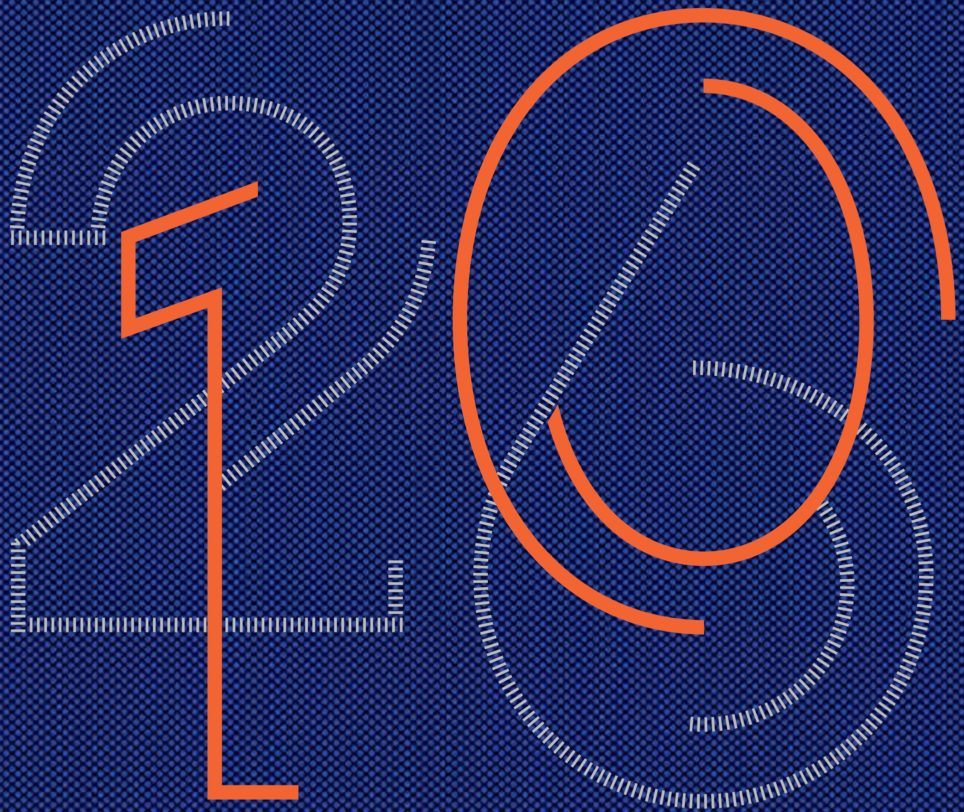
NFH
التمويل الوطني



TEN YEARS OF CONSISTENT PROGRESS

Contents

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B.S.C. (Closed)

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His Royal Highness
Prince Khalifa Bin
Salman Al Khalifa

The Prime Minister of
the Kingdom of Bahrain

His Majesty King
Hamad Bin Isa
Al Khalifa

The King of
the Kingdom of Bahrain

His Royal Highness
Prince Salman Bin Hamad
Al Khalifa

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

TEN YEARS OF CONSISTENT PROGRESS

Heading in the right direction

During our first 10 years, we have made steady progress against all parameters – financial, business and operational. NFH has posted a profit every year since inception, established a dominant market share of 12.65% in the highly competitive vehicle financing sector of Bahrain, and achieved a consistent customer satisfaction rating above 97%.

Corporate Profile

National Finance House (NFH) specialises in providing consumer and corporate financing for the purchase of private, commercial and heavy vehicles. Established in 2005 and commencing operations in 2006, NFH operates under a Financing Company licence issued by the Central Bank of Bahrain.

Capitalised at BD 7.5 million, the Company is backed by a strong 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.

Vision, Mission and Values

OUR VISION

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

OUR MISSION

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

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

OUR VALUES

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

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

SHAREHOLDERS

Kingdom of Bahrain

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

Sultanate of Oman

Oman International Development and Investment Company

Kingdom of Saudi Arabia

Almutlaq Group

Key Differentiators

High lights

SPECIALIST

NFH SPECIALISES SOLELY ON VEHICLE FINANCING AS ITS CORE BUSINESS.

FASTEST LOAN PROCESSING

NFH PROVIDES THE FASTEST AND EASIEST PROCESSING OF LOAN APPLICATIONS IN THE INDUSTRY.

CUSTOMER SATISFACTION REFLECTED BY CONSISTENTLY HIGH RATING OF OVER 97%

STRONG MARKET SHARE

WE HAVE ESTABLISHED A DOMNANT MARKET SHARE APPROACHING 13% IN BAHRAIN'S HIGHLY-COMPETITIVE VEHICLE FINANCING SEGMENT.

ONE-STOP-SHOP SERVICE

DEDICATED NFH SERVICE DESKS AT MAJOR CAR DEALER SHOWROOMS PROVIDE FAST AND CONVENIENT FINANCING FACILITIES AND INSURANCE COVER UNDER ONE ROOF.

CONSISTENT PROGRESS AND GROWTH

OVER THE PAST DECADE, NFH HAS ACHIEVED CONSISTENT GROWTH ACROSS ALL PARAMETERS, AND REPORTED A NET PROFIT FOR EVERY YEAR OF OPERATIONS SINCE ESTABLISHMENT.

PERFORMANCE MATTERS

NFH IS DISTINGUISHED BY A COLLABORATIVE, PERFORMANCE MANAGEMENT-ORIENTED CULTURE THAT RECOGNISES AND REWARDS STAFF ACHIEVEMENTS.

COMMITMENT TO CUSTOMER SERVICE

NFH IS DIFFERENTIATED BY AN UNRELENTING COMMITMENT TO THE HIGHEST LEVELS OF CUSTOMER SERVICE RATHER THAN COMPETING ON PRICE. CONVENIENT SERVICES INCLUDE A CHOICE OF PAYMENT METHODS – AT NFH AND AUB BRANCHES, ONLINE,THROUGH EFTS, DIRECT DEBIT, HIRE PURCHASE OR LEASING – AND A CALL CENTRE FOR ENQUIRIES AND ASSISTANCE.

EXPANDED HEAD OFFICE MAIN BRANCH AND OPENED BRANCH IN SITRA.

TECHNOLOGY

A STATE-OF-THE-ART CORE BANKING SYSTEM INTEGRATES ALL FRONT AND BACK OFFICE ACTIVITIES, AND PROVIDES NFH WITH A HIGHLY-ROBUST OPERATING INFRASTRUCTURE

GROWING THE TEAM

94%

SINCE INCEPTION, THE NFH TEAM HAS MORE THAN DOUBLED TO 48 STAFF WITH 94% BEING BAHRAINI NATIONALS, ONE OF THE HIGHEST LEVELS IN BAHRAIN'S BANKING AND FINANCIAL SERVICES SECTOR.

STRONG FOCUS ON COMPLIANCE AND RISK MANAGEMENT WITH ETHICAL AND TRANSPARENT APPROACH TO DOING BUSINESS

Ten-year Milestones

Our journey to success

2006

COMMENCED OPERATIONS ON 13 SEPTEMBER

PROFITABLE DURING START-UP PERIOD

INCREASED PAID-UP CAPITAL TO BD 7.5 MILLION

2007

FIRST FULL YEAR OF OPERATIONS

INITIAL HEADCOUNT OF 22 (ALL BAHRAINIS)

ESTABLISHED A NETWORK OF RELATIONSHIPS WITH LEADING CAR DEALERS

MANAGED TO GAIN THE TRUST AND SUPPORT OF SEVERAL BANKS IN THE KINGDOM OF BAHRAIN AND ESTABLISH CREDIT FACILITIES OF BD13 MILLION

2008

TOTAL INCOME PASSES BD 1.5 MILLION

MARKET SHARE INCREASES TO OVER 10%

HEADCOUNT ALMOST DOUBLES TO 40 STAFF

2009

SECOND BRANCH OPENED IN SITRA

NEW IN-HOUSE CALL CENTRE LAUNCHED

OPENED SERVICE DESKS AT TOYOTA AND NISSAN SHOWROOMS

2010

FIRST DIVIDEND OF 5% DISTRIBUTED

NEW WEBSITE WITH 'LIVE CHAT' FACILITY

CUSTOMER SATISFACTION RATING OF 97%

Ten-year Milestones
continued

2011

5TH ANNIVERSARY

MARKET SHARE INCREASES TO NEW HIGH OF 13.2%

CUSTOMER SATISFACTION LEVEL MAINTAINED AT 96%

INTRODUCED NEW ONLINE PAYMENT FACILITY

2012

SERVICE DESKS OPENED AT ADDITIONAL CAR DEALER SHOWROOMS

ARRANGEMENT WITH AHLI UNITED BANK FOR PAYMENTS THROUGH BRANCHES

INSURANCE SERVICES AGREEMENT SIGNED WITH BNH SUBSIDIARIES

2013

SMS SERVICE INTRODUCED AND NEW WEBSITE LAUNCHED WITH ONLINE FACILITIES

CALL CENTRE OUTSOURCED

HQ EXPANSION AND REFURBISHMENT COMPLETED

2014

NET PROFIT EXCEEDS BD 1 MILLION FOR THE FIRST TIME

DIVIDEND INCREASED TO 6%

CUSTOMER SATISFACTION RATING RISES TO 98%

2015

TOTAL INCOME EXCEEDS BD 3 MILLION

DIVIDEND INCREASED TO 7%

NEW CORE BANKING SYSTEM IMPLEMENTED AND ONLINE PAYMENTS SYSTEMS ENHANCED

2016

10TH ANNIVERSARY

DIVIDEND INCREASED TO 8%

NEW LOANS BOOKED REACHED BD 22.1 MILLION, THE HIGHEST SINCE INCEPTION

LAUNCHED THE ELECTRONIC FUNDS TRANSFER SYSTEM (EFTS) AND DIRECT DEBIT FACILITY WITH AUB FOR AUTOMATIC RECOVERY OF LOAN INSTALMENTS

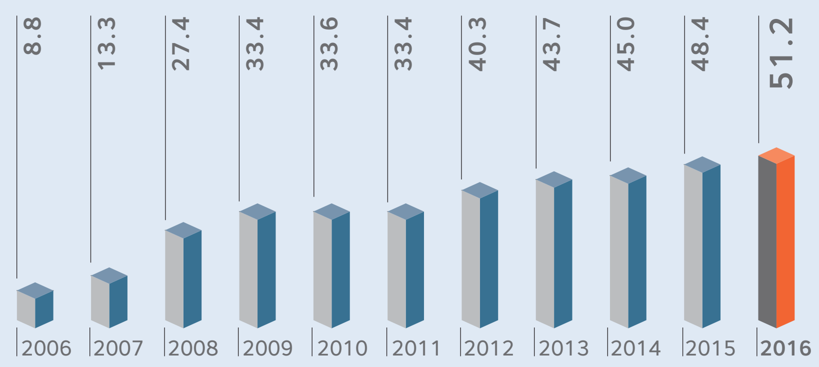
Ten-Year Financial Highlights

TOTAL ASSETS

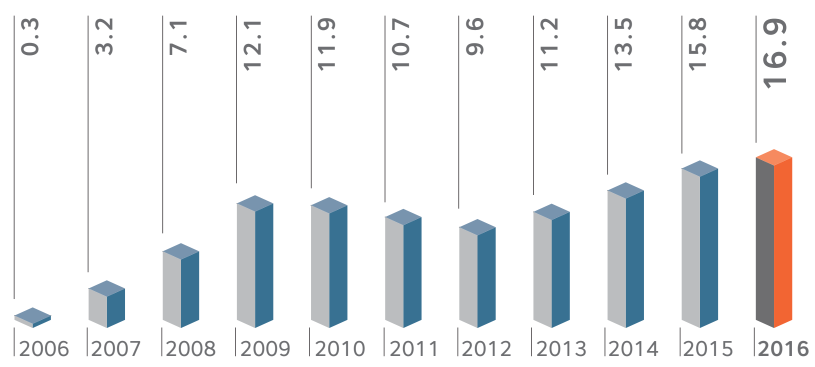
TOTAL ASSETS HAVE GROWN ALMOST SIXFOLD TO BD 51.2 MILLION

x6

TOTAL ASSETS (BD MILLIONS)



EARNING PER SHARE (IN FILS)

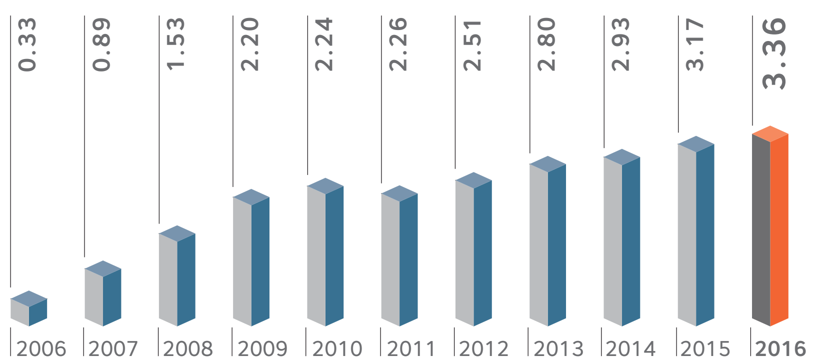


EARNINGS PER SHARE

EPS HAS GROWN MORE THAN FIVEFOLD TO BAHRAINI FILS 16.9

x5

TOTAL INCOME (BD MILLIONS)



TOTAL INCOME

TOTAL REVENUES HAVE INCREASED FOURFOLD TO BD 3.36 MILLION

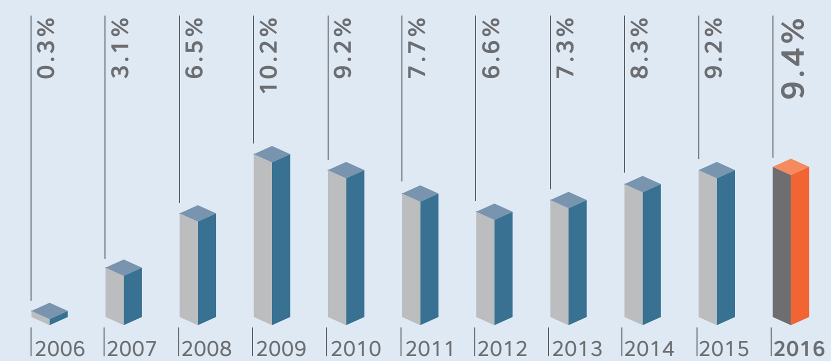
x4

ROAE

RETURN ON AVERAGE EQUITY HAS GROWN THREEFOLD TO 9.4%

x3

ROAE (%)

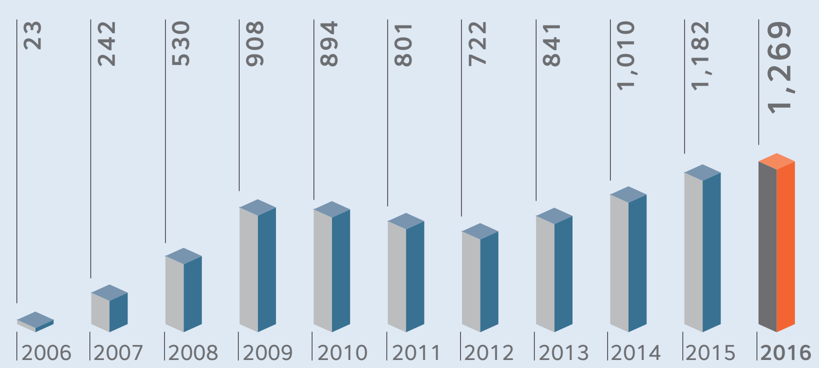


NET PROFIT

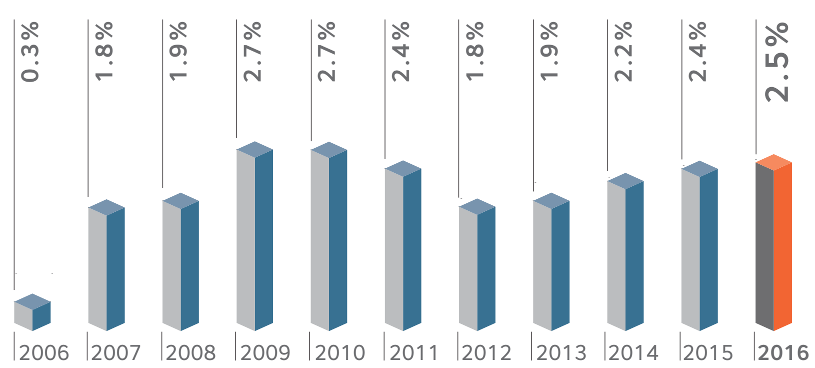
PROFITABILITY HAS GROWN FIVEFOLD TO BD 1.27 MILLION

x5

PROFIT FOR THE YEAR (BD THOUSANDS)



ROA (%)



ROA

RETURN ON ASSETS HAS GROWN BY ALMOST 36% TO 2.5%

36%

Board of Directors

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

1.
Farouk Yousuf Khalil Almoayyed
Chairman
(Non-Executive)
Chairman of Remuneration & Nomination Committee
Appointed to the Board in 2006

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

Member of Board of Directors
- Investcorp Bank, Bahrain

2.
Fuad Ebrahim Kanoo
Deputy Chairman
(Non-Executive)
Appointed to the Board in 2006

Vice Chairman
- Ebrahim Khalil Kanoo Group, Bahrain

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

3.
Mohammed Farouk Almoayyed
Board Member (Executive)
Member of Executive Committee
Appointed to the Board in 2006

Chairman & Managing Director
- Almoayyed International Group, Bahrain

Member of Board of Directors
- Y.K. Almoayyed & Sons, Bahrain
- Almoayyed Contracting Group, Bahrain
- Bahrain Economic Development Board, 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

4.
Talal Fuad Kanoo
Board Member (Executive)
Chairman of Executive Committee
Appointed to the Board in 2006

Director, Corporate Services
- Ebrahim Khalil Kanoo Group, Bahrain

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

5.
Sameer Ebrahim Al Wazzan
Board Member (Executive)
Member of Executive Committee
Appointed to the Board in 2014

Chief Executive Officer
- Bahrain National Holding Company, Bahrain

Vice Chairman
- Arabian Shield Cooperative Insurance Company, KSA

Member of the Board of Directors
- United Insurance Company, Bahrain
- Al Kindi Specialised Hospital, Bahrain
- iAssist Middle East W.L.L., Bahrain
- Doha Bank Assurance Company, Qatar

Member
- Bahrain Insurance Association, Bahrain
- Central Bank of Bahrain (CBB) Motor Accident Compensation Fund
- Insurance & Banks Sector Committee at Bahrain Chamber of Commerce & Industry
- Commercial Dispute Settlement Committee at Bahrain Chamber of Commerce & Industry

6.
Shrikanth Shenoy
BE, MBA
Board Member (Executive)
Appointed to the Board in 2016

Head – Public Equities
- Oman International Development & Investment Co SAOG (OMINVEST), Sultanate of Oman

Member of Board of Directors, Member of Audit Committee
- Al Ahlia Insurance Company SAOC, Sultanate of Oman
- Oman Chlorine SAOG, Sultanate of Oman

7.
Khaled Saleh Alkhattaf
CPA, MSA
Board Member (Non-Executive)
Member of Audit & Corporate Governance Committee
Appointed to the Board in 2016

Chief Executive Officer
- Lafana Holding Company, KSA

Member of Board of Directors
- Gulf Investment Corporation, Kuwait
- Rafal Real Estate Development Company, KSA
- Middle East Paper Company, KSA

Member of Executive Committee
- Gulf Investment Corporation, Kuwait
- HGI Shaker Company, KSA
- Qatar Alpha Beton Ready Mix Concrete, Qatar

Member of Risk Management Committee
- Gulf Investment Corporation, Kuwait
- Public Pension Agency, KSA

Member of Audit Committee
- Public Pension Agency, KSA
- Middle East Paper Company, KSA

Member of Investment Committee
- Bupa Arabia for Cooperative Insurance Company, KSA

8.
Khalid Shaheen Saqer
Board Member (Independent)
Vice Chairman of Executive Committee
Member of Audit & Corporate Governance Committee
Member of Remuneration & Nomination Committee
Appointed to the Board in 2011

Member of Board of Directors, Member of Audit Committee
- BFC Group Holdings, Bahrain
- Gulf Union Insurance & Reinsurance Company B.S.C. (Closed), Bahrain

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

Member of the Disciplinary Board
- Bahrain Bourse

Founder
- Hermes Consulting S.P.C., Bahrain

Fellow
- Institute of Directors, UK

9.
Kalyan Sunderam
MBA, CFA, PRM, ACIB
Board Member (Independent)
Chairman of Audit & Corporate Governance Committee
Member of Remuneration & Nomination Committee
Appointed to the Board in 2012

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

Vice Chairman Education Committee
- Professional Risk Managers' International Association, USA

National Finance House
Annual Report 2016

Dear Shareholders

"In 2016, we celebrated our tenth anniversary, which constitutes a significant milestone in the Company's journey. Our success in the last decade is demonstrated by achieving a stable and consistent growth across all parameters, while maintaining a prudent risk appetite."

FAROUK YOUSIF KHALIL ALMOAYYED
CHAIRMAN OF THE BOARD

NET PROFIT 2016

+7%

NET PROFIT EXCEEDED BD 1 MILLION FOR THE THIRD CONSECUTIVE YEAR

RETURN ON AVERAGE EQUITY 2016

9.4%

ROAE IN 2016 IMPROVED TO 9.36% FROM 9.21 IN THE PREVIOUS YEAR

Chairman's Statement

On behalf of the Board of Directors, it is my privilege to present the financial statements of National Finance House (NFH) for the year ended 31 December 2016, which marked the Company's tenth anniversary. Despite growing economic headwinds and challenging market conditions, I am delighted to report that NFH achieved another excellent overall performance, highlighted by record financial results, robust business growth and enhanced returns to shareholders.

NFH posted another strong financial performance in 2016, with net profit exceeding BD 1 million for the third consecutive year to reach BD 1.27 million, up by 7 per cent from BD 1.18 million the previous year. Total operating income increased by 6 per cent to BD 3.36 million compared with BD 3.17 million in 2015, with basic earnings per share rising to Bahraini fils 16.9 (2015: 15.7 fils). At the end of 2016, shareholders' equity had grown to BD 13.93 million (2015: BD 13.19 million), resulting in an improved return on average equity of 9.36 per cent (2015: 9.21 per cent). Total operating expenses rose modestly to BD 2.09 million from BD 1.99 million in 2015. At the end of the year, total assets had increased to BD 51.23 million from BD 48.36 million at the end of 2015.

"NFH achieved another excellent overall performance, highlighted by record financial results, robust business growth and enhanced returns to shareholders.

"As NFH prepares to enter its second decade of operations, we remain optimistic about the future outlook for the Company.

Based on the Company's 2016 financial results, the Board of Directors is proposing a cash dividend of 8 per cent of the paid-up capital (BD 600 thousand) out of retained earnings, subject to approval by the relevant authorities and Shareholders at the Annual General Meeting to be held on 26 February 2017.

Despite the challenging market conditions that characterised 2016, NFH achieved an increased net growth in vehicle financing of 5 per cent. The value of disbursed loans grew to BD 22.07 million, and market share rose to 12.65 per cent. At the end of the year, the total loan book stood at BD 48.14 million compared with BD 45.83 million at the end of 2015.

During the year, we celebrated our tenth anniversary, which constitutes a significant milestone in the Company's journey. Our success in the last decade is demonstrated by achieving a stable and consistent growth across all parameters, while maintaining a prudent risk appetite.

Today, NFH is a respected player in Bahrain's vehicle financing sector, differentiated by an unrelenting commitment to the highest levels of customer service, including speed of processing loan applications. Our prudent business philosophy, professional management, performance-oriented culture, sound governance and customer satisfaction level compares favourably with other financial institutions.

During the year, there were some changes to the Board of Directors. Mr. Shrikanth Shenoy representing Oman International Development & Investment Company replaced Ms. Sayyida Rawan Ahmed Al Said. I thank Ms. Sayyida Rawan for her valuable contribution since 2008 and also welcome Mr. Shenoy. I would also like to greet Mr. Khaled Saleh Alkhattaf to the Board as the new representative of Almutlaq Group.

Looking ahead, we expect 2017 to be another challenging year, marked by ongoing volatile economic and market conditions. Key concerns include oil prices and liquidity, uncertain global economic growth, and regional geo-political tensions. However, on a more positive note, the fiscal reforms and economic transformation measures being introduced by the Government of Bahrain will have a beneficial long-term impact on the diversity and sustainability of the national economy in an era of low oil prices.

While it will be very challenging to maintain the high level of profitability achieved over the past three years, the Board has full confidence in Management's ability to continue the Company's journey of consistent growth and development. In 2016, the Board approved the planned establishment of an NFH Auto Mall, which will diversify our business activities and revenue streams. As we enter our second decade, we remain optimistic about the future outlook for the Company.

In conclusion, on behalf of the Board of Directors, I express my gratitude to His Majesty the King, His Royal Highness the Prime Minister, and His Royal Highness the Crown Prince, for their wise leadership and enlightened reforms; and their encouragement of the private sector and financial services industry. I also thank the Central Bank of Bahrain for its continued advice and guidance during the year.

I extend my sincere appreciation to our shareholders for their financial support and unwavering confidence; and to our customers and business partners for their enduring trust and loyalty. Finally, I acknowledge the continued professionalism and commitment of our management and staff, and their highly-valued contribution to the Company's success in yet another challenging year.

Farouk Yousif Khalil Almoayyed
Chairman of the Board

Chief Executive Officer's Report

Our first ten years of operations has been a remarkable journey across many fronts, not least in terms of financial performance. Since starting business in September 2006, net profitability has grown fivefold to BD 1.27 million, with the Company posting a profit every year since inception, including the initial four-month start-up period. Total income has increased fourfold to BD 3.36 million, the number of loans disbursed has doubled to BD 22.07 million and the total loan book has grown fourfold to BD 48.14 million. At the same time, shareholders' equity has almost doubled to BD 13.93 million, with return on average equity growing threefold to 9.4% over the past decade.

On the operational front, progress has been no less dramatic. We have established a very loyal client base, with a high customer satisfaction rating of 97 per cent, and a dominant market share of 12.65 per cent. This has been achieved by an unrelenting commitment to the highest levels of customer service and quality – including one of the fastest loan application processing times in the industry – rather than competing on price. We have introduced innovative customer services – some of them among the first of their kind – and a choice of convenient delivery channels; together with a differentiated marketing approach. At the same time, we have developed a professional, performance-oriented team; installed a state-of-the-art technology platform; and put in place a robust corporate governance and risk management framework, which is underpinned by an ethical and transparent approach to doing business.

Despite the challenging market conditions that charecterised 2016, NFH achieved a net growth in vehicle financing of 5 per cent.

The strong foundations we have put in place over the past few years, means that NFH is in good shape to face all future challenges.

In 2012, we commenced the second phase of the Company's growth cycle, which coincided with my appointment as Chief Executive Officer. Over the past five years, it is encouraging to note that profitability has increased by 58 per cent, while the loan book has grown by over 65 per cent. During this period, we have also significantly strengthened the institutional capability of NFH, in terms of people, technology, compliance and risk management.

As we enter our second decade of operations, we prepare to embark on the next phase of the Company's strategic evolution and business growth. This will involve identifying opportunities through which to diversify our products and revenue streams, while continuing to consolidate our core business. In this respect, we have already made good process, with the Board having approved a proposal by Management to establish an NFH Auto Mall, subject to final regulatory approvals. This will provide customers with a convenient, hassle-free one-stop-shop for the purchase and registration of vehicles, together with speedy financing and insurance, and the availability of other related services.

Coming back to 2016, I would like to highlight some notable developments that took place during the year, and the steps we have taken to further strengthen the Company's financial position and operating environment. In view of dynamically-changing market conditions, we proactively took adequate provisions on impairment of loans and receivables in accordance with IFRS 9 accounting standard, which is due to come into effect from 1 January 2018. In addition, we reviewed and updated our IT policies and procedures, and information security framework, in line with CBB regulations for cyber-security risk management; and developed a detailed plan for detecting, monitoring and reporting cyber-attacks on the Company. To further enhance our service delivery mechanism, the electronic funds transfer system (EFTS) through Benefit Company and direct debit service with Ahli United Bank were implemented; these facilities will enable automatic recovery of loans from customer's bank accounts.

I would also like to point out that due to the excellent relationships we have established with banks, and the high respect in which we are held in the marketplace, our total funding requirements for 2017 have been fully covered.

These developments, together with the strong foundations we have put in place over the past few years, mean that NFH is in good shape to face all future challenges. These include low oil prices and lack of liquidity; the initial impact of fiscal reforms, including the expected introduction of a value-added tax (VAT) in early 2018, on corporate and consumer sentiment; and continuing global and regional geo-political tensions. In response, we will maintain our prudent and cautious approach to doing business, and continue to enhance our core strengths and capabilities, by which to minimise any negative impact on our Company. We therefore enter 2017 with renewed confidence and determination, and an optimistic view of the future.

In conclusion, I would like to thank our Board of Directors for its continued encouragement, support and counsel; and our clients and business partners for their trust and loyalty. I also pay special tribute to the positive attitude and performance of our management and staff in rising to the many challenges encountered during 2016, and for contributing to another successful year for NFH.

Venkatachalam P S
Chief Executive Officer

Management Team

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

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

TEN YEARS OF CONSISTENT PROGRESS

Aspiring to the highest standards

We are committed to maintaining the highest standards of corporate governance and risk management in line with local regulations, international standards and industry best practice, in order to protect stakeholders and achieve organisational efficiency and effectiveness. This commitment is underlined by our ethical and transparent approach to doing business.

Review of Operations

In another successful year for NFH, 2016 was highlighted by a number of notable business and operational achivements, together with continued progress in further enhancing the Company's institutional capability.

RETAIL & MARKETING

Vehicle Financing

Despite challenging market conditions, including a drop in new vehicle registrations, NFH achieved a 5 per cent net growth in vehicle financing for 2016. The Company disbursed a higher number of loans valued at BD 22.07 million, and exceeded annual business targets. The majority of loans were for the purchase of cars by individuals, with heavy vehicle and construction equipment financing remaining flat. In an increasingly competitive marketplace, NFH successfully grew its market share to 12.65 per cent.

The Company's service desks at the Toyota, Nissan, Kia and Majestic car showrooms continued to perform strongly, providing finance for the majority of new vehicle sales. NFH considers this differentiating approach to be more cost-effective and customer-convenient than opening additional new branches.

Marketing

Marketing activities in 2016 included a highly successful promotional campaign during the Holy Month of Ramadan, which exceeded the business record set the previous year. NFH also continued its programme of special offers for employees of some of Bahrain's major local companies and public sector organisations. Importantly, the Company continued to benefit from word-of-mouth referrals by satisfied customers, which constitutes one of the most effective forms of marketing. The fully-commissioned customer relationship management (CRM) system is helping to facilitate a more sophisticated and targeted approach to marketing, which includes the increasing use of social media channels.

CUSTOMER SERVICE

Superior customer service and faster loan processing times continue to act as key competitive differentiators for NFH. During 2016, the Company introduced new initiatives to further improve the 'customer experience' including a direct debit service with Ahli United Bank, which complements the existing payment facility through the bank's branch network; and full implementation of the CBB/Benefit Company electronic funds transfer system (EFTS). These different payment channels, which serve to enhance customer convenience, have been well received to date.

The very high level of satisfaction by NFH customers was maintained during the year. The annual Call Centre report for 2016, which logs the results of regular telephone calls to new and existing customers by Customer Service staff, showed that customers rated their satisfaction with the service received from NFH at 97 per cent.

COLLECTIONS

Collections improved in 2016, contributing to the ongoing reduction in delinquency rates; and with the ratio of non-performing loans (NPLs) to gross loans reducing to 3.13 per cent compared with 3.26 percent the previous year. A key success factor continued to be the quality of underwriting, supported by strengthened credit criteria, and an effective and efficient mechanism for monitoring the lending function. The focus on cash collections was maintained in preference to restructuring or rescheduling loans; while the number of legal actions, which are only taken as a last resort, reduced during the year. Adopting a proactive approach to managing existing and potential defaults, NFH provided business advisory services to its customers, and further extension of credit to alleviate more promising problem loans.

97%

During 2016, customers rated their satisfaction with the service received from NFH at 97.4 per cent, which remained on par with the highest ratings achieved to date by the Company.

Superior customer service and faster loan processing times continue to act as key competitive differentiators for NFH. During 2016, the Company introduced new initiatives to further improve the 'customer experience'.

CREDIT ADMINISTRATION

During 2016, the Company's credit administration policy and procedures were reviewed and amended; and credit criteria were further strengthened in line with market conditions and new regulatory requirements. With the complete migration of supporting documentation and loan agreements to the core banking system (CBS), the Company is in full compliance with the requirements of the Credit Reference Bureau for individual and corporate clients. The ongoing implementation of CBS during the year has enhanced the automation of credit administration processes and work flows, together with improved risk procedures and controls; and added value by speeding up the provision of timely information to management for better decision making.

CUSTOMER COMPLAINTS

All policies, processes and procedures for the Company'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 2016, the number of serious complaints reduced, and remained very low compared with service-oriented market norms. This achievement illustrates the Company's commitment to continuously improve its customer service and satisfaction standards. The majority of complaints were handled immediately and successfully resolved within the same day, considerably below the regulatory five days stipulated by the CBB.

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.

94%

The headcount increased slightly to 48 employees in 2016, with Bahrainis comprising 94 per cent of the total workforce, one of the highest levels among financial institutions in the Kingdom.

COMPLIANCE

NFH continued to strengthen its corporate governance framework to ensure ongoing compliance with the regulations of the Central Bank of Bahrain (CBB) and other statutory bodies; and also the requirements of the Code of Corporate Governance of the Kingdom of Bahrain issued by the Ministry of Industry & Commerce. The Company took measures to comply with the new regulatory requirements in 2016 including cyber security management; IFRS 9 accounting standard; and changes to the Code of Practice of the Bahrain Credit Reference Bureau. Moreover, all Company's policies and charters were reviewed during the year and updated where necessary. Full details are included in the Corporate Governance Review of this annual report.

RISK MANAGEMENT

In line with changing economic and market conditions and new regulatory requirements, the Company strengthened its risk management framework during the year. Particular focus was placed on credit administration policy and procedures; business continuity planning and information security; and anti-money laundering. Full details are included in the Risk Management Review of this annual report.

HUMAN RESOURCES

NFH continued to strengthen its human capital framework during the year. The successful implementation of a new human resources management system (HRMS), which is fully integrated with the new core banking system, has resulted in the automation of HR processes such as payroll, and the timely generation of reports. The headcount increased slightly to 48 employees in 2016, with Bahrainis comprising 94 per cent of the total workforce, one of the highest levels among financial institutions in the Kingdom. The promotion of six members of staff during the year illustrates the Company's commitment to provide career progression opportunities within the organisation.

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. Six members of staff are currently pursuing professional accreditations through programmes supported by Tamkeen, including Associate Professional Risk Manager, Certified Management Accountant, and Microsoft Certified Solutions Expert. Regulatory training during the year included special courses on anti-money laundering and combating the financing of terrorism (AML/CTF); fraud detection, control and prevention; and cyber security awareness. In addition, as part of the Company's health and safety policy, advice on health-related and lifestyle issues was provided for staff.

INFORMATION TECHNOLOGY

During 2016, the three-phase implementation of the Company's new core banking system (CBS) was completed, with all main business functions being fully operational. Key developments during the year include a new human resource management system (HRMS); the integration of online payments through mobile devices; and enhancements to the customer relationship management (CRM) system. In addition, the Company implemented the electronic funds transfer system (EFTS) in line with requirements of the CBB and Benefit Company; and introduced a new direct debit service with Ahli United Bank.

In line with CBB regulations, two business continuity planning (BCP) exercises were conducted. These involved successful testing of the BCP centre and disaster recovery site at Sitra (which features full online replication), with the involvement of all departments. To ensure the highest levels of information security, internal and external vulnerability assessment and penetration testing (VAPT) was also conducted, with no major risks being identified. Additionally, a new cyber security management framework was developed, including a detailed plan for detecting, monitoring and reporting cyber-attacks on the Company.

TEN YEARS OF
CONSISTENT PROGRESS

Going the extra mile for customers

Driven by a relentless passion to deliver the highest levels of customer service, we constantly seek ways to enhance the 'customer experience' and make it easier to do business with NFH. We have dedicated service desks at major car showrooms, and a reputation for the fastest loan application processing times in the industry.

Risk Management Review

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

KEY DEVELOPMENTS IN 2016

- Reviewed and updated all Company policies and procedures, including AML/CFT and KYC policies and procedures
- Reviewed and revised Charters of Risk Management Committee, Credit Committee and Asset & Liability Committee
- Reviewed and tightened customer credit assessment criteria
- Conducted annual Risk Control Self-Assessment (RCSA)
- Reviewed Customer Risk Rating (CRR) methodology and generated report
- Drafted Cybercrime Security Framework and established Cyber Security Incident Response Team to detect, monitor, mitigate and report cyber-attacks
- Implemented all necessary changes outlined in Bahrain Credit Reference Code of Practice and added new fields required by Central Bank of Bahrain
- Enhanced risk procedures and controls within the core banking system
- Addressed all outstanding credit and risk-related audit points raised by internal, external and regulatory auditors

RISK PHILOSOPHY & APPROACH

- The Company has a conservative risk appetite which has led to its consistently sound asset quality and sustainable operating performance.
- Shareholder value is built over a strong and safe risk matrix to ensure safety and liquidity.
- The Company accepts a reasonable risk appropriate to its type of business, and in line with the business strategy adopted.
- Normal risk amounts are calculated by the use of techniques such as Credit Provisioning and Operational Loss Assessment.
- The Risk Management Framework establishes and authorises Board-mandated corporate behaviours and risk tolerances.

RISK EXPOSURE

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

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

RESPONSIBILITIES

Board of Directors

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. It has established the Audit & Corporate Governance Committee for developing and monitoring risk management policies in their specific areas. The Board sets the Company's overall risk parameters and tolerance, and the significant risk management policies. The Audit & Corporate Governance Committee reviews and reports to the Board on the Company's risk profiles and risk-taking activities.

Management

The Chief Executive Officer has the primary responsibility for sanctioning risk-taking activities, and defining risk management policies within the overall risk parameters and tolerance defined by the Board of Directors. The risk management process is based on a detailed structure of policies, procedures and limits; and comprehensive risk measurement and management information systems for the control, monitoring and reporting of risks. The CEO is supported by the Head of Risk & MLRO, and three risk-related committees.

Risk Management Committee

The Risk Management Committee is responsible for identifying all risks to which NFH may be exposed; and for implementing necessary policies, procedures and systems to effectively monitor and manage these risks.

Credit Committee

The Credit Committee chaired by the Chief Executive Officer, acts as a forum for the discussion of any matters relating to credit risk. It sets and reviews credit policies and procedures, oversees the operation of the credit process, and approves loans within its authorisation limits.

Asset & Liability Committee

The Asset & Liability Committee (ALCO) chaired by the Chief Executive Officer, is responsible for managing the assets and liabilities of the Company to ensure that sufficient funds are readily available to meet commitments, both under normal operating conditions and in the event of a crisis. The Committee is also responsible for managing the Company's liquidity risk, reviewing the interest rate charged on loans and addressing strategic issues concerning liquidity.

RISK MANAGEMENT FUNCTION

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

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

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

ANTI-MONEY LAUNDERING

NFH has a designated Money Laundering Reporting Officer (MLRO) and a Deputy MLRO (DMLRO). The Company has implemented an anti-money laundering (AML) and counter-terrorism financing (CFT) policy, and annually trains staff to raise awareness of identifying and reporting suspicious transactions. NFH follows prudent practices related to Customer Due Diligence and Beneficial Ownership, and Know Your Customer (KYC) principles.

In accordance with regulatory requirements, the MLRO reviews the effectiveness of the AML/CFT procedures, systems and controls at least once a year. The Company'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 Company is committed to providing uninterrupted service of all key business resources required to support critical business activities. This is achieved through identifying potential threats to the Company, and providing a framework for a response that safeguards all stakeholders, including employees and customers. The Company's Business Continuity Plan includes data recovery and information security. During 2016, two business continuity exercises, involving the disaster recovery site and all departments, were successfully carried out; together with testing of various disaster recovery scenarios. Information security measures were improved by conducting two Vulnerability Assessment & Penetration Testing (VAPT) exercises and addressing the risks identified in a timely manner. In addition, a Cyber Security Framework was drafted to include clear ownership and management of risks associated with cyber-attacks; and a Cyber Security Incident Response Team was established to detect, monitor, mitigate and report cyber-attacks.

Corporate Governance

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

DEVELOPMENTS IN 2016

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

During 2016, NFH continued to strengthen its corporate governance framework to ensure compliance with the regulations of the Central Bank of Bahrain (CBB) and other statutory bodies; and also the requirements of the Code of Corporate Governance of the Kingdom of Bahrain issued by the Ministry of Industry & Commerce. The Board has reviewed and approved amendments to the corporate governance framework and policies, Board Committee Charters, Management Committee Charters, risk management policies and all other policies of the Company. The Board has also approved amendments to the IT policy and business continuity plan to comply with new CBB requirements related to Cyber Security Management.

COMPANY PHILOSOPHY

The Company's philosophy is to maintain a working environment of the highest integrity, and promote a culture that upholds best practices under the Code of Corporate Governance, which is vital for growing a successful business. The Company recognises that transparency, fairness, compliance and accountability are the pillars of any good system of corporate governance.

STRUCTURE

NFH has put in place a robust corporate governance structure that clearly sets out the objectives of the Company; together with the means and incentives through which the Board and Management pursue objectives that are in the best interests of the Company and its shareholders. This structure is designed to establish and maintain an environment which adopts the highest standards of ethical business conduct, facilitates effective monitoring, and encourages the most efficient use of resources.

PRINCIPLES

The corporate governance structure of NFH is based on a number of critical principles. These include: an independent, active and engaged Board of Directors that has the skills to properly oversee and direct Management; a Code of Conduct to guide directors, managers and staff in their day-to-day administration of the Company's business; the imposition of effective controls and monitoring systems; and the dissemination of timely and accurate information to shareholders, regulatory authorities, and other stakeholders.

BOARD OF DIRECTORS

Board Composition

As per the Company's Memorandum and Articles of Association, the Board of Directors comprises a maximum of 10 members. The current Board consists of nine Directors of which two are Independent Directors. The Board was appointed at the Annual General Meeting held on 25 February 2015 for a period of three years. The next election / re-election of the Board of Directors for a three-year term is scheduled for February 2018. The appointment of Directors is subject to CBB approval. The Board periodically reviews its composition and the contribution of Directors and Committees.

Board Meetings

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

Roles & Responsibilities

The Board is accountable to the Company's shareholders and other stakeholders to ensure that NFH is managed in a safe and sound manner, and with an appropriate balance between financial performance and fulfilment of its public purpose. The Board is also responsible to the regulators for conducting the business of the Company within the legal and regulatory framework.

Induction & Training

The Company 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 Company shall receive training covering the financial and business performance of the Company, 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. A continuing awareness programme is adopted through presentations at Board meetings and distribution of publications.

Performance Evaluation

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

Board of Directors Remuneration

The remuneration of Independent Directors comprises a fixed component while the remuneration of other Members of the Board of Directors comprises a fixed and a variable component. The Fixed Remuneration comprises the sitting fees per meeting attended by the Board Member. The Variable Remuneration comprises a percentage of the net profit for one financial year. Board Members' remuneration is linked to their attendance and performance. Participation in a meeting via telephone/video conference shall be considered an attendance of the meeting. In aggregate, Directors were paid a total of BD 74,900 as annual remuneration and sitting fees for their contribution to the Board and Board Committees held during 2016.

Code of Ethics & Business Conduct

The Board has approved a comprehensive Code of Ethics & Business Conduct for the Directors, Management, and staff. The Code binds signatories to the highest ethical standards of personal and professional behaviour; and requires staff to display integrity, mutual respect and due diligence in discharging their duties. It also outlines areas of confidentiality and the responsibilities of signatories to reject bribery, kickbacks and corruption; and adhere to best employment practices. The Code of Business Conduct adopted by NFH has been posted on the website of the Company.

Whistle-blower Policy

The Company 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 Company and their private interests and/or other duties.

Related Party Transactions

There are no shares held by Directors or Senior Managers as at 31 December 2016. Transactions with related parties are disclosed in detail in Notes annexed to the Financial Statements for 2016.

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 or writing-off loans at a certain level of exposure, or obtaining new credit facilities from banks.

Communications with Stakeholders

The Company conducts all communications with its stakeholders in a transparent, accurate and timely manner. Main channels of communications comprise an annual general meeting, annual report, semi-annual and annual financial statements, corporate website, and regular announcements in the appropriate local media.

The semi-annual and annual results of the Company are published in two local newspapers, one in Arabic and one in English, and a copy is submitted to the Central Bank of Bahrain. During the year, the semi-annual reviewed interim financial results, and the audited annual financial results of the Company, were published in two leading newspapers – Gulf Daily News (English) and Al-Watan Newspaper (Arabic). They were also promptly put on the Company's website www.nfh.com.bh. All previous annual reports and quarterly interim financial results of the Company, and other official news releases of relevance to the stakeholders, are also made available on the Company's website for a reasonable period of time.

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

BOARD COMMITTEES

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

Performance Evaluation

Each Board Committee conducts 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 four 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 2016 was four. The quorum for a meeting will be three 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 Company and guide the Company 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 Company, and the strategic direction and control of the Company's business activity, within the authorities delegated to it by the Board.
- Credit approvals within a range specified by the Board.
- Review the policies, business plan and annual budget for approval of the Board.
- Approve expenditure and other financial commitments within the authorities delegated to the Committee, and make recommendations to the Board seeking the necessary approval for proposals beyond its powers.

Audit & Corporate Governance 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 2016 was four. The quorum for a meeting will be two members. However, all meetings must be attended by the Chairperson of the Committee.

Roles & Responsibilities

- Assist the Board of Directors in ensuring and maintaining oversight of the Company's financial reporting system, internal controls, risk management processes, audit functions, compliance with legal and regulatory requirements, and Corporate Governance guidelines.
- Assist the Board in the appointment of external and internal auditors in the context of their independence, compensation and terms of engagement.
- Review and supervise the implementation of, enforcement of, and adherence to, the Company's Code of Business Conduct.
- Monitor the Compliance and Anti-Money Laundering functions.
- Review and reassess the adequacy of the Corporate Governance framework, guidelines, policies and controls; and recommend any 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 of 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 2016 was two. The quorum for a meeting will be two members. However, all meetings must be attended by the 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 Company's corporate goals, agreed strategy, objectives and business plans.

Board & Board Committees Members as at 31 December 2016

The classification of 'Executive' Directors, 'Non-Executive' Directors and 'Independent' Directors is as per definitions stipulated by the CBB. Mohammed Farouk Almoayyed is the son of the Chairman, and Talal Fuad Kanoo is the son of the Deputy Chairman. None of the other Directors have any inter-relationship.

Directors	Directorship Type	Board	Executive Committee	Audit & Corporate Governance Committee	Nomination & Remuneration Committee
Farouk Yousif Khalil Almoayyed	Non-Executive	Chairman			Chairman
Fuad Ebrahim Kanoo	Non-Executive	Deputy Chairman			
Sameer Ebrahim Al Wazzan	Executive	Member	Member		
Shrikanth Shenoy	Executive	Member			
Mohammed Farouk Almoayyed	Executive	Member	Member		
Talal Fuad Ebrahim Kanoo	Executive	Member	Chairman		
Khaled Saleh Alkhattaf	Non-Executive	Member		Member	
Khaled Shaheen Saqer Shaheen	Independent	Member	Deputy Chairman	Member	Member
Kalyan Sunderam	Independent	Member		Chairman	Member

Board & Board Committee Meetings and Record of Attendance during 2016

✓ Attended × Absent O Not a member during this period

Board of Directors	24 Feb	18 May	18 Oct	6 Dec	% of Meetings Attended
Farouk Yousif Khalil Almoayyed	✓	✓	✓	✓	100%
Fuad Ebrahim Kanoo	✓	✓	×	✓	75%
Sameer Ebrahim Al Wazzan	✓	×	✓	✓	75%
Shrikanth Shenoy (appointed on 05/05/2016)	O	✓	✓	✓	100%
Mohammed Farouk Almoayyed	✓	×	✓	✓	75%
Talal Fuad Ebrahim Kanoo	✓	✓	✓	✓	100%
Khaled Saleh Alkhattaf (appointed on 21/07/2016)	O	O	✓	✓	100%
Khaled Shaheen Saqer Shaheen	✓	✓	✓	✓	100%
Kalyan Sunderam	✓	✓	✓	✓	100%
Al Sayyida Rawan Ahmed Al Said (member until 03/03/2016)	✓	O	O	O	100%

Executive Committee	16 February	10 May	13 October	24 November
Talal Fuad Ebrahim Kanoo	✓	✓	✓	✓
Khaled Shaheen Saqer Shaheen	✓	✓	✓	✓
Mohammed Farouk Y. Almoayyed	✓	×	✓	✓
Sameer Ebrahim Al Wazzan	✓	✓	✓	✓

Audit & Corporate Governance Committee	15 February	8 May	22 August	6 December
Kalyan Sunderam	✓	✓	✓	✓
Khaled Shaheen Saqer Shaheen	✓	✓	✓	✓
Khaled Saleh Alkhattaf (appointed on 18/10/2016)	O	O	O	✓
Al Sayyida Rawan Ahmed Al Said (member until 03/03/2016)	✓	O	O	O

Nomination & Remuneration Committee	24 February	6 December
Farouk Yousif Khalil Almoayyed	✓	✓
Khaled Shaheen Saqer Shaheen	✓	✓
Kalyan Sunderam	✓	✓

SHAREHOLDERS

During 2016, Oman National Investment Corporation Holding (ONIC) merged with Oman International Development and Investment Company (OMINVEST) under the name of the latter. An extraordinary general meeting (EGM) was held on 24th February 2016 to change the name of the shareholder and amend the Company's articles of association. The following is the list of NFH shareholders as at 31st December 2016.

List of NFH Shareholders as at 31 December 2016

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

MANAGEMENT

The Board has delegated authority to the Chief Executive Officer for the day-to-day management of the Company. He is supported in his duties by a qualified and experienced Management team, and five committees: Management Committee, Credit Committee, Risk Management Committee, Asset & Liability Committee and IT Steering Committee.

Managerial Remuneration

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

Remuneration of Approved Persons & Material Risk Takers

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

Employment of Relatives

It is the Company'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.

AUDITORS

The Shareholders of the Company appointed KPMG, one of the leading accounting firms in Bahrain, as the external auditors for 2016. During the year, BD 24,960 was charged by the external auditors against the services rendered by them to the Company (BD 8,000 for audit, and BD 16,960 for other services).

The internal audit function is outsourced to Grant Thornton Abdulaal Gulf Audit, a leading professional services firm offering audit and advisory services to businesses across the Kingdom of Bahrain since 2000. During 2016, BD 9,200 was charged by the internal auditors against the auditing services rendered by them to the Company.

Compliance

The Company conducts its business in compliance with all relevant bye-laws, rules and regulations pertaining to financial institutions. These comprise Central Bank of Bahrain rules and guidelines, legal compliance, and international accounting standards. NFH has well-documented 'Know Your Customer' guidelines, and customer due diligence policy, processes and procedures. The Company has appointed a Compliance Manager, a Money Laundering Reporting Officer (MLRO) and a Complaints Officer.

There were no instances of material non-compliance, and no strictures were imposed on the Company by the Central Bank of Bahrain (CBB) or any statutory authority, on any matter during the year. An amount of BD 1,000 was paid to the CBB for 20 accounts that were not cleaned in the Bahrain Credit Reference Bureau (BCRB).

Non-Compliance with High Level Controls Module of CBB Rulebook

For the year 2016, the Company is fully compliant with the requirements of the CBB's HC Module, except for the following:

HC-1.3.14 states that a director should not hold more than three directorships in public companies in Bahrain, with the provision that no conflict of interest may exist, and the Board should not propose the election or re-election of any director who does.

The Chairman, Mr. Farouk Almoayyed, holds more than three directorships in public companies in Bahrain in which he is also being proposed for re-election. Nevertheless, NFH is of the view that this does not impact the efficiency and competence of the Board of Directors, as Mr. Farouk Almoayyed grants adequate attention to his responsibilities as Chairman of the Board. In addition, there are no conflicts of interest between his other directorships and that of NFH.

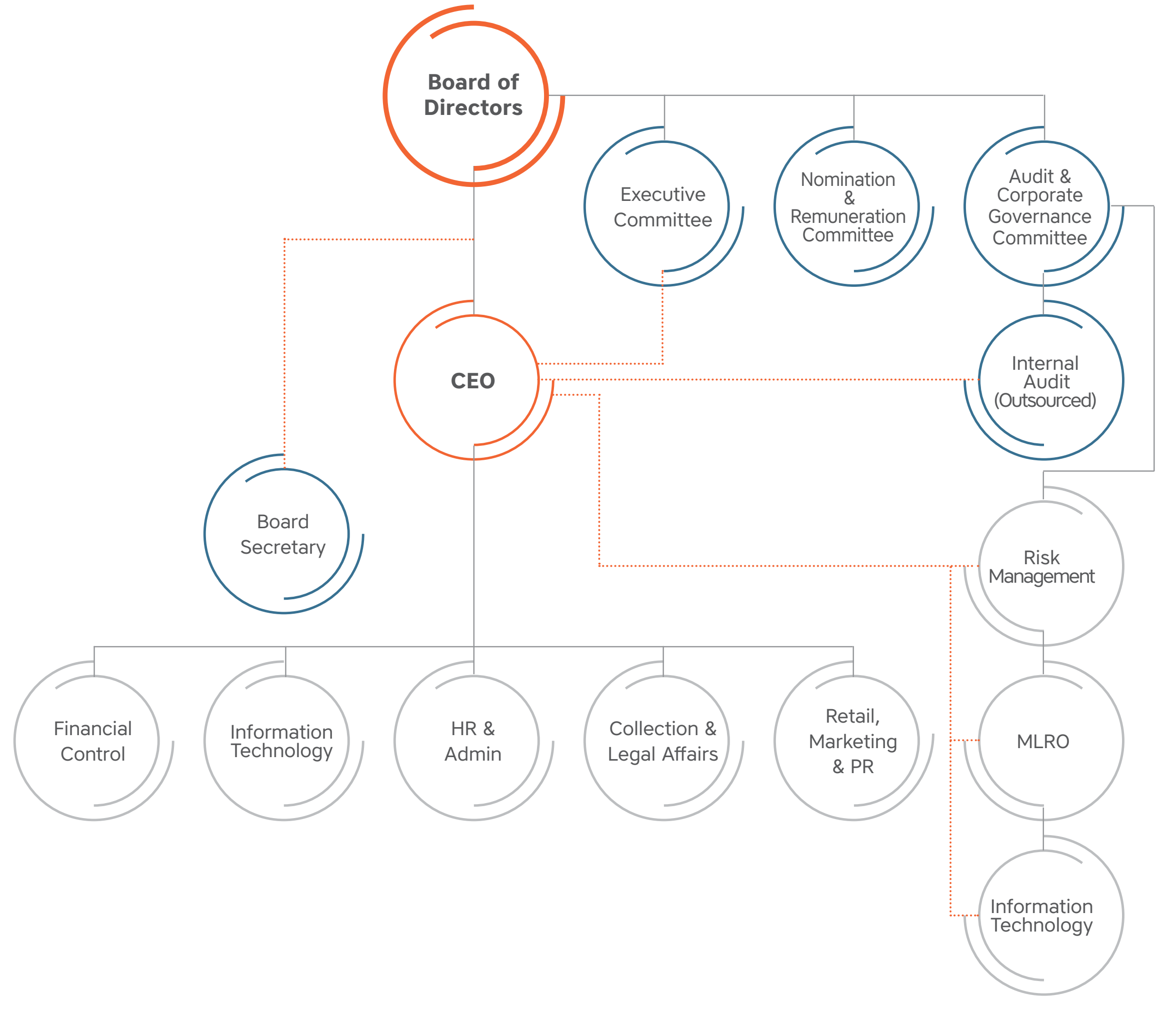
HC-1.4.6 states that the Chairman of the Board should be an independent director so that there will be an appropriate balance of power and greater capacity of the Board for independent decision making.

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

HC-4.2.2 & HC-5.3.2 state that the Chairman of the Nomination & Remuneration Committee should be an independent director. This is consistent with international best practice and it recognises that the Committee must exercise judgement free from personal career conflicts of interest.

The Chairman of the Company's Nomination & Remuneration Committee is not independent; 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 Company's policies including Code of Ethics & Business Conflict and Conflict of Interest Policy, to promote objectivity in decision making.

GOVERNANCE AND ORGANISATION STRUCTURE



EXECUTIVE MANAGEMENT

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

- Over 32 years' experience in the financial sector with proficiency in banking and technology.
- Member of Information System Audit Control & Assurance, USA.
- Member of the Institute of Internal Control, USA.
- Member of the Indian Institute of Bankers.
- BSc degree, Bangalore University.
- Postgraduate Diploma, Madurai Kamaraj University, India.

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

- Over 23 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.

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

- Over 18 years' experience in retail banking and financial services.
- MBA in Finance, AMA International University.
- BSc in Banking & Finance, and a Diploma in Commercial Studies, University of Bahrain.
- Currently pursuing certification in Associate Professional Risk Manager (APRM).

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

- Over 14 years' experience in credit and risk management.
- BSc in Banking & Finance, University of Bahrain.
- Certification in the Fundamentals of Financial Risk Management (FFRM) and Advance Financial Risk Management (AFRM).
- Currently pursuing certification in Professional Risk Manager (PRM).

Mahmood Fraidoon
(CISM)
Head of IT
Joined NFH in 2012

- Over 11 years' experience in information technology.
- BSc in Computer & Information System, Gulf University.
- Certified Information Security Manager (CISM) from ISACA, USA
- Certification in Microsoft Certified in System Engineering (MCSE), & Red Hat Certified System Administrator I, II (RHCSA I & II).

Naheed Najaf
(MCMI, MBA)
Head of Special Projects
Joined NFH in 2008

- Over 18 years' experience in insurance services.
- Member of Chartered Management Institute (CMI), UK.
- MBA, University of Strathclyde, UK.
- BSc in Banking & Finance along with a Diploma in Commercial Studies, University of Bahrain.
- Intermediate, Advanced and Management Insurance Diploma, Bahrain Institute of Banking and Finance.
- Pursuing ACII (Advanced Diploma in Insurance) from the Chartered Insurance Institute, UK

Tariq Abdulaziz Ahmed
Head of Collections
Joined NFH in 2012

- Over 21 years' experience in collection and legal affairs.
- Advanced Diploma in Banking Studies, Bahrain Institute of Banking and Finance.

Ali Jasim Shaker Radhi
Credit Administration Manager & Complaints Officer
Joined NFH in 2007

- Over 16 years' experience in the banking industry.
- First Diploma in Business & Finance, Bahrain Training Institute.
- Currently pursuing certification in Associate Professional Risk Manager (APRM).

Fatima Abdulla Yousif
Human Resources & Administration
Joined NFH in 2011

- Over 29 years of experience, of which 24 have been spent in the field of human resources.

Bahrain's enduring fascination with the motor car

Since 1914, the steady increase in the number of vehicles has been mirrored by the constant modernisation and expansion of Bahrain's road network.

It must have been a strange sight when the first car landed on Bahrain's shores just over 100 years ago. The vehicle in question was an American Detroit-made King automobile, which was shipped from India by Shaikh Abdullah bin Isa bin Ali Al Khalifa in 1914.

This historic occasion heralded the beginning of Bahrain's enduring fascination with the motor car. To begin with, ownership was modest, with just 200 cars on the road by 1930. As the import of cars grew, Bahrain's first public petrol station opened in Bab Al Bahrain in 1938; and by the end of the Second World War, there were around 400 cars in the Kingdom. The development of Bahrain's oil industry brought new prosperity and economic growth; and by the mid-1950s there were an estimated 3,500 cars on the road, growing to 6,500 by 1961 and 15,300 by 1971. Greater prosperity followed the increase in the price of a barrel of oil from US$ 3 to US$ 12 in the early 1970s. This resulted in the number of cars more than doubling in just five years to 33,000 by 1975.

Since then, that number has grown exponentially. According to the Information and eGovernment Authority, at the end of 2016 there were 522,780 privately-owned cars in Bahrain. Given a total population of 1.37 million, this equates to one car for every three people. That ratio is even higher when one takes into account the number of valid driving licence holders. During 2016, 32,595 new privately-owned cars were registered out of a total 47,605 new vehicle registrations. Over the past decade, the number of private vehicles registered on Bahrain's roads has grown by over 100 per cent, with an average of just under 35,000 registrations annually. Ten years ago, 49 per cent of car purchases was by credit, but this had changed to 40 per cent in 2016. Currently, privately-owned cars account for over 90 per cent of total vehicles on the road.

The continuous increase in the number of vehicles has been mirrored by constant modernisation and expansion of Bahrain's road network. This started with the widening and paving of existing roads to facilitate the use of cars; and was followed by the construction of wider carriageways and 'road arteries', plus the introduction of roundabouts at many junctions. A series of new bridges in the 1930s replaced the traditional ferries between Manama and Muharraq, followed by a more modern causeway in 1941. In addition, new highways linked Manama with main residential areas of the Kingdom.

A major development took place in 1968 with the introduction of a master road network plan to support the Kingdom's new urban planning initiative. This resulted in considerable land reclamation to the north and east of Manama to enable a new ring road to be built; and also the construction of new major highways linking the capital to other parts of Bahrain. The development of the road network continued during the next two decades, including the Sitra causeway. In 1986, the 25-kilometre causeway linking Bahrain and Saudi Arabia was officially opened; together with a new highway joining Manama with the new causeway.

Due the continued rapid growth in the number of cars, the next major upgrade of Bahrain's road network commenced in 2006, the year that NFH started operations. This involved the construction of several new six-lane highways linking main residential and business areas. In addition, many old roundabouts were replaced with modern traffic light intersections; while flyovers were introduced at the most heavily-used road junctions to ease traffic flow.

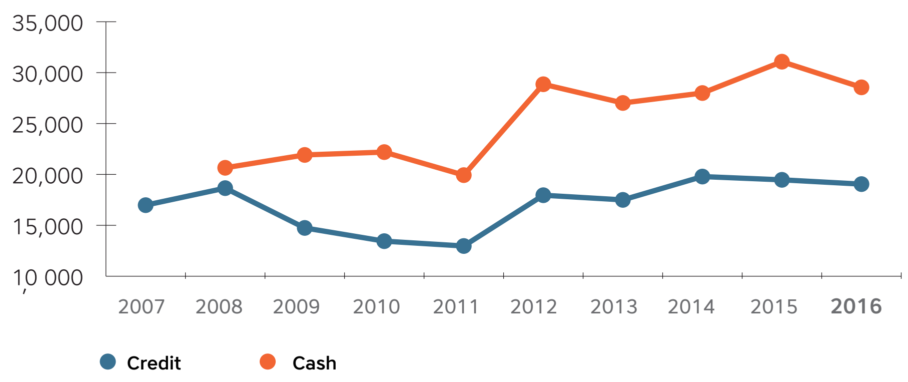
Today, Bahrain's road infrastructure boasts one of the highest global ratios of paved roads to total roads, at 82 per cent. Vehicle density in the Kingdom is also high by international standards, with an estimated 537 vehicles per 1,000 people, which is one of the highest in the GCC. However, according to the Works, Municipalities Affairs and Urban Planning Ministry, recent studies have shown that people in Bahrain actually reach their destinations faster and more safely, which is testimony to the design, quality and efficiency of the Kingdom's road network.

The growth in cars continues to outstrip the growth in population. Government studies forecast that Bahrain's population and the number of cars on the road could equalise at 2.5 million by 2030, meaning that there would be one vehicle for every person. In 2011, a detailed study began for a major new transport master plan for Bahrain, as part of the Government's policy to encourage more people to use public transport instead of their cars. The plan envisaged a smart integrated nationwide public transport system comprising bus rapid transport (BRT), light rail transport (LTR), a monorail and tramway.

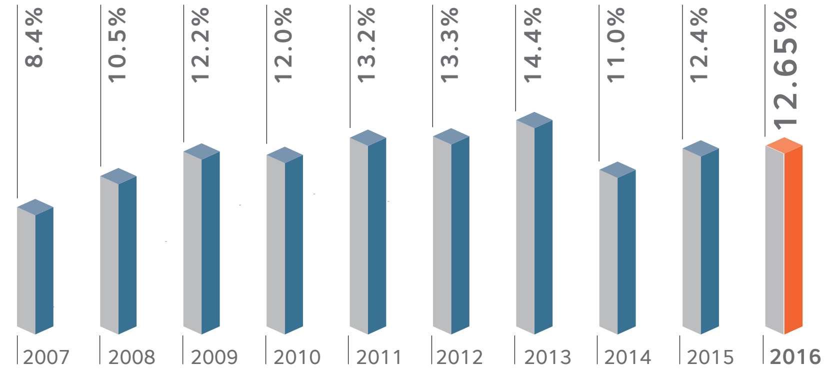
However, Bahrain's love affair with the motor car looks set to continue, with most people preferring the convenience, privacy and comfort of their own cars. There are also many Bahrainis who are avid collectors of vintage and classic cars. These include rare models such as a 1917 Model T Ford; and a 1952 Rolls Royce Silver Dawn, of which only 760 were made between 1949 and 1955, initially only for export; together with more modern iconic marques. On display at the Bahrain National Museum is a restored 1932 Buick, which was gifted by the US government to the late Emir, Shaikh Isa bin Salman Al Khalifa, himself a keen collector. This passion for cars was further illustrated by a landmark initiative of his grandson, HRH the Crown Prince Salman bin Hamad Al Khalifa, which resulted in Bahrain hosting the first Formula One Grand Prix in the Middle East in 2004. This has not only delighted numerous car racing fans, especially from across the GCC region; but, more importantly, has also resulted in immense economic benefit to the Kingdom.

Ten years ago, 49 per cent of car purchases was by credit, but this had changed to 40 per cent in 2016. Currently, privately-owned cars account for over 90 per cent of total vehicles on the road.

Automobile Sales in Bahrain
2007 – 2016



NFH Market Share
2007 - 2016



Financial Statements 2016

Independent Auditors' Report to the Shareholders
31 December 2016

Report on the financial statements

Opinion

We have audited the accompanying financial statements of National Finance House BSC (c) (the "Company"), which comprise the statement of financial position as at 31 December 2016, the 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 financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

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

Other information

The board of directors is responsible for the other information. The other information obtained at the date of this auditors' report is the Chairman's report set out on pages 1-2.

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 financial statements

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.

In preparing the financial statements, the board of directors is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

Independent Auditors' Report to the Shareholders (continued)

31 December 2016

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 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 Company'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 Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on other regulatory requirements

As required by the Bahrain Commercial Companies Law and (Volume 5) of the Central Bank of Bahrain (CBB) Rule Book, we report that:

a) the Company has maintained proper accounting records and the financial statements are in agreement therewith;

b) the financial information contained in the chairman's report is consistent with the financial statements;

c) we are not aware of any violations during the year of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 5, applicable provisions of Volume 6 and CBB directives), or the terms of the Company's memorandum and articles of association that would have had a material adverse effect on the business of the Company or on its financial position; and

d) satisfactory explanations and information have been provided to us by management in response to all our requests.

KPMG

KPMG Fakhro
Partner Registration No. 100
26 February 2017

Statement of Financial Position

as at 31 December 2016 (Bahraini Dinars)

	Note	2016	2015
ASSETS			
Cash and cash equivalents	4	2,415,741	1,761,589
Loans to customers	5	48,142,730	45,835,998
Furniture, fixtures and equipment	6	408,566	489,200
Other assets		265,777	270,495
Total assets		**51,232,814**	48,357,282
LIABILITIES AND EQUITY			
Liabilities			
Bank loans	7	36,023,221	33,859,253
Other liabilities	8	1,275,850	1,308,391
Total liabilities		**37,299,071**	35,167,644
Equity			
Share capital	10	7,500,000	7,500,000
Share premium		112,500	112,500
Statutory reserve		842,125	715,214
Retained earnings		5,479,118	4,861,924
Total equity (page 47)		**13,933,743**	13,189,638
Total equity and liabilities		**51,232,814**	48,357,282

The Board of Directors approved the financial statements consisting of pages 45 to 64 on 26 February 2017 and signed on its behalf by:

Farouk Yousif Khalil Almoayyed
Chairman

Fuad Ebrahim Kanoo
Deputy Chairman

The notes on pages 49 to 64 are an integral part of these financial statements.

Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2016 (Bahraini Dinars)

	Note	2016	2015
Interest income	11	4,534,503	4,240,342
Interest expense		(1,658,581)	(1,434,881)
Net interest income		**2,875,922**	2,805,461
Fees and commission income		966,561	790,515
Fees and commission expense		(486,378)	(425,885)
Net fee and commission income		**480,183**	364,630
Total income		**3,356,105**	3,170,091
Staff costs		923,715	897,065
Depreciation	6	160,228	140,820
Impairment on loans to customers, net of recoveries	5	378,963	323,024
Other operating expenses	12	624,094	627,680
Total expenses		**2,087,000**	1,988,589
Profit for the year		**1,269,105**	1,181,502
Other comprehensive income		**-**	-
Total comprehensive income for the year		**1,269,105**	1,181,502
Basic earnings per share	10	**16.9 fils**	15.8 fils

The Board of Directors approved the financial statements consisting of pages 45 to 64 on 26 February 2017 and signed on its behalf by:

Farouk Yousif Khalil Almoayyed
Chairman

Fuad Ebrahim Kanoo
Deputy Chairman

The notes on pages 49 to 64 are an integral part of these financial statements.

Statement of Changes In Equity
for the year ended 31 December 2016 (Bahraini Dinars)

2016	**Share capital**	**Share premium**	**Statutory reserve**	**Retained earnings**	**Total equity**
At 1 January 2016	7,500,000	112,500	715,214	4,861,924	13,189,638
Profit and total comprehensive income for the year (page 46)	-	-	-	1,269,105	1,269,105
Dividends declared for 2015	-	-	-	(525,000)	(525,000)
Transfer to statutory reserve	-	-	126,911	(126,911)	-
At 31 December 2016	**7,500,000**	**112,500**	**842,125**	**5,479,118**	**13,933,743**

2015	Share capital	Share premium	Statutory reserve	Retained earnings	Total equity
At 1 January 2015	7,500,000	112,500	597,064	4,248,572	12,458,136
Profit and total comprehensive income for the year (page 46)	-	-	-	1,181,502	1,181,502
Dividends declared for 2014	-	-	-	(450,000)	(450,000)
Transfer to statutory reserve	-	-	118,150	(118,150)	-
At 31 December 2015	7,500,000	112,500	715,214	4,861,924	13,189,638

The notes on pages 49 to 64 are an integral part of these financial statements.

Statement of Cash Flows
for the year ended 31 December 2016 (Bahraini Dinars)

	Note	2016	2015
Operating activities			
Interest, fees and commission received		5,500,820	5,030,851
Loans disbursed		(22,073,445)	(21,670,707)
Loan repayments		19,378,403	18,272,292
Payments for staff salaries and related costs		(927,288)	(860,934)
Payments for other operating expenses		(1,131,409)	(1,043,127)
Net cash generated from / (used in) operating activities		**747,081**	(271,625)
Investing activities			
Purchase of furniture, fixtures and equipment	6	(79,600)	(165,128)
Sale of furniture, fixtures and equipment		250	6
Net cash used in investing activities		**(79,350)**	(165,122)
Financing activities			
Proceeds from bank borrowings		9,500,000	10,000,000
Repayment of bank borrowings		(7,336,032)	(7,098,179)
Interest paid		(1,652,547)	(1,415,753)
Dividends paid		(525,000)	(450,000)
Net cash (used in) / generated from financing activities		**(13,579)**	1,036,068
Net increase in cash and cash equivalents		**654,152**	599,321
Cash and cash equivalents at 1 January		1,761,589	1,162,268
Cash and cash equivalents as at 31 December	4	**2,415,741**	1,761,589

The notes on pages 49 to 64 are an integral part of these financial statements.

Notes to the Financial Statements
for the year ended 31 December 2016 (Bahraini Dinars)

1 REPORTING ENTITY

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

2 BASIS OF PREPARATION

a. Statement of compliance

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

b. Basis of measurement

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

c. Functional and presentation currency

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

d. Use of estimates and judgments

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

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

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

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

e. New standards, amendments and interpretations effective from 1 January 2016

The following standards, amendments and interpretations, which became effective as of 1 January 2016, are relevant to the Company:

- **Annual improvements to IFRSs 2012-2014 cycle**

The annual improvements to IFRSs to 2012-2014 cycle include a number of amendments to various IFRSs. Most amendments will apply prospectively for annual periods beginning on or after 1 January 2016; earlier application is permitted (along with the special transitional requirement in each case), in which case the related consequential amendments to other IFRSs would also apply.

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

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

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2016, and have not been applied in preparing these financial statements. Those which are relevant to the Company are set out below. The Company does not plan to early adopt these standards.

- **IFRS 9 - Financial Instruments**

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 Financial Instruments.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Company currently plans to apply IFRS 9 initially on 1 January 2018.

The Company has made initial assessment of the impact of adopting IFRS 9 and the impact is not likely to be very significant.

Notes to the Financial Statements

for the year ended 31 December 2016 (Bahraini Dinars)

2 BASIS OF PREPARATION (continued)

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

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

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

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

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

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16, the Company does not expect to have a significant impact on its financial statements arising from adaption of this standard.

g. Early adoption of standards

The Company did not early adopt new or amended standards in 2016.

3 SIGNIFICANT ACCOUNTING POLICIES

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

a. Interest income and expense

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

b. Fees and commission income and expenses

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

c. Financial assets and liabilities

(i) Recognition

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

(ii) De-recognition

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

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

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

Notes to the Financial Statements

for the year ended 31 December 2016 (Bahraini Dinars)

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Financial assets and liabilities (continued)

(iii) Offsetting

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

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

(iv) Amortised cost measurement

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

(v) Identification and measurement of impairment

At each reporting date, the Company assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the assets, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, indications that a borrower will enter bankruptcy, the restructuring of a loan by the Company on terms that the Company would not consider otherwise, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers, or economic conditions that correlate with defaults in the group.

The Company considers evidence of impairment for loans at collective level by grouping together loans with similar credit risk characteristics.

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

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in the profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired assets continues to be recognised through the unwinding of the discount. If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through profit or loss.

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

d. Loans and advances

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

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

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

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

Notes to the Financial Statements
for the year ended 31 December 2016 (Bahraini Dinars)

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

f. Depreciation

Depreciation on furniture, fixtures and equipment is provided on the straight line method over their estimated useful lives as follows:

Furniture, fixture, equipment, and computer software	5 years
Computer hardware	3 years

g. Cash and cash equivalents

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

h. Statutory reserve

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

i. Impairment of non-financial assets

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

j. Borrowings from banks

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

k. Provisions

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

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

l. Employees' end of service benefits

(i) Bahraini employees

Pensions and other social benefits for Bahraini employees are covered by the Social Insurance Organisation scheme, which is a "defined contribution scheme" in nature, and to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis.

(ii) Expatriate employees

Expatriate employees on fixed contracts are entitled to leave indemnity payable under the Bahraini Labour Law for the Private Sector of 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 Company at the statement of financial position date.

Notes to the Financial Statements
for the year ended 31 December 2016 (Bahraini Dinars)

4 CASH AND CASH EQUIVALENTS

	2016	2015
Cash in hand	1,200	1,200
Balances with banks	2,414,541	1,760,389
	2,415,741	1,761,589

5 LOANS TO CUSTOMERS

	2016	2015
Gross loans	49,711,714	47,093,789
Less: impairment allowance	(1,568,984)	(1,257,791)
	48,142,730	45,835,998

The movement on impairment allowance was as follows:

	2016	2015
At 1 January	1,257,791	987,568
Charge for the year	509,597	477,679
Written off during the year	(198,404)	(207,456)
At 31 December	1,568,984	1,257,791

The company recovered BD 130,634 (2015: BD 154,655) from loans written off in the previous years.

6 FURNITURE, FIXTURES AND EQUIPMENT

	Furniture and equipment	Computer software	Computer hardware	2016 Total	2015 Total
Cost					
At 1 January	496,687	432,776	196,515	1,125,978	968,967
Additions	5,615	70,441	3,544	79,600	165,128
Disposals	(8,205)	(620)	-	(8,825)	(8,117)
At 31 December	494,097	502,597	200,059	1,196,753	1,125,978
Depreciation					
At 1 January	355,639	137,040	144,099	636,778	504,075
Charge for the year	59,400	71,193	29,635	160,228	140,820
Disposals	(8,205)	(614)	-	(8,819)	(8,117)
At 31 December	406,834	207,619	173,734	788,187	636,778
Net book value					
At 31 December 2016	87,263	294,978	26,325	408,566	-
At 31 December 2015	141,048	295,736	52,416		489,200

Notes to the Financial Statements
for the year ended 31 December 2016 (Bahraini Dinars)

7 BANK LOANS

	2016	2015
Repayable within one year	13,457,164	12,162,965
Repayable after one year	22,566,057	21,696,288
	36,023,221	33,859,253

These are term loans with floating interest rates, which are subject to re-pricing on a monthly or on half-yearly basis. The effective interest rate on borrowings was within the range of 3.00 % to 5.46 % p.a. (2015: 3.00 % to 5.00 % p.a.). Of the total borrowings, BD 31 million (2015: BD 28.9 million) is secured by assignment of customer loans.

8 OTHER LIABILITIES

	2016	2015
Payable to agents for vehicles financed	835,194	844,541
Accrued expenses	440,656	463,850
	1,275,850	1,308,391

9 RELATED PARTY TRANSACTIONS

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

Related party transactions	2016	2015
Expenses		
Insurance premium charges (shareholder)	174,005	164,784

Related party balances	2016	2015
Payable for vehicles financed (shareholders)	470,725	532,365
Prepaid expenses (shareholders)	12,286	12,293

Notes to the Financial Statements
for the year ended 31 December 2016 (Bahraini Dinars)

9 RELATED PARTY TRANSACTIONS (continued)

Transactions with key management personnel

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

	2016	2015
Key management compensation	339,836	244,188
Board of directors remuneration and committee attendance allowances	77,630	75,454
Staff loan	10,000	18,500

Balances with key management personnel

	2016	2015
Staff loan	9,787	11,896

10 SHARE CAPITAL

	2016	2015
Authorised		
500,000,000 ordinary shares of 100 fils each	50,000,000	50,000,000
Issued capital		
75,000,000 ordinary shares of 100 fils each	7,500,000	7,500,000
Paid up capital		
75,000,000 ordinary shares of 100 fils each	7,500,000	7,500,000
Basic and diluted earnings per share	**16.9 fils**	15.8 fils

The earning per share is calculated by dividing the net income of BD 1,269,105 (2015: BD 1,181,502) by the number of shares outstanding at the end of the year of 75 million shares (2015: 75 million shares).

The Board of Directors propose a cash dividend of 8% (2015: 7%) of the paid-up capital. This amount to BD 600,000 (2015: BD 525,000).

In addition the Board of Directors propose a distribution of BD 25,000 (2015: BD 24,000) as Board of Directors remuneration.

11 INTEREST INCOME

	2016	2015
Interest on loans to customers	4,522,094	4,220,463
Interest on bank term deposits	12,409	19,879
	4,534,503	4,240,342

Notes to the Financial Statements
for the year ended 31 December 2016 (Bahraini Dinars)

12 OTHER OPERATING EXPENSES

	2016	2015
Rent	70,546	70,146
Communication expense	43,947	33,137
Office expenses	322,543	324,608
Printing and stationery expense	16,208	11,390
Computer maintenance and support expenses	54,956	53,760
Legal and professional charges	56,951	63,790
Advertising and publicity expense	33,943	46,849
Board of directors remuneration	25,000	24,000
	624,094	627,680

13 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Risk management framework and overview

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

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

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

The Executive Committee reviews and reports to the Board of Directors on the Company's risk profile and risk taking activities.

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

Credit risk

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

Notes to the Financial Statements
for the year ended 31 December 2016 (Bahraini Dinars)

13 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Credit risk (continued)

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

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

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

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

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:

	2016	2015
Cash and cash equivalents	2,414,541	1,760,389
Loans to customers	48,142,730	45,835,998
	50,557,271	47,596,387

Notes to the Financial Statements
for the year ended 31 December 2016 (Bahraini Dinars)

13 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Credit risk (continued)

Concentration of credit risk

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

	2016	2015
Concentration by sector		
Corporate	14,647,336	13,277,833
Retail	33,495,394	32,558,165
Financial institutions	2,414,541	1,760,389
	50,557,271	47,596,387

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

2016	Gross amount	Impairment allowance	Net amount
Current	43,916,089	135,642	43,780,447
Past due:			
0 – 89 days	4,239,254	304,539	3,934,715
90 – 180 days	298,325	101,185	197,140
> 180 days	1,258,046	1,027,618	230,428
	49,711,714	1,568,984	48,142,730

2015	Gross amount	Impairment allowance	Net amount
Current	42,274,329	17,999	42,256,330
Past due:			
0 – 89 days	3,283,809	22,328	3,261,481
90 – 180 days	328,825	35,038	293,787
> 180 days	1,206,826	1,182,426	24,400
	47,093,789	1,257,791	45,835,998

As at 31 December 2016, loans amounting to BD 21,190 (2015: BD 19,302) were restructured. The Company renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Company's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms. The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Company Audit and Corporate Governance Committee regularly reviews reports on forbearance activities.

Notes to the Financial Statements
for the year ended 31 December 2016 (Bahraini Dinars)

13 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Credit risk (continued)

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

The Company holds collateral against loans and advances to customers in the form of mortgage interests over vehicles financed. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Percentage of credit exposure (loans to customers) that is subject to collateral requirements was 113%, (2015: 114%) the principal type of collateral is the vehicle financed.

As at 31 December 2016 total non-performing loans as defined by the CBB (past due greater than 90 days) were BD 1,556,371 (2015: BD 1,535,651). 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.

Liquidity risk

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

Management of liquidity risk

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

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

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

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

Notes to the Financial Statements
for the year ended 31 December 2016 (Bahraini Dinars)

13 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Liquidity risk (continued)

31 December 2016	Carrying amount	Contractual cash flows	6 months or less	6 - 12 months	More than 12 months
Bank borrowings	36,023,221	39,182,482	4,969,772	9,882,248	24,330,462
Accounts payable	835,194	835,194	835,194	-	-
	36,858,415	**40,017,676**	**5,804,966**	**9,882,248**	**24,330,462**

31 December 2015	Carrying amount	Contractual cash flows	6 months or less	6 - 12 months	More than 12 months
Bank borrowings	33,859,253	36,466,005	4,309,316	9,223,481	22,933,208
Accounts payable	844,541	844,541	844,541	-	-
	34,703,794	37,310,546	5,153,857	9,223,481	22,933,208

Market risks

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

Interest rate risk

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

31 December 2016	Fixed rate	Floating rate	Non-interest bearing	Total
Cash and cash equivalents	-	-	2,415,741	2,415,741
Loans to customers	48,142,730	-	-	48,142,730
Other assets	-	-	265,777	265,777
	48,142,730	**-**	**2,681,518**	**50,824,248**
Bank loans	-	36,023,221	-	36,023,221
Other liabilities	-	-	1,275,850	1,275,850
	-	**36,023,221**	**1,275,850**	**37,299,071**

Notes to the Financial Statements
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13 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Interest rate risk (continued)

31 December 2015	Fixed rate	Floating rate	Non-interest bearing	Total
Cash and cash equivalents	-	-	1,761,589	1,761,589
Loans to customers	45,835,998	-	-	45,835,998
Other assets	-	-	270,495	270,495
	45,835,998	-	2,032,084	47,868,082
Bank loans	-	33,859,253	-	33,859,253
Other liabilities	-	-	1,308,391	1,308,391
	-	33,859,253	1,308,391	35,167,644

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 2015.

	Profit or loss		Equity	
	100 bp increase	100 bp decrease	100 bp Increase	100 bp decrease
31 December 2016				
Bank loans	**(408,236)**	**408,236**	**(408,236)**	**408,236**
31 December 2015				
Bank loans	(386,928)	386,928	(386,928)	386,928

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

Notes to the Financial Statements
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13 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Interest rate risk (continued)

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

	Carrying amount	Less than 3 months	3-6 months	6 - 12 months	1-6 years	More than 6 years	Non-interest bearing
31 December 2016							
Cash and cash equivalents	2,415,741	-	-	-	-	-	2,415,741
Loans to customers	48,142,730	3,167,406	3,654,058	6,928,852	34,392,158	256	-
Other assets	265,777	-	-	-	-	-	265,777
	50,558,471	**3,167,406**	**3,654,058**	**6,928,852**	**34,392,158**	**256**	**2,415,741**
Bank loans	36,023,221	2,095,541	2,120,541	9,241,082	22,437,657	128,400	-
Other liabilities	1,275,850	-	-	-	-	-	1,275,850
	37,299,071	**2,095,541**	**2,120,541**	**9,241,082**	**22,437,657**	**128,400**	**1,275,850**

	Carrying amount	Less than 3 months	3-6 months	6 - 12 months	1-6 years	More than 6 years	Non-interest bearing
31 December 2015							
Cash and cash equivalents	1,761,589	-	-	-	-	-	1,761,589
Loans to customers	45,835,998	2,966,615	3,347,672	6,391,348	33,130,083	280	-
Other assets	270,495	-	-	-	-	-	270,495
	47,868,082	2,966,615	3,347,672	6,391,348	33,130,083	280	2,032,084
Bank loans	33,859,253	1,603,242	1,853,241	8,706,482	21,511,124	185,164	-
Other liabilities	1,308,391	-	-	-	-	-	1,308,391
	35,167,644	1,603,242	1,853,241	8,706,482	21,511,124	185,164	1,308,391

Currency risk

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

Notes to the Financial Statements
for the year ended 31 December 2016 (Bahraini Dinars)

13 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Fair values

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

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

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

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

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

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

Operational risks

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

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

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

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

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

Notes to the Financial Statements
for the year ended 31 December 2016 (Bahraini Dinars)

13 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Classification of financial assets and financial liabilities

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

Capital management

The Central Bank of Bahrain sets and monitors capital requirements for the Company. According to the conventional financing Company license granted by the Central Bank of Bahrain the Company should maintain a minimum paid-up capital of BD 5,000,000 and the borrowings may not exceed five times the capital and reserves (shareholders equity) of the Company. As on 31 December 2016 Company's paid-up share capital is BD 7,500,000 (2015: BD 7,500,000) and the borrowing to capital and reserves ratio on 31 December 2016 is 2.59 (2015: 2.57).

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

14 COMPARATIVES

Certain prior year amounts have been re-grouped to conform to the current year's presentation. Such regrouping did not affect previously reported profit and total comprehensive income for the year or total equity.