NFH

التمويل الوطني

A YEAR OF COLLABORATION

ANNUAL REPORT 2020

Contents

Visit our corporate website for more information.

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B.S.C. (Closed)

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His Royal Highness Prince
Salman bin Hamad Al Khalifa
The Crown Prince
and Prime Minister

His Majesty King
Hamad Bin Isa Al Khalifa
The King of
the Kingdom of Bahrain

Group Profile

National Finance House (NFH) specialises in providing consumer and corporate financing for the purchase of private, commercial and heavy vehicles. Established in 2005 and commencing operations in 2006, NFH operates under a Financing Company license 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 W.L.L., 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.

SHAREHOLDERS

Kingdom of Bahrain

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

Kingdom of Saudi Arabia

Almutlaq Group

Sultanate of Oman

Oman International Development & Investment Company

OUR VISION

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

OUR MISSION

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

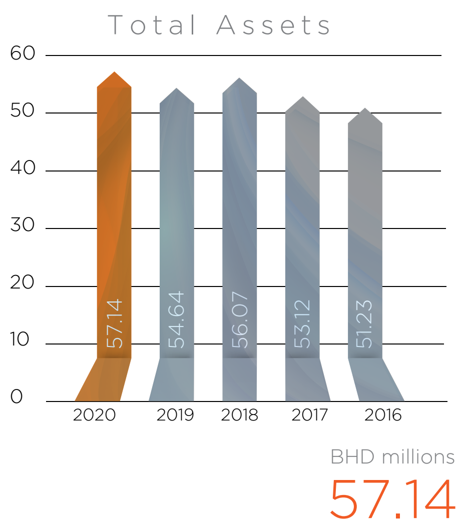
- **Provision of innovative and flexible auto financing solutions**
- **Delivery of personalised, speedy and responsive customer service**
- **Adoption of the highest standards of ethical behaviour**

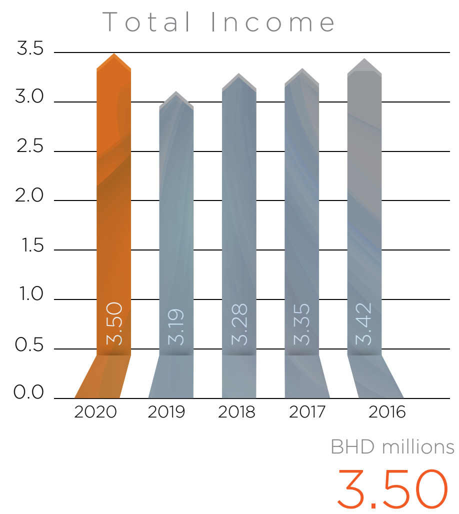
OUR VALUES

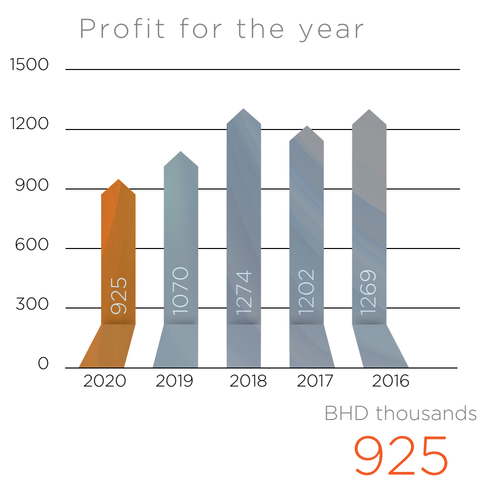
Our business activities and relationships with all stakeholders are governed by the following core values:

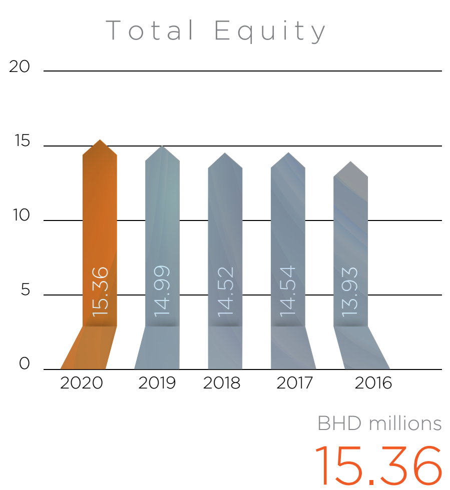
- **Consistency**
- **Integrity**
- **Performance**
- **Service**
- **Innovation**
- **Teamwork**

Financial highlights









FIVE YEAR FINANCIAL SUMMARY

(Bahraini Dinars)

	2020	2019	2018	2017	2016
Total Assets	**57,140,033**	54,644,477	56,074,839	53,118,641	51,232,814
Total Liabilities	**41,783,859**	39,656,817	41,557,464	38,582,879	37,299,071
Total Equity	**15,356,174**	14,987,660	14,517,375	14,535,762	13,933,743
Total Income	**3,500,769**	3,187,812	3,283,474	3,351,648	3,418,502
Profit for the Year	**925,344**	1,070,286	1,273,626	1,202,019	1,269,105
Share Capital	**7,500,000**	7,500,000	7,500,000	7,500,000	7,500,000
Dividends	**450,000**	-	600,000	600,000	600,000
ROAE (%)	**6.1%**	7.3%	8.8%	8.4%	9.4%
ROA (%)	**1.6%**	2.0%	2.3%	2.3%	2.5%

Operational **Highlights**

DIGITAL DEVELOPMENT
Major developments to the core system will be implemented to enhance our customer digital experience.

E-KYC
Enrolled into the upgraded Bahrain E-KYC project which is used to authenticate the identities of clients and validate their information before granting financial services.

FAST LOAN APPROVAL
Fast and easy processing and approval of loans.

CYBER SECURITY
Benchmarking against ISO/IEC 27032, standards for the protection of privacy, integrity, and accessibility of information in cyberspace.

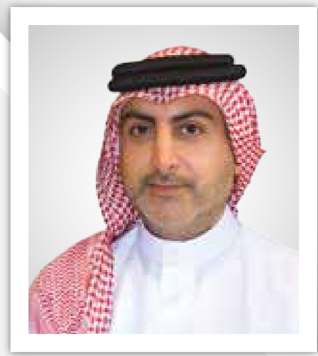
STRONG PRESENCE
NFH continued to maintain strong presence in the auto finance market with market share in new vehicle financing increasing to 20.2%

CUSTOMER DATA PROTECTION
Full adherence to Personal Data Protection Law which came into force on 1 August 2019.

CUSTOMER SERVICE
Strong commitment to providing best possible customer experience and ensure that consumers and businesses receive the right level of support over the course of the pandemic.

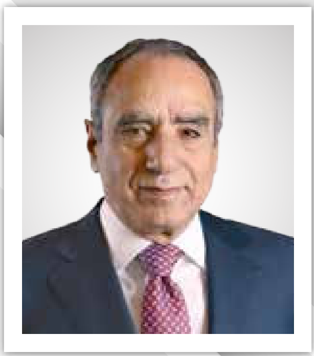
NFH AUTO MALL
Launched in 2019, the Mall provides a convenient one-stop shop for the selection, financing, registration and insurance of vehicles.

Board of Directors

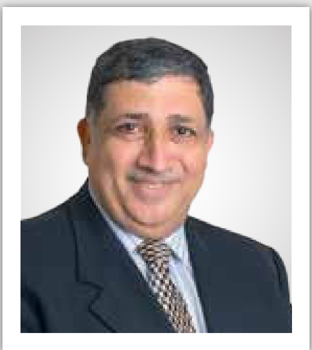


Talal Fuad Kanoo

Mohammed Farouk Almoayyed



Redha Abdulla Ali Faraj



Sameer Ebrahim Al Wazzan

Members of the Board of Directors of NFH are prominent local and regional businessmen with a diverse combination of skills, experience and expertise.

Talal Fuad Kanoo

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

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

Member of Board of Directors
- Supreme Council for Youth & Sports, Bahrain
- Bahrain National Holding Company, Bahrain
- INJAZ, Bahrain

Experience
- Over 22 years of experience in the automotive industry.

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

Experience
- Over 15 years of experience in the field of financing, automobile, information technology solutions.

Redha Abdulla Ali Faraj

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

Member of
- Shura Council, Bahrain
- Minors Estate Guardianship 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

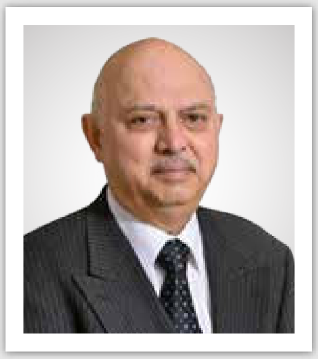
Founder
- Al Faraj Consulting Company WLL, Bahrain
- Al Faraj Horizon Developments Company WLL, Bahrain

Experience
- 60 years of experience in public and private sector, and has own consulting business for the past 20 years.

Robert Pancras

Mohammed Abdullah Alwabil

Khalid Shaheen Saqer Shaheen



Kalyan Sunderam

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

Board Vice Chairman, Chairman of NRCG Committee, Member of Risk Management Committee, Member of Executive Committee
- Arabian Shield Cooperative Insurance Company, KSA

Board Chairman & Chairman of NRCG Committee
- United Insurance Company, Bahrain

Member of the Board of Directors
- Al Kindi Specialised Hospital, Bahrain

Experience
- Over 50 years of experience including 38 years in the insurance sector.

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

Experience
- Over 30 years of experience in the finance and banking sector.

Mohammed Abdullah Alwabil

Board Member (Non-Executive)
Appointed to the Board in 2019

Member of Board of Directors
- Almutlaq Group Company, KSA
- Almutlaq Real Estate Investment Company, KSA

Member of Audit Committee
- The Middle East Battery Company, KSA
- Alkhorayef Water and Power Technologies Company, KSA

Experience
- Over 30 years of experience in the field of investment, banking and auditing.

Khalid Shaheen Saqer Shaheen

Board Member (Independent)
Vice Chairman of Executive Committee
Vice Chairman of Audit, Compliance & Risk Committee
Vice Chairman Member of Nomination & Remuneration 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 Board of Directors
- Ebrahim Khalil Kanoo Group, Bahrain
- Dar Al-Osool , Kingdom of Saudi Arabia

Member of the Board and Chairman of the Audit Committee
- Gulf Medical & Diabetes Center, Bahrain

Vice Chairman
- Taz'ur Company BSC

Member of the Disciplinary Board
- Bahrain Bourse, Bahrain

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

Fellow
- Institute of Directors, UK

Member
- National Association of Corporate Directors, USA

Experience
- Over 30 years of extensive banking experience.

Kalyan Sunderam

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

Managing Director
- Kronin Management Consultants W.L.L. Bahrain

Executive Director
- CFA Society, Bahrain

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

Experience
- Over 40 years of progressive banking experience in the banking sector and has own business for the past 5 years.

Chairman's Statement

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 2020. I am pleased to report that the Group continued to post positive financial results despite the unprecedented challenges brought on by COVID-19.

Throughout the COVID-19 global pandemic, our top priority was to protect the health and safety of our people, customers and partners by adhering to social distancing measures and through remote working, when and wherever possible. We also took significant steps to protect the financial health of the business by implementing measures introduced by the Central Bank of Bahrain (CBB) and the Government, which included payment deferrals to preserve liquidity and ensure sustainable growth of the business despite the challenges brought about by the COVID-19 crisis as well as the Government's financial support in the form of wage and salary payments and the waiver of electricity, water, and municipality charges.

In 2020, the collaboration between the financial sector and regulators along with the Government of Bahrain played an important role in minimizing the economic impact of the pandemic.

The CBB announced a six-month moratorium to all eligible customers commencing from the first of March 2020 in which then it was extended till the end of 2020. Most recently, the targeted loan moratorium and repayment flexibility have been further extended in 2021 for borrowers who continue to be financially affected by the pandemic.

Our results for the financial year ended 31 December 2020 reflect the adverse impact of the pandemic on the auto industry and the weakening consumer demand for automobiles. In 2020, sales of new vehicles in Bahrain dropped by 13 per cent resulting in a decrease in loan disbursements by NFH to BHD 14.8 million compared to BHD 18.6 million in 2019. At the end of the year, the total loan book declined by 2 per cent to BHD 49.75 million compared to BHD 50.74 million in 2019, while shareholders' equity increased by 2 per cent from BHD 14.99 million in 2019 to BHD 15.36 million in 2020.

The Group's inclination towards digitalization will be crucial to enhance our customer experience and ensure competitiveness in the market. The Group is currently upgrading its core banking system and diversifying its digital channels

Despite this, the Group's market share in financing newly registered vehicles increased to 20.2 per cent as compared to 17.27 per cent in 2019. The Group has reported a 13.5 per cent decrease in its net profit to BHD 0.925 million for the year ended 31 December 2020 compared to BHD 1.070 million in 2019.

The decrease in net profit was predominantly attributable to the worldwide COVID-19 pandemic resulting in higher precautionary provisioning requirements. Based on the Group's 2020 financial results, the Board of Directors is proposing a cash dividend of 6 per cent of the paid-up capital (BHD 450 thousand) out of retained earnings for approval by the Shareholders at the Annual General Meeting to be held on 15 March 2021.

Looking forward, the Group's inclination towards digitalization will be crucial to enhance our customer experience and ensure competitiveness in the market. The Group is currently upgrading its core banking system and diversifying its digital channels. We expect 2021 to be another highly-challenging year, as the Kingdom of Bahrain continues to adjust to a new economic reality and changing market dynamics. The Group will maintain its focus on proactively addressing all challenges andidentifying new business opportunities.

With Appreciation & Gratitude

On behalf of the Board of Directors, I take this opportunity to express my sincere appreciation & gratitude to His Majesty King Hamad bin Isa Al-Khalifa and His Royal Highness Prince Salman bin Hamad Al-Khalifa, the Crown Prince and Prime Minister, for their progressive leadership and encouragement. Our appreciation is also extended to our shareholders, customers, our business partners, and to the Central Bank of Bahrain for their support.

Finally, a special statement of thanks to the management and staff of the Company for their dedication and effort to sustain our businesses through this pandemic and other challenges. On behalf of the Board of Directors, I encourage them to continue exerting greater effort in the service of our mission.

Talal Fuad Kanoo
Chairman of the Board

Acting Chief Executive Officer's Report

MAY AL-MAHMOOD
Acting Chief Executive Officer

Despite the historically-unprecedented challenges posed by the outbreak of the COVID-19 pandemic, I am pleased to report that NFH delivered a resilient operating performance in 2020. Our considerable investments over the past few years in developing a robust support and control infrastructure, meant that the Group was well placed to take early proactive steps to mitigate the social and business impact of the coronavirus.

The pandemic had a significant effect on the Kingdom of Bahrain's automobile sector in 2020. After a positive start to the year, with new vehicle sales rising by 28 per cent during the first three months, there was a sharp reduction of 39 per cent during the second quarter. With overall sales declining by 13 per cent for the full year, the number of new vehicles financed by NFH during 2020 dropped by 19 per cent. Despite this, the Group's market share increased to a new record of 20.2 per cent from the previous high of 17.3 per cent set in 2019. Achieved against the backdrop of a highly-competitive and contracting market, this constitutes a remarkable achievement.

It also helps to put our financial results for 2020 into context. A combination of lower loan disbursements and prudent provisioning against impairments, resulted in net profit for the year declining by 13.5 per cent to BD 0.925 million from BD 1.07 million in 2019. Given the extenuating circumstances, this amounts to an encouragingly positive financial performance.

The COVID-19 pandemic served to highlight the increased importance of risk management and digitisation in fostering business sustainability. During 2020, we continued to strengthen our risk management framework; and closely monitored the Group's exposure to credit, operational and liquidity risks. Particular focus was placed on reviewing and revising the credit administration policy and procedures; bolstering business continuity planning and testing cyber security systems.

In order to support customers during the crisis, we enhanced our digital transaction

A high-level roadmap and business system architecture was developed to help the Group devise plans for future digitisation; while a detailed assessment was conducted to identify and select the most appropriate software vendor. The upgrade of the core system is expected to be completed during the first quarter of 2022.

channels via our redesigned website for greater convenience and ease of use during social distancing regulations; and increased the use of social media channels for communications and marketing purposes. We also finalised plans for the introduction in early 2021 of the Fawateer service of the Electronic Fund Transfer System, which will make it easier for customers to check their accounts and pay their loan instalments.

In addition, we initiated a number of development projects for a major upgrade of the Group's core operating system, networking and infrastructure, which will enable the Group to efficiently offer new innovative financial products and services through which to enhance the overall customer experience. A high-level roadmap and business system architecture was developed to help the Group devise plans for future digitisation; while a detailed assessment was conducted to identify and select the most appropriate software vendor. The upgrade of the core system is expected to be completed during the first quarter of 2022.

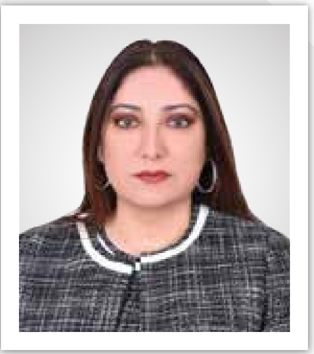
Looking ahead, 2021 will undoubtedly be another highly challenging and unpredictable year, albeit with the vaccination rollout providing a more optimistic outlook. In response, we will maintain our prudent and responsive approach to doing business. This entails closely monitoring and mitigating the impact of COVID-19 on the Group's risk exposures; while focusing on selective loan growth, and prudent deployment of liquidity, within conservative risk tolerance parameters.

In conclusion, I would like to acknowledge the success of the comprehensive measures introduced by the COVID-19 National Task Force – and the tireless efforts of the frontline heroes of #Team Bahrain – in helping to curb the spread of the coronavirus, and make the Kingdom a safer place in which to live and work.

I would also like to express my deep gratitude to the Board of Directors for its continued support and guidance; and thank our clients and business partners for their ongoing loyalty and collaboration. Finally, a special tribute is due to the management and staff of NFH for their exemplary response in rising to the numerous challenges of COVID-19; and their professionalism and dedication during such an extraordinarily testing and tumultuous year.

May Al-Mahmood
Acting Chief Executive Officer

Management Team



May Al-Mahmood

Ali Redha Mohammed

Mahdi Murad

Hussain Al-Zain

Fatima Abdulla Yousif

- **May Al-Mahmood**
  Acting Chief Executive Officer
- **Ali Redha Mohammed**
  Head of Retail
- **Mahdi Murad**
  Head of Risk & MLRO
- **Hussain Al-Zain**
  Head of Information Technology
- **Fatima Abdulla Yousif Ali**
  Human Resources

NFH benefits from a stable, high-calibre and well-qualified Management Team, with proven experience and expertise across a variety of disciplines.

Collaborative **Effort**

As ways of working shifted dramatically with the COVID-19 pandemic during 2020, we continue working collaboratively with the authorities, regulatory bodies, business partners, and dealers to provide effective financing solutions to our valued customers and ensure that consumers and businesses receive the right level of support over the course of the pandemic.

Virtual Collaboration

Our top priority is ensuring the health and safety of our employees and customers by maintaining remote working, promoting social distancing and deploying virtual collaboration.

REVIEW OF **OPERATIONS**

In the most unpredictable and challenging year for decades, the COVID-19 outbreak caused widespread concern and economic hardship for individuals, businesses and authorities across the globe, during 2020.

RETAIL & MARKETING

Vehicle Financing

The total number of new vehicles registered in Bahrain dropped significantly to 27,000 in 2019, following the introduction of Value Added Tax (VAT), compared with an annual average of 45,000 cars sold between 2012 and 2018. The onset of the COVID-19-related disruption contributed to a further decline in the sale of new vehicles in 2020 by 13 per cent compared to the previous year. The Group's market share in the automobile market increased to a record 20.2 per cent in 2020 compared to 17.3 per cent in the previous year, despite the overall drop in the number of newly-registered automobiles in the Kingdom of Bahrain. The number of vehicles financed by the Group during 2020 was lower by 19 per cent compared with a year earlier.

NFH Auto Mall

The NFH Auto mall, a wholly-owned subsidiary of the Group, was launched in the middle of 2019. Conveniently located in Sitra, the hub of car dealerships in Bahrain, the Mall provides a one-stop shopping experience for the selection of a wide variety of new and used motor vehicles. Customers receive a full package of financing, registration and insurance, all under one roof. The Auto Mall's results since inception, reflect the downward trend witnessed by new car sales as a result of the introduction of VAT, as well as the slowdown in the economy of the area in general.

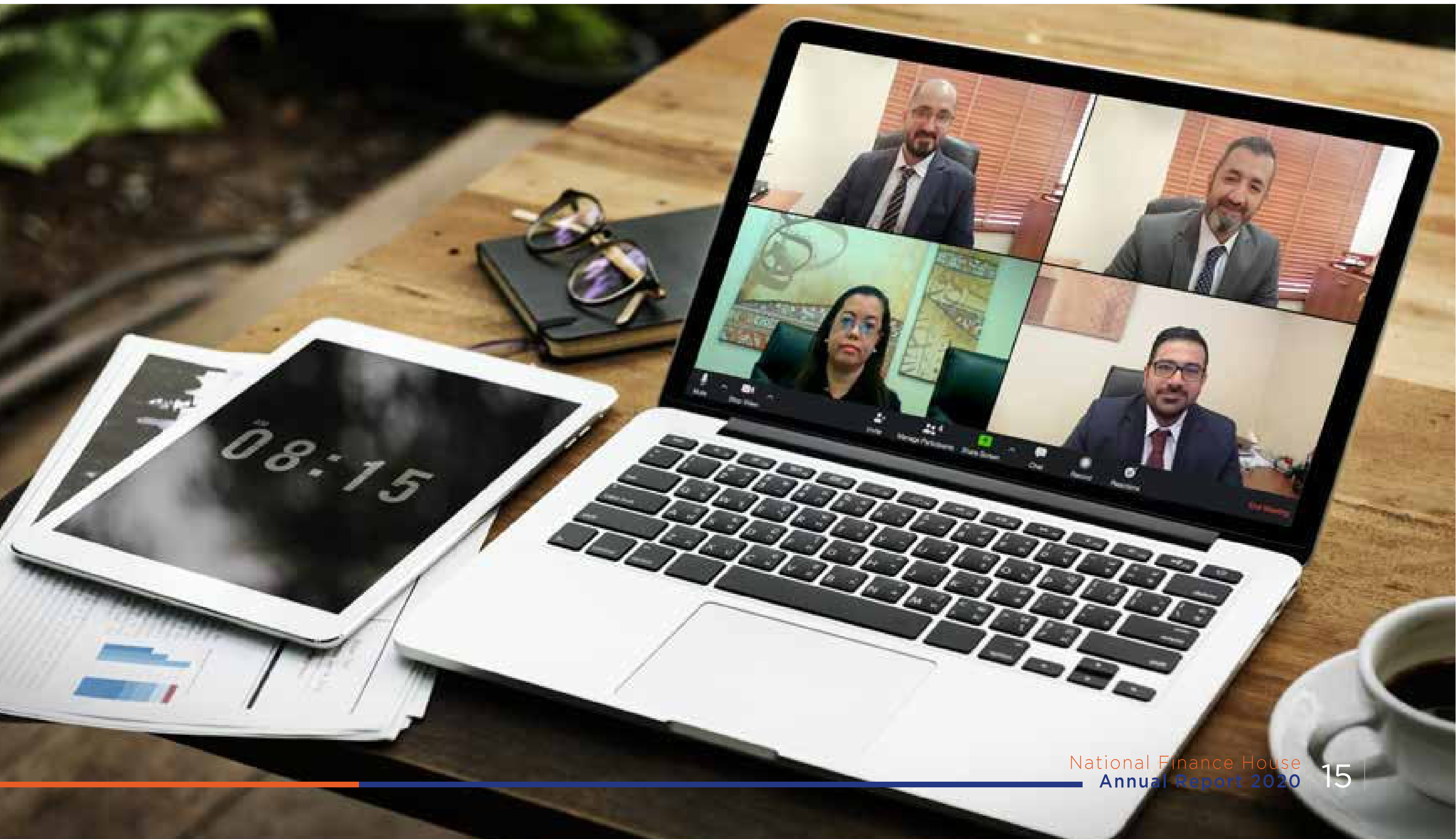
A thorough study of the Auto Mall was conducted in 2020, and a three-year strategic plan was put in place to grow this business. Since then, the business performance and financial results of the Auto Mall have been very encouraging. During 2020, the Group focused on enhancing public awareness of the Mall through conducting an aggressive promotional campaign during the holy month of Ramadan, and utilizing social media channels to promote the Auto Mall.

Insurance

Commission income from selling motor insurance policies declined by 18 per cent in 2020 compared to the previous year. The decline was primarily due to the tough and competitive market conditions in this segment. Going forward, the Group will continue to expand its insurance offerings, through launching a special two-year motor insurance package exclusively for NFH Auto Mall customers.

Customer Service

Superior customer service and faster loan processing times continue to act as key competitive differentiators for NFH. During 2020, the Group maintained its focus on enhancing the customer experience while social distancing regulations were in force. The use of systems to improve turnaround times, a redesigned website with new user-friendly features,



active social media links, and an in-house Call Centre, combined to support service availability.

COLLECTIONS

The highest impact of the pandemic on the Group was related to its loan portfolio, with many borrowers across different sectors facing a sharp collapse in their income, and hence difficulty in repaying their obligations as they came due. The Collections team put in place various strategies to mitigate delinquencies, with proactive calling and the use of automated reminders through messaging systems, playing an important role in helping customers remain up-to-date with their instalments. The Retail team arranged for regular visits to major corporate customers to assess their credit needs, financial performance and capability to repay existing loans. Wherever possible, prudent and mutually-agreeable loan restructuring and deferrals were arranged for customers most heavily impacted by the crisis.

CREDIT ADMINISTRATION

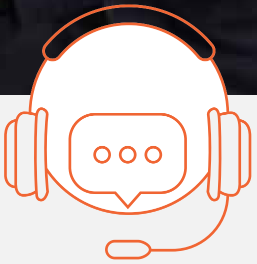
The Group comprehensively reviewed and amended its credit administration policy and procedures in 2020, and further strengthened its credit criteria at a portfolio level. As the coronavirus pandemic upended the trajectory of the economy, more stringent lending criteria were implemented for certain customer segments. The Group also reviewed its Know Your Customer (KYC) procedures, credit rates and authority levels. During 2020, full compliance was maintained with the requirements of the Credit Reference Bureau (CRB) 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 2020, 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. This illustrates the Group's commitment to continuously improve its customer service and satisfaction standards.

HUMAN RESOURCES

In light of the measures taken by the Government to combat the spread of COVID- 19, the Group demonstrated its commitment to protect its employees by placing the health and safety of its team as a top priority, maintaining remote working, promoting social distancing, and



deploying remote or virtual meetings. A biometric contactless attendance system using facial recognition was installed. The headcount at year end was 48 employees, with Bahrainis comprising 96 per cent of the total workforce, and female staff accounting for 29 per cent.

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. All staff were refreshed with mandatory training such as anti-money laundering, safety at work, and the new Personal Data Protection Law (PDPL). Additionally, specialised training was provided for employees whenever required. The Group also continued to support staff to enhance their professional qualifications. During 2020, one employee obtained professional certification in the area of Enterprise IT.

INFORMATION TECHNOLOGY

NFH further strengthened its information and communications technology (ICT) infrastructure in 2020, from a security, services, availability and regulatory perspective. As employees shifted to working remotely from their homes, many were using personal devices which could have led to a significantly-increased risk from cyber adversaries. Accordingly, a VPN connection was arranged to ensure a more secure connection to the business environment. The Group also upgraded its local network speed and enhanced its website, in order to provide users with a smoother experience.

High priority continued to be placed on cyber security, with NFH benchmarking its systems against ISO/IEC 27032 standards for the protection of privacy, integrity and accessibility of information in cyberspace. In line with CBB regulations, two business continuity planning (BCP) exercises were conducted during 2020. These involved successful testing of the BCP centre and disaster recovery site at Sitra, with the involvement of all departments. To ensure the highest levels of information security, two vulnerability assessment and penetration tests (VAPT) were also conducted, with no major risks being identified.

Given the trend towards digital transformation, a high-level roadmap was developed with a business system architecture to help the Group devise future plans for digitalization. The roadmap includes implementing major developments to the core system and exploring new delivery channels.

From a regulatory perspective and in line with CBB directives for 'Implementation of 6 months deferral of installments without interest', special skip changes were successfully implemented in the core banking solution. The Group also complied with the new requirement of BENEFIT by enhancing its online channels, and migrating to the Fawateer service of the Payment Gateway, which adds more security and flexibility to this channel.

COMPLIANCE

In light of the increased risk environment and heightened expectations of the regulators, Compliance and Risk Management across the Group was a key focus of the Board, with oversight by the Board Audit Compliance & Risk Committee. During 2020, the Group maintained its ongoing compliance with the regulations of the Central Bank of Bahrain 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 and Tourism.

The CBB implemented various regulatory measures to limit the economic repercussions of the COVID-19 pandemic, including issuing circular number OG/106/2020 dated 17 March 2020, circular number EDBS/KH/C/30/2020 dated 23 March 2020, and circular number OG296/2020 dated 26 August 2020, pursuant to which all financial institutions were required to offer Kingdom of Bahrain citizens and residents, and financial and non-financial companies excluding banks, an initial six-months deferral of instalments, which was then extended to 31 December 2020. Consistent with previous Circulars the CBB issued circular number OG/431/2020 dated 29 December 2020, which extended the option to defer loan instalments for another six months starting from and including 1 January 2021. The Group adhered to all the CBB directives and various measures issued during 2020 to combat the effect of COVID-19.

The Group also complied with the CBB circular number EDBS/KH/C/16/2020 dated 27 February 2020, in relation to a cap on fees for credit facilities to individuals, which came into effect from 1 June 2020. Due to the outbreak of COVID-19, certain date-sensitive reporting requirements were exempted by the CBB, and submission deadlines for other reporting requirements were extended. Full details are included in the Corporate Governance Report.

RISK MANAGEMENT

Given the changing economic and market conditions and new regulatory requirements due to the COVID-19 pandemic situation during 2020, NFH enhanced its corporate governance by further strengthening its risk management framework and risk-related policies and procedures, to mitigate the effects of the pandemic on the Group's operations and liquidity. During the year, NFH implemented CBB directives related to moratoriums on loan collections, and abided by other local measures adopted in the pandemic's wake. On the other hand, to ensure sufficient cash availability and prevent an adverse impact on the lending capability of the Group, repayments of borrowings from banks were deferred. Focus continued to be placed on credit administration policy and procedures; business continuity planning, cyber security and anti-money laundering practices. Full details are included in the Risk Management Review.

As the COVID-19 pandemic has drastically increased the digital collaboration, our prioritization will be on improving the digital customer experience by implementing major developments to the core system and investing in new delivery channels.

Digital Collaboration

RISK MANAGEMENT REVIEW

In line with best practice and to further strengthen the Group's governance, NFH set up an effective Risk Management and Internal Control Framework to identify, monitor and control risks to which the Group may be exposed. The Risk Management Department oversees the effective implementation of all necessary policies, procedures, controls 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 and concessionary measures 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 organization.

The Group was impacted severely by the COVID-19 pandemic where it witnessed a sharp drop in the new auto loan financing, incremental provisions, decline in profitability and increase in the percentages of non-preforming loans and past due loans during the first half of the year. In the second half of 2020, the Group's overall business and financial position improved and enhancements were witnessed in these areas.

KEY DEVELOPMENTS IN 2020

- NFH successfully enrolled into the upgraded Bahrain E-KYC project. E-KYC is used to authenticate the identities of clients and validate their information before granting financial services.
- Although the Group was granted with exemption from submitting the agreed upon procedures for year 2020 for testing compliance with the Financial Crime Module requirement, NFH performed the procedures under Sub-paragraph FC-4.3.1 (c) where a sample testing of compliance with the customer due diligence requirements stated under FC module has been undertaken by outsourced internal auditor.
- All Group's charters, policies, processes and procedures were reviewed and updated.
- Reviewed Credit Risk and Credit Administration policy and procedures, and tightened customer credit assessment criteria for some impacted segments of customers.
- The annual high-level Risk Control Self-Assessment (RCSA) for Retail, Insurance business, Call Centre and the mobile application was carried out. The RCSA was also extended to cover all processes for each department with a customised automation system.
- The Group's Risk Appetite Statement was reviewed. The list of Key Risk Indicators (KRIs) was expanded.
- Customer Risk Rating (CRR) methodology was reviewed and amended.
- AML/CFT refresher training was provided to all staff through in-house resources. New joiners were given external training, given the importance of this aspect of KYC.
- The Group's Business Continuity Planning (BCP) was enhanced with an upgraded Disaster Recovery Site (DRS) and updated departmental BCPs on a 'worst case' scenario.
- All outstanding credit and risk-related audit points raised by internal, external and regulatory auditors were effectively addressed.

RISK PHILOSOPHY & APPROACH

- The Group has a conservative risk appetite which has led to a consistently sound asset quality and sustainable operating performance.
- Shareholder value is built over a strong risk matrix to ensure stability 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 risk appetites and tolerances.

RISK EXPOSURE

The Group's business is primarily exposed to following risks:

- Credit risks
- Liquidity risks
- Market risk (including interest rate and currency risks)
- Operational risks
- 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. The Board sets the Group's overall risk parameters and tolerance by approving the relevant risk management policies. It has established the Audit, Compliance & Risk Committee for reviewing and monitoring risk metrics and compliance with the policies approved by the Board. The Audit, Compliance & Risk Committee reviews and reports to the Board on the Group's risk profiles and risk-management activities.

Management

The Chief Executive Officer has the primary responsibility for sanctioning risk-taking activities, and operating within the risk management policies and tolerance as defined by the Board of Directors. The risk management process is based on a detailed structure of policies, procedures and limits; aided by comprehensive risk measurement and MIS 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, controls 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 delegated 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 and margin management.

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 and internal control frameworks and supporting policies. The function is also responsible for providing risk oversight and independent reporting of risk to the Audit, Compliance and Risk, 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 Group-wide basis and identify risk owners
- Implement the Internal Control Framework on a Group-wide basis and identify control gaps across all processes
- Effectively identify, assess, monitor, mitigate and report risks across all business units and processes
- 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 and internal control culture and 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 Group has implemented an anti-money laundering (AML) and counter- terrorism financing (CFT) policy, and annually trains staff to raise awareness for identifying and reporting suspicious transactions as well as detecting and mitigating frauds. In light of the amended agreed upon procedures issued by CBB during the year 2019 and the subsequent guidelines and directives in light of COVID-19 pandemic for testing compliance with the Financial Crime Module covering the quality of procedures, systems and controls in relation to Module FC requirements, NFH follows prudent practices related to Customer Due Diligence and Beneficial Ownership, screening abnormal transactions 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 to its valued customers in spite of business continuity challenges like natural calamities or other events. This is achieved through identifying potential threats to the Group, 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 2020, two fire drills along with two business continuity exercises and testing NFH's call-out tree, 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 2020.

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 2020

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.

NFH continuously strives to improve the level of compliance levels in all its activities and implement best practices in compliance. During 2020, NFH continued to maintain a strong 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 Group's response to the COVID-19 pandemic was ultimately led by the Board of Directors. A Task Force Committee which includes two board members was formed to oversee and assist the Management during the COVID-19 pandemic. The Business Continuity Plan (BCP) Team was activated. The departmental BCPs were updated along with the staff that can perform their roles remotely and processes that do not require presence at office. Since the World Health Organization declared the virus a pandemic, the Board took a highly active oversight of the business performance exploring the potential financial, operational, and strategic impacts of COVID-19 and trigger points for action. The BCP team, has overseen the business's COVID-19 response, under the guidance of, and as directed by, the Board including reviewing the safety and security measures, putting plans for cost reduction to preserve liquidity, complying with the CBB measures to combat the effects of COVID-19 on the banking sector, assessing the credit and lending criteria and ensuring the implementation of government's social distancing requirements.

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. Compliance awareness training were conducted to improve employee engagement and awareness at all levels.

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

NFH has a highly skilled, experienced and well-respected Board of Directors from a variety of business backgrounds. The Board of directors is fully committed to the Company's long-term sustainability while maintaining the highest standards of corporate governance and ethical business conduct across all aspects of the Company's operations.

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

Corporate Governance Report continued

Directors. The Board was appointed at the Annual General Meeting held on 15 March 2021 for a period of three years. The next election / re-election of the Board of Directors for a three-year term is scheduled for March 2024. The appointment of Directors is subject to the CBB's 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 and Business conduct for Directors. Meetings will also be arranged with Executive Management. Re-elected Directors, who are already inducted into the Board may undergo a refresher programme. During 2020, 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 BHD 81,750 as sitting fees for their contribution to the Board and Board Committees held during 2020.

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.

Corporate Governance Report continued

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 2020. There are no shares held by Directors or Senior Managers as at 31 December 2020.

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.bh 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.

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. These committees are the Executive Committee; Audit, Compliance & Risk Committee; and Nomination and Remuneration 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 2020 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 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

Corporate Governance Report continued

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 2020 was eight. 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 for 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 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 2020 was four. 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.

Corporate Governance Report continued

BOARD & BOARD COMMITTEES MEMBERS AS AT 31 DECEMBER 2020

The classification of 'Executive' Directors, 'Non-Executive' Directors and 'Independent' Directors is as per definitions stipulated by the CBB. None of the 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		
Mohammed Abdullah Alwabil	Non-Executive	Member			
Khaled Shaheen Saqer Shaheen	Independent	Member	Deputy Chairman	Deputy Chairman	Deputy Chairman
Kalyan Sunderam	Independent	Member		Chairman	Member

Board & Board Committee Meetings and Record of Attendance during 2020

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

Board of Directors

	16 Jan	12 Mar	28 May	25 Aug	07 Dec	% of meetings attended
Talal Fuad Ebrahim Kanoo	☑	☑	☎	☎	☎	100%
Mohammed Farouk Almoayyed	☑	☑	☎	☎	☎	100%
Redha A. Faraj	☑	☑	☎	☎	☎	100%
Sameer Ebrahim Al Wazzan	☒	☑	☎	☎	☎	80%
Robert Pancras	☑	☎	☎	☎	☎	100%
Mohammed Abdullah Alwabil	☑	☎	☎	☎	☎	100%
Khaled Shaheen Saqer Shaheen	☑	☑	☎	☎	☎	100%
Kalyan Sunderam	☑	☑	☎	☎	☎	100%

Corporate Governance Report continued

Executive Committee

	13 Feb	04 May	10 Aug	16 Nov
Mohammed Farouk Y. Almoayyed	☑	☎	☎	☎
Khaled Shaheen Saqer Shaheen	☑	☑	☎	☎
Sameer Ebrahim Al Wazzan	☑	☒	☎	☎
Robert Pancras	☑	☎	☎	☎

Audit, Compliance & Risk Committee

	02 Jan	18 Feb	19 May	24 Jun	12 Jul	23 Aug	10 Nov	15 Nov
Kalyan Sunderam	☑	☑	☎	☎	☎	☎	☎	☎
Khaled Shaheen Saqer Shaheen	☑	☑	☎	☎	☎	☎	☎	☎
Redha A. Faraj	☑	☑	☎	☎	☎	☎	☎	☎

Nomination & Remuneration Committee

	12 Mar	25 Aug	08 Oct	07 Dec
Talal Fuad Ebrahim Kanoo	☑	☎	☎	☎
Khaled Shaheen Saqer Shaheen	☑	☎	☎	☎
Kalyan Sunderam	☑	☎	☎	☎

7- SHAREHOLDERS

List of NFH Shareholders as at 31 December 2020:

Shareholder's Name	Country	% Of Ownership	No. of Shares	BHD Amount of Ownership
Bahrain National Holding Company	Bahrain	34.93%	26,195,240	2,619,524
E.K. Kanoo B.S.C.	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

Corporate Governance Report continued

8- MANAGEMENT

The Board has delegated authority to the Chief Executive Officer (CEO) for the day-to-day management of the Group. The CEO is supported in his/her 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/her 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 2020. The external auditors charged BHD 19,250 against the services rendered by them to the Group (BHD 9,500 for audit, and BHD 9,750 for condensed interim financial information review, PIRFM review, annual PD review, Financial Crime Module review, Annual License Fee "ALF" review and assessment of the impact of COVID-19). The external auditors did not provide any other material consultative or administrative service to the Group during the year that would conflict with the independence principle.

The internal audit function was outsourced to Grant Thornton Abdulaal Gulf Audit for the ended 31 December 2020. 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 2020, BHD 10,900 was charged by the outsourced internal auditors against the auditing services rendered to the Group and for performing the agreed upon procedures report for the Financial Crime Module.

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.

Corporate Governance Report continued

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 2020, 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 an 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.

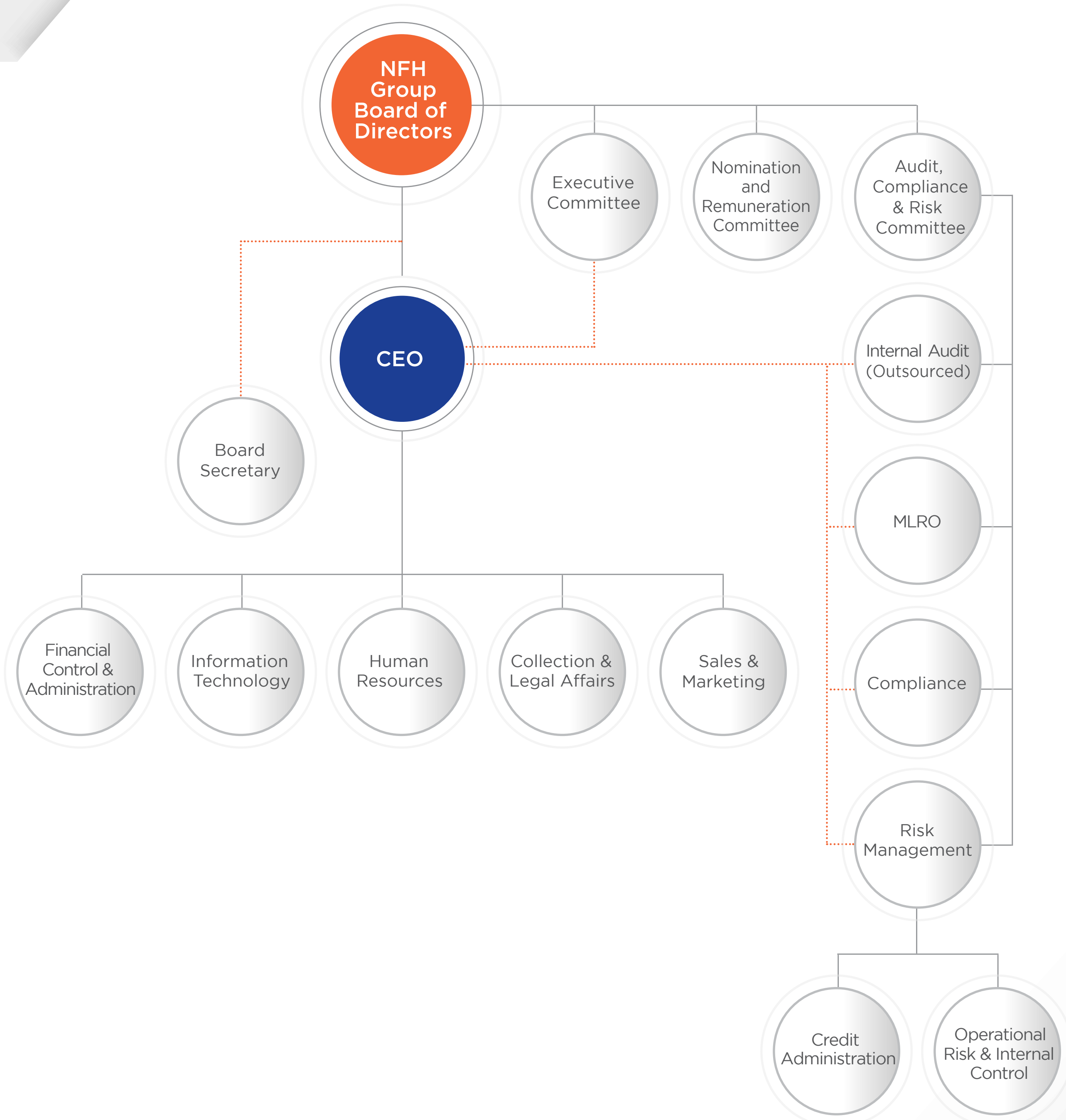
CBB exemption was obtained on 3 June 2018 in this regard.

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") as modified by the CBB 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 Report continued

GROUP GOVERNANCE AND ORGANISATION STRUCTURE



Corporate Governance Report continued

EXECUTIVE MANAGEMENT

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

- Over 27 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 22 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 18 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).
- Certification in IFS-Accredited Credit Program, UK.
- Currently pursuing certification in Professional Risk Manager (PRM).

Hussain Al-Zain (Prince2 Practitioner, ITIL,MBA)
Head of IT
Joined NFH in 2020

- Over 22 years' of experience in banking, Information Technology and Project Management.
- PGD in Data Science & Business Analytics, Texas University.
- Prince2 Certification (Practitioner) and ITIL certified (APMG International).
- MBA in Project Management, Open University Malaysia.
- PGD in Business Administration, University of Bahrain.
- BSc in Computer Science, University of Bahrain.
- Outstanding Volunteer in INJAZ Al-BAHRAIN since 2014.

Fatima Abdulla Yousif Ali
Human Resources
Joined NFH in 2011

- Over 33 years of experience in financial and banking sectors and aviation, of which 28 have been spent in the field of human resources.

CONSOLIDATED **FINANCIAL** STATEMENTS **2020**

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

31 December 2020

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of National Finance House B.S.C (c) (the "Company") and its subsidiary (together, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as modified by the Central Bank of Bahrain.

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' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Kingdom of Bahrain, and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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 as modified by the Central Bank of Bahrain, 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.

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (continued)

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.
- 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 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 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
25 February 2021

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2020 (Bahraini dinars)

	Note	2020	2019
ASSETS			
Cash and cash equivalents	4	3,552,608	2,912,801
Placements with banks	5	2,998,931	-
Loans to customers	6	49,749,042	50,740,634
Property and equipment	7	422,935	586,643
Other assets		416,517	404,399
Total assets		**57,140,033**	54,644,477
LIABILITIES AND EQUITY			
Liabilities			
Bank borrowings	8	39,881,532	37,307,238
Other liabilities	9	1,902,327	2,349,579
Total liabilities		**41,783,859**	39,656,817
Equity			
Share capital	11	7,500,000	7,500,000
Share premium		112,500	112,500
Statutory reserve		1,289,253	1,196,719
Retained earnings		6,454,421	6,178,441
Total equity (page 37)		**15,356,174**	14,987,660
Total equity and liabilities		**57,140,033**	54,644,477

The Board of Directors approved the consolidated financial statements on 25 February 2021 and signed on its behalf by:

Talal Fuad Ebrahim Kanoo
Chairman

Mohammed Farouk Y. Almoayyed
Deputy Chairman

The accompanying notes 1 to 18 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 2020 (Bahraini Dinars)

	Note	2020	2019
Interest income	12	5,185,191	4,970,614
Interest expense		(2,231,751)	(2,525,710)
Net interest income		**2,953,440**	2,444,904
Fees and commission income		584,957	909,648
Fees and commission expense		(254,197)	(390,434)
Net fee and commission income		**330,760**	519,214
Other income	13	216,569	223,694
Total income		**3,500,769**	3,187,812
Salaries and related costs		(864,629)	(990,310)
Other operating expenses	14	(560,987)	(677,218)
Depreciation	7	(187,761)	(215,587)
Impairment losses on loans to customers	6	(962,048)	(234,411)
Total expenses		**(2,575,425)**	(2,117,526)
Profit for the year		**925,344**	1,070,286
Other comprehensive income		**-**	-
Total comprehensive income for the year		**925,344**	1,070,286
Basic and diluted earnings per share	11	**12.34 fils**	14.27 fils

The Board of Directors approved the consolidated financial statements on 25 February 2021 and signed on its behalf by:

Talal Fuad Ebrahim Kanoo
Chairman

Mohammed Farouk Y. Almoayyed
Deputy Chairman

The accompanying notes 1 to 18 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020 (Bahraini Dinars)

2020	Share capital	Share premium	Statutory reserve	Retained earnings	Total equity
Balance at 1 January 2020	**7,500,000**	**112,500**	**1,196,719**	**6,178,441**	**14,987,660**
Profit and total comprehensive income for the year (page 36)	-	-	-	925,344	**925,344**
Modification loss (note 15)	-	-	-	(1,704,745)	**(1,704,745)**
Modification gain (note 15)	-	-	-	996,581	**996,581**
Government grant (note 15)	-	-	-	151,334	**151,334**
Transfer to statutory reserve	-	-	92,534	(92,534)	-
At 31 December 2020	**7,500,000**	**112,500**	**1,289,253**	**6,454,421**	**15,356,174**

2019	Share capital	Share premium	Statutory reserve	Retained earnings	Total equity
Balance at 1 January 2019	7,500,000	112,500	1,089,690	5,815,184	14,517,374
Profit and total comprehensive income for the year (page 36)	-	-	-	1,070,286	1,070,286
Dividends declared for 2018	-	-	-	(600,000)	(600,000)
Transfer to statutory reserve	-	-	107,029	(107,029)	-
At 31 December 2019	7,500,000	112,500	1,196,719	6,178,441	14,987,660

The accompanying notes 1 to 18 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020 (Bahraini Dinars)

	Note	2020	2019
Operating activities			
Interest, fees and commission received		4,969,091	6,073,582
Fees and commission paid		(270,067)	(436,696)
Loans disbursed		(14,827,352)	(18,573,338)
Loan repayments		13,726,045	19,788,937
Payments for staff salaries and related costs		(767,039)	(1,091,967)
Payments for other operating expenses		(183,252)	(734,587)
Net cash generated from operating activities		**2,647,426**	5,025,931
Investing activities			
Placement with banks		(3,000,000)	-
Purchase of property and equipment	7	(29,233)	(143,590)
Sale of property and equipment		-	1,360
Net cash used in investing activities		**(3,029,233)**	(142,230)
Financing activities			
Drawdown of bank borrowings		6,500,000	15,000,000
Repayment of bank borrowings		(3,925,706)	(16,223,811)
Interest paid		(1,552,963)	(2,465,363)
Dividends paid		-	(600,000)
Net cash generated from/ (used in) financing activities		**1,021,331**	(4,289,174)
Net increase in cash and cash equivalents		**639,524**	594,527
Cash and cash equivalents at 1 January		2,914,649	2,320,122
Cash and cash equivalents as at 31 December*	4	**3,554,173**	2,914,649

* Cash and cash equivalents as at 31 December 2020 is gross of the expected credit loss of BHD 1,565 (2019: BHD 1,848).

The accompanying notes 1 to 18 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 (Bahraini Dinars)

1- REPORTING ENTITY

National Finance House B.S.C (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 W.L.L ("NFH Auto Mall"), 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. 111539-1.

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 the International Financial Reporting Standards ("IFRS"), the requirements of the Commercial Companies Law and the applicable rules and regulations issued by the Central Bank of Bahrain (the "CBB") including the issued CBB's circulars on regulatory concessionary measures in response to COVID-19. These rules and regulations require the adoption of all IFRS issued by the IASB, except for:

(i) recognition of modification gains/ losses on financial liabilities/ assets arising from payment holidays provided to customers impacted by COVID-19 without charging additional interest, in equity instead of the profit or loss account as required by IFRS 9 Financial Instruments. Any other modification gain or loss on financial assets are recognised in accordance with the requirements of IFRS 9. Please refer to note 15 for further details; and

(ii) recognition of financial assistance received from the government in response to its COVID-19 support measures, in equity, instead of the profit or loss account. This will only be to the extent of any modification loss recorded in equity as a result of (i) above, and the balance amount to be recognised in profit or loss account. Any other financial assistance is recognised in accordance with the requirements of IAS 20. Please refer to note 15 for further details.

The above framework for basis of preparation of the annual financial statements is hereinafter referred to as 'IFRS as modified by the CBB'.

The retrospective application of the change in accounting policies did not result in any change to the financial information reported for the comparative period.

The consolidated financial statements have also been prepared in conformity with the Commercial Companies Law.

(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 ("BHD"), which is also the Group's functional currency.

3- SIGNIFICANT ACCOUNTING POLICIES

(a) New accounting policies, standards, amendments and interpretations effective from 1 January 2020:

Government grants

Government grants are recognised when there is reasonable assurance that the entity will comply with the relevant conditions and the grant will be received. Grants are recognised as other income in profit or loss on a systematic basis as the Group recognises as expenses the costs that the grants are intended to compensate. Grants that relate to the acquisition of an assets are recognised in profit or loss as the assets is depreciated or amortised.

The following new standards, amendments and interpretations became effective during the year. However, they did not have any significant impact on the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 (Bahraini Dinars)

3- SIGNIFICANT ACCOUNTING POLICIES (continued)

Description	Effective from
Definition of Material – Amendment to IAS 1 and IAS 8	1 January 2020
Definition of a Business – Amendment to IFRS 3	1 January 2020
Amendment to References to Conceptual Framework in IFRS Standards	1 January 2020
Interest Rate Benchmark Reform - Amendments to IFRS 9, IAS 39 and IFRS 7	1 January 2020
Amendment to IFRS 16 regarding COVID - 19 related concession	1 June 2020

Interest Rate Benchmark Reform:

Interbank offered rates (“IBORs”), such as the London Interbank Offered Rate (“LIBOR”), plays a critical role in global financial markets, serving as reference rates for derivatives, loans and securities, and as parameters in the valuation of financial instruments. Uncertainty surrounding the integrity of IBOR rates has in recent years, led regulators, central banks and market participants to work towards a transition to alternative risk-free benchmark reference rates (“RFRs”) and market-led working groups in respective jurisdictions have recommended alternative risk-free reference rates, which are gradually being adopted. Progress in the transition to these new benchmarks has resulted in significant uncertainty in the future of IBOR benchmarks beyond 1 January 2022.

The majority of LIBOR and other Interbank Offer Rates (“IBORs”) are expected to be discontinued after 31 December 2021 and replaced with certain Alternative Reference Rates (“ARRs”), with the exception of certain USD LIBOR rates were cessation may be delayed until 30 June 2023. The transition away from the IBORs covers most of the business units and support functions of the Group.

NFH has initiated its IBOR transition project and during the year submitted its transition plan to the CBB.

(b) Standards issued but not yet effective

The following standards have been issued but not yet effective.

Description	Effective from
Interest Rate Benchmark Reform-Phase 2 (Amendments to IFRS 9, IAS 39 and IFRS 7, IFRS 4 and IFRS 16)	1 January 2021

The amendments made to IFRS 9, IAS 39 and IFRS 7 and IFRS 16 provide certain reliefs in relation to interest rate benchmark reforms. The post-IBOR reform is when the uncertainty goes away and companies update the rates in their contracts and the details of their hedging relationships. The amendments are effective for annual reporting periods beginning on or after 1 January 2021.

The amendments address issues that might affect financial reporting as a result of the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate.

The Group has started its assessment of the potential impact on its consolidated financial statements of adopting these amendments.

(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 judgments

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:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 (Bahraini Dinars)

3- SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 (Bahraini Dinars)

3- SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Financial assets and liabilities

Financial assets

(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.

(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 2020 the Group did not have any financial assets measured at FVOCI or FVTPL.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 (Bahraini Dinars)

3- SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 recognised 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 recognised, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 (Bahraini Dinars)

3- SIGNIFICANT ACCOUNTING POLICIES (continued)

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)

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 reorganisation.

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.

(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) Property and equipment

Property 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 (Bahraini Dinars)

3- SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Cash and cash equivalents

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

(l) Statutory reserve

The Commercial Companies Law requires 10% 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 Commercial Companies Law. Such transfers may cease once the reserve reaches 50% of paid up share capital.

(m) 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.

(n) Employee's 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.

4- CASH AND CASH EQUIVALENTS

	2020	2019
Cash in hand	1,500	1,500
Balances with banks *	3,552,673	2,913,149
Cash and cash equivalents	**3,554,173**	2,914,649
Less: expected credit loss **	(1,565)	(1,848)
	3,552,608	2,912,801

* Includes BHD 12,139 (2019: BHD 17,178) collected from customers as insurance premium on behalf of the insurance company.

** Represents 12-month ECL on stage 1 financial assets.

5- PLACEMENTS WITH BANKS

	2020	2019
Placements with banks	3,000,000	-
Less: expected credit loss *	(1,069)	-
	2,998,931	-

* Represents 12-month ECL on stage 1 financial assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 (Bahraini Dinars)

6- LOANS TO CUSTOMERS

(a) Exposure

31 December 2020	Stage 1	Stage 2	Stage 3	Total
Loans to customers	48,338,852	981,353	2,752,125	52,072,330
Less: expected credit loss	(250,075)	(116,275)	(1,956,938)	(2,323,288)
Net loans	**48,088,777**	**865,078**	**795,187**	**49,749,042**

31 December 2019	Stage 1	Stage 2	Stage 3	Total
Loans to customers	48,409,243	1,332,289	2,910,847	52,652,379
Less: expected credit loss	(262,016)	(191,976)	(1,457,753)	(1,911,745)
Net loans	48,147,227	1,140,313	1,453,094	50,740,634

(b) Expected credit loss movement

2020	Stage 1	Stage 2	Stage 3	Total
At 1 January 2020	262,016	191,976	1,457,753	1,911,745
Transfer to Stage 1	239,252	(80,465)	(158,787)	-
Transfer to Stage 2	(7,657)	32,303	(24,646)	-
Transfer to Stage 3	(11,345)	(61,442)	72,787	-
Net re-measurement of loss allowance	(232,191)	33,903	1,160,336	962,048
Write off during the year	-	-	(550,505)	(550,505)
Expected credit loss as at 31 December 2020	**250,075**	**116,275**	**1,956,938**	**2,323,288**

2019	Stage 1	Stage 2	Stage 3	Total
At 1 January 2019	239,773	170,452	1,605,397	2,015,622
Transfer to Stage 1	88,294	(35,921)	(52,373)	-
Transfer to Stage 2	(8,996)	19,017	(10,021)	-
Transfer to Stage 3	(15,028)	(84,669)	99,697	-
Net re-measurement of loss allowance	(42,027)	123,097	153,341	234,411
Write off during the year	-	-	(338,288)	(338,288)
Expected credit loss as at 31 December 2019	262,016	191,976	1,457,753	1,911,745

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 (Bahraini Dinars)

7- PROPERTY AND EQUIPMENT

	Furniture and equipment	Computer software	Computer hardware	Capital work in progress	Right-of-use asset	2020 Total	2019 Total
Cost							
At 1 January	639,679	532,141	208,039	10,488	336,365	1,726,712	1,269,287
Additions/ transitions	2,477	18,718	984	7,054	-	29,233	479,955
Disposals	(5,279)	(855)	(7,080)	-	-	(13,214)	(19,250)
Reclassification and other adjustments	(2,680)	-	-	-	-	(2,680)	(3,280)
At 31 December	**634,197**	**550,004**	**201,943**	**17,542**	**336,365**	**1,740,051**	1,726,712
Depreciation							
At 1 January	435,852	427,714	193,099	-	83,404	1,140,069	944,295
Charge for the year	49,048	47,405	7,445	-	83,863	187,761	215,587
Disposals	(3,655)	-	(6,657)	-	-	(10,312)	(19,213)
Reclassification and other adjustments	(402)	-	-	-	-	(402)	(600)
At 31 December	**480,843**	**475,119**	**193,887**	**-**	**167,267**	**1,317,116**	1,140,069
Net book value							
At 31 December 2020	**153,354**	**74,885**	**8,056**	**17,542**	**169,098**	**422,935**	
At 31 December 2019	203,827	104,427	14,940	10,488	252,961		586,643

Right-of-use asset relate to leased properties that do not meet the definition of investment property. The Group has on lease its premises at Avenue 66 and Sitra namely. These leases are for a period of five years, with an option to renew the lease after that date subject to mutual agreement. Lease payments can be renegotiated every five year to reflect market rentals.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 (Bahraini Dinars)

8- BANK BORROWINGS

	2020	2019
Repayable within one year	7,884,774	10,018,456
Repayable after one year	31,996,758	27,288,782
	39,881,532	37,307,238

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 3.75% to 6.23% p.a. (2019: 4.51% to 7.41% p.a.). Of the total borrowings, BHD 36 million (2019: BHD 35 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:

	2020	2019
At 1 January	37,307,238	38,531,049
Proceeds from bank borrowings	6,500,000	15,000,000
Repayment of bank borrowings	(3,925,706)	(16,223,811)
At 31 December	**39,881,532**	37,307,238

9- OTHER LIABILITIES

	2020	2019
Payable to agents for vehicles financed	1,177,065	1,619,075
Payable for insurance companies	29,848	31,892
Lease liability	178,032	259,279
Accrued expenses	517,382	439,333
	1,902,327	2,349,579

Maturity analysis of contractual discounted cash flows of lease liability:

	2020	2019
Within one year	85,708	90,473
More than one year	92,324	168,806
	178,032	259,279

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 (Bahraini Dinars)

10- 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	2020	2019
Capital expenditure		
Furniture and equipment and capital work in progress (Shareholder)	1,427	108,423
Operating income		
Insurance commission - Motor vehicles (Shareholder)	33,442	40,771
Operating expenses		
Auto Mall purchases of vehicles (Shareholders)	333,180	314,006
Insurance premium charges (Shareholders)	194,731	203,983
Call centre charges (Shareholder)	-	10,500
Salesman commission (Shareholders)	19,815	58,015
Other operating expenses (Shareholders)	62,835	51,632

Related party balances	2020	2019
Payable for vehicles financed (Shareholders)	562,547	1,071,798
Payable for insurance premiums (Shareholders)	29,848	31,892
Prepaid expenses (Shareholders)	16,711	19,678
Payable of salesman commission (Shareholders)	-	5,975
Payable for operating and capital expenditure (Shareholders)	5,058	15,429
Receivable of insurance agency commission (Shareholders)	7,792	4,011

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 (including staff loan) is as follows:

	2020	2019
Key management compensation	233,410	292,084
Board of Directors remuneration and committee attendance allowances	85,779	100,730

Balances with key management personnel

	2020	2019
Staff loan	855	531

Certain transactions were approved by the Board of Directors under Article189(b) of the Commercial Companies Law in the financial year ended 31 December 2020 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

For the year ended 31 December 2020 (Bahraini Dinars)

11- SHARE CAPITAL

	2020	2019
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	**12.34 fils**	14.27 fils

The earning per share is calculated by dividing the net income of BHD 925,344 (2019: BHD 1,070,286) by the number of shares outstanding at the end of the year of 75 million shares (2019: 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 6% of the paid-up capital. This amounts to BHD 450,000 (2019: proposed, approved but later cancelled).

In addition, no Board of Directors' remuneration proposed for the year (2019: BHD 19,000).

12- INTEREST INCOME

	2020	2019
Interest on loans to customers	5,144,837	4,967,399
Interest on bank term deposits	40,354	3,215
	5,185,191	4,970,614

13- OTHER INCOME

	2020	2019
Recoveries from loans previously written off	93,810	179,502
Net income from automotive sales	95,878	31,858
Other miscellaneous income	26,881	12,334
	216,569	223,694

* The net income is resultant from automobile sales amounting to BHD 1,531,118 (2019: BHD 612,251).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 (Bahraini Dinars)

14- OTHER OPERATING EXPENSES

	2020	2019
Office expenses	308,872	333,081
Computer maintenance and support expenses	79,959	78,100
Rent	10,578	10,578
Legal and professional charges	73,695	102,899
Communication expense	51,957	52,171
Advertising and publicity expense	23,799	41,341
Board of Director's remuneration	-	19,000
Printing and stationery expense	11,340	12,946
Net impairment of other assets	787	27,102
	560,987	677,218

15- Accounting for modified financing assets/ liabilities and government grants

During the year, based on a regulatory directive issued by the CBB (refer to note 2 (a)) as concessionary measures to mitigate the impact of COVID-19, a one-off modification losses amounting to BHD 1,704,745 arising from the six-month payment deferment provided to financing customers without charging additional interest has been recognised directly in equity. The modification loss has been calculated as the difference between the net present value of the modified cash flows calculated using the original effective interest rate and the current carrying value of the financial assets on the date of modification. The Group provided payment deferment on financing exposures amounting to BHD 35.1 million as part of its support to impacted customers.

Furthermore, as per the regulatory directive, financial assistance amounting to BHD 996,581 representing a one-off modification income arising from the six-month payment deferment to the Group's credit facilities without charging additional interest has been recognised directly in equity. The modification income has been calculated as the difference between the net present value of the modified cash flows calculated using the original effective interest rate and the current carrying value of the financial liabilities on the date of modification. In addition, an amount of BHD 151,335 (representing specified reimbursement of a portion of staff costs and waiver of fees, levies and utility charges) received from the government, in response to its COVID-19 support measures, has been recognised directly in equity.

16- FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Risk management framework and overview

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

Financial instruments comprise of financial assets and financial liabilities. Financial assets of the Group consist of cash and cash equivalents, loans to customers and other assets. Financial liabilities of the Group consist of 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 (Bahraini Dinars)

16- FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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

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

The uncertainties due to COVID-19 and resultant economic volatility has impacted the Group's financing operations and affected most of the customers and sectors to some degree. Whilst it is still relatively difficult to assess at this stage the degree of impact faced by each sector, the main industries impacted are hospitality, tourism, leisure, airlines/transportation and retailers. In addition, some other industries are also indirectly impacted such as contracting, real estate and wholesale trading.

Considering this evolving situation, the Group has taken pre-emptive measures to mitigate credit risk by adopting a more cautious approach for credit approvals thereby tightening the criteria for extending credit to impacted sectors. Payment holidays have been extended to customers, including private and SME sectors, in line with the instructions of the CBB. These measures have led to lower disbursement of financing facilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 (Bahraini Dinars)

16- FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Exposure to credit risk

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

	2020	2019
Balances with banks	3,551,108	2,911,301
Placements with banks	2,998,931	-
Loans to customers	49,749,042	50,740,634
	56,299,081	53,651,935

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.

	2020	2019
Concentration by sector		
Corporate	12,372,433	13,291,700
Retail	37,376,609	37,448,934
Financial institutions	6,550,039	2,911,301
	56,299,081	53,651,935

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 analysed by jurisdiction or region and by type of product and borrower as well as by ageing buckets.

The Group employs statistical models to analyse 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 (Bahraini Dinars)

16- FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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).

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 behavioral 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 behavior over a period of 12 months ("cooling-off period") 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. During 2020, the Group has applied the CBB's concessionary measures which allows to reduce the cooling-off period from 12 months to 3 months.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 (Bahraini Dinars)

16- FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

2020

A. Corporate loans

	Stage 1	Stage 2	Stage 3	Total
Current	11,867,594	12,633	135,500	12,015,727
Past due loans:				
1 to 29 days	262,024	-	11,287	273,311
30 to 59 days	-	53,311	37,109	90,420
60 to 89 days	-	50,725	44,756	95,481
90 days to 1 year	-	-	246,042	246,042
1 year to 3 years	-	-	483,684	483,684
More than 3 years	-	-	5,862	5,862
Gross carrying value	**12,129,618**	**116,669**	**964,240**	**13,210,527**
Expected credit loss	66,258	19,103	752,733	838,094
Net carrying value	**12,063,360**	**97,566**	**211,507**	**12,372,433**

B. Retail loans

Current	35,539,563	14,304	238,991	35,792,858
Past due loans:				
1 to 29 days	669,671	10,565	28,274	708,510
30 to 59 days	-	621,458	123,224	744,682
60 to 89 days	-	218,357	142,290	360,647
90 days to 1 year	-	-	503,702	503,702
1 year to 3 years	-	-	740,555	740,555
More than 3 years	-	-	10,849	10,849
Gross carrying value	**36,209,234**	**864,684**	**1,787,885**	**38,861,803**
Expected credit loss	183,817	97,172	1,204,205	1,485,194
Net carrying value	**36,025,417**	**767,512**	**583,680**	**37,376,609**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 (Bahraini Dinars)

16- FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

2019

A. Corporate loans

	Stage 1	Stage 2	Stage 3	Total
Current	12,479,500	51,726	24,743	12,555,969
Past due loans:				
1 to 29 days	278,912	16,384	37,554	332,850
30 to 59 days	-	132,316	71,100	203,416
60 to 89 days	-	54,779	80,846	135,625
90 days to 1 year	-	-	254,472	254,472
1 year to 3 years	-	-	422,660	422,660
More than 3 years	-	-	5,506	5,506
Gross carrying value	12,758,412	255,205	896,881	13,910,498
Expected credit loss	59,407	33,525	525,866	618,798
Net carrying value	12,699,005	221,680	371,015	13,291,700

B. Retail loans

Current	34,709,286	47,227	263,462	35,019,975
Past due loans:				
1 to 29 days	941,545	9,809	59,170	1,010,524
30 to 59 days	-	789,864	186,517	976,381
60 to 89 days	-	230,184	263,082	493,266
90 days to 1 year	-	-	611,267	611,267
1 year to 3 years	-	-	623,282	623,282
More than 3 years	-	-	7,186	7,186
Gross carrying value	35,650,831	1,077,084	2,013,966	38,741,881
Expected credit loss	202,609	158,451	931,887	1,292,947
Net carrying value	35,448,222	918,633	1,082,079	37,448,934

Stage 3 includes exposures in the first four ageing buckets (i.e. Current to 60 to 89 days) which are not past due however continue to be classified as stage 3 until the completion of cooling-off period of 3 months (2019: cooling-off period of 12 months).

Non-performing exposure:

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 they are not impaired 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 2020, loans past due below 90 days but not impaired amounted to BHD 1,866,111 (2019: BHD 2,453,793).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 (Bahraini Dinars)

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

During the year, loans amounting to BHD 11,516 (2019: BHD 35,198) were restructured and due to the minor nature of the restructuring concession, there was no significant impact on the Group's provisions on loans and advances impairment and present and future earnings. 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. The principal type of collateral is the vehicle financed. As at 31 December 2020, the market value of collaterals represents 91% (2019: 103%) of the Company's credit exposure (loans to customers). As of 31 December 2020, loans include hire purchase contracts of BHD 22,711,325 (2019: BHD 21,893,239) representing 44% (2019: 42%) of the total portfolio.

As at 31 December 2020 total non-performing loans (excluding BHD 761,431 (2019: BHD 986,474) of non-performing loans in cooling-off period and those less than 90 days past due) were BHD 1,990,694 (2019: BHD 1,924,373). 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. In accordance with the Central Bank of Bahrain guidelines, loans that have been classified as non-performing should remain classified as non-performing for a cooling off period of not less than 3 months from the date of becoming performing. During 2020, the Group has applied the CBB's concessionary measures which allows to reduce the cooling-off period from 12 months to 3 months.

During the year ended 31 December 2020, the average gross credit exposure for cash and balances with banks is BHD 3,218,897 (2019: BHD 2,265,676), placements with banks is BHD 1,166,310 (2019: BHD Nil) and loans and advances to customers is BHD 50,122,036 (2019: BHD 51,508,429). 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 (Bahraini Dinars)

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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.

31 December 2020	**Carrying amount**	**Contractual cash flows**	**6 months or less**	**6 to 12 months**	**More than 12 months**
Bank borrowings	39,881,532	44,513,098	6,016,206	6,027,233	32,469,659
Accounts payable	1,206,913	1,206,913	1,206,913	-	-
Lease liability	178,032	187,428	46,344	46,344	94,740
	41,088,445	**45,720,011**	**7,223,119**	**6,027,233**	**32,469,659**

31 December 2019	Carrying amount	Contractual cash flows	6 months or less	6 to 12 months	More than 12 months
Bank borrowings	37,307,238	42,377,933	6,096,990	5,888,571	30,392,372
Accounts payable	1,650,967	1,650,967	1,650,967	-	-
Lease liability	259,279	280,116	46,344	46,344	187,428
	38,958,205	44,028,900	7,747,957	5,888,571	30,392,372

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 2020	**Fixed rate**	**Floating rate**	**Non-interest bearing**	**Total**
Cash and bank	-	-	3,552,608	3,552,608
Placements with banks	2,998,931	-	-	2,998,931
Loans to customers	49,749,042	-	-	49,749,042
Other assets	-	-	131,175	131,175
	52,747,973	**-**	**3,683,783**	**56,431,756**
Bank borrowings	-	39,881,532	-	39,881,532
Other liabilities	-	-	1,902,327	1,902,327
	-	**39,881,532**	**1,902,327**	**41,783,859**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 (Bahraini Dinars)

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

31 December 2019	Fixed rate	Floating rate	Non-interest bearing	Total
Cash and bank	-	-	2,912,801	2,912,801
Loans to customers	50,740,634	-	-	50,740,634
Other assets	-	-	47,229	47,229
	50,740,634	-	2,960,030	53,700,664
Bank borrowings	-	37,307,238	-	37,307,238
Other liabilities	-	-	2,349,579	2,349,579
	-	37,307,238	2,349,579	39,656,817

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 2019.

	Profit or loss		Equity	
	100 bp increase	100 bp decrease	100 bp Increase	100 bp decrease
31 December 2020				
Bank borrowings	**(411,922)**	**411,922**	**(411,922)**	**411,922**
31 December 2019				
Bank borrowings	(389,058)	389,058	(389,058)	389,058

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 (Bahraini Dinars)

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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

	Carrying amount	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Non-interest bearing
31 December 2020							
Cash and bank	3,552,608	-	-	-	-	-	3,552,608
Placements with banks	2,998,931	1,998,931	1,000,000	-	-	-	-
Loans to customers	49,749,042	2,527,073	3,441,349	6,708,778	35,492,779	1,579,063	-
Other assets	131,175	-	-	-	-	-	131,175
	56,431,756	**4,526,004**	**4,441,349**	**6,708,778**	**35,492,779**	**1,579,063**	**3,683,783**
Bank borrowings	39,881,532	2,628,258	2,628,258	5,256,521	28,733,295	635,200	-
Other liabilities	1,902,327	-	-	-	-	-	1,902,327
	41,783,859	**2,628,258**	**2,628,258**	**5,256,521**	**28,733,295**	**635,200**	**1,902,327**
Interest rate gap	**14,647,897**	**1,897,746**	**1,813,091**	**1,452,257**	**6,759,484**	**943,863**	**1,781,456**
Cumulative interest rate gap	**14,647,897**	**1,897,746**	**3,710,837**	**5,163,094**	**11,922,578**	**12,866,441**	**14,647,897**

	Carrying amount	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Non-interest bearing
31 December 2019							
Cash and bank	2,912,801	-	-	-	-	-	2,912,801
Loans to customers	50,740,634	3,269,426	3,822,250	7,231,127	35,529,778	888,053	-
Other assets	47,299	-	-	-	-	-	47,299
	54,057,834	3,269,426	3,822,250	7,231,127	35,529,778	888,053	2,960,030
Bank borrowings	37,307,238	2,557,087	2,487,123	4,974,246	25,556,882	1,731,900	-
Other liabilities	2,349,579	-	-	-	-	-	2,349,579
	39,656,817	2,557,087	2,487,123	4,974,246	25,556,882	1,731,900	2,349,579
Interest rate gap	14,043,847	712,339	1,335,127	2,256,881	9,972,896	(843,847)	610,451
Cumulative interest rate gap	14,043,847	712,339	2,047,466	4,304,347	14,277,243	13,433,396	14,043,847

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 (Bahraini Dinars)

16- FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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.

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.

Capital management

The Central Bank of Bahrain sets and monitors capital requirements for the Group. According to the terms of the license granted by the Central Bank of Bahrain, the Group is required to maintain a minimum paid-up capital of BHD 5,000,000 and the borrowings may not exceed five times the capital and reserves (shareholders equity). As at 31 December 2020, Group's paid up share capital was BHD 7,500,000 (2019: BHD 7,500,000) and the borrowing to capital and reserves ratio was 2.60 (2019: 2.49).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020 (Bahraini Dinars)

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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.

17- 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 2020	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	5 to 10 years	Total
Assets						
Cash and bank	3,552,608	-	-	-	-	3,552,608
Placements with banks	1,998,931	1,000,000	-	-	-	2,998,931
Loans to customers	2,527,073	3,441,349	6,708,778	35,492,779	1,579,063	49,749,042
Other assets	131,175	-	-	-	-	131,175
	8,209,787	**4,441,349**	**6,708,778**	**35,492,779**	**1,579,063**	**56,431,756**
Liabilities						
Bank borrowings	2,628,258	2,628,258	5,256,521	28,733,295	635,200	39,881,532
Other liabilities	1,745,325	21,286	43,392	92,324	-	1,902,327
	4,373,583	**2,649,544**	**5,299,913**	**28,825,619**	**635,200**	**41,783,859**

31 December 2019	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	5 to 10 years	Total
Assets						
Cash and bank	2,912,801	-	-	-	-	2,912,801
Loans to customers	3,269,426	3,822,250	7,231,127	35,529,778	888,053	50,740,634
Other assets	47,229	-	-	-	-	47,229
	6,229,456	3,822,250	7,231,127	35,529,778	888,053	53,700,664
Liabilities						
Bank borrowings	2,557,087	2,487,123	4,974,246	26,938,382	350,400	37,307,238
Other liabilities	2,110,226	20,190	41,131	178,032	-	2,349,579
	4,667,313	2,507,313	5,015,377	27,116,414	350,400	39,656,817

The expected credit loss of BHD 2,323,288 (2019: BHD 1,911,745) has been netted against the cash flows expected within 3 months.

18- COMPARATIVES

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

SUPPLEMENTARY DISCLOSURES - FINANCIAL IMPACT OF COVID-19 (Unaudited)

On 11 March 2020, the Coronavirus (COVID-19) outbreak was declared a pandemic by the World Health Organization (WHO) and has rapidly evolved globally. COVID-19 has also brought about significant uncertainties in the global economic environment. Authorities have taken various measures to contain the spread including implementation of travel restrictions and quarantine measures.

The Group is closely monitoring the impact of the COVID-19 developments, and in response to this outbreak, has activated its business continuity plan and various other risk management measures. The Group has also performed an assessment of the impact of the COVID-19 on its operations, liquidity and financial performance and whether it is a going concern in the light of current economic conditions and future risks and uncertainties. Based on the assessment, the Group has sufficient financial resources for the foreseeable future and will continue as a going concern entity for the next 12 months.

The regulatory directives issued by the Central Bank of Bahrain (CBB) to combat the effects of COVID-19 have resulted in the following effects to the Group:

- A one-off modification loss of BHD 1,704,745 arising from the six-month payment holiday provided to all qualify Bahraini individuals and companies without charging additional interest or fee. The Group provided deferral on financing exposures amounting to BHD 35.1 million as result of this regulatory directive.
- The Government of Kingdom of Bahrain announced various economic stimulus measures to support businesses in these challenging times. The Group received regulatory directive financial assistance of BHD 151,335 representing reimbursement of all insured Bahraini employees for three months starting April 2020 and the payment of Electricity and Water Authority utility bills for three months from April 2020 (up to the costs incurred during the same period in 2019). In addition to this, the Group also benefited from deferral on the bank borrowings for six months resulting in a modification gain of BHD 996,581. The impact of these was off-set against the modification loss and taken to retained earnings as per the CBB directives.

In light of the current economic challenges, the shareholders decided to reverse the full dividends declared earlier in the year in relation to 2019 year-end.

The strain caused by COVID-19 on the local economy resulted in a slowdown in the booking of new financing assets by the Group during the year ended 2020 resulting in auto financing bookings to be 20% lower than last year. It also resulted in an incremental ECL being recognised on the auto financing exposure.

The above supplementary information is provided to comply with the CBB circular number OG/259/2020 dated 14 July 2020. This information should not be considered as an indication of the results of the entire year or relied upon for any other purposes. Since the situation of COVID-19 is uncertain and still evolving, the above impact is as of the date of preparation of this information. Circumstances may change which may result in this information to be out-of-date. In addition, this information does not represent a full comprehensive assessment of COVID-19 impact on the Group. This information has not been subject to a formal review by the external auditors.