NATIONAL FINANCE HOUSE BSC (c)

30 JUNE 2018

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

Commercial registration	:	58880
Board of Directors	:	Talal Fuad Ebrahim Kanoo Mohammed Farouk Y. Almoayyed Redha Abdulla Ali Faraj Sameer Ebrahim Al Wazzan Khaled Saleh Alkhattaf Robert Pancras Khalid Shaheen Saqer Shaheen Kalyan Sunderam
Chief Executive Officer	:	Venkatachalam PS
Address	:	PO Box 21774, Office No. 186 Road - 66, Block - 364 Bilad Al Qadeem, Kingdom of Bahrain Tel: 17407407 Fax: 17403995 Toll-Free: 80008005
Bankers	:	Bank of Bahrain and Kuwait Ahli United Bank National Bank of Bahrain Kuwait Finance House The Housing Bank for Trade & Finance
Auditors	:	KPMG Fakhro, Bahrain

National Finance House BSC (c)

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2018

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KPMG Fakhro
Audit
12th Floor, Fakhro Tower
PO Box 710, Manama
Kingdom of Bahrain

Telephone +973 17 224807
Fax +973 17 227443
Website: www.kpmg.com/bh
CR No. 6220

Independent auditors' report on review of condensed consolidated interim financial information

The Board of Directors
National Finance House B.S.C. (c)
Manama, Kingdom of Bahrain

Introduction
We have reviewed the accompanying 30 June 2018 condensed consolidated interim financial information of National Finance House BSC (c) (the "Company") and its subsidiary (together the "Group") which comprises:

- the condensed consolidated statement of financial position as at 30 June 2018;
- the condensed consolidated statement of profit or loss and other comprehensive income for the six months period ended 30 June 2018;
- the condensed consolidated statement of changes in equity for the six months period ended 30 June 2018;
- the condensed consolidated statement of cash flows for the six months period ended 30 June 2018; and
- notes to the condensed consolidated interim financial information.

The Board of Directors of the Company is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34, 'Interim Financial Reporting'. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review
We conducted our review in accordance with the International Standard on Review Engagements 2410, *"Review of Interim Financial Information Performed by the Independent Auditor of the Entity"*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 June 2018 condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting'.

KPMG

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 30 June 2018

Bahraini dinars

	note	**30 June 2018 (reviewed)**	31 December 2017 (audited)
ASSETS			
Cash and cash equivalents		2,796,018	1,577,144
Deposits with banks		-	2,000,000
Loans to customers	8	51,762,065	48,926,848
Furniture, fixtures and equipment		284,422	272,341
Other assets		308,411	342,308
Total assets		**55,150,916**	53,118,641
LIABILITIES AND EQUITY			
Liabilities			
Bank loans	10	39,095,138	37,141,057
Other liabilities		2,139,806	1,441,822
Total liabilities		**41,234,944**	38,582,879
Equity			
Share capital		7,500,000	7,500,000
Share premium		112,500	112,500
Statutory reserve		962,327	962,327
Retained earnings		5,341,145	5,960,935
Total equity (page 4)		**13,915,972**	14,535,762
Total equity and liabilities		**55,150,916**	53,118,641

Mohammed Farouk Y. Almoayyed
Deputy Chairman

Sameer Ebrahim Al Wazzan
Director

The Board of Directors approved the condensed consolidated interim financial information consisting of pages 2 to 12 on 13 August 2018.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2018 Bahraini dinars

	note	**30 June 2018 (reviewed)**	30 June 2017 (reviewed)
Interest income		2,364,850	2,281,224
Interest expense		(1,073,519)	(938,398)
Net interest income		**1,291,331**	1,342,826
Fees and commission income		662,208	554,719
Fees and commission expense		(331,851)	(262,257)
Net fee and commission income		**330,357**	292,462
Total income		**1,621,688**	1,635,288
Salaries and related costs		499,303	407,238
Other operating expenses		389,902	339,138
Depreciation		52,496	77,195
Impairment on loans to customers, (net of recoveries)	8 (b)	7,763	247,273
Total expenses		**949,464**	1,070,844
Profit for the period		**672,224**	564,444
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**672,224**	564,444

Mohammed Farouk Y. Almoayyed
Deputy Chairman

Sameer Ebrahim Al Wazzan
Director

The condensed consolidated interim financial information consists of pages 2 to 12

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the six months ended 30 June 2018 Bahraini dinars

2018 (reviewed)	**Share capital**	**Share premium**	**Statutory reserve**	**Retained earnings**	**Total equity**
Balance at 1 January 2018	7,500,000	112,500	962,327	5,960,935	**14,535,762**
Total comprehensive income for the period	-	-	-	672,224	**672,224**
Impact of adopting IFRS 9 as at 1 January 2018 (note 3b)	-	-	-	(692,014)	**(692,014)**
Dividends declared for 2017	-	-	-	(600,000)	**(600,000)**
Balance at 30 June 2018	**7,500,000**	**112,500**	**962,327**	**5,341,145**	**13,915,972**

2017 (reviewed)	Share capital	Share premium	Statutory reserve	Retained earnings	Total equity
Balance at 1 January 2017	7,500,000	112,500	842,125	5,479,118	13,933,743
Total comprehensive income for the period	-	-	-	564,444	564,444
Dividends declared for 2016	-	-	-	(600,000)	(600,000)
Balance at 30 June 2017	7,500,000	112,500	842,125	5,443,562	13,898,187

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
for the six months ended 30 June 2018 Bahraini dinars

	30 June 2018 (reviewed)	30 June 2017 (reviewed)
Operating activities		
Interest, fees and commission received	3,027,058	2,835,232
Loans disbursed	(13,747,876)	(11,365,654)
Loan repayments	10,886,040	10,692,424
Payments for staff salaries and related costs	(520,711)	(515,726)
Payments for other operating expenses	(632,790)	(729,643)
Net cash (used in) / generated from operating activities	**(988,279)**	916,633
Investing activities		
Deposits with banks	2,000,000	(2,000,000)
Purchase of furniture, fixtures and equipment	(64,960)	(1,560)
Net cash generated from / (used in) investing activities	**1,935,040**	(2,001,560)
Financing activities		
Drawdown of bank borrowings	6,995,163	7,000,000
Repayment of bank borrowings	(5,041,082)	(4,241,082)
Interest paid	(1,043,415)	(927,158)
Dividends paid	(600,000)	(600,000)
Net cash generated from financing activities	**310,666**	1,231,760
Net increase in cash and cash equivalents during the period	**1,257,427**	146,833
Cash and cash equivalents at 1 January	1,577,144	2,415,741
Cash and cash equivalents as at 30 June*	**2,834,571**	2,562,574

*Cash and cash equivalents as at 30 June 2018 is gross of the expected credit loss of BD 38,553.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2018 Bahraini dinars

1 Reporting entity

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

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

This financial information is the reviewed condensed consolidated interim financial information (the "condensed consolidated interim financial information") of the Company and its subsidiary (together referred to as the "Group") for the six month period ended 30 June 2018.

2 Basis of preparation

The accompanying condensed consolidated interim financial information has been prepared in accordance with International Accounting Standard 34 - *Interim Financial Reporting*, which permits the interim financial information to be in summarised form. The condensed consolidated interim financial information does not include all the information required for full annual financial statements and should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2017. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and its performance since the last annual audited financial statements as at and for the year ended 31 December 2017.

3 Significant accounting policies

Except as described below, the accounting policies and methods of computation applied by the Group in the preparation of the condensed consolidated interim financial information are consistent with those applied in the preparation of the audited financial statements for the year ended 31 December 2017.

The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ending 31 December 2018.

(a) Basis of consolidation

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

(b) Adoption of IFRS 9

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Adoption of IFRS 9 (continued)

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

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

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

(i) Impact of adopting IFRS 9

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

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

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

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

(ii) Classification and Measurement of Financial Instruments

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Adoption of IFRS 9 (continued)

(ii) Classification and Measurement of Financial Instruments (continued)

The below table reconciles the original measurement categories and carrying amounts of financial assets in accordance with IAS 39 and the new measurement categories under IFRS 9 as at 31 December 2017.

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

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

(iii) Expected credit loss / Impairment allowances

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

Under IFRS 9, loss allowances are measured on either of the following bases:

a) Loans to customers
   - 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
   - lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

b) Deposits with banks and cash and cash equivalents
   - 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date.

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Adoption of IFRS 9 (continued)

(iii) Expected credit loss / Impairment allowances

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

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

(c) Changes to Judgements and estimates

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

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Adoption of IFRS 15 Revenue from Contracts with Customers

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

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018. Implementation of IFRS 15 did not result in a significant impact on the Group's consolidated financial statements.

4 Judgements and estimates

The preparation of the condensed consolidated interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial information, the significant judgments made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements for the year ended 31 December 2017, except for new significant judgements and key sources of estimation uncertainty related to the application of IFRS 9 which are described in Note 3.

5 Seasonality

The Group does not have income of a seasonal nature.

6 Financial risk management

The Group's risk management objectives and policies are consistent with those disclosed in the audited financial statements as at and for the year ended 31 December 2017 except for the impacts of adoption of IFRS 9 and IFRS 15 as set out in Note 3, which may result in additional disclosure at year end.

7 The condensed consolidated interim financial information is reviewed, not audited. The comparatives for the condensed consolidated statement of financial position have been extracted from the audited financial statements for the year ended 31 December 2017 and the comparatives for the condensed statements of comprehensive income, changes in equity and cash flows have been extracted from the reviewed condensed interim financial information for the six months period ended 30 June 2017.

8 Loans to customers

(a) Exposure by staging

	30 June 2018 (Reviewed)				**31 December 2017**
	Stage 1	**Stage 2**	**Stage 3**	**Total**	(Audited)
Loans to customers	49,208,095	2,116,836	2,487,158	53,812,089	50,771,082
Less: expected credit loss	(344,980)	(288,168)	(1,416,876)	(2,050,024)	(1,844,234)
Net loans	**48,863,115**	**1,828,668**	**1,070,282**	**51,762,065**	48,926,848

8 Loans to Customers (continued)

	As at 1 January 2018 (restated)			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers	45,805,552	2,192,752	2,772,778	50,771,082
Less: expected credit loss	(311,047)	(313,847)	(1,872,801)	(2,497,695)
Net loans	45,494,505	1,878,905	899,977	48,273,387

(b) Expected credit loss movement

	Stage 1	Stage 2	Stage 3	Total
Expected credit loss as at 1 January 2018 (restated)	311,047	313,847	1,872,801	2,497,695
Net transfer between stages	(290,904)	(79,309)	370,213	-
Net remeasurement of loss allowance	324,837	57,988	(327,477)	55,348
Write off during the period	-	(4,358)	(498,661)	(503,019)
Expected credit loss as at 30 June 2018	**344,980**	**288,168**	**1,416,876**	**2,050,024**

During the period, BD 47 thousand was recovered from loans written off in previous periods (June 2017: BD 59 thousand)

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	**30 June 2018 (Reviewed)**	30 June 2017 (Reviewed)
Expenses		
Insurance premium charges (shareholder)	94,638	88,634
Call centre charges (shareholders)	9,000	9,000

Related party balances	**30 June 2018 (Reviewed)**	31 December 2017 (Audited)
Payable for vehicles financed (shareholders)	858,728	665,482
Payable for insurance premium (shareholders)	27,515	-
Prepaid expenses (shareholders)	9,533	12,832

9 Related party transactions (continued)

Transactions with key management personnel

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

Transactions with key management personnel	30 June 2018 (Reviewed)	30 June 2017 (Reviewed)
Key management compensation	183,319	140,726
Board of directors remuneration and attendance allowance	31,108	29,645
Staff loans disbursed	2,600	-

Balances with key management personnel	30 June 2018 (Reviewed)	30 June 2017 (Reviewed)
Staff loans	3,450	4,996

10 Bank loans

Bank loans are term loans with floating interest rates and are subject to re-pricing on a monthly/ quarterly basis. These loans require certain financial loan covenants.

11 Fair Value

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

The Group does not have assets or liabilities that are measured at fair value.

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

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

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