

PROACTIVE APPROACH RESILIENT PERFORMANCE

Annual Report 2017

Contents

Corporate Overview

- 02 Company Profile
- 03 Vision, Mission & Values
- 03 Shareholders
- 04 Financial & Operational Highlights
- 06 Board of Directors

Business Review

- 08 Chairman's Statement
- 10 CEO's Report
- 12 Management Team
- 14 Review of Operations
- 18 Feature Article:
Pioneering Life-saving Car Inventions

Governance

- 21 Risk Management Review
- 23 Corporate Governance Review

Financial Statements

- 33 Independent Auditors' Report to the Shareholders
- 35 Statement of Financial Position
- 36 Statement of Profit or Loss and Other
Comprehensive Income
- 37 Statement of Changes in Equity
- 38 Statement of Cash Flows
- 39 Notes to the Financial Statements

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

POSTAL ADDRESS
**P.O. Box 21774, Manama
Kingdom of Bahrain**

WEBSITE
www.nfh.com.bh

EMAIL
info@nfh.com.bh

TOLL FREE
8000 8005

INSTAGRAM
nfhbhr

BRANCHES

Main Office:
**Office 186, Road 66, Block 364
Bilad Al Qadeem (near Adhari
Park)**

**Telephone: (+973) 17 407 407
General Fax: (+973) 17 403 995 /
17 403 378**

Sitra Office:
**Office 150, Building 5162
Road 10, Block 606
Shaikh Jaber Al-Ahmad Al Sabah
Highway, Sitra
Telephone: (+973) 17 120 120
Facsimile: (+973) 17 735 373**



**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

02

Company Profile

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

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

03

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:

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

OUR VALUES

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

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

SHAREHOLDERS

Kingdom of Bahrain

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

Kingdom of Saudi Arabia

Almutlaq Group

Sultanate of Oman

Oman International Development and Investment Company

Financial and Operational Highlights

Total Income

(BD million)

2017	3.33
2016	3.36
2015	3.17
2014	2.93
2013	2.80

Total Assets

(BD million)

2017	53.12
2016	51.23
2015	48.36
2014	45.03
2013	43.66

Five Year Financial Summary

(Bahraini Dinars)

	2017	2016	2015	2014	2013
Total Assets	53,118,641	51,232,814	48,357,282	45,031,442	43,662,983
Total Liabilities	38,582,879	37,299,071	35,167,644	32,573,306	31,839,926
Total Equity	14,535,762	13,933,743	13,189,638	12,458,136	11,823,057
Total Income	3,331,827	3,356,105	3,170,091	2,928,248	2,796,647
Profit for the year	1,202,019	1,269,105	1,181,502	1,010,079	841,229
Share Capital	7,500,000	7,500,000	7,500,000	7,500,000	7,500,000

Profit for the Year

(BD thousand)

2017	1.20
2016	1.27
2015	1.18
2014	1.01
2013	0.84

Total Equity

(BD million)

2017	14.54
2016	13.93
2015	13.19
2014	12.46
2013	11.82

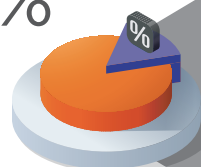
LATEST SERVICE DESK OPENED AT ROYAL CLASS MOTORS



NFH AUTO MALL

FITTING-OUT WORKS COMMENCED FOR NEW NFH 'ONE-STOP-SHOP' AUTO MALL

NFH GREW ITS MARKET SHARE TO **13.02%** IN 2017



IFRS9 ADOPTION

EXPECTED CREDIT LOSS (ECL) MODEL AND INTERNAL CONTROLS WERE PUT IN PLACE TO FACILITATE COMPLIANCE

SAME DAY LOAN APPROVAL

NFH CONTINUED TO BE ONE OF THE FASTEST AND EASIEST FOR PROCESSING OF LOAN APPLICATIONS IN THE INDUSTRY

THE NFH TEAM INCREASED TO 50 STAFF, WITH 94% BEING BAHRAINI NATIONALS, ONE OF THE HIGHEST LEVELS IN BAHRAIN'S BANKING AND FINANCIAL SERVICES SECTOR

SIGNED NEW INSURANCE AGREEMENTS WITH BNI & BNL WHO ARE SUBSIDIARIES OF BAHRAIN NATIONAL HOLDING TO PROVIDE CLIENTS WITH COMPETITIVE COVER

STRENGTHENED FOCUS ON COMPLIANCE AND RISK MANAGEMENT, UNDERPINNED BY ETHICAL AND TRANSPARENT APPROACH TO DOING BUSINESS

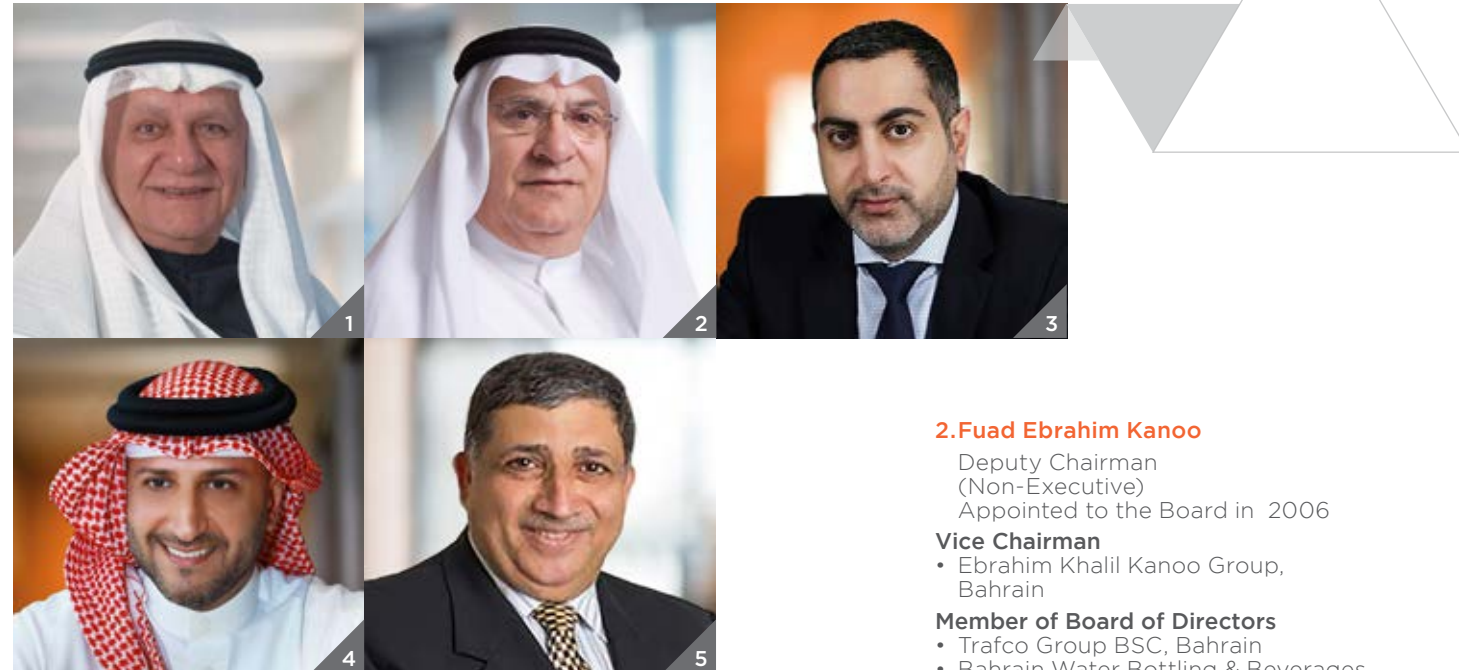
NFH IS DIFFERENTIATED BY AN UNRELENTING COMMITMENT TO THE HIGHEST LEVELS OF CUSTOMER SATISFACTION RATHER THAN COMPETING ON PRICE. CONVENIENT SERVICES INCLUDE CHOICE OF PAYMENT METHODS - AT NFH AND AUB BRANCHES, ONLINE THROUGH EFTS, DIRECT DEBIT, CREDIT/DEBIT CARDS, HIRE PURCHASE OR LEASING - PLUS A CALL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

THE MAJORITY OF COMPLAINTS IN 2017 WERE SUCCESSFULLY RESOLVED WITHIN THE SAME DAY, CONSIDERABLY BELOW THE CBB'S REQUIREMENT OF 5 DAYS

97% RATING
ONGOING CUSTOMER SATISFACTION REFLECTED BY HIGH RATING OF 97%



HIGH PRIORITY CONTINUED TO BE PLACED ON CYBER SECURITY, WITH NFH BENCH MARKING AGAINST ISO/IEC 27032 STANDARDS FOR SAFETY OF ONLINE TRANSACTIONS

**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. Talal Fuad Kanoo

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

Chairman

- Al Ahli Club, Bahrain

Director, Corporate Services & Chairman of the Executive Committee

- Ebrahim Khalil Kanoo Group, Bahrain

Member of Board of Directors

- Ebrahim Khalil Kanoo BSC (c), Bahrain
- Motor City Holding BSC (c), Bahrain
- Bahrain National Holding Company, Bahrain

4. 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

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
- National Concrete Company, Bahrain
- Gulf Hotels Group, Bahrain
- Ahlia University, Bahrain
- Ashrafs, Bahrain
- Investcorp Bank, Bahrain

Member of Board of Directors

- Economic Development Board

Member

- Bahrain Society of Engineers

Honorary Member

- Rotary Club of Manama, 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

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
- Doha Bank Assurance Company, Qatar

Member

- 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

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, Chairman of Executive Committee

- Gulf Investment Corporation, Kuwait

Member of Risk & Audit Management Committee

- Public Pension Agency, KSA

Member of Investment Committee

- Bupa Arabia for Cooperative Insurance Company, KSA

8. Khalid Shaheen Saqer Shaheen

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

Member of Board of Directors, Member of the Risk Committee

- Bank Al-Khair B.S.C. (Closed), Bahrain

Member of the Disciplinary Board

- Bahrain Bourse

Member of the Advisory Board

- Bahrain Association of Banks (BAB)

Fellow

- Institute of Directors, UK

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

Member of Education Committee

- Professional Risk Managers' International Association, USA

Chairman's Statement

From Farouk Yousif Khalil Almoayyed

**BD1.20M**

Net profit exceeded BD 1 million for the fourth consecutive year

BD14.54M

Total equity increased from BD 13.93 million in the previous year

“
THE BOARD HAS FULL CONFIDENCE IN MANAGEMENT'S ABILITY TO PROACTIVELY ADDRESS ALL FUTURE CHALLENGES, AND WE REMAIN CAUTIOUSLY OPTIMISTIC ABOUT THE PROSPECTS FOR THE COMPANY IN 2018”

Farouk Yousif Khalil Almoayyed
 Chairman of the Board

Resilient performance

Dear Shareholders,

On behalf of the Board of Directors, it is my privilege to present the annual report and financial statements of National Finance House (NFH) for the year ended 31 December 2017, during which the Company embarked upon its second decade of operations. In what proved to be a highly testing year for Bahrain's vehicle financing segment, I am pleased to report that NFH performed strongly across all parameters.

The Company reported a positive financial performance in 2017, albeit not on par with the record results achieved last year, due to a more challenging economic and market environment. Total operating income was BD 3.33 million compared with BD 3.36 million in 2016, with total operating expenses of BD 1.80 million against BD 1.71 million a year earlier.

Accordingly, net profit for the year decreased by 5 per cent from BD 1.27 million in 2016 to BD 1.20 million, with basic earnings per share declining to Bahraini fils 16.0 from 16.9 fils the previous year. The lower net profit reflects the increased cost of funding following three rate hikes by the US Federal Reserve during the year.

At the end of 2017, shareholders' equity totalled BD 14.54 million (2016: BD 13.93 million), resulting

in a return on average equity of 8.44 per cent (2016: 9.36 per cent). At the end of the year, total assets stood at BD 53.12 million compared with BD 51.23 million at the end of 2016. Based on the Company's 2017 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 Shareholders at the Annual General Meeting to be held on 26 February 2018.

The core vehicle financing activities of NFH in 2017 were affected by a drop of 13 per cent in new vehicle registrations, and also by average car prices financed declining by around 10 per cent. As a result, the total value of loans disbursed by NFH decreased to BD 21.39 million from BD 22.07 million in 2016. At the end of the year, the total loan book stood at BD 48.93 million compared with BD 48.14 million at end-2016.

In terms of implementing our strategy to diversify the Company's business lines and revenue streams, work commenced on the new NFH Auto Mall in Sitra, which will incorporate a refurbished branch office. Planned to be operational by mid-2018, the Company will begin to reap the benefits of this investment from 2019 onwards. We also continued to invest in enhancing our human capital and technology infrastructure through which to support the business. In addition, we further strengthened our corporate governance and risk management frameworks to maintain compliance with changing regulatory requirements; and ensure the Company remains robust and resilient in the face of increasingly volatile market conditions.

Looking ahead, we expect 2018 to be another highly challenging year, as the Kingdom of Bahrain and the GCC continue to adjust to a new economic reality and changing market dynamics. However, the unfolding fiscal reforms and economic transformation measures being introduced across the region will have a beneficial long-

term impact on the diversity and sustainability of GCC economies in an era of low oil prices.

Given this scenario, NFH will undoubtedly find it challenging to maintain the levels of profitability achieved in recent years. However, the Board has full confidence in Management's ability to proactively address all future challenges, and identify opportunities for developing the Company's business activities and protecting its market share. I would like to stress that NFH benefits from a supportive Board and professional management team; a performance-oriented and client-centric staff; and a prudent business philosophy and clearly-defined strategy. As such, we remain cautiously optimistic about the prospects for the Company in 2018.

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

From Venkatachalam P S

Proactive approach to new market dynamics

Despite highly challenging economic and market conditions, I am delighted to report that NFH posted a resilient operational performance in 2017. The year was highlighted by a number of notable strategic and business achievements, supported by further initiatives to strengthen the organisation.



Venkatachalam P S
Chief executive officer

“
WE MADE GOOD PROGRESS TOWARDS IMPLEMENTING OUR BUSINESS DIVERSIFICATION STRATEGY IN 2017 THROUGH COMMENCEMENT OF FITTING-OUT WORKS FOR THE NEW NFH AUTO MALL IN SITRA.”

13.02%

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

9.0%

Increase in total number of loans disbursed in 2017

Putting our financial results into context, I would like to highlight the changing market dynamics that unfolded during the year. The increase in customer demand for more fuel-efficient vehicles and the growing trend towards purchasing used vehicles, resulted in car prices dropping by around 10 per cent, with a corresponding decrease in the Company's average loan value.

However, we were successful in disbursing a higher number of loans during the year, which increased by 9 per cent; and in continuing to grow our market share, which now stands at 13.02 per cent. Achieved against the backdrop of a highly-competitive and contracting market, this constitutes a significant achievement.

In line with our traditionally prudent approach to doing business, we have conservatively provided for adequate provisioning levels in 2017. Effective from 1 January 2018, International Financial Reporting Standard 9 (IFRS 9) will replace

International Accounting Standard 39 (IAS 39). In preparation for adoption, we have put in place the requisite controls and models to determine adequate Expected Credit Loss (ECL) allowances in accordance with IFRS 9 standards and relevant regulatory requirements.

We made good progress during the year in implementing our strategy of business diversification through the planned establishment of an Auto Mall. Having finalised the lease for a property adjoining the Sitra branch, fitting-out works for the new showroom and refurbished branch have commenced. Expected to be fully operational by the middle of 2018, the NFH Auto Mall will provide customers with a convenient one-stop-shop for the selection, financing, registration and insurance of their chosen vehicles. We also signed new insurance agency agreements with the BNI and BNL subsidiaries of Bahrain National Holding through which to offer customers more competitive rates of cover.

A key factor in our success continues to be the enduring relationships that we have established with our business partners. Complementing our successful service desks at the Toyota and Nissan showrooms, we signed an additional agreement with Royal Class Motors, whose initial showroom in Muharraq incorporates innovative NFH co-branding.

An equally important competitive differentiator is our unrelenting commitment to the highest levels of customer service, including one of the fastest loan application processing times in the industry, rather than competing on price. It is therefore extremely encouraging that our customers rated their satisfaction at 97 per cent in 2017, on par with the highest rating achieved to date. To further enhance the customer experience, we finalised plans for a new mobile application for payments in 2018.

During the year, we continued to strengthen our institutional capability in order to enhance the Company's resilience in the face of increasingly challenging economic and market conditions. Key developments include restructuring our Retail division with new

dedicated units for marketing and insurance services; re-organising our Collections division into two specialist units - Collections and Remedial - and expanding the team; and placing the independent Complaints unit under the remit of Risk Management.

As a service-oriented business, with people constituting the Company's most important asset, it is encouraging to note that NFH continues to enjoy a very high level of staff retention. During 2017, the headcount increased to 50 people, with Bahraini nationals accounting for 94 per cent of total staff, one of the highest levels in the Kingdom's financial services sector. We continued to invest in training and development, with a particular focus on supporting staff to enhance their technical skills and obtain appropriate professional certifications.

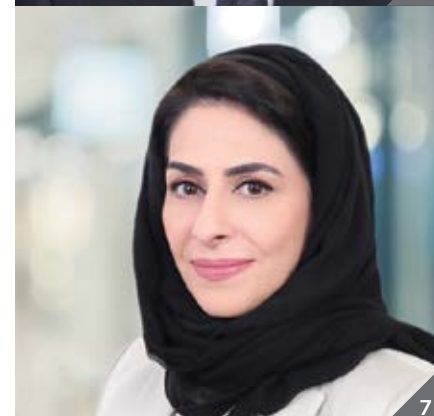
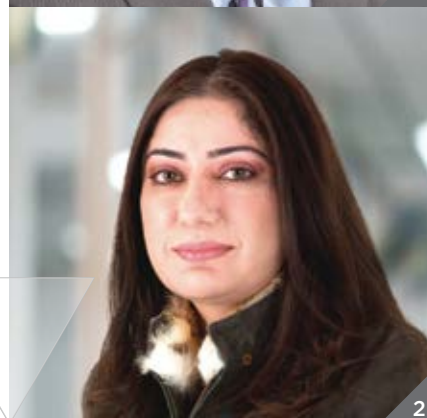
Looking ahead, it is clear that we face an increasingly challenging future. Key concerns include the impact of a low oil price regime; constrained liquidity and higher cost of funding; ongoing fiscal reforms, including the introduction of a value-added tax (VAT) in 2018; and continuing global and regional geo-political tensions. In response, we will maintain our prudent and responsive approach to doing business, and continue to enhance our core strengths and competencies.

In conclusion, I would like to thank the Board of Directors for its continued encouragement, support and counsel; and our clients and business partners for their trust and loyalty. I also acknowledge the positive attitude and commitment of our management and staff in embracing the challenges associated with new market dynamics, and for contributing to another resilient performance by NFH in 2017

Venkatachalam PS
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. **Ali Redha Mohammed**
Head of Retail

4. **Mahdi Murad**
Head of Risk & MLRO

5. **Tariq Abdulaziz Fathalla Ahmed**
Head of Collections

6. **Mahmood Mohammed Fraidoon**
Head of Information Technology

7. **Fatima Abdulla Yousif Ali**
Human Resources & Administration

PROACTIVE APPROACH

IN RESPONSE TO CHANGING MARKET DYNAMICS, NFH CONTINUED TO PURSUE A HIGHLY-PROACTIVE APPROACH IN 2017. THE COMPANY RESTRUCTURED KEY AREAS OF THE ORGANISATION, INCREASED THE HEADCOUNT, ENHANCED CUSTOMER SERVICE LEVELS, AND FURTHER STRENGTHENED ITS RISK MANAGEMENT AND COMPLIANCE FRAMEWORKS.

Review of Operations

During 2017, NFH continued to develop its vehicle financing business activities and improve the ‘customer experience’, while also further strengthening the Company’s support and control infrastructure.

RETAIL & MARKETING

Vehicle Financing

Despite challenging market conditions, including a drop in new vehicle registrations of 13 per cent, NFH achieved a 9 per cent net growth in 2017 for the number of loans disbursed, and successfully grew its market share to 13.02 per cent. However, the growing popularity of Chinese imports and the increase in customer demand for fuel-efficient vehicles and used vehicles, resulted in the average price per car reducing by around 10 per cent during the year. Accordingly, the total value of loans disbursed by NFH reduced to BD 21.39 million from BD 22.07 million a year earlier. The majority of loans were for the purchase of cars by individuals, with heavy vehicle and construction

equipment financing remaining flat, due to the cautious approach taken by NFH towards this segment.

The Company’s service desks at the Toyota and Nissan showrooms continued to perform strongly, providing finance for the majority of new vehicle sales; while a new agreement was signed with Royal Class Motors, whose showroom in Muharraq features NFH co-branding. The Company considers this differentiating approach to be more cost-effective and customer-convenient than opening additional new branches.

Marketing

Marketing activities in 2017 included another highly successful promotional campaign during the Holy Month of Ramadan, and direct marketing



campaigns with dealers. 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. During the year, a new digital marketing strategy, using social media channels such as Twitter, Facebook and Instagram, was developed and approved for implementation in 2018.



NEW SERVICE DESK

COMPLEMENTING THE COMPANY’S EXISTING SERVICE DESKS AT THE TOYOTA AND NISSAN SHOWROOMS, AN AGREEMENT WAS SIGNED WITH ROYAL CLASS MOTORS FOR A SERVICE DESK AT ITS NEW SHOWROOM IN MUHARRAQ, WHICH FEATURES INNOVATIVE NFH CO-BRANDING



97% RATING

IN 2017, CUSTOMERS RATED THEIR SATISFACTION WITH THE SERVICE RECEIVED FROM NFH AT 97 PER CENT



CUSTOMER SERVICE

Superior customer service and faster loan processing times continue to act as key competitive differentiators for NFH. During 2017, the Company maintained its focus on further improving the ‘customer experience’. Convenient payment options comprise a direct debit service with Ahli United Bank, which complements the existing payment facility through the bank’s branch network; and the CBB/Benefit Company electronic funds transfer system (EFTS). During the year, plans were finalised for the introduction of a new mobile application for loan instalment payments in 2018.

The very high level of satisfaction by NFH customers was maintained during the year. The annual Call Centre report for 2017, 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, which remained on par with the highest ratings achieved to date by the Company.

Review of Operations continued

COLLECTIONS

During 2017, NFH restructured its Collections department into two units – Collections and Remedial – and expanded the team. Due to challenging economic conditions, the delinquency rate grew slightly, with the ratio of non-performing loans (NPLs) to gross loans increasing to 3.63 per cent compared with 3.13 per cent the previous year. The focus on cash collections was maintained in preference to restructuring or rescheduling loans; together with a more proactive approach to managing existing and potential defaults. Throughout the year, NFH continued to provide business advisory services to its customers, and further extension of credit to alleviate more promising problem loans. During 2017, credit facilities amounting to BD 40,351 (2016: BD 21,190) were restructured and due to minor nature of restructuring concessions, there was no significant impact on the Company's provisions on loans and advances impairment and present and future earnings.

CREDIT ADMINISTRATION

The Company comprehensively reviewed and amended its credit

administration policy in 2017; and further strengthened credit criteria in line with changing economic and market conditions. NFH also reviewed its Know Your Customer (KYC) procedures, credit rates and authority levels. The Company maintained full compliance with the requirements of the Credit Reference Bureau for individual and corporate clients.

CUSTOMER COMPLAINTS

All policies, processes and procedures for the 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 2017, the number of serious complaints continued to reduce, 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.

HUMAN RESOURCES

The Company continued to strengthen its human capital framework, and maintain a high level of staff retention. The headcount increased from 48 to 50 employees in 2017, with Bahrainis comprising 94 per cent of the total workforce, one of the highest levels among financial institutions in the Kingdom; while female staff accounted for 26 per cent of all employees. Following the smooth implementation of an automated payroll process, additional new modules of the human resources management system (HRMS) are planned for introduction in 2018.

CYBER SECURITY

DURING 2017, NFH CONTINUED TO PLACE THE HIGHEST IMPORTANCE ON CYBER SECURITY, INCLUDING MEETING THE REQUIREMENTS OF THE ISO/IEC 27032 STANDARD, WHICH PROVIDES GUIDELINES FOR THE SAFETY OF ONLINE TRANSACTIONS AND PERSONAL INFORMATION OVER THE INTERNET.

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. The Company actively encourages staff to enhance their professional qualifications through programmes supported by Tamkeen. In 2017, three employees obtained professional certifications as an Associate Professional Risk Manager (APRM), Certified Management Accountant (CMA) and Certified in Risk & Information System Control (CRISC). Other employees are currently pursuing APRM, ITIL Foundation, and Microsoft Certified Solutions Expert accreditations. Regulatory training during the year included special courses on anti-money laundering and combating terrorism financing (AML/CTF); and business continuity planning and cyber security awareness. In addition, senior management undertook online training in line

with the continuous professional development requirements of the Central Bank of Bahrain. As part of the Company's health and safety policy, training was conducted for first aid and fire drills; while advice on health-related and lifestyle issues was provided for staff.

INFORMATION TECHNOLOGY

The Company has in place a robust information and communications technology (ICT) infrastructure due to substantial investments in this area over the past few years. During 2017, the core banking system was further strengthened with enhancements in the areas of process automation and report generation. A key development involved the smooth implementation of the CBB/Benefit Company electronic funds transfer system (EFTS).

During 2017, NFH continued to place the highest importance on cyber security, including meeting the requirements of the ISO/IEC 27032 standard, which provides guidelines for the safety of online transactions and personal

information over the internet. The Company also implemented Security Information and Event Management software which provides real-time analysis of security alerts generated by various applications, database and network. This tool enables the IT department to take prompt and proactive action.

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

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. During 2017, the Company finalised preparations for the adoption of the IFRS 9 accounting standard which comes into effect on 1st January 2018. 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 further strengthened its risk management framework, and risk-related policies and procedures during the year. Particular focus was placed on credit administration policy and procedures; business continuity planning and cyber security; and anti-money laundering. Full details are included in the Risk Management Review of this annual report.



Pioneering Life-Saving Car Safety Inventions

From the first automobile invented by Carl Benz in 1885 to the flamboyant, gas-guzzling monsters of the fifties and sixties, cars were sold on the basis of style, performance, comfort and luxury, with scant regard for safety. It was not until 1965, with the publication of Ralph Nader's book *Unsafe at Any Speed*, and the dramatic increase in car accidents and fatalities on US roads, that car safety began to be taken seriously. Growing public awareness placed pressure on car makers to design and build vehicles that would minimise the dangers to drivers and occupants in the event of a collision, or even avoid accidents altogether.



Seat Belts

The first seat belts took the form of a two-point waist restraint with the buckle placed over the abdomen, which could be dangerous in certain types of accidents. While they were widely used in airplanes and racing cars, campaigns by several American physicians in the mid-1930s to have them fitted in passenger cars proved largely unsuccessful. Swedish automobile engineer Nils Bohlin invented the modern diagonal three-point seat belt for cars in 1958, which effectively secured both the upper and lower body during a crash. However, it was not until the late sixties that the fitting of front seat belts in automobiles became mandatory in Europe and the UK, followed by America in 1970. Today, all cars manufactured globally incorporate front and rear seat belts as standard equipment, with legislation requiring their use by drivers and passengers. It is estimated that Bohlin's pioneering invention has saved well over one million lives.



Air Bags

The air bag, another important life-saving safety device, can trace its origins to 1953 when American industrial engineer John Hetrick invented his 'safety cushion assembly for automotive vehicles'. However, this and subsequent early designs were not very practical or reliable. The real breakthrough occurred in 1967 when American mechanical engineer Allen Breed invented a 'ball-in-tube sensor for crash detection', which is considered the world's first electromechanical automotive airbag system. First-generation airbags, which were designed to be powerful enough to restrain people not wearing seat belts, were prone to cause injuries due to their rigidity. In 1991, Breed invented a lower-powered or second-generation airbag that vents air as it inflates, designed 'to reduce the risk of secondary injuries'. These were mandated by the US government as standard equipment on all passenger vehicles in 1998.



Disc Brakes

The history of disc brakes starts in 1902 with early experiments by British car engineers Frederick and George Lanchester, followed by American engineer Powell Crosley in the 1940s. The modern disc brake first appeared in limited production British sports cars in the early fifties, and in the first volume-production car by a French manufacturer in 1955. They gained popularity in America during the 1960s as cars became faster. Disc brakes provide greater stopping power, better heat dissipation and safer performance in wet conditions than traditional drum brakes.



Anti-Lock Brakes (ABS)

The anti-lock braking system (ABS) allows tyres to maintain traction on the road surface while braking, and prevents wheels from locking up and causing uncontrollable skids. This concept was invented by French engineer Gabriel Voison in 1929, and first used by airplanes. First-generation hydraulic ABS systems appeared on a few cars in the UK in the 1960s, but met with limited success. Second-generation electronic ABS systems were launched in the 1970s, which were more effective. The technology was further enhanced with the development of electronic stability control (ESC) in 1995, which helps correct a skid when a car begins to slide. ABS became mandatory for all new cars in Europe in 2004; while ABS with ESC became the regulatory standard for passenger vehicles in the USA in 2013.



Radial Tyres

The first radial tyre design was patented in 1915 by American inventor Arthur Savage; but it was Frenchmen Edouard Michelin and Marius Mignol who jointly invented the modern radial tyre in 1946. This was first used on a volume-production car in 1948. Because of its superiority over the traditional diagonal bias ply tyre, radial technology spread quickly across Europe and Asia in the following two decades. The first US-made automobile to have radial tyres fitted as standard equipment went on sale in 1970. Radial tyres provide longer tread life and better traction at highway speeds; and enhanced steering characteristics and less rolling resistance. They also improve fuel economy and dramatically lower the danger of heat-related blowouts. Today, all automotive tyres manufactured globally are based on a radial design.



Safety Glass

French inventor Edouard Benedictus took out a patent for laminated glass in 1909. However, his invention did not come into mass production until the First World War, when it was used in gas mask goggles. It finally ended up in automobiles in the late 1920s, replacing windshields that had previously been made from ordinary window glass. In 1937, it became mandatory for all new cars in the US. As well as being shatter-resistant, laminated glass stays clearer, and helps block out more sound and ultraviolet rays.



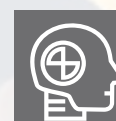
Head Restraints

By limiting the rearward movement of an occupant's head in a collision, modern car head restraints are designed to prevent or mitigate whiplash, and reduce neck injuries. A patent for an automobile 'headrest' was granted to Benjamin Katz in the USA in 1921, and to British inventor Leslie Morrison Keegan in the late 1950s. Optional head restraints began appearing on American automobiles in the following decade, and became mandatory for all new cars sold in the US after January 1969. Initial head restraints were either integrated, fixed or manually adjustable; but since the late 1990s, active (automatically adjusting) head restraints have been developed and introduced by leading car manufacturers worldwide.



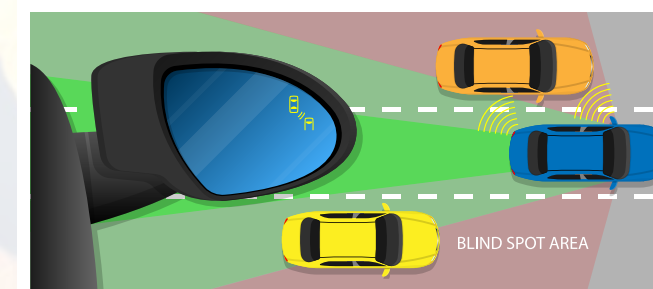
Safety Cell / Crumple Zone

Austro-Hungarian designer Béla Barényi invented the safety cell and crumple zone concept in the early 1950s. This comprised an internal rigid steel safety cage surrounding the passengers, with external front and rear collapsible areas designed to absorb and disperse crash impact force. These were first incorporated in a German car in 1959; but were not widely adopted until the advent of mass-produced unibody vehicles (incorporating the frame, floor and chassis in a single structure) in the 1980s.



Crash Testing

Some American car makers started to conduct their own rudimentary barrier crash tests in the 1930s. However, official independent crash testing and ratings for protection were only introduced in the US and Europe during the 1970s. Frontal impact protection testing using data from dummies was followed by frontal offset, side impact and rollover resistance testing in the 1980s and 1990s. Since then, safety protection standards and rating criteria have been steadily upgraded to embrace new car safety systems.



Latest Technologies

From 2000 onwards, numerous new electronic safety crash avoidance systems have been introduced. They include lane departure warning, blind spot and pedestrian detection, adaptive lighting, parking and rear-view backup sensors, heads-up displays and night vision cameras.

The Road Ahead

Since the 1960s - despite considerably higher average speeds, denser road networks and a greater number of miles being driven by motorists - road accidents and fatalities have dramatically decreased, thanks to continuous car safety developments. However, there is always room for improvement, with the World Health Organisation noting that 'there is still an unacceptable high rate of road traffic deaths.'

RESILIENT PERFORMANCE

DESPITE HIGHLY-CHALLENGING MARKET CONDITIONS, NFH POSTED ANOTHER RESILIENT PERFORMANCE IN 2017. NET PROFIT CONTINUED TO EXCEED BD 1 MILLION, WHILE THE TOTAL NUMBER OF LOANS DISBURSED INCREASED BY 9 PER CENT, AND MARKET SHARE GREW TO OVER 13 PER CENT.

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 2017

- Reviewed and updated all Company charters and policies.
- Reviewed Credit Risk and Credit Administration policy and procedures, and tightened customer credit assessment criteria.
- Conducted annual high-level Risk Control Self-Assessment (RCSA), and extended it to cover all processes for each department with a customised automation system.
- Reviewed Company's Risk Appetite Statement, and reviewed and expanded Key Risk Indicators (KRIs).
- Set Operational Risk Limit Threshold for all departments and processes.
- Reviewed Customer Risk Rating (CRR) methodology and generated report.
- Provided AML/CFT in-house training and external workshop for all staff.
- 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
- Legal, Compliance, Regulatory & Reputation Risks

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.

Risk Management Review continued

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 2017, two business continuity exercises, involving the disaster recovery site and all departments, were successfully carried out; together with testing of various disaster recovery scenarios. Information security measures were further enhanced by conducting two Vulnerability Assessment & Penetration Testing (VAPT) exercises, and addressing the risks identified in a timely manner.

The Company has in place a Cyber Security Framework which includes clear ownership and management of risks associated with cyber-attacks; and a Cyber Security Incident Response Team responsible for detecting, monitoring, mitigating and reporting cyber-attacks. No cyber security incidents were encountered during 2017.

DURING THE YEAR ENDED 31 DECEMBER 2017, THE AVERAGE GROSS CREDIT EXPOSURE FOR CASH AND BALANCES WITH BANKS IS BD 3,194,277, FIXED DEPOSITS IS BD 1,166,667 AND LOANS AND ADVANCES TO CUSTOMERS IS BD 48,749,811. SUCH AMOUNTS ARE CALCULATED BASED ON THE AVERAGE OF MONTHLY RESULTS.

Corporate Governance Review

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. 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.

DEVELOPMENTS IN 2017

During 2017, 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 Committees' Charters, Management Committee Charters, risk management policies and all other policies of the Company. The Board has also ensured that the Company has an appropriate model including an effective system of internal control, that is commensurate with the size, complexity and risk profile of its exposures to determine adequate expected credit loss (ECL) allowances in accordance with IFRS 9.

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.

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

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 26 February 2018 for a period of three years. The next election / re-election of the Board of Directors for a three-year term is scheduled for February 2021. The appointment of Directors is subject to CBB approval. The Board periodically reviews its composition and the contribution of Directors and Committees.

Board Meetings

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

Roles & Responsibilities

The Board is accountable to the 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. 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 it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Induction & Training

The 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. During 2017, all Approved Persons including members of the Board of Directors have completed a minimum of 15 hours of continuous professional development (CPD).

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 77,050 as annual remuneration and sitting fees for their contribution to the Board and Board Committees held during 2017.

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

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

There are no shares held by Directors or Senior Managers as at 31 December 2017. Transactions with related parties are disclosed in detail in Notes annexed to the Financial Statements for 2017.

Material transactions

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

Communications with Stakeholders

The Company has a Public Disclosure Policy approved by the Board of Directors. 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 Company provides information on all events that merit announcement, either on its website - www.nfh.com - or through other forms of publication.

The annual financial 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. All previous annual reports and quarterly / semi-annual interim financial results of the Company, and other public disclosures as stated in the Public Disclosure Module of the CBB, are 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 and Nomination Committee. The Board reserves the right to form temporary committees and discontinue them, from time to time as necessary.

Performance Evaluation

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

Executive Committee

Committee Composition

The Board nominates the members including the Chairperson. The Committee comprises a minimum of 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 perform 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 2017 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, the strategic direction, and control of the Company's business activities, 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 2017 was five. 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 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 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 2017 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 2017

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			
Talal Fuad Ebrahim Kanoo	Executive	Member	Chairman		
Mohammed Farouk Almoayyed	Executive	Member	Member		
Sameer Ebrahim Al Wazzan	Executive	Member	Member		
Shrikanth Shenoy	Executive	Member			
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 2017

☑ Attended ☒ Absent ☎ Attended by phone

Board of Directors	26 Feb	24 May	23 Oct	4 Dec	% of meetings attended
Farouk Yousif Khalil Almoayyed	☑	☑	☑	☑	100%
Fuad Ebrahim Kanoo	☑	☒	☎	☑	75%
Talal Fuad Ebrahim Kanoo	☒	☑	☑	☑	75%
Mohammed Farouk Almoayyed	☑	☑	☎	☑	100%
Sameer Ebrahim Al Wazzan	☑	☑	☑	☒	75%
Shrikanth Shenoy	☑	☑	☑	☎	100%
Khaled Saleh Alkhattaf	☑	☑	☑	☑	100%
Khaled Shaheen Saqer Shaheen	☑	☑	☑	☑	100%
Kalyan Sunderam	☑	☑	☑	☑	100%

Executive Committee	19 Feb	21 May	15 Oct	21 Nov
Talal Fuad Ebrahim Kanoo	☑	☑	☎	☑
Khaled Shaheen Saqer Shaheen	☑	☑	☑	☑
Mohammed Farouk Y. Almoayyed	☑	☒	☎	☑
Sameer Ebrahim Al Wazzan	☑	☑	☑	☑

Audit & Corporate Governance Committee	16 Feb	24 May	14 Aug	23 Oct	4 Dec
Kalyan Sunderam	☑	☑	☑	☑	☑
Khaled Shaheen Saqer Shaheen	☑	☑	☑	☑	☑
Khaled Saleh Alkhattaf	☎	☑	☎	☑	☑

Nomination & Remuneration Committee	24 Feb	6 Dec
Farouk Yousif Khalil Almoayyed	☑	☑
Khaled Shaheen Saqer Shaheen	☑	☑
Kalyan Sunderam	☑	☑

SHAREHOLDERS

NFH Shareholders as at 31 December 2017

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 functions unless authorised by the Executive Committee. Direct relatives are defined as spouse, brother, sister, son, daughter and direct in-laws.

As part of the annual reporting, the CEO must disclose to the Board on an annual basis, direct relatives of any Approved Persons occupying controlled functions within the Company.

AUDITORS

The Shareholders of the Company appointed KPMG, one of the leading accounting firms in Bahrain, as the external auditors for 2017. During the year, BD 31,708 was charged by the external auditors against the services rendered by them to the Company (BD 8,000 for audit, and BD 23,708 for condensed interim financial information review, PIRFM review, semi-annual and annual PD review, AML report review and ALF review).

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. The scope of the internal audit function is approved by the Audit Committee and encompasses audits and reviews of all business operations and support services. The internal audit process focuses primarily on assessing risks and internal controls and ensuring compliance with established policies, procedures and delegated authorities. The internal audit function is independent and reports directly to the Audit Committee. During 2017, 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.

NON-COMPLIANCE WITH HIGH LEVEL CONTROLS MODULE OF CBB RULEBOOK

For the year 2017, 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.

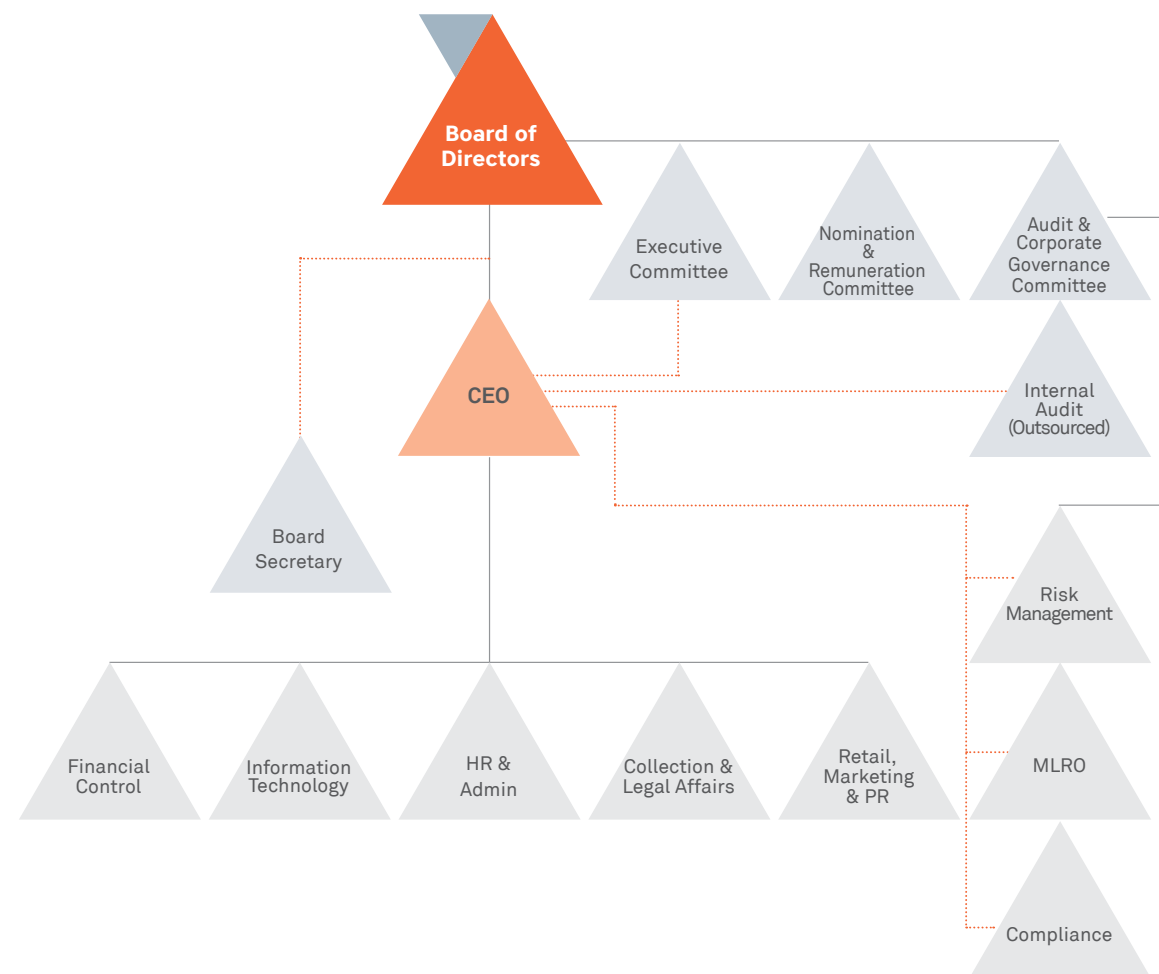
HC-1.4.6 states that the Chairman of the Board should be an independent director so that there will be an appropriate balance of power and greater capacity of the Board for independent decision making.

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 Profiles

Venkatachalam PS

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

Over 34 years' experience with multi-disciplinary responsibilities in the financial sector; and extensive knowledge in banking and technology domains. Has held several senior management positions in banks with proficiency in execution of corporate strategy, and managing overall operations and resources, including strategic business units. Holds accreditations as indicated above, and is also certified in Six Sigma SSC, USA and BS-7799, British Standards Institute.

- Bachelor of Science degree, Bangalore University, India.
- Postgraduate Diploma in Computer Applications, Madurai Kamaraj University, India.
- Platinum Member of Information System Audit Control & Assurance, USA.
- Member of the Institute of Internal Control, USA.
- Associate Member of the Indian Institute of Bankers.

May Al-Mahmood

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

- Over 24 years' experience in banking, financial sector and external auditing.
- Certified Public Accountant (CPA), Colorado State Board of Accountancy, USA.
- MBA in Finance, University of Hull, UK.
- BSc in Accounting, University of Bahrain.
- Member of American Institute of Certified Public Accountants (AICPA).

Ali Redha Mohammed

(MBA)
Head of Retail
Joined NFH in 2008

- Over 19 years' experience in retail banking and financial services.
- MBA in Finance, AMA International University, Bahrain.
- BSc in Banking & Finance, and a Diploma in Commercial Studies, University of Bahrain.
- Certification in Associate Professional Risk Manager (APRM).

Mahdi A. Rasool Murad

Head of Risk & MLRO
Joined NFH in 2014

- Over 15 years' experience in credit and risk management.
- BSc in Banking & Finance, University of Bahrain.
- Certification in the Fundamentals of Financial Risk Management (FFRM) and Advance Financial Risk Management (AFRM).
- Currently pursuing certification in Professional Risk Manager (PRM).

Tariq Abdulaziz Fathalla Ahmed

Head of Collections
Joined NFH in 2012

- Over 22 years' experience in collection and legal affairs.
- Advanced Diploma in Banking Studies, Bahrain Institute of Banking and Finance.

Mahmood Mohammed Fraidoon

(CISM, CRISC)
Head of Information Technology
Joined NFH in 2012

- Over 12 years' experience in Information Technology.
- BSc in Computer & Information System, Gulf University, Bahrain.
- Certified Information Security Manager (CISM) from ISACA, USA.
- Certification in Risk and Information Systems Control (CRISC) from ISACA, USA.
- Certification in Microsoft Certified in System Engineering (MCSE) & Red Hat Certified System Administrator I, II (RHCSA I, RHCSA II).

Fatima Abdulla Yousif Ali

Human Resources & Administration
Joined NFH in 2011

- Over 30 years' experience in financial, banking and aviation sectors, of which 26 have been spent in the field of human resources.

Financial Statements 2017

33	Independent Auditors' Report to the Shareholders
35	Statement of Financial Position
36	Statement of Profit or Loss and Other Comprehensive Income
37	Statement of Changes in Equity
38	Statement of Cash Flows
39	Notes to the Financial Statements

Independent Auditors' Report to the Shareholders

31 December 2017

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 2017, 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 2017, 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 8-9.

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.

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.

Independent Auditors' Report to the Shareholders continued

31 December 2017

- 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 Fakhro
Partner Registration No. 100
26 February 2018

Statement of Financial Position

as at 31 December 2017 (Bahraini Dinars)

	Note	2017	2016
ASSETS			
Cash and cash equivalents	4	1,577,144	2,415,741
Deposits with banks		2,000,000	-
Loans to customers	5	48,926,848	48,142,730
Furniture, fixtures and equipment	6	272,341	408,566
Other assets		342,308	265,777
Total assets		53,118,641	51,232,814
LIABILITIES AND EQUITY			
Liabilities			
Bank borrowings	7	37,141,057	36,023,221
Other liabilities	8	1,441,822	1,275,850
Total liabilities		38,582,879	37,299,071
Equity			
Share capital	10	7,500,000	7,500,000
Share premium		112,500	112,500
Statutory reserve		962,327	842,125
Retained earnings		5,960,935	5,479,118
Total equity (page 37)		14,535,762	13,933,743
Total equity and liabilities		53,118,641	51,232,814

The Board of Directors approved the financial statements consisting of pages 35 to 54 on 26 February 2018 and signed on its behalf by:



Farouk Yousuf Khalil Almoayyed
Chairman



Fuad Ebrahim Kanoo
Deputy Chairman

Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2017 (Bahraini Dinars)

	Note	2017	2016
Interest income	11	4,691,913	4,534,503
Interest expense		(1,971,714)	(1,658,581)
Net interest income		2,720,199	2,875,922
Fees and commission income		1,110,480	966,561
Fees and commission expense		(498,852)	(486,378)
Net fee and commission income		611,628	480,183
Total income		3,331,827	3,356,105
Staff costs		927,485	923,715
Depreciation	6	151,735	160,228
Impairment on loans to customers, net of recoveries	5	331,833	378,963
Other operating expenses	12	718,755	624,094
Total expenses		2,129,808	2,087,000
Profit for the year		1,202,019	1,269,105
Other comprehensive income		-	-
Total comprehensive income for the year		1,202,019	1,269,105
Basic earnings per share	10	16.0 fils	16.9 fils

The Board of Directors approved the financial statements consisting of pages 35 to 54 on 26 February 2018 and signed on its behalf by:



Farouk Yousif Khalil Almoayyed
Chairman



Fuad Ebrahim Kanoo
Deputy Chairman

Statement of Changes In Equity

for the year ended 31 December 2017 (Bahraini Dinars)

2017	Share capital	Share premium	Statutory reserve	Retained earnings	Total equity
At 1 January 2017	7,500,000	112,500	842,125	5,479,118	13,933,743
Profit and total comprehensive income for the year (page 36)	-	-	-	1,202,019	1,202,019
Dividends declared for 2016	-	-	-	(600,000)	(600,000)
Transfer to statutory reserve	-	-	120,202	(120,202)	-
At 31 December 2017	7,500,000	112,500	962,327	5,960,935	14,535,762
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 36)	-	-	-	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

Statement of Cash Flows

for the year ended 31 December 2017 (Bahraini Dinars)

	Note	2017	2016
Operating activities			
Interest, fees and commission received		5,801,614	5,500,820
Loans disbursed		(21,394,205)	(22,073,445)
Proceeds from loan repayments		20,462,948	19,378,403
Payments for staff salaries and related costs		(952,667)	(927,288)
Payments for other operating expenses		(1,305,849)	(1,131,409)
Net cash generated from operating activities		2,611,841	747,081
Investing activities			
Deposits with bank		(2,000,000)	-
Purchase of furniture, fixtures and equipment	6	(18,805)	(79,600)
Sale of furniture, fixtures and equipment		68	250
Net cash used in investing activities		(2,018,737)	(79,350)
Financing activities			
Proceeds from bank borrowings		10,000,000	9,500,000
Repayment of bank borrowings		(8,882,164)	(7,336,032)
Interest paid		(1,949,537)	(1,652,547)
Dividends paid		(600,000)	(525,000)
Net cash used in financing activities		(1,431,701)	(13,579)
Net (decrease) / increase in cash and cash equivalents		(838,597)	654,152
Cash and cash equivalents at 1 January		2,415,741	1,761,589
Cash and cash equivalents as at 31 December	4	1,577,144	2,415,741

Notes to the Financial Statements

for the year ended 31 December 2017 (Bahraini Dinars)

1 REPORTING ENTITY

National Finance House BSC (c) ("the Company") is a closed joint stock Company incorporated and registered in the Kingdom of Bahrain on 4 December 2005 and operates as a consumer finance company under a license from the Central Bank of Bahrain (the "regulator").

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.

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 also the Company's functional currency.

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 (j) - Impairment; and
- Note 3 (f) - Estimates of useful lives.

e. New standards, amendments and interpretations effective from 1 January 2017

The following standards, amendments and interpretations, which became effective as of 1 January 2017, are relevant to the Company:

- Disclosure Initiative (Amendments to IAS 7)

The amendments require disclosures that enable users of the financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments are effective for annual periods beginning on or after 1 January 2017 on prospective basis.

The new disclosure requirements have been included in these financial statements in note 7, where the Company has presented a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities.

- Annual improvements to IFRSs 2012-2014 Cycle - various standards.

The annual improvements to IFRSs to 2012-2014 cycle include a number of amendments to various IFRSs. 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

The following are the relevant new standards, amendments to standards and interpretations for the Company that are effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted; however, the Company has not early applied the following new or amended standards in preparing these financial statements.

Notes to the Financial Statements

for the year ended 31 December 2017 (Bahraini Dinars)

2 BASIS OF PREPARATION (continued)

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

• 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 will adopt IFRS 9 on 1 January 2018 and will not restate the comparative information. IFRS 9 will replace IAS 39 Financial Instruments: Recognition and Measurement and introduces new requirements for the classification and measurement of financial assets and financial liabilities, a new model based on expected credit losses for recognising loan loss provisions ("ECL") and provides for simplified hedge accounting by aligning hedge accounting more closely with an entity's risk management methodology.

The Company estimates the IFRS 9 transition amount will reduce shareholders' equity by approximately BD 692,014 as at 1 January 2018. The estimated impact relates primarily to the increase in the allowance for credit losses under the new impairment requirements. The Company continues to revise, refine and validate the impairment models and related process controls which may change the actual impact on adoption.

• 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 does not expect a significant impact on its financial statements from adoption of this standard.

• IFRS 16 Leases

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

IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

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

The Company does not expect to have a significant impact on its financial statements.

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 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.

Notes to the Financial Statements

for the year ended 31 December 2017 (Bahraini Dinars)

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Fees and commission income and expenses

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

c. Financial assets and liabilities

(i) Recognition

The Company initially recognises loans to customers and borrowings from banks on the date that they are originated. All other financial assets and financial liabilities 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 consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss.

Any interest in transferred financial assets that qualify for derecognition that is created or retained by the 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.

(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.

Notes to the Financial Statements

for the year ended 31 December 2017 (Bahraini Dinars)

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Financial assets and liabilities (continued)

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 impaired loans is suspended and not recognised in the profit or loss until the interest is recovered. If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through profit or loss.

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

d. Loans to customers

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

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

e. Furniture, fixtures and equipment

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

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, bank accounts and deposits with banks with original maturities of three months or less.

h. Deposits with bank

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

i. 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.

j. 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.

Notes to the Financial Statements

for the year ended 31 December 2017 (Bahraini Dinars)

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

k. Bank loans

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

l. 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.

m. 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.

4 CASH AND CASH EQUIVALENTS

	2017	2016
Cash in hand	1,200	1,200
Balances with banks	1,575,944	2,414,541
	1,577,144	2,415,741

5 LOANS TO CUSTOMERS

	2017	2016
Gross loans	50,771,082	49,711,714
Less: impairment allowance	(1,844,234)	(1,568,984)
	48,926,848	48,142,730

The movement on impairment allowance was as follows:

	2017	2016
At 1 January	1,568,984	1,257,791
Charge for the year	436,737	509,597
Written off during the year	(161,487)	(198,404)
At 31 December	1,844,234	1,568,984

The company recovered BD 104,904 (2016: BD 130,634) from loans written off in the previous years.

Notes to the Financial Statements

for the year ended 31 December 2017 (Bahraini Dinars)

6 FURNITURE, FIXTURES AND EQUIPMENT

	Furniture and equipment	Computer software	Computer hardware	2017 Total	2016 Total
Cost					
At 1 January	494,097	502,597	200,059	1,196,753	1,125,978
Additions	8,446	4,138	6,221	18,805	79,600
Disposals	(6,981)	(2,709)	(7,254)	(16,944)	(8,825)
At 31 December	495,562	504,026	199,026	1,198,614	1,196,753
Depreciation					
At 1 January	406,834	207,619	173,734	788,187	636,778
Charge for the year	59,067	70,871	21,797	151,735	160,228
Disposals	(6,073)	(831)	(6,745)	(13,649)	(8,819)
At 31 December	459,828	277,659	188,786	926,273	788,187
Net book value					
At 31 December 2017	35,734	226,367	10,240	272,341	
At 31 December 2016	87,263	294,978	26,325		408,566

7 BANK LOANS

	2017	2016
Repayable within one year	14,707,164	13,457,164
Repayable after one year	22,433,893	22,566,057
	37,141,057	36,023,221

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 3.75 % to 6.1 % p.a. (2016: 3.00 % to 5.46 % p.a.). Of the total borrowings, BD 32 million (2016: BD 31 million) is secured by assignment of customer loans.

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

	2017	2016
At 1 January	36,023,221	33,859,253
Proceeds from bank borrowings	10,000,000	9,500,000
Repayment of bank borrowings	(8,882,164)	(7,336,032)
At 31 December	37,141,057	36,023,221

8 OTHER LIABILITIES

	2017	2016
Payable to agents for vehicles financed	1,019,888	835,194
Accrued expenses	421,934	440,656
	1,441,822	1,275,850

Notes to the Financial Statements

for the year ended 31 December 2017 (Bahraini Dinars)

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	2017	2016
Expenses		
Insurance premium charges (shareholder)	180,229	174,005
Call centre charges (shareholder)	18,000	18,000

Related party balances	2017	2016
Payable for vehicles financed (shareholders)	665,482	470,725
Prepaid expenses (shareholders)	12,832	12,286

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:

	2017	2016
Key management compensation	311,186	339,836
Board of directors remuneration and committee attendance allowances	83,630	77,630
Staff loan	1,800	10,000

Balances with key management personnel

	2017	2016
Staff loan	3,919	9,787

10 SHARE CAPITAL

	2017	2016
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	16.0 fils	16.9 fils

The earning per share is calculated by dividing the net income of BD 1,202,019 (2016: BD 1,269,105) by the number of shares outstanding at the end of the year of 75 million shares (2016: 75 million shares).

The Board of Directors propose a cash dividend of 8% (2016: 8%) of the paid-up capital. This amount to BD 600,000 (2016: BD 600,000).

In addition the Board of Directors propose a distribution of BD 25,200 (2016: BD 25,000) as Board of Directors remuneration.

Notes to the Financial Statements

for the year ended 31 December 2017 (Bahraini Dinars)

11 INTEREST INCOME

	2017	2016
Interest on loans to customers	4,640,526	4,522,094
Interest on bank term deposits	51,387	12,409
	4,691,913	4,534,503

12 OTHER OPERATING EXPENSES

	2017	2016
Office expenses	378,520	322,543
Computer maintenance and support expenses	71,935	54,956
Rent	70,666	70,546
Legal and professional charges	67,550	56,951
Communication expense	48,716	43,947
Advertising and publicity expense	40,124	33,943
Board of directors remuneration	25,200	25,000
Printing and stationery expense	16,044	16,208
	718,755	624,094

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

The Board Executive Committee reviews and reports to the Board of Directors on the 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.

Notes to the Financial Statements

for the year ended 31 December 2017 (Bahraini Dinars)

13 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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. The Company is exposed to credit risk primarily on the loans to customers. Credit risk assessment and management is divided into personal and corporate loans.

The responsibility for the management of credit risk rest with the management, Credit Committee, comprising five members, Chief Executive Officer, Head of Retail, Head of Finance, Head of Risk Management and Head of Collections. 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;
- reviewing and monitoring credit exposures on an ongoing basis to identify, as early as possible, customers that may be experiencing declining credit worthiness or financial difficulty; and
- reviewing compliance of business units with agreed exposure limits. Regular reports are provided to the Chief Executive Officer and Board of Directors on the credit quality of local portfolios and appropriate corrective action is taken.

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

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 group of debtors having similar characteristics such that their ability to meet their obligations is expected to be affected similarly by changes in economic or other conditions. The maximum credit risk exposure of the loans to customer is the carrying value amount net of the unearned interest income and net of impairment allowance. The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of loans to customers. 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:

	2017	2016
Cash and cash equivalents	3,575,944	2,414,541
Loans to customers	48,926,848	48,142,730
	52,502,792	50,557,271

Notes to the Financial Statements

for the year ended 31 December 2017 (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.

	2017	2016
Concentration by sector		
Corporate	14,136,984	14,678,736
Retail	34,789,864	33,463,994
Financial institutions	3,575,944	2,414,541
	52,502,792	50,557,271

Past due exposure:

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

The Company has systems and procedures in place to generate alerts in case of past dues in any account. A stringent classification process is followed for all accounts with past dues of over 90 days. The Company applies rigorous standards for provisioning and monitoring of non-performing loans. Level of provisions required is determined based on the Company provisioning model. Adequate provisions are carried to guard against inherent risks in the portfolio.

Loans that are "past due below 90 days but not impaired" are those for which contractual interest and principal payments are past due but the Company believes that impairment is not appropriate on the basis of the level of security or collateral available and / or the stage of collection of amounts owed to the Company. As at 31 December 2017, loans past due below 90 days but not impaired amounted to BD 3,909,018 (2016: BD 3,934,715).

Aging analysis of all loans including impaired and past due loans by sector / counterparty:

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

31 December 2017	Gross amount		Impairment allowance		Net amount	
	Retail	Corporate	Retail	Corporate	Retail	Corporate
Current	31,725,295	12,918,175	90,461	35,887	31,634,834	12,882,288
Past Due Loans:						
1 day to 89 days	3,068,646	1,214,717	267,698	106,647	2,800,948	1,108,070
90 days - 1 year	490,708	211,707	357,482	154,229	133,226	57,478
1 year - 3 years	516,233	202,441	376,077	147,479	140,156	54,962
More than 3 years	297,245	125,915	216,545	91,729	80,700	34,186
	36,098,127	14,672,955	1,308,263	535,971	34,789,864	14,136,984

Notes to the Financial Statements

for the year ended 31 December 2017 (Bahraini Dinars)

13 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Credit risk (continued)

31 December 2016	Gross amount		Impairment allowance		Net amount	
	Retail	Corporate	Retail	Corporate	Retail	Corporate
Current	30,462,694	13,453,395	94,850	41,304	30,367,844	13,412,091
Past Due Loans:						
1 day to 89 days	3,004,577	1,234,677	219,274	85,265	2,785,303	1,149,412
90 days - 1 year	458,073	147,550	278,459	73,614	179,614	73,936
1 year - 3 years	469,175	180,058	383,048	147,005	86,127	33,053
More than 3 years	245,711	55,804	200,605	45,560	45,106	10,244
	34,640,230	15,071,484	1,176,236	392,748	33,463,994	14,678,736

As at 31 December 2017, loans amounting to BD 40,351 (2016: BD 21,190) were restructured. The Company renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Company's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms. The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Company Audit and Corporate Governance Committee regularly reviews reports on forbearance activities.

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

The Company holds collateral against loans 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 109%, (2016: 113%) the principal type of collateral is the vehicle financed.

As at 31 December 2017 total non-performing loans as defined by the CBB (past due greater than 90 days) were BD 1,844,248 (2016: BD 1,556,371). 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 collection of vehicle loans with varying maturities, borrowings from financial institutions and financial support from shareholders.

Notes to the Financial Statements

for the year ended 31 December 2017 (Bahraini Dinars)

13 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Liquidity risk (continued)

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

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

The contractual maturities of financial liabilities, including interest payments is set out below. This shows the undiscounted cash flows on the Company's financial liabilities on the basis of their earliest possible contractual maturity.

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

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

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, deposits with bank, loans to customers and bank loans. The distribution of financial instruments between interest rate categories is summarised below:

Notes to the Financial Statements

for the year ended 31 December 2017 (Bahraini Dinars)

13 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Interest rate risk (continued)

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

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

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 2016.

31 December 2017	Profit or loss		Equity	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Bank loans	(453,109)	453,109	(453,109)	453,109

31 December 2016				
Bank loans	(408,236)	408,236	(408,236)	408,236

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

for the year ended 31 December 2017 (Bahraini Dinars)

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:

31 December 2017	Carrying amount	Less than 3 months	3-6 months	6 - 12 months	1-6 years	More than 6 years	Non-interest bearing
Cash and cash equivalents	1,577,144	-	-	-	-	-	1,577,144
Deposits with bank	2,000,000	-	2,000,000	-	-	-	-
Loans to customers	48,926,848	3,254,558	3,722,380	7,104,911	34,844,999	-	-
Other assets	342,308	-	-	-	-	-	342,308
	52,846,300	3,254,558	5,722,380	7,104,911	34,844,999	-	- 1,919,452
Bank loans	37,141,057	2,520,541	2,520,541	9,666,082	22,433,893	-	-
Other liabilities	1,441,822	-	-	-	-	-	1,441,822
	38,582,879	2,520,541	2,520,541	9,666,082	22,433,893	-	- 1,441,822

31 December 2016	Carrying amount	Less than 3 months	3-6 months	6 - 12 months	1-6 years	More than 6 years	Non-interest bearing
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
	50,824,248	3,167,406	3,654,058	6,928,852	34,392,158	256	2,681,518
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

Currency risk

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

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the 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.

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.

Notes to the Financial Statements

for the year ended 31 December 2017 (Bahraini Dinars)

13 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Fair value (continued)

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

The fair values of the 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.

Legal Contingencies risk

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

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

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

Notes to the Financial Statements

for the year ended 31 December 2017 (Bahraini Dinars)

13 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Capital management

The Central Bank of Bahrain sets and monitors capital requirements for the Company. According to the terms of the license granted by the Central Bank of Bahrain, the Company is required to maintain a minimum paid-up capital of BD 5,000,000 and the borrowings may not exceed five times the capital and reserves (shareholders equity). As on 31 December 2017, Company's paid-up share capital was BD 7,500,000 (2016: BD 7,500,000) and the borrowing to capital and reserves ratio was 2.56 (2016: 2.59).

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

14 MATURITY PROFILE

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

31 December 2017	Up to 3 months	3-6 months	6 months to 1 year	1-5 years	5-10 years	Total
Assets						
Cash and cash equivalents	1,577,144	-	-	-	-	1,577,144
Deposits with banks	-	2,000,000	-	-	-	2,000,000
Loans to customers	3,254,557	3,722,379	7,104,911	34,080,351	764,648	48,926,846
Other assets	342,308	-	-	-	-	342,308
	5,174,009	5,722,379	7,104,911	34,080,351	764,648	52,846,298
Liabilities						
Bank loans	2,520,541	2,520,541	9,666,082	20,705,493	1,728,400	37,141,057
Other liabilities	1,441,822	-	-	-	-	1,441,822
	3,962,363	2,520,541	9,666,082	20,705,493	1,728,400	38,582,879

31 December 2016	Up to 3 months	3-6 months	6 months to 1 year	1-5 years	5-10 years	Total
Assets						
Cash and cash equivalents	2,415,741	-	-	-	-	2,415,741
Loans to customers	3,167,406	3,654,058	6,928,852	33,462,332	930,081	48,142,729
Other assets	265,777	-	-	-	-	265,777
	5,848,924	3,654,058	6,928,852	33,462,332	930,081	50,824,247
Liabilities						
Bank loans	2,095,541	2,120,541	9,241,082	21,458,293	1,107,764	36,023,221
Other liabilities	1,275,850	-	-	-	-	1,275,850
	3,371,391	2,120,541	9,241,082	21,458,293	1,107,764	37,299,071

The collective impairment provision of BD 1,844,234 has been netted against the cash-flows expected within 3 months.

