

NATIONAL FINANCE HOUSE BSC (c)

30 JUNE 2019

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

Commercial registration	: 58880
Board of Directors	: Talal Fuad Ebrahim Kanoo Mohammed Farouk Y. Almoayyed Redha Abdulla Ali Faraj Sameer Ebhrahim Al Wazzan Mohammed Abdullah S. Alwabil Robert Pancras Khalid Shaheen Saqer Shaheen Kalyan Sunderam
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Auditors	: KPMG Fakhro, Bahrain

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2019

CONTENTS

Independent auditors' report on review of condensed consolidated interim financial information	1
Condensed consolidated interim financial information	
Condensed consolidated statement of financial position	2
Condensed consolidated statement of profit or loss and other comprehensive income	3
Condensed consolidated statement of changes in equity	4
Condensed consolidated statement of cash flows	5
Notes to the condensed consolidated interim financial information	6-13



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1

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

19 August 2019

Introduction

We have reviewed the accompanying 30 June 2019 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 2019;
- the condensed consolidated statement of profit or loss and other comprehensive income for the six-month period ended 30 June 2019;
- the condensed consolidated statement of changes in equity for the six-month period ended 30 June 2019;
- the condensed consolidated statement of cash flows for the six-month period ended 30 June 2019;
- 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 2019 condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting'.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 30 June 2019

Bahraini dinars

	Note	30 June 2019 (reviewed)	31 December 2018 (audited)
ASSETS			
Cash and cash equivalents		2,390,872	2,281,569
Loans to customers	8	52,090,437	53,097,407
Property and equipment	9	631,828	324,992
Other assets		458,855	370,871
Total assets		55,571,992	56,074,839
LIABILITIES AND EQUITY			
Liabilities			
Bank borrowings	10	38,896,456	38,531,049
Other liabilities	12	2,301,727	3,026,416
Total liabilities		41,198,183	41,557,465
Equity			
Share capital		7,500,000	7,500,000
Share premium		112,500	112,500
Statutory reserve		1,089,690	1,089,690
Retained earnings		5,671,619	5,815,184
Total equity (page 4)		14,373,809	14,517,374
Total equity and liabilities		55,571,992	56,074,839



Talal Fuad Ebrahim Kanoo
Chairman



Mohammed Farouk Y. Almoayyed
Deputy Chairman

The Board of Directors approved the condensed consolidated interim financial information consisting of notes 1 to 15 on 19 August 2019.

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

for the six months ended 30 June 2019

Bahraini dinars

	Note	30 June 2019 (reviewed)	30 June 2018 (reviewed)
Interest income		2,470,386	2,364,850
Interest expense		(1,266,883)	(1,073,519)
Net interest income		1,203,503	1,291,331
Fees and commission income		447,911	660,108
Fees and commission expense		(191,119)	(331,851)
Net fee and commission income		256,792	328,257
Other income	13	44,939	49,685
Total income		1,505,234	1,669,273
Salaries and related costs		495,107	499,303
Other operating expenses		380,613	389,902
Depreciation		95,997	52,496
Impairment on loans to customers	8 (b)	77,082	55,348
Total expenses		1,048,799	997,049
Profit for the period		456,435	672,224
Other comprehensive income		-	-
Total comprehensive income for the period		456,435	672,224

The condensed consolidated interim financial information consists of notes 1 to 15.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the six months ended 30 June 2019

Bahraini dinars

2019 (reviewed)	Share capital	Share premium	Statutory reserve	Retained earnings	Total equity
Balance at 1 January 2019	7,500,000	112,500	1,089,690	5,815,184	14,517,374
Total comprehensive income for the period	-	-	-	456,435	456,435
Dividends declared for 2018	-	-	-	(600,000)	(600,000)
Balance at 30 June 2019	7,500,000	112,500	1,089,690	5,671,619	14,373,809

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
Impact of adopting IFRS 9 as at 1 January 2018	-	-	-	(692,014)	(692,014)
Balance at 1 January 2018 (restated)	7,500,000	112,500	962,327	5,268,921	13,843,748
Total comprehensive income for the period	-	-	-	672,224	672,224
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

The condensed consolidated interim financial information consists of notes 1 to 15.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
for the six months ended 30 June 2019

Bahraini dinars

	30 June 2019 (reviewed)	30 June 2018 (reviewed)
Operating activities		
Interest, fees and commission received and other income	2,963,199	3,027,058
Loans disbursed	(9,264,932)	(13,747,876)
Loan repayments	9,274,826	10,886,040
Payments for staff salaries and related costs	(642,236)	(520,711)
Payments for other operating expenses	(689,916)	(632,790)
Net cash generated from/(used in) from operating activities	1,640,941	(988,279)
Investing activities		
Deposits with banks	-	2,000,000
Purchase of furniture, fixtures and equipment	(66,505)	(64,960)
Sale of furniture, fixtures and equipment	1,360	-
Net cash (used in)/generated from in investing activities	(65,145)	1,935,040
Financing activities		
Drawdown of bank borrowings	6,000,000	6,995,163
Repayment of bank borrowings	(5,634,593)	(5,041,082)
Interest paid	(1,231,900)	(1,043,415)
Dividends paid	(600,000)	(600,000)
Net cash (used in)/generated from financing activities	(1,466,493)	310,666
Net increase in cash and cash equivalents during the period	109,303	1,257,427
Cash and cash equivalents at 1 January	2,320,122	1,577,144
Cash and cash equivalents as at 30 June*	2,429,425	2,834,571

*Cash and cash equivalents is gross of the expected credit loss of BD 38,553 (2018: BD 38,553).

The condensed consolidated interim financial information consists of notes 1 to 15.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2019**

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 has a wholly owned subsidiary, National Finance House Auto Mall S.P.C., established for the purpose of sale/trade of motor vehicles and 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 2019.

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 2018. 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 2018.

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 2018, except for the impact of adoption of IFRS 16 'Leases' as described below.

- IFRS 16 Leases:

The Group has applied IFRS 16 "Leases" from 1 January 2019. The impact of adoption of this standard is disclosed below.

IFRS 16 Leases introduces a single, on-balance lease sheet accounting model for lessees. It 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 Group has adopted IFRS 16 from 1 January 2019, using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4.

The Group applied IFRS 16 with a date of initial application of 1 January 2019. As a result, the Group has changed its accounting policy for lease contracts as detailed below.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2019**

Bahraini dinars

3 Significant accounting policies (continued)**a) Change in accounting policy**

At the inception of the contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for the period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset, this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset if either:
 - the Group has the right to operate the asset; or
 - the Group designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

Measurement

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises:

- the amount of the initial measurement of the lease liability;
- any lease payment made at or before the commencement date, less any lease incentives received;
- any initial direct cost incurred by the lessee; and
- estimated cost to dismantle and to remove the underlying asset, or to restore the underlying asset or the site on which it is located.

The right-of-use asset is subsequently depreciated using the straight line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined based on the lease term.

Lease liability is measured as the present value of the future lease payments that are not paid at the commencement date. The lease payments are discounted based on the Group's incremental borrowing rate. Lease liability comprises the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option;
- lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option; and

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2019

Bahraini dinars

3 *Significant accounting policies (continued)*

a) *Change in accounting policy (continued)*

- penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and for leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

b) Impact of adopting IFRS 16

The impact from the adoption of IFRS 16 as at 1 January 2019 has resulted in an increase in right-of-use asset and an increase in lease liability by BD 336,365.

	Total Assets	Total Liabilities
Balance at 31 December 2018 under IAS 17	56,074,839	41,557,465
<u>Impact on adoption:</u>		
Right-of-use asset	336,365	-
Lease liability	-	336,365
Balance at 1 January 2019 under IFRS 16 (Restated)	56,411,204	41,893,830

Right-of-use asset and lease liability are presented under property and equipment and other liabilities respectively.

Maturity analysis of contractual undiscounted cash flows:

	30 June 2019
Less than 1 year	92,688
1 to 3 years	233,772
Total undiscounted lease liabilities	326,460

Lease liability included in the statement of financial position

298,267

Amount recognised in profit or loss as at 30 June 2019

	30 June 2019
Interest on lease liability	8,246
Depreciation charge on right-of-use of leased property	41,244

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2019

Bahraini dinars

4 Judgements and 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 2018, except for new significant judgements and key sources of estimation uncertainty related to the application of IFRS 16 as described below.

Identification of lease contracts: The assessment of whether a contract is a lease contract requires management judgement.

Inputs and assumptions used in the measurement of right of use and lease liability: Measurement is based on certain factors which are estimated by the management. For example discount rate, variable lease payments, lease term and residual value.

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 2018.

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 2018 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 2018.

8 Loans to customers

(a) Exposure by staging

	30 June 2019 (reviewed)			
	Stage 1	Stage 2	Stage 3	Total
Loans to customers	49,507,955	1,729,602	2,815,530	54,053,087
Less: expected credit loss	(273,761)	(171,067)	(1,517,822)	(1,962,650)
Net loans	49,234,194	1,558,535	1,297,708	52,090,437

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2019

Bahraini dinars

8 *Loans to customers (continued)***(b) Expected credit loss movement**

Expected credit loss movement - 2019	Stage 1	Stage 2	Stage 3	Total
At 1 January 2019	239,773	170,452	1,605,397	2,015,622
Transfer to Stage 1	55,821	(43,000)	(12,821)	-
Transfer to Stage 2	(9,926)	21,147	(11,221)	-
Transfer to Stage 3	(8,552)	(81,035)	89,587	-
Net re-measurement of loss allowance	(3,355)	103,503	(23,066)	77,082
Write-off during the year	-	-	(130,054)	(130,054)
Expected credit loss as at 30 June 2019	273,761	171,067	1,517,822	1,962,650

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

9 Property and equipment

	30 June 2019 (reviewed)	31 December 2018 (audited)
Furniture, fixtures and equipment	336,707	324,992
Right-of-use of leased property	295,121	-
	631,828	324,992

Furniture, fixtures and equipment is net of accumulated depreciation of BD 979,835 (2018: BD944,295) and right of use of leased property is net of depreciation of BD 41,244 (2018: nil)

10 Bank borrowings

Bank borrowings 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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2019

Bahraini dinars

11 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 2019 (Reviewed)	30 June 2018 (Reviewed)
Capital Expenditure		
Furniture, fixtures, equipment and work in progress (Shareholder)	50,523	43,042
Operating Income		
Insurance Commission - Motor Vehicles (Shareholder)	21,904	19,262
Operating Expenses		
Insurance premium charges (Shareholder)	104,245	94,638
Call centre charges (Shareholder)	9,000	9,000
Salesman commission (Shareholders)	26,253	56,135
Other operating expenses (Shareholders)	13,874	13,748

Related party balances	30 June 2019 (Reviewed)	31 December 2018 (Audited)
Payable for vehicles financed (Shareholders)	911,234	1,095,984
Payable for Insurance premiums (Shareholders)	30,227	55,427
Prepaid expenses (Shareholders)	39,286	14,382
Payable of salesman commission (Shareholders)	7,009	11,658
Receivable of Insurance agency commission (Shareholders)	4,388	8,058

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 2019 (Reviewed)	30 June 2018 (Reviewed)
Key management compensation	172,116	183,319
Board of directors remuneration and attendance allowance	44,607	31,108
Staff loans disbursed	-	2,600

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2019

Bahraini dinars

11 *Related party transactions (continued)*

	30 June 2019 (Reviewed)	30 June 2018 (Reviewed)
Balances with key management personnel		
Staff loans	7,918	3,450

Certain transactions were approved by the Board of Directors under Article 189(b) of the Commercial Companies Law in the period ended 30 June 2019 where the chairman, directors or managers had a direct or indirect interest in the contracts or transactions which have been approved by the Board.

12 **Other liabilities**

	30 June 2019 (reviewed)	31 December 2018 (audited)
Payable to agents for vehicles financed	1,605,844	2,525,838
Payable for Insurance companies	30,227	55,427
Accrued expenses	367,389	445,151
Lease liability	298,267	-
	2,301,727	3,026,416

13 **Other income**

Other income includes recoveries of BD 37,817 (2018: BD 47,586) from loans written-off in the prior years and income from sale of automobiles of BD 3,548 (2018: nil).

14 **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 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 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.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2019**

Bahraini dinars

15 Comparatives

Certain comparative figures have been regrouped to conform to the presentation in the current period. Such regroupings did not affect previously reported profit for the period or total equity.