELOPMENTS IN 2018

- Expansion of the Risk Management team by recruitment of a Senior Internal Control and Operational Risk Officer, who is scheduled to join in February 2019.
- Reviewed and updated all Group charters, policies, processes and procedures.
- Reviewed Credit Risk and Credit Administration policy and procedures, and tightened customer credit assessment criteria.
- Conducted annual high-level Risk Control Self-Assessment (RCSA) for Retail and new Insurance business, and mobile application; and extended RCSA to cover all processes for each department with a customised automation system.
- Reviewed Group's Risk Appetite Statement, and expanded Key Risk Indicators (KRIs).
- Reviewed Customer Risk Rating (CRR) methodology and generated report.
- Provided AML/CFT in-house training for all staff and external workshop for new joiners.
- Enhanced the Group's Business Continuity Planning (BCP), updated departmental BCP, and tested the new Disaster Recovery Site (DRS) at Sitra.
- Addressed all outstanding credit and risk-related audit points raised by internal, external and regulatory auditors.

RISK PHILOSOPHY & APPROACH

- The Group 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 Group 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 Group's business is exposed to following main risks:

- Credit risk
- Liquidity risk
- Market risk (including interest rate and currency risks)
- Operational risk
- Legal, Compliance, Regulatory & Reputation Risks

RESPONSIBILITIES

Board of Directors

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. It has established the Audit, Compliance & Risk Committee for developing and monitoring risk management policies in their specific areas. The Board sets the Group's overall risk parameters and tolerance, and the significant risk management policies. The Audit, Compliance & Risk Committee reviews and reports to the Board on the Group'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 the Head of Risk & MLRO, and three risk-related committees.

Risk Management Review continued

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 Group 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 Group'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 Group'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 and Management 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 to management and departments
- Independently monitor and report incidents in key risk areas such as credit risk, market risk and operational risk
- Ensure that Board-approved 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 Group, 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
- Implement the Anti-Money Laundering & Counter-Terrorism Financing policy

ANTI-MONEY LAUNDERING

NFH has a designated Money Laundering Reporting Officer (MLRO) and a Deputy MLRO (DMLRO). The Company has implemented an anti-money laundering (AML) and counter-terrorism financing (CFT) policy, and annually trains staff to raise awareness of identifying and reporting suspicious transactions.

NFH follows prudent practices related to Customer Due Diligence and Beneficial Ownership, and Know Your Customer (KYC) principles. In accordance with regulatory requirements, the MLRO reviews the effectiveness of the AML/CFT procedures, systems and controls at least once a year. The Group's anti-money laundering measures are audited annually by independent external auditors for NFH, to provide a separate assurance to the Compliance Directorate of the CBB.

BUSINESS CONTINUITY

The Group 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 NFH, and providing a framework for a response that safeguards all stakeholders, including employees and customers. The Group's Business Continuity Plan includes data recovery and information security.

During 2018, two fire drills along with two business continuity exercises, involving the disaster recovery site and all departments, were successfully carried out; together with testing of various disaster recovery scenarios. Information security measures were further enhanced by conducting two Vulnerability Assessment & Penetration Testing (VAPT) exercises, and addressing the risks identified in a timely manner.

The Group has in place a robust Cyber Security Framework which includes clear ownership and management of risks associated with cyber-attacks; and a Cyber Security Incident Response Team responsible for detecting, monitoring, mitigating and reporting cyber-attacks. No serious cyber security incidents were encountered during 2018.

Corporate Governance Report

National Finance House (NFH) is committed to establishing and maintaining the highest standards of corporate governance, transparency and compliance 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.

1. DEVELOPMENTS IN 2018

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

During 2018, 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 the requirements of the Code of Corporate Governance of the Kingdom of Bahrain issued by the Ministry of Industry Commerce & Tourism. The Board has reviewed and approved amendments to the corporate governance framework and policies, Board Committees' Charters, Management Committee Charters, risk management policies and all other policies of the Group.

2. GOVERNANCE PHILOSOPHY

The Group'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 Group recognises that transparency, fairness, compliance and accountability are the pillars of any good system of corporate governance.

The adoption and implementation of corporate governance is the direct responsibility of the Board of Directors, and this endeavour is in line with the policies of regulatory authorities and statutory requirements in the Kingdom of Bahrain.

3. STRUCTURE

NFH has put in place a robust corporate governance structure that clearly sets out the objectives of the Group; together with the means and incentives through which the Board and Management pursue objectives that are in the best interests of the Group 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.

4. 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 Group'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.

5. BOARD OF DIRECTORS

Board Composition

As per the Group's Memorandum and Articles of Association, the Board of Directors comprises a maximum of 10 members. The current Board consists of eight Directors of which two are Independent Directors. The Board was appointed at the Annual General Meeting held on 26 February 2018 for a period of three years. The next election / re-election of the Board of Directors for a three-year term is scheduled for February 2021. The appointment of Directors is subject to CBB approval. The Board periodically reviews its composition and the contribution of Directors and Committees.

Board Meetings

The Board shall meet as frequently as required and shall meet at least 4 times in a calendar year to address its monitoring responsibilities. A minimum of 5 Members should attend the meeting which must include the Chairperson. In the absence of the Chairperson, attendance of the Vice Chairperson is mandatory. Meetings may be held through teleconferencing. All Board Members must attend at least 75 per cent of all Board Meetings within a calendar year and no proxy is allowed.

Roles & Responsibilities

The Board is accountable to the Group'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 fulfilment of its public purpose. The Board is also responsible to the regulators for conducting the business of the Group within the legal and regulatory framework. The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

Induction & Training

The Group is committed to ongoing training and development for Board Members to foster trust, understanding and communication among Directors through a robust induction programme for new Board Members. All first-time Directors elected to the Board of the Group shall receive training covering the financial and business performance of the Group, the industry, regulatory and legislative requirements, corporate governance practices, risk management and Code of Ethics

Corporate Governance Review continued

and Business conduct for Directors. Meetings will also be arranged with Executive Management. Re-elected Directors, who are already inducted in to the Board may undergo a refresher programme. During 2018, all approved persons including members of the Board of Directors completed a minimum of 15 hours of continued professional development.

Performance Evaluation

The Board annually conducts a self-assessment of the performance of the Board, and also reviews self-evaluations of the performance of individual Board Members and each Board Committee, and considers appropriately any recommendations arising out of such evaluation.

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. Participation in a meeting via telephone/video conference shall be considered an attendance of the meeting. In aggregate, Directors were paid a total of BD 75,600 as annual remuneration and sitting fees for their contribution to the Board and Board Committees held during 2018.

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 Group.

Whistle-blower Policy

The Group has a whistle-blower scheme in place with designated officials to whom the employee can approach and report any breach or suspected breach of laid down policies and procedures, in confidentiality.

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. In the event of the Board or its Committees considering any issues involving conflict of interest of Directors, such Director will abstain from voting. During the year, there were no potential conflicts of interest of any member of the Board of Directors between their duties to the Group and their private interests and/or other duties.

Related Party Transactions

Controlling relations with related party transactions are enshrined in various policies, charters and agreements. The Group's dealings with its shareholders and/or Board of Directors are conducted on an arms-length basis in respect of borrowings received from them. If loans are extended to related parties, these are approved based on the authorities delegated by the Board of Directors to the Management. Lending transactions to related party, at a certain level of exposure, require Board approval. The Board or Senior Management must abstain themselves from the decision making process for credits to companies and individuals related to them.

As per the requirement of Article 189 of the Companies Commercial Law, all transactions with the Board of Directors are required to be approved by the Board. The Board of Directors reviewed the transactions and approved these, which were summarised, within the related party note annexed to the Financial Statements for 2018. There are no shares held by Directors or Senior Managers as at 31 December 2018.

Material transactions

Material transactions that require Board / Board Committees approval are mainly related to lending transactions at a level exceeding certain pre-defined exposure levels. Similarly, approval is required for restructuring corporate loans or writing-off loans at a certain level of exposure, or obtaining new credit facilities from banks.

Communications with Stakeholders

The Group has a public disclosure policy approved by the Board of Directors. The Group 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 Group provides information on all events that merit announcement, either on its website – www.nfh.com – or through other forms of publication.

The annual results of the Group are published in two local newspapers, one in Arabic and one in English, and a copy is submitted to the Central Bank of Bahrain. All previous annual reports and quarterly / semi-annual interim financial results of the Group, and other public disclosures as stated in the Public Disclosure Module of the CBB are made available on the Group's website for a reasonable period of time.

Corporate Governance Review continued

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

6. BOARD COMMITTEES

The Board has established three committees to assist the Board in carrying out its responsibilities. Those committees are the Executive Committee; Audit, Compliance & Risk Committee; and Remuneration & Nomination Committee. The Board reserves the right to form temporary committees and discontinue them, from time to time as necessary.

Performance Evaluation

Each Board Committee conducts a written annual self-assessment of the performance of the Committee / Members to be provided at any regularly scheduled Board meeting, and reports conclusions and recommendations to the Board.

Executive Committee

Committee Composition
The Board nominates the members including the Chairperson. The Committee comprises a minimum of three Directors and the Chief Executive Officer. Members will be appointed for a period of three years. The term of service of the Members who are also Directors shall be co-terminus with their service to the Board.

Committee Meetings
The Committee meets as necessary to play its role effectively. The meeting is requested by any member of the Committee or the Chairperson of the Board. Number of meetings held by the Committee in 2018 was four. The quorum for a meeting will be two members. In the absence of the Chairperson, the Vice Chairperson should be available to chair the meeting.

Roles & Responsibilities

- Oversee the financial and business performance of the Group and guide the Group in its relations with shareholders and other key stakeholders, including regulators and media.
- Take overall responsibility for establishing the business objectives and targets of the Group, and the strategic direction
- Take overall responsibility for establishing the business objectives and targets of the Group, and the strategic direction and control of the Group's business activity, within the authorities delegated to it by the Board.
- Credit approvals within a range specified by the Board.
- Review the policies, business plan and annual budget for approval of the Board.
- 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.

Audit, Compliance & Risk Committee

Committee Composition
The Board nominates the members including the Chairperson. The Committee comprises a minimum of three members at which the majority of members must be Independent Directors including the Chairperson. Members will be appointed for a period of three years. The term of service of the members who are also Directors shall be co-terminus with their service to the Board.

Committee Meetings
The Committee meets once in a calendar quarter to coincide with the financial reporting and audit cycle to review quarterly financial results.

Number of meetings held by the Committee in 2018 was six. The quorum for a meeting will be two members. However, all meetings must be attended by the Chairperson or Vice Chairman of the Committee.

Roles & Responsibilities
- Assist the Board of Directors in ensuring and maintaining oversight of the Group'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 Group'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 changes to the Board for approval.

Nomination & Remuneration Committee

Committee Composition
The Board nominates the members including the Chairperson. The Committee comprises a minimum of three members at which the majority of members must be Independent Directors including the Chairperson. Members will be appointed for a period of three years. The term of service of the members who are also Directors shall be co-terminus with their service to the Board.

Corporate Governance Review continued

Committee Meetings
The Committee meets at least twice a year to coincide with the Board meetings or as required to discharge its role effectively. Number of meetings held by the Committee in 2018 was three. The quorum for a meeting will be two members. However, all meetings must be attended by the Chairperson or Vice Chairperson of the Committee.

Roles & Responsibilities
- 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.
- 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 Group's corporate goals, agreed strategy, objectives and business plans.

Board & Board Committees Members as at 31 December 2018

Mr. Farouk Yousif Khalil Almoayyed chaired the Board of Directors and the Nomination & Remuneration Committee until he stepped down from the Board on 24 April 2018, when Mr. Talal Fuad Ebrahim Kanoo was elected as the Chairman of the Board and the Nomination & Remuneration Committee.

On 24 April 2018, Mr. Fuad Ebrahim Kanoo stepped down from the Board of Directors as Deputy Chairman, and Mr. Mohammed Farouk Almoayyed was elected as the Deputy Chairman of the Board and Chairman of the Executive Committee.

Mr. Redha Abdulla Faraj was appointed on 3 June 2018 as a Non-Executive Director representing Bahrain National Holding on the Board.

During the year, Mr. Shrikanth Shenoy representing Oman International Development and Investment Company SAOG (OMINVEST) resigned from the Board of Directors, and Mr. Robert Pancras was appointed as Executive Director to represent OMINVEST on the Board.

The classification of 'Executive' Directors, 'Non-Executive' Directors and 'Independent' Directors is as per definitions stipulated by the CBB. 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.

Directors

	Directorship Type	Board	Executive Committee	Audit, Compliance & Risk Committee	Nomination & Remuneration Committee
Talal Fuad Ebrahim Kanoo	Executive	Chairman			Chairman
Mohammed Farouk Almoayyed	Executive	Deputy Chairman	Chairman		
Redha A. Faraj	Non-Executive	Member		Member	
Sameer Ebrahim Al Wazzan	Executive	Member	Member		
Robert Pancras	Executive	Member	Member		
Khaled Saleh Alkhattaf	Non-Executive	Member		Member	
Khaled Shaheen Saqer Shaheen	Independent	Member	Deputy Chairman	Deputy Chairman	Deputy Chairman
Kalyan Sunderam	Independent	Member		Chairman	Member

Corporate Governance Review continued

Board of Directors

Board & Board Committee Meetings and Record of Attendance during 2018

☑ Attended ☒ Absent ☐ Not a member during this period ☎ Attended by phone

	26 Feb	7 May	25 Oct	10 Dec	% of meetings attended
Farouk Yousif Khalil Almoayyed (resigned on 24/4/2018)	☑	☐	☐	☐	100%
Fuad Ebrahim Kanoo (resigned on 24/4/2018)	☑	☐	☐	☐	100%
Talal Fuad Ebrahim Kanoo	☑	☑	☑	☑	100%
Mohammed Farouk Almoayyed	☑	☑	☑	☑	100%
Redha A. Faraj (appointed on 3/6/2018)	☐	☐	☑	☑	100%
Sameer Ebrahim Al Wazzan	☑	☑	☒	☑	75%
Robert Pancras (appointed on 27/6/2018)	☐	☐	☒	☑	50%
Shrikanth Shenoy (resigned on 5/6/2018)	☑	☑	☐	☐	100%
Khaled Saleh Alkhattaf	☑	☒	☑	☒	50%
Khaled Shaheen Saqer Shaheen	☑	☑	☑	☑	100%
Kalyan Sunderam	☑	☑	☑	☑	100%

Executive Committee

	18 Feb	29 Apr	14 Oct	26 Nov
Talal Fuad Ebrahim Kanoo (left EXCOM on 7 May)	☑	☑	☐	☐
Mohammed Farouk Y. Almoayyed	☎	☑	☑	☑
Khaled Shaheen Saqer Shaheen	☑	☑	☑	☑
Sameer Ebrahim Al Wazzan	☑	☒	☑	☑
Robert Pancras (joined EXCOM on 25/10/2018)	☐	☐	☐	☑

Audit, Compliance & Risk Committee

	Jan 25	Feb 26	May 7	Aug 13	Oct 25	Dec 10
Kalyan Sunderam	☑	☑	☑	☑	☑	☑
Khaled Shaheen Saqer Shaheen	☑	☑	☑	☑	☑	☑
Redha A. Faraj (appointed on 3/6/2018)	☐	☐	☐	☒	☑	☑
Khaled Saleh Alkhattaf	☑	☑	☒	☒	☑	☒

Nomination & Remuneration Committee

	26 Feb	7 May	8 Oct
Farouk Yousif Khalil Almoayyed (resigned on 24/4/2018)	☑	☐	☐
Talal Fuad Ebrahim Kanoo (joined NRC on 7/5/2018)	☐	☐	☑
Khaled Shaheen Saqer Shaheen	☑	☑	☑
Kalyan Sunderam	☑	☑	☑

Corporate Governance Review continued

7 SHAREHOLDERS

List of NFH Shareholders as at 31 December 2018:

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

8 MANAGEMENT

The Board has delegated authority to the Chief Executive Officer for the day-to-day management of the Group. 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. Management committees, comprising of members of the senior management, have ultimate responsibility for directing the activity of the Group, ensuring it is well run and delivering the outcomes for which it has been set up.

The Compliance Officer reports to the CEO and has direct access to the Board of Directors through the Audit, Compliance & Risk Committee. The Corporate Secretary has direct access to the Board of Directors as per the requirements of Corporate Governance.

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 Group. 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 Group 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. The total amount paid to Senior Managers is disclosed in the annual report.

Remuneration of Approved Persons & Material Risk Takers

The Group'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 Group 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.

Employment of Relatives

It is the Group's policy not to recruit direct relatives of staff especially relatives of any approved persons occupying controlled function unless authorized by the Executive Committee. Direct relatives are defined as spouse, brother, sister, son, daughter and direct in laws.

As part of the annual reporting, the CEO must disclose to the Board on an annual basis, the direct relative of any approved persons occupying controlled functions within the Group.

9. AUDITORS

The Shareholders of the Group appointed KPMG, one of the leading accounting firms in Bahrain, as the external auditors for 2018. During 2018, the external auditors provided consultancy services for impact assessment and implementation of value-added-tax (VAT) compliance framework and IFRS 9. However, they did not provide any other material consultative or administrative service to the Group during the year that would conflict with the independence principle. The external auditors charged BD 37,012 against the services rendered by them to the Group (BD 8,000 for audit, and BD 23,708 for condensed interim financial information review, PIRFM review, semi-annual and annual PD review, AML report review, ALF review, IFRS 9 and VAT impact assessment and implementation).

The internal audit function was outsourced to Grant Thornton Abdulaal Gulf Audit till 30 June 2018. In February 2018, the Group recruited a Head of Internal Audit. The scope of the internal audit function is approved by the Audit, Compliance & Risk Committee and encompasses audits and reviews of all business operations and support services. The internal audit process focuses primarily on assessing risks and internal controls and ensuring compliance with established policies, procedures and delegated authorities. The internal audit function is independent and reports directly to the Audit, Compliance & Risk Committee. During 2018, BD 4,600 was charged by the outsourced internal auditors against the auditing services rendered to the Group.

Corporate Governance Review continued

10. COMPLIANCE

The Group 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 Group has appointed a Compliance Manager, a Money Laundering Reporting Officer (MLRO) and a Complaints Officer.

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

11. NON-COMPLIANCE WITH HIGH LEVEL CONTROLS MODULE OF CBB RULEBOOK

For the year 2018, the Group is fully compliant with the requirements of the CBB's HC Module, except for the following:

Chairman:

HC-1.4.6 states that the Chairman of the Board should be an independent director and HC-1.4.8 states that the Chairman must not be an Executive Director.

Mr. Talal Kanoo is non-independent Executive Director. However, taking into consideration the business dealings that NFH has with E.K. Kanoo, the Group is of the view that this does not compromise the high standards of corporate governance that the Group maintains, since NFH pursues strict policies to manage conflicts of interest in Board decisions and apply arms-length principle followed by transparent tendering and approval processes.

CBB exemption was obtained on 3 June 2018 in this regard.

Nomination & Remuneration Committee:

HC-4.2.2 & HC-5.3.2 state that the committee should include only independent directors or, alternatively, only non-executive directors of whom a majority are independent directors and the chairman is an independent director.

Mr. Talal Kanoo, the Chairman of the Group's Nomination & Remuneration Committee is not independent Executive Director; however, the independence of the decision-making process is not compromised as the majority of the members are independent. Moreover, all Board Members must adhere to the Group's policies including Code of Ethics & Business Conflict and Conflict of Interest Policy, to promote objectivity in decision-making.

CBB exemption was obtained on 3 June 2018 in this regard.

Audit, Compliance & Risk Committee:

HC-1.8.2 states that the board should establish a corporate governance committee of at least three independent members. Moreover, HC-3.2.1 states that the board must establish an audit committee of at least three directors of which the majority must be independent including the Chairman.

The Group has combined the responsibility of the Corporate Governance Committee with that of the Audit Committee. The Audit, Compliance & Risk Committee consists of four members of which 50% are independent including the Chairperson. Although the other two members are non-independent, they are certified accountants and have the financial literacy and expertise that will add value to the Committee. The Board is of the view that this does not compromise the high standards of corporate governance, objectivity and independence as the committee has sufficient resources and time to discharge its duties and holds sufficient number of meetings to fulfill its responsibilities.

CBB exemption was obtained on 3 June 2018 in this regard.

Attendance to Board Meetings:

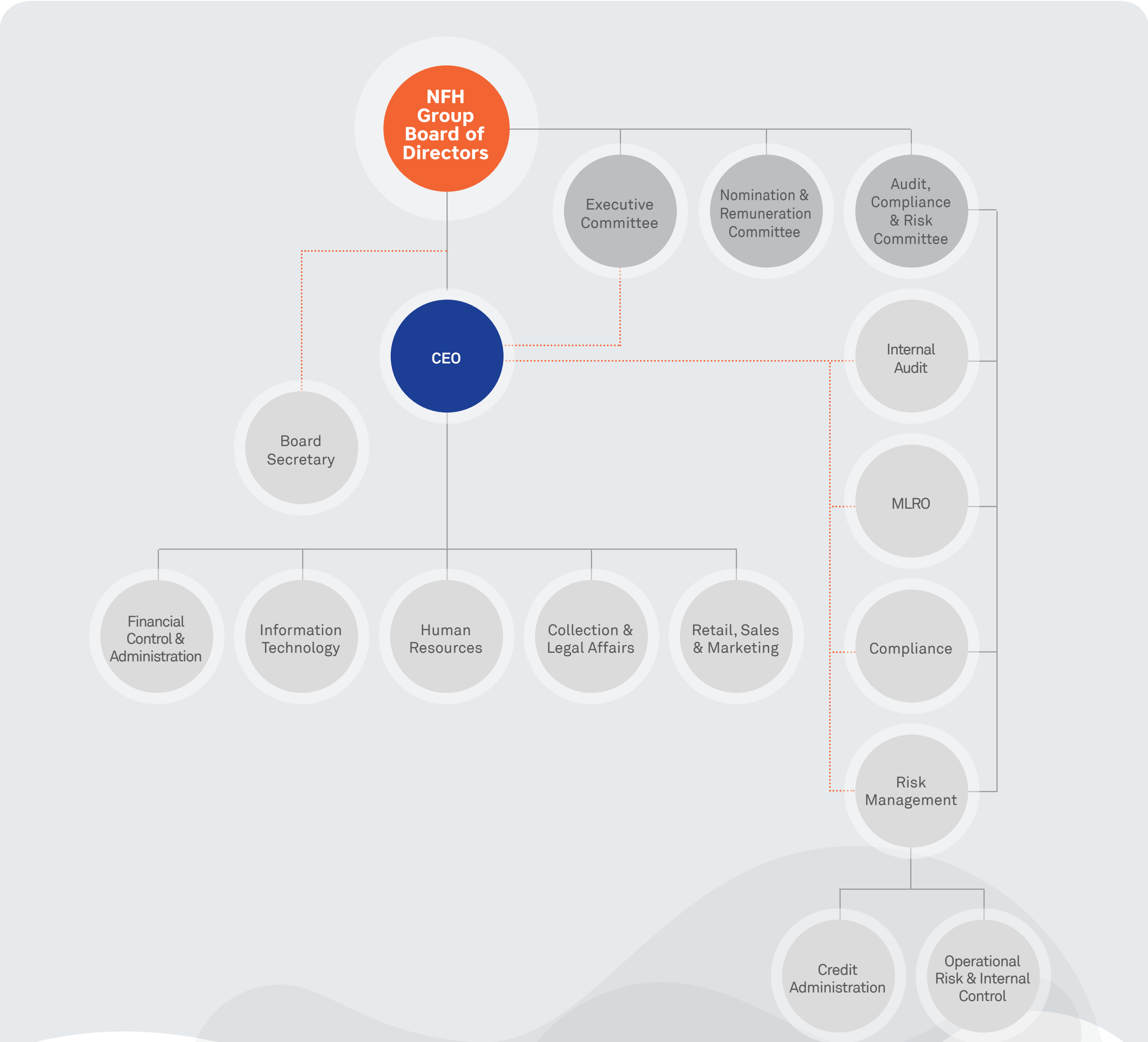
HC-1.3.4 states that Individual board members must attend at least 75 per cent of all Board meetings in a given financial year to enable the Board to discharge its responsibilities effectively. Two directors did not comply with the CBB rule in relation to attending 75 per cent attendance of Board meetings during 2018.

12. ACKNOWLEDGMENT BY THE BOARD OF DIRECTORS

The Board confirms that to the best of its knowledge and belief that:
- The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and other applicable standards and rules;
- The efficiency and adequacy of the internal control systems of NFH have been reviewed and are in compliance with internal rules and regulations;
- The financial statements have been prepared on the going concern basis and there are no material things that affect the continuation of NFH and its ability to continue its operations in the foreseeable future.

Corporate Governance Review continued

GOVERNANCE AND ORGANISATION STRUCTURE



Executive Management Profiles

Venkatachalam PS
(CGEIT, CRISC, CISM, CISA, CICA, CCS, CAIIB)
Chief Executive Officer
Joined NFH in 2012

Over 35 years' experience with multi-disciplinary responsibilities in the financial sector; and has extensive knowledge in banking and technology domains. He has held several senior management positions in banks with proficiency in execution of corporate strategy, managing overall operations and resources including strategic business units. He holds accreditations as indicated above, and is also certified in Six Sigma SSC, USA and BS-7799, British Standards Institute.

- Platinum member of Information System Audit Control & Assurance, USA.
- Certified in the Governance of Enterprise IT (CGEIT), ISACA, USA.
- Certified in Risk and Information Systems Control (CRISC), ISACA, USA.
- Certified Information Security Manager (CISM), ISACA, USA.
- Certified Information Systems Auditor (CISA), ISACA, USA.
- Member of the Institute of Internal Control, USA.
- Associate member of the Indian Institute of Bankers.
- Bachelors in Science, Bangalore University, India
- Postgraduate Diploma in Computer Applications, Madurai Kamaraj University, India.

May Al-Mahmood
(CPA, MBA)
Head of Financial Control, Compliance Officer & Board Secretary
Joined NFH in 2006

- Over 25 years' experience in banking, financial sector and external auditing.
- Certified Public Accountant (CPA), Colorado State Board of Accountancy, USA.
- MBA in Finance, University of Hull, UK.
- BSc in Accounting, University of Bahrain.
- Member of American Institute of Certified Public Accountants (AICPA).

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

- Over 20 years' experience in retail banking and financial services.
- MBA in Finance, AMA International University, Bahrain.
- BSc in Banking & Finance, and a Diploma in Commercial Studies, University of Bahrain.
- Certification in Associate Professional Risk Manager (APRM)..

Mahdi A. Rasool Murad
Head of Risk & MLRO
Joined NFH in 2014

- Over 16 years' experience in credit and risk management.
- BSc in Banking & Finance, University of Bahrain.
- Certification in the Fundamentals of Financial Risk Management (FFRM) and Advance Financial Risk Management (AFRM).
- Currently pursuing certification in Professional Risk Manager (PRM).

Tariq Abdulaziz Fathalla Ahmed
Head of Collections
Joined NFH in 2012

- Over 23 years' experience in collection and legal affairs.
- Advanced Diploma in Banking Studies, Bahrain Institute of Banking and Finance.

Mahmood Mohammed Fraidoon
(CISM, CRISC, CGEIT)
Head of Information Technology
Joined NFH in 2012

- Over 13 years› experience in Information Technology.
- BSc in Computer & Information System, Gulf University.
- Certified Information Security Manager (CISM) from ISACA, USA.
- Certified in Risk and Information Systems Control (CRISC) from ISACA, USA.
- Certified in the Governance of Enterprise IT (CGEIT) from ISACA, USA.
- Certified Solutions Architect from Amazon Web Services.
- Certification in Microsoft Certified in System Engineering (MCSE).

Fatima Abdulla Yousif Ali
Human Resources
Joined NFH in 2011

- Over 31 years of experience in financial and banking sectors and aviation, of which 27 have been spent in the field of human resources.

Navin Pai (ACA, CIA)
Head of Internal Audit
Joined NFH in 2018

- Over 19 years of work experience in Big Four Global Audit firms, Banking and Financial services industry,
- Extensive experience in External and Internal auditing,
- Certified Internal Auditor (CIA), The Institute of Internal Auditors (IIA), USA.
- Chartered Accountant (Associate member - ACA), The Institute of Chartered Accountants of India (ICAI).
- Bachelor of Commerce, University of Mumbai, India.

Consolidated Financial Statements 2018

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40 Consolidated statement of cash flows
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Independent Auditors' Report to the Shareholders

31 December 2018

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the accompanying consolidated financial statements of National Finance House BSC (c) (the "Company") and its subsidiary (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The board of directors is responsible for the other information. The other information obtained at the date of this auditors' report is the Report of the Chairman set out on pages 8 to 9.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the board of directors for the consolidated financial statements

The board of directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as the board of directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the board of directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the board of directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

Independent Auditors' Report to the Shareholders (continued)

31 December 2018

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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 consolidated financial statements are in agreement therewith;

b) the financial information contained in the Report of the Chairman is consistent with the consolidated financial statements;

c) we are not aware of any violations during the year of the Bahrain Commercial Companies Law, the CBB and Financial Institutions Law No. 64 of 2006 (as amended), 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. 213
27 February 2019

Consolidated Statement of Financial Position

as at 31 December 2018 (Bahraini Dinars)

	Note	2018	2017
ASSETS			
Cash and cash equivalents	4	2,281,569	1,577,144
Deposits with banks		-	2,000,000
Loans to customers	5	53,097,407	48,926,848
Furniture, fixtures and equipment	6	324,992	272,341
Other assets		370,871	342,308
Total assets		**56,074,839**	53,118,641
LIABILITIES AND EQUITY			
Liabilities			
Bank borrowings	7	38,531,049	37,141,057
Other liabilities	8	3,026,416	1,441,822
Total liabilities		**41,557,465**	38,582,879
Equity			
Share capital	10	7,500,000	7,500,000
Share premium		112,500	112,500
Statutory reserve		1,089,690	962,327
Retained earnings		5,815,184	5,960,935
Total equity (page 39)		**14,517,374**	14,535,762
Total equity and liabilities		**56,074,839**	53,118,641

The Board of Directors approved the consolidated financial statements on 27 February 2019 and signed on its behalf by:

Talal Fuad Ebrahim Kanoo
Chairman

Mohammed Farouk Y. Almoayyed
Deputy Chairman

The accompanying notes 1 to 16 are an integral part of these consolidated financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2018 (Bahraini Dinars)

	Note	2018	2017
Interest income	11	4,853,463	4,691,913
Interest expense		(2,250,217)	(1,971,714)
Net interest income		**2,603,246**	2,720,199
Fees and commission income		1,250,938	1,096,488
Fees and commission expense		(619,172)	(498,852)
Net fee and commission income		**631,766**	597,636
Other income	12	136,335	118,896
Total income		**3,371,347**	3,436,731
Salaries and related costs		1,012,866	927,485
Other operating expenses	13	788,919	718,755
Depreciation	6	107,502	151,735
Impairment losses on loans to customers	5	188,434	436,737
Total expenses		**2,097,721**	2,234,712
Profit for the year		**1,273,626**	1,202,019
Other comprehensive income		-	-
Total comprehensive income for the year		**1,273,626**	1,202,019
Basic and diluted earnings per share	10	**16.98 fils**	16.03 fils

The Board of Directors approved the consolidated financial statements on 27 February 2019 and signed on its behalf by:

Talal Fuad Ebrahim Kanoo
Chairman

Mohammed Farouk Y. Almoayyed
Deputy Chairman

The accompanying notes 1 to 16 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2018 (Bahraini Dinars)

2018	**Share capital**	**Share premium**	**Statutory reserve**	**Retained earnings**	**Total equity**
At 31 December 2017	7,500,000	112,500	962,327	5,960,935	**14,535,762**
Impact of adopting IFRS 9 as at 1 January 2018 (Note 3a)	-	-	-	(692,014)	**(692,014)**
Balance at 1 January 2018 (restated)	**7,500,000**	**112,500**	**962,327**	**5,268,921**	**13,843,748**
Profit and total comprehensive income for the year (page 38)	-	-	-	1,273,626	**1,273,626**
Dividends declared for 2017	-	-	-	(600,000)	**(600,000)**
Transfer to statutory reserve	-	-	127,363	(127,363)	-
At 31 December 2018	**7,500,000**	**112,500**	**1,089,690**	**5,815,184**	**14,517,374**

2017	Share capital	Share premium	Statutory reserve	Retained earnings	Total equity
At 1 January 2017	7,500,000	112,500	842,125	5,479,118	13,933,743
Profit and total comprehensive income for the year (page 38)	-	-	-	1,202,019	1,202,019
Dividends declared for 2016	-	-	-	(600,000)	(600,000)
Transfer to statutory reserve	-	-	120,202	(120,202)	-
At 31 December 2017	7,500,000	112,500	962,327	5,960,935	14,535,762

The accompanying notes 1 to 16 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2018 (Bahraini Dinars)

	Note	2018	2017
Operating activities			
Interest, fees and commission received		6,104,401	5,801,614
Loans disbursed		(25,641,524)	(21,394,205)
Loan repayments		22,271,355	20,462,948
Payments for staff salaries and related costs		(999,339)	(952,667)
Payments for other operating expenses		(1,345,628)	(1,305,849)
Net cash generated from operating activities		**389,265**	2,611,841
Investing activities			
Deposits with banks		2,000,000	(2,000,000)
Purchase of furniture, fixtures and equipment	6	(198,035)	(18,805)
Sale of furniture, fixtures and equipment		143	68
Net cash generated from / (used in) investing activities		**1,802,108**	(2,018,737)
Financing activities			
Drawdown of bank borrowings		11,495,163	10,000,000
Repayment of bank borrowings		(10,105,171)	(8,882,164)
Interest paid		(2,238,387)	(1,949,537)
Dividends paid		(600,000)	(600,000)
Net cash (used in) financing activities		**(1,448,395)**	(1,431,701)
Net increase / (decrease) in cash and cash equivalents		742,978	(838,597)
Cash and cash equivalents at 1 January		1,577,144	2,415,741
Cash and cash equivalents as at 31 December*	4	**2,320,122**	1,577,144

*Cash and cash equivalents as at 31 December 2018 is gross of the expected credit loss of BD 38,553.

The accompanying notes 1 to 16 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2018 (Bahraini Dinars)

1 REPORTING ENTITY

National Finance House BSC (c) (the "Company") is a closed joint stock company incorporated and registered in the Kingdom of Bahrain on 4 December 2005 and operates as a financing company under a license issued by Central Bank of Bahrain. It provides consumer finance services in the form of motor vehicle financing.

The Company established a wholly owned subsidiary, National Finance House Auto Mall S.P.C., for the purpose of sale/trade of motor vehicles. NFH Auto Mall was registered with the Ministry of Industry, Commerce and Tourism on 19 March 2017 with registration no. 111539.

The consolidated financial statements comprise the financial statements of the Company and its subsidiary (together referred to as the "Group").

2 BASIS OF PREPARATION

a. Statement of compliance

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

b. Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention. The principal accounting policies applied in the preparation of these consolidated financial statements have been consistently applied to all the years presented except as described in note 3 (a).

c. Functional and presentation currency

The consolidated financial statements are presented in Bahraini Dinars, which is also the Group's functional currency.

3 SIGNIFICANT ACCOUNTING POLICIES

a. New standards, amendments and interpretations effective from 1 January 2018:

The following standards, amendments and interpretations, which became effective as of 1 January 2018, are relevant to the Group:

I. IFRS 9 Financial Instruments

The Group has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the consolidated financial statements as of and for the year ended 31 December 2017.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings.

The adoption of IFRS 9 has resulted in changes in the accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 - Financial Instruments: Disclosures.

Set out below are the IFRS 9 transition impact disclosures for the Group.

(i) Impact of adopting IFRS 9

The impact from the adoption of IFRS 9 as at 1 January 2018 has resulted in decrease in retained earnings by BD 692,014.

	Retained earnings
Closing balance under IAS 39 as at 31 December 2017	5,960,935
Impact on recognition of Expected Credit Losses	
Loans to customers	(653,461)
Deposits with banks	(20,953)
Balances with banks	(17,600)
	(692,014)
Opening balance under IFRS 9 on date of initial application of 1 January 2018	**5,268,921**

The following table reconciles the closing impairment allowance for financial assets in accordance with IAS 39 as at 31 December 2017 to the opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2018 (Bahraini Dinars)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

a. New standards, amendments and interpretations effective from 1 January 2018 (Continued)

(i) Impact of adopting IFRS 9 (Continued)

	31 December 2017	Re-measurement	1 January 2018
Loans to customers	1,844,234	653,461	2,497,695
Deposits with banks	-	20,953	20,953
Balances with banks	-	17,600	17,600
Total	**1,844,234**	**692,014**	**2,536,248**

(ii) Classification and Measurement of Financial Instruments

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial assets and financial liabilities. The Group performed a detailed analysis of its business models for managing financial assets as well as analysing their cash flow characteristics.

Refer to note 3.g. (ii) "Financial assets and liabilities - classification"

The below table reconciles the original measurement categories and carrying amounts of financial assets in accordance with IAS 39 and the new measurement categories under IFRS 9 as at 1 January 2018.

Financial assets	Original Classification under IAS 39	New Classification under IFRS 9	Original carrying amount	Re-measurement	New carrying amount
Loans to customers	Loans and receivable	Amortised cost	48,926,848	(653,461)	48,273,387
Deposits with banks	Loans and receivable	Amortised cost	2,000,000	(20,953)	1,979,047
Cash and cash equivalents (Balances with banks)	Loans and receivable	Amortised cost	1,577,144	(17,600)	1,559,544
			52,503,992	**(692,014)**	**51,811,978**

There were no changes to the classification and measurement of financial liabilities.

The following table shows the carrying amounts of financial assets as of 1 January 2018 by stages:

	As at 1 January 2018 (restated)			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers	45,494,505	1,878,905	899,977	48,273,387
Deposits with banks	1,979,047	-	-	1,979,047
Cash and cash equivalents (Balances with banks)	1,559,544	-	-	1,559,544
	49,033,096	**1,878,905**	**899,977**	**51,811,978**

II. 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 2018. Implementation of IFRS 15 did not result in a significant impact on the Group's consolidated financial statements.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2018 (Bahraini Dinars)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

IFRS 16 Leases

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments into the future. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an arrangement contains a lease, SIC-15 Operating leases-incentives and SIC-27 Evaluating the substance of transactions involving the legal form of a lease.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.

The Group does not expect to have a significant impact on its consolidated financial statements from adoption of this standards.

c. Basis of consolidation

Subsidiary is an enterprise controlled by the Group. Control is presumed to exist where more than one half of a subsidiary's voting power is controlled by the Group, or the Group is able to govern the financial and operating policies of a subsidiary so as to obtain benefit from its activities. The financial statements of the subsidiary is included in the consolidated financial statements from the date that control commences until the date that control ceases. All significant inter-group balances and transactions and any gains and losses arising from inter-group transactions are eliminated in preparing the consolidated financial statements.

d. Use of estimates and judgements

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

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

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

1) Applicable from 1 January 2018:

Classification of financial assets

Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

Impairment of financial assets

Assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL.

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment and including forward-looking information.

Inputs, assumptions and techniques used for estimating impairment

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures expected credit loss using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD).

The Group employs statistical models to analyse the data collected and generate estimates of PD of exposures and how these are expected to change as a result of the passage of time. This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2018 (Bahraini Dinars)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. Use of estimates and judgments (Continued)

1) Applicable from 1 January 2018 (Continued)

Inputs, assumptions and techniques used for estimating impairment (Continued)

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties.

2) Applicable before 1 January 2018:

Impairment of financial assets:

In assessing collective impairment the Group uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

3) Applicable to both periods:

Impairment of non-financial assets:

The carrying amount of the Group's non financial assets is reviewed at each statement of financial position date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated and an impairment loss is recognised whenever the carrying amount exceeds the recoverable amount.

Depreciation

The management estimates the useful lives and residual values of furniture, fixture and equipment periodically. Refer to note 3 (j).

e. Interest income and expense

Interest income and expense are recognised in the consolidated 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.

f. Fees and commission income and expenses

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Origination fees received by the Group and the related direct costs relating to the creation or acquisition of a financial asset other than a financial asset classified at fair value through profit or loss, are deferred and recognised as an adjustment to the effective interest rate.

g. Financial assets and liabilities

1) Financial assets – Policy applicable from 1 January 2018:

(i) Recognition and initial measurement

The Group initially recognises loans to customers and borrowings from banks on the date that they are originated. All other financial assets and financial liabilities are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2018 (Bahraini Dinars)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

g. Financial assets and liabilities (Continued)

1) Financial assets – Policy applicable from 1 January 2018 (Continued)

(ii) Classification

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment:

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

As at 31 December 2018 the Group did not have any financial assets measured at FVOCI or FVTPL.

Assessment of whether contractual cash flows are solely payments of principal and interest:

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2018 (Bahraini Dinars)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

g. Financial assets and liabilities (Continued)

Assessment of whether contractual cash flows are solely payments of principal and interest (Continued)

In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse loans); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

Financial liabilities

The Group classifies its financial liabilities as measured at amortised cost.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

(iii) Identification and measurement of impairment

The Group recognises loss allowances for ECL on loans to customers, deposits and balances with banks.

The Group applies a three-stage approach to measuring expected credit losses (ECL) on financial assets carried at amortised cost. Financial assets migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1: 12 month ECL: includes financial assets that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date. For these assets, 12-month expected credit losses ('ECL') are recognized and interest revenue is calculated on the gross carrying amount of the asset (that is, without deduction for credit allowance). 12-month ECL are the expected credit losses that result from default events that are possible within 12 months after the reporting date. It is not the expected cash shortfalls over the 12-month period but the entire credit loss on an asset weighted by the probability that the loss will occur in the next 12 months.

Stage 2: Life time ECL - not credit impaired: includes financial assets that have had a significant increase in credit risk since initial recognition (unless they have low credit risk at the reporting date) but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognized, but interest revenue is still calculated on the gross carrying amount of the asset. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial asset. Expected credit losses are the weighted average credit losses with the probability of default ('PD') as the weight.

Stage 3: Life time ECL - credit impaired: includes financial instruments that have objective evidence of impairment at the reporting date. This stage has obligors that already are impaired (defaulted). However, regulatory requirements for credit impaired accounts will continue to apply under Stage 3.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive.

ECLs are discounted at the effective interest rate of the financial asset.

The key inputs into the measurement of ECL are the term structure of the following variables:

• probability of default (PD)

• loss given default (LGD)

• exposure at default (EAD)

Notes to the Consolidated Financial Statements

for the year ended 31 December 2018 (Bahraini Dinars)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

g. Financial assets and liabilities (Continued)

Measurement of ECLs (Continued)

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise; or
- it is probable that the borrower will enter bankruptcy or other financial reorganization.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For retail customers, the gross carrying amount when the financial asset is 3 years past due is written off based on historical experience of recoveries of similar assets. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

2) Financial assets and liabilities – Policy applicable before 1 January 2018:

The Group's financial assets and financial liabilities are classified as "loans and receivables" and "amortised cost", respectively.

(i) Amortised cost measurement

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

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any impairment loss allowance.

(ii) De-recognition of financial assets and liabilities

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2018 (Bahraini Dinars)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

g. Financial assets and liabilities (Continued)

2) Financial assets and liabilities – Policy applicable before 1 January 2018 (Continued)

(ii) De-recognition of financial assets and liabilities (Continued)

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 consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss.

Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

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

(iii) Offsetting

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

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

(iv) Identification and measurement of impairment

At each reporting date, the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the 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 Group on terms that the Group 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 Group considers evidence of impairment for loans at collective level by grouping together loans with similar credit risk characteristics.

In assessing collective impairment the Group uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the 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 impaired loans is suspended and not recognised in the profit or loss until the interest is recovered. 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.

Write-offs

The Group writes off a loan, either partially of in full, and any related allowance for impairment losses, when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries

Recoveries of amounts previously written off are included in 'Other Income' in the consolidated statement of profit or loss.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2018 (Bahraini Dinars)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

h. Loans to customers

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

Loans to customers 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.

i. Furniture, fixtures and equipment

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.

j. 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

k. Cash and cash equivalents

Cash and cash equivalent represents cash in hand, bank accounts and deposits with banks with original maturities of three months or less.

l. Deposits with banks

Deposits with banks represent deposits with original maturities greater than three months and stated at amortised cost net of provision for impairment, if any.

m. Statutory reserve

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

n. Impairment of non-financial assets

The carrying amount of the Group's non financial assets is reviewed at each statement of financial position date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated and an impairment loss is recognised whenever the carrying amount exceeds the recoverable amount. Impairment losses are recognised in the statement of comprehensive income.

o. Bank borrowings

Bank borrowings are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

p. Impairment on onerous contracts

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

q. 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 2012, based on length of service and final remuneration. Provision for this unfunded commitment has been made by calculating the notional liability had all employees left the Group at the statement of financial position date.

Notes to the Consolidated Financial Statements
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4 CASH AND CASH EQUIVALENTS

	2018	2017
Cash in hand	1,200	1,200
Balances with banks	2,318,922	1,575,944
	2,320,122	1,577,144
Less: expected credit loss *	(38,553)	-
	2,281,569	1,577,144

* Represents 12 month ECL on stage 1 financial assets.

5 LOANS TO CUSTOMERS

a) Exposure

31 December 2018	Stage 1	Stage 2	Stage 3	Total
Loans to customers	51,274,124	1,296,335	2,542,570	55,113,029
Less: expected credit loss	(239,773)	(170,452)	(1,605,397)	(2,015,622)
Net loans	**51,034,351**	**1,125,883**	**937,173**	**53,097,407**

31 December 2017	2017
Gross Loans	50,771,082
Less: impairment allowance	(1,844,234)
Net loans	48,926,848

b) Impairment movement

Expected credit loss movement (IFRS9) - 2018	Stage 1	Stage 2	Stage 3	Total
At 1 January 2018 (restated) (note 3a)	311,047	313,847	1,872,801	2,497,695
Transfer to Stage 1	191,826	(101,771)	(90,055)	-
Transfer to Stage 2	(7,552)	48,541	(40,989)	-
Transfer to Stage 3	(16,769)	(113,626)	130,395	-
Net re-measurement of loss allowance	(238,779)	23,461	403,752	188,434
Write off during the year	-	-	(670,507)	(670,507)
Expected credit loss as at 31 December 2018	**239,773**	**170,452**	**1,605,397**	**2,015,622**

Impairment movement (IAS 39) - 2017	2017
At 1 January	1,568,984
Charge for the year	436,737
Written off during the year	(161,487)
Impairment as at 31 December 2017	1,844,234

Notes to the Consolidated Financial Statements

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6 FURNITURE, FIXTURES AND EQUIPMENT

	Furniture and equipment	Computer software	Computer hardware	WIP	2018 Total	2017 Total
Cost						
At 1 January	495,562	504,026	199,026	-	1,198,614	1,196,753
Additions	3,501	3,930	5,927	184,677	198,035	18,805
Disposals	(79,864)	(47,428)	(70)	-	(127,362)	(16,944)
At 31 December	**419,199**	**460,528**	**204,883**	**184,677**	**1,269,287**	1,198,614
Depreciation						
At 1 January	459,828	277,659	188,786	-	926,273	788,187
Charge for the year	23,226	77,264	7,012	-	107,502	151,735
Disposals	(79,360)	(10,050)	(70)	-	(89,480)	(13,649)
At 31 December	**403,694**	**344,873**	**195,728**	**-**	**944,295**	926,273
Net book value						
At 31 December 2018	**15,505**	**115,655**	**9,155**	**184,677**	**324,992**	
At 31 December 2017	35,734	226,367	10,240	-		272,341

7 BANK BORROWINGS

	2018	2017
Repayable within one year	16,423,808	14,707,164
Repayable after one year	22,107,241	22,433,893
	38,531,049	37,141,057

These are term loans with floating interest rates, which are subject to re-pricing on a monthly, quarterly, or on half-yearly basis. The effective interest rate on borrowings was within the range of 4.99% to 7.41% p.a. (2017: 3.75% to 6.1% p.a.). Of the total borrowings, BD 31 million (2017: BD 32 million) is secured by assignment of customer loans.

The following is a reconciliation between the opening and closing balances for bank borrowings arising from financing activities:

	2018	2017
At 1 January	37,141,057	36,023,221
Proceeds from bank borrowings	11,495,163	10,000,000
Repayment of bank borrowings	(10,105,171)	(8,882,164)
At 31 December	**38,531,049**	37,141,057

8 OTHER LIABILITIES

	2018	2017
Payable to agents for vehicles financed	2,525,838	1,019,888
Payable for Insurance companies	55,427	-
Accrued expenses	445,151	421,934
	3,026,416	1,441,822

Notes to the Consolidated Financial Statements
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9 RELATED PARTY TRANSACTIONS

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

Related party transactions	2018	2017
Capital Expenditure		
Furniture, fixtures, equipment and work in progress (Shareholders)	131,926	5,761
Operating Income		
Insurance Commission - Motor Vehicles (Shareholders)	41,399	-
Operating Expenses		
Insurance premium charges (Shareholders)	198,799	180,229
Call centre charges (Shareholders)	18,000	18,000
Salesman commission (Shareholders)	104,791	81,998
Other operating expenses (Shareholders)	28,504	27,748

Related party balances	2018	2017
Payable for vehicles financed (Shareholders)	1,095,984	665,482
Payable for Insurance premiums (Shareholders)	55,427	-
Prepaid expenses (Shareholders)	14,382	12,832
Payable of salesman commission (Shareholders)	11,658	9,232
Receivable of Insurance agency commission (Shareholders)	8,058	-

Transactions with key management personnel

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

	2018	2017
Key management compensation	358,737	311,186
Board of directors' remuneration and committee attendance allowances	82,291	83,630
Staff loan	14,400	1,800

Balances with key management personnel

	2018	2017
Staff loan	11,518	3,919

Certain transactions were approved by the Board of Directors under Article 189(b) of the Commercial Companies Law in the financial year ended 31 December 2018 where the chairman, directors or managers had a direct or indirect interest in the contracts or transactions which have been approved by the Board.

Notes to the Consolidated Financial Statements

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10 SHARE CAPITAL

	2018	2017
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	**16.98 fils**	**16.03 fils**

The earning per share is calculated by dividing the net income of BD 1,273,626 (2017: BD 1,202,019) by the number of shares outstanding at the end of the year of 75 million shares (2017: 75 million shares). Diluted earnings per share is same as basic earnings per share as the Group does not have any potential dilutive instruments in issue.

The Board of Directors proposed a cash dividend of 8% (2017: 8%) of the paid-up capital. This amounts to BD 600,000 (2017: BD 600,000).

In addition, the Board of Directors propose BD 22,000 (2017: BD 25,200) as Board of Directors' remuneration.

11 INTEREST INCOME

	2018	2017
Interest on loans to customers	4,832,363	4,640,526
Interest on bank term deposits	21,100	51,387
	4,853,463	4,691,913

12 OTHER INCOME

Other income includes recoveries of BD 122,683 (2017: BD 104,904) from loans written off in the prior years.

13 OTHER OPERATING EXPENSES

	2018	2017
Office expenses	395,910	378,520
Computer maintenance and support expenses	82,939	71,935
Rent	97,166	70,666
Legal and professional charges	74,021	67,550
Communication expense	50,291	48,716
Advertising and publicity expense	49,926	40,124
Board of directors' remuneration	22,000	25,200
Printing and stationery expense	16,666	16,044
	788,919	718,755

14 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Risk management framework and overview

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

Notes to the Consolidated Financial Statements
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14 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Risk management framework and overview (Continued)

Financial instruments comprise of financial assets and financial liabilities. Financial assets of the Group consist of cash and cash equivalents, loans to customers and other assets. Financial liabilities of the Group consist of bank borrowings and other liabilities. Accounting policies in respect of financial assets and financial liabilities are set out in Note 3.

The Board of Directors of the Group has the overall responsibility for the establishment of and oversight over the Group's risk management framework. The Board has established an Executive Committee, for developing and monitoring risk management policies. The Board of Directors set the Group's overall risk parameters and risk tolerances, and the significant risk management policies.

The Board Executive Committee reviews and reports to the Board of Directors on the Group'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 Group's businesses and the related risk management processes are set out below.

Credit risk

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

The responsibility for the management of credit risk rest with the management, Credit Committee, comprising five members, Chief Executive Officer, Head of Retail, Head of Finance, Head of Risk Management and Head of Collection. The Credit Committee is responsible for oversight of the Group's credit risk, including:

- formulating credit policies, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements;
- establishing the authorisation structure for the approval and renewal of credit facilities. The authorisation limits are allocated to the 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 Group's credit policies and procedures, with credit approval authorities delegated from the Group's Credit Committee;
- reviewing and assessing credit risk. Credit committee assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process;
- limiting concentrations of exposure to counterparties, and industries for loans;
- 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; and
- 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.

The Group's credit policy sets out the Group's sanctioning power for granting loans. Granting Loans less than the designated limits of the Group's Credit Committee are approved the business units.

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

The Group is not exposed to any significant concentration of credit risk arising from exposures to a single debtor or to group of debtors having similar characteristics such that their ability to meet their obligations is expected to be affected similarly by changes in economic or other conditions. The maximum credit risk exposure of the loans to customer is the carrying value amount net of the unearned interest income and net of impairment allowance.

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14 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:

	2018	2017
Balances with banks	2,280,369	3,575,944
Loans to customers	53,097,407	48,926,848
	55,377,776	52,502,792

Concentration of credit risk

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

	2018	2017
Concentration by sector		
Corporate	13,136,755	14,136,984
Retail	39,960,652	34,789,864
Financial institutions	2,280,369	3,575,944
	55,377,776	52,502,792

Monitoring of credit risk

Generating the term structure of PD

Ageing buckets based on days past due ("Ageing buckets") are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analyzed by jurisdiction or region and by type of product and borrower as well as by ageing buckets.

The Group employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default.

Based on consideration of a variety of external actual and forecast information, the Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The Group then uses these forecasts to adjust its estimates of PDs.

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

Using its expert credit judgement and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is equal or more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

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14 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Credit risk (Continued)

Monitoring of credit risk (Continued)

Generating the term structure of PD (Continued)

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy.

The Group renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities'") to maximise collection opportunities and minimise the risk of default. Under the Group'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.

For financial assets modified as part of the Group's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Group's ability to collect interest and principal and the Group's previous experience of similar forbearance action. As part of this process, the Group evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behaviour over a period of 12 months before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on economic experts and consideration of a variety of external actual and forecast information. the Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome.

Key macro-economic indicators include: Oil price, Consumers purchase index (CPI), Real GDP growth, Real interest rate (RIR), Unemployment rate, Domestic credit growth, Central Government revenue as percentage of GDP and Central Government expenditure as percentage of GDP.

The base case represents a most-likely outcome and is aligned with information used by the Group for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes.

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment and including forward-looking information.

Non-performing exposure:

In accordance with the Group's policy and Central Bank of Bahrain guidelines, loans on which payment of interest or repayment of principal are 90 days past due, are defined as non-performing.

The Group has systems and procedures in place to generate alerts in case of past dues in any account. A stringent classification process is followed for all accounts with past dues of over 90 days.

Loans that are "past due below 90 days but not impaired" are those for which contractual interest and principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security or collateral available and / or the stage of collection of amounts owed to the Group. As at 31 December 2018, loans past due below 90 days but not impaired amounted to BD 3,190,938 (2017: BD 3,909,018).

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for the year ended 31 December 2018 (Bahraini Dinars)

14 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Credit risk (Continued)

The Group's credit risk profile based on ageing by sector / counterparty is as follows:

All loans are domestic and are granted to borrowers within the Kingdom of Bahrain.

A. Corporate loans

	Stage 1	Stage 2	Stage 3	Total
Current	12,425,392	12,583	48,609	12,486,584
Past Due Loans:				
1 - 29 days	296,188	6,471	24,177	326,836
30 - 59 days	-	119,170	102,310	221,480
60 - 89 days	-	105,692	110,445	216,137
90 days - 1 year	-	-	270,941	270,941
1 year - 3 years	-	-	328,377	328,377
More than 3 years	-	-	-	-
Gross carrying value	**12,721,580**	**243,916**	**884,859**	**13,850,355**
Expected credit loss	67,650	40,059	605,891	713,600
Net carrying value	**12,653,930**	**203,857**	**278,968**	**13,136,755**

B. Retail loans

	Stage 1	Stage 2	Stage 3	Total
Current	37,595,181	63,852	209,853	37,868,886
Past Due Loans:				
1 - 29 days	957,363	-	24,605	981,968
30 - 59 days	-	719,883	130,842	850,725
60 - 89 days	-	268,684	171,477	440,161
90 days - 1 year	-	-	549,646	549,646
1 year - 3 years	-	-	562,346	562,346
More than 3 years	-	-	8,942	8,942
Gross carrying value	**38,552,544**	**1,052,419**	**1,657,711**	**41,262,674**
Expected credit loss	172,123	130,393	999,506	1,302,022
Net carrying value	**38,380,421**	**922,026**	**658,205**	**39,960,652**

Stage 3 includes exposures in the first four ageing buckets (i.e. Current to 60-89 days) which are not past due however continue to be classified as stage 3 until the completion of cooling off period of 12 months.

31 December 2017	Gross amount		Impairment allowance		Net amount	
	Retail	Corporate	Retail	Corporate	Retail	Corporate
Current	31,725,295	12,918,175	90,461	35,887	31,634,834	12,882,288
Past Due Loans:						
1 - 29 days	1,274,986	508,060	18,592	7,407	1,256,394	500,653
30 - 59 days	1,130,460	404,247	145,834	52,149	984,626	352,098
60 - 89 days	663,200	302,410	103,272	47,091	559,928	255,319
90 days - 1 year	490,708	211,707	357,482	154,229	133,226	57,478
1 year - 3 years	516,233	202,441	376,077	147,479	140,156	54,962
More than 3 years	297,245	125,915	216,545	91,729	80,700	34,186
	36,098,127	14,672,955	1,308,263	535,971	34,789,864	14,136,984

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14 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Credit risk (Continued)

As at 31 December 2018, loans amounting to BD 71,384 (2017: BD 40,351) were restructured. The Group renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Group'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 Group Audit, Compliance and Risk Committee regularly reviews reports on forbearance activities.

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

The Group holds collateral against loans to customers in the form of mortgage interests over vehicles financed. In case of loans granted using hire purchase contracts, the vehicles financed are solely registered in the name of the Group and hence they are considered more secured. 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 107%, (2017: 109%) the principal type of collateral is the vehicle financed. As of 31 December 2018, loans include hire purchase contracts of BD 21,614,374 (2017: BD 17,093,647) representing 39% (2017: 34%) of the total portfolio.

As at 31 December 2018 total non-performing loans as defined by the CBB (past due greater than 90 days) were BD 1,720,252 (2017: BD 1,844,249). Interest on non- performing loans is suspended and is not recognised in the profit and loss until the interest is recovered from the borrower or the loan is upgraded after restructuring.

During the year ended 31 December 2018, the average gross credit exposure for cash and balances with banks is BD 2,210,386 (2017: BD 3,194,277), deposits with banks BD 500,000 (2017: BD 1,166,667) and loans and advances to customers is BD 50,704,299 (2017: BD 48,749,811). Such amounts are calculated based on the average of monthly results.

Liquidity risk

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

Management of liquidity risk

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

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

The liquidity position of the Group is monitored by the Chief Executive Officer and Financial Controller. Surplus and deficit of short and long term positions of the Group are managed as appropriate by the Finance Department. The Group ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme. The contractual maturities of financial liabilities, including interest payments is set out below. This shows the undiscounted cash flows on the Group's financial liabilities on the basis of their earliest possible contractual maturity.

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14 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Liquidity risk (Continued)

Management of liquidity risk (Continued)

31 December 2018	Carrying amount	Contractual cash flows	6 months or less	6 - 12 months	More than 12 months
Bank borrowings	38,531,049	43,308,448	6,998,083	11,550,593	24,759,772
Accounts payable	2,581,265	2,581,265	2,581,265	-	-
	41,112,314	**45,889,713**	**9,579,348**	**11,550,593**	**24,759,772**

31 December 2017	Carrying amount	Contractual cash flows	6 months or less	6 - 12 months	More than 12 months
Bank borrowings	37,141,057	41,032,522	5,962,099	10,433,971	24,636,452
Accounts payable	1,019,888	1,019,888	1,019,888	-	-
	38,160,945	42,052,410	6,981,987	10,433,971	24,636,452

Market risk

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

Interest rate risk

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

31 December 2018	Fixed rate	Floating rate	Non-interest bearing	Total
Cash and cash equivalents	-	-	2,281,569	2,281,569
Deposits with bank	-	-	-	-
Loans to customers	53,097,407	-	-	53,097,407
Other assets	-	-	370,871	370,871
	53,097,407		**2,652,440**	**55,749,847**
Bank borrowings	-	38,531,049	-	38,531,049
Other liabilities	-	-	3,026,416	3,026,416
	-	**38,531,049**	**3,026,416**	**41,557,465**

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14 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Interest rate risk (Continued)

31 December 2017	Fixed rate	Floating rate	Non-interest bearing	Total
Cash and cash equivalents	-	-	1,577,144	1,577,144
Deposits with bank	2,000,000	-	-	2,000,000
Loans to customers	48,926,848	-	-	48,926,848
Other assets	-	-	342,308	342,308
	50,926,848	-	1,919,452	52,846,300
Bank borrowings	-	37,141,057	-	37,141,057
Other liabilities	-	-	1,441,822	1,441,822
	-	37,141,057	1,441,822	38,582,879

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 2017.

	Profit or loss		**Equity**	
31 December 2018	100 bp increase	100 bp decrease	100 bp Increase	100 bp decrease
Bank borrowings	**(439,521)**	**439,521**	**(439,521)**	**439,521**
31 December 2017				
Bank borrowings	(453,109)	453,109	(453,109)	453,109

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

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

31 December 2018	**Carrying amount**	**Less than 3 months**	**3-6 months**	**6 - 12 months**	**1-5 years**	**More than 5 years**	**Non-interest bearing**
Cash and cash equivalents	2,281,569	-	-	-	-	-	2,281,569
Deposits with bank	-	-	-	-	-	-	-
Loans to customers	53,097,407	3,022,640	3,947,405	7,521,447	37,420,542	1,185,373	-
Other assets	370,871	-	-	-	-	-	370,871
	55,749,847	**3,022,640**	**3,947,405**	**7,521,447**	**37,420,542**	**1,185,373**	**2,652,440**
Bank borrowings	38,531,049	2,817,294	3,017,298	10,589,216	21,786,541	320,700	-
Other liabilities	3,026,416	-	-	-	-	-	3,026,416
	41,557,465	**2,817,294**	**3,017,298**	**10,589,216**	**21,786,541**	**320,700**	**3,026,416**

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14 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Interest rate risk (Continued)

31 December 2017	Carrying amount	Less than 3 months	3-6 months	6 - 12 months	1-5 years	More than 5 years	Non-interest bearing
Cash and cash equivalents	1,577,144	-	-	-	-	-	1,577,144
Deposits with bank	2,000,000	-	2,000,000	-	-	-	-
Loans to customers	48,926,848	3,254,558	3,722,380	7,104,911	34,080,351	764,648	-
Other assets	342,308	-	-	-	-	-	342,308
	52,846,300	3,254,558	5,722,380	7,104,911	34,080,351	764,648	1,919,452
Bank borrowings	37,141,057	2,520,541	2,520,541	9,666,082	20,705,493	1,728,400	-
Other liabilities	1,441,822	-	-	-	-	-	1,441,822
	38,582,879	2,520,541	2,520,541	9,666,082	20,705,493	1,728,400	1,441,822

Currency risk

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

Fair value

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 Group has access at that date. The fair value of a liability reflects its non-performance risk. When available, the Group 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 Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

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

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.

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

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

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations and are faced by all business units.

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

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14 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Operational risk (Continued)

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

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

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

Legal Contingencies risk

Legal risk is the risk relating to losses due to legal or regulatory action that invalidates or otherwise precludes performance by the end user or its counterparty under the terms of the contract or related netting agreements.

Due to the nature of its operations, the Group may be involved in litigations arising in the ordinary course of business. Provision for contingent liabilities arising from litigations is based on the probability of outflow of economic resources and reliability of estimating such outflow. Such matters are subject to many uncertainties and the outcome of individual matters is not predictable with assurance.

Classification of financial assets and financial liabilities

The Group's financial assets and financial liabilities are classified as "loans and receivables" and "amortised cost", respectively.

Capital management

The Central Bank of Bahrain sets and monitors capital requirements for the Group. According to the terms of the licence granted by the Central Bank of Bahrain, the Group is required to 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). As on 31 December 2018, Group's paid-up share capital was BD 7,500,000 (2017: BD 7,500,000) and the borrowing to capital and reserves ratio was 2.65 (2017: 2.56).

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

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15 MATURITY PROFILE

The maturity profile of the Group's financial assets and liabilities based on the expected repayment arrangements is given below. The contractual maturities of assets and liabilities are not significantly different from the expected repayment dates.

31 December 2018	Up to 3 months	3-6 months	6 months to 1 year	1-5 years	5-10 years	Total
Assets						
Cash and cash equivalents	2,281,569	-	-	-	-	2,281,569
Deposits with banks	-	-	-	-	-	-
Loans to customers	3,022,640	3,947,405	7,521,447	37,420,542	1,185,373	53,097,407
Other assets	370,871		-	-	-	370,871
	5,675,080	**3,947,405**	**7,521,447**	**37,420,542**	**1,185,373**	**55,749,847**
Liabilities						
Bank borrowings	2,817,294	3,017,298	10,589,216	21,786,541	320,700	38,531,049
Other liabilities	3,026,415	-	-	-	-	3,026,415
	5,843,709	**3,017,298**	**10,589,216**	**21,786,541**	**320,700**	**41,557,464**

31 December 2017	Up to 3 months	3-6 months	6 months to 1 year	1-5 years	5-10 years	Total
Assets						
Cash and cash equivalents	1,577,144	-	-	-	-	1,577,144
Deposits with banks	-	2,000,000	-	-	-	2,000,000
Loans to customers	3,254,558	3,722,380	7,104,911	34,080,351	764,648	48,926,846
Other assets	342,308	-	-	-	-	342,308
	5,174,010	5,722,380	7,104,911	34,080,351	764,648	52,846,298
Liabilities						
Bank borrowings	2,520,541	2,520,541	9,666,082	20,705,493	1,728,400	37,141,057
Other liabilities	1,441,822	-	-	-	-	1,441,822
	3,962,363	2,520,541	9,666,082	20,705,493	1,728,400	38,582,879

The expected credit loss of BD 2,015,622 (2017: BD 1,844,234) has been netted against the cash-flows expected within 3 months.

16 COMPARATIVES

The corresponding figures have been regrouped where necessary to conform with the current year's presentation. There grouping did not affect previously reported profit for the year or total equity of the Group.