

Building
Relationships
**Earning
Trust**

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Visit our corporate website for more information.

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His Royal Highness Prince
**Khalifa Bin
Salman Al Khalifa**
The Prime Minister of
the Kingdom of Bahrain



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



His Royal Highness Prince
**Salman Bin Hamad
Al Khalifa**
The Crown Prince, Deputy
Supreme Commander and
First Deputy Prime Minister
of the Kingdom of Bahrain

Group Profile

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

Capitalised at BD 7.5 million, the Group is backed by a strong shareholding base of prominent institutional investors from the GCC region. Since inception, NFH has built a dominant market share in the competitive vehicle financing segment of the Kingdom of Bahrain; and has established a reputation for the highest levels of customer service and agility in processing loan applications.

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

NFH Auto Mall provides a one-stop shopping experience for the selection, financing, registration and insurance of new and used vehicles, all in one convenient location.



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

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 & Investment Company

OUR MISSION



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

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

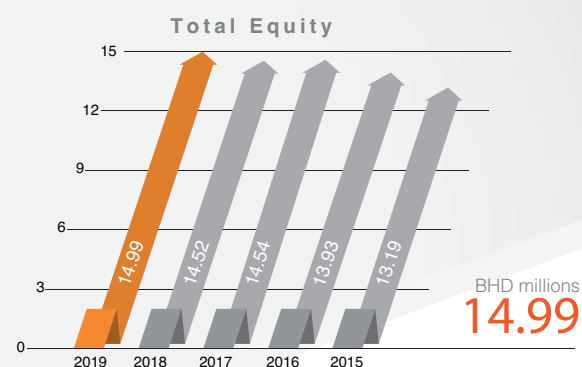
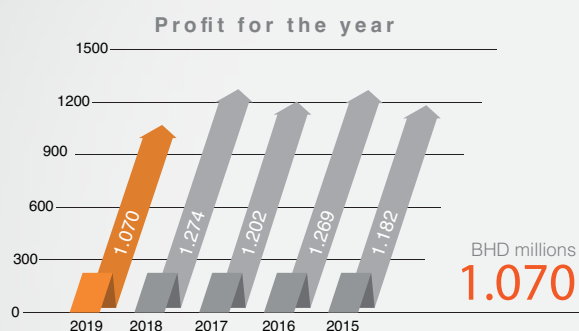
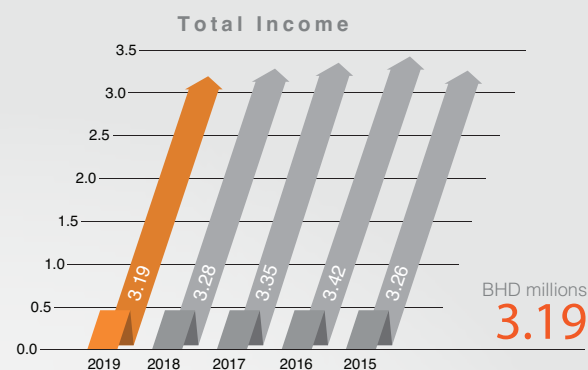
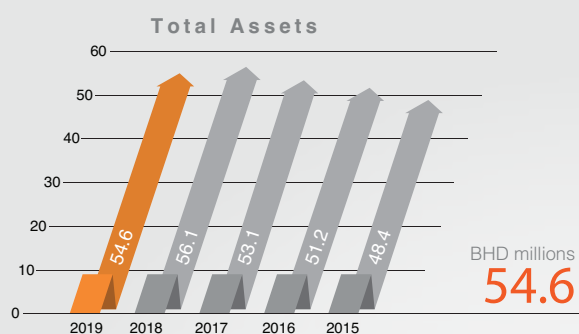
OUR VALUES



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

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

Financial Highlights



Five Year Financial Summary (Bahraini Dinars)

	2019	2018	2017	2016	2015
Total Assets	54,644,477	56,074,839	53,118,641	51,232,814	48,357,282
Total Liabilities	39,656,817	41,557,464	38,582,879	37,299,071	35,167,644
Total Equity	14,987,660	14,517,375	14,535,762	13,933,743	13,189,638
Total Income	3,187,812	3,283,474	3,351,648	3,418,502	3,262,407
Profit for the Year	1,070,286	1,273,626	1,202,019	1,269,105	1,181,502
Share Capital	7,500,000	7,500,000	7,500,000	7,500,000	7,500,000
Dividends	-	600,000	600,000	600,000	525,000

Operational Highlights



STRONG PRESENCE

NFH continued to maintain strong presence in the auto finance market with market share in new vehicle financing increasing to 17.27%



NFH AUTO MALL

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



CUSTOMER SERVICE

Strong commitment to providing best possible customer experience – building relationships, earning trust



CUSTOMER DATA PROTECTION

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



DIGITAL DEVELOPMENT

A mobile application is planned to be launched by Q2 2020 to enhance customer experience



CYBER SECURITY

Benchmarking against ISO/IEC 27032, a high priority continued to be placed on Cyber Security



FAST LOAN APPROVAL

Fast and easy approval of loans

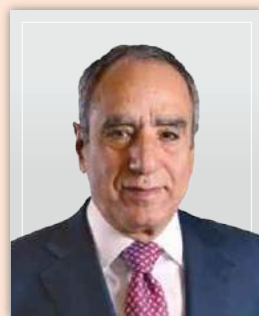
Board of Directors



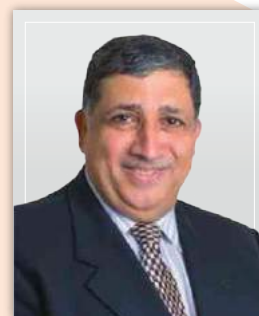
Talal Fuad Kanoo



Mohammed Farouk Almoayyed



Redha Abdulla Ali Faraj



Sameer Ebrahim Al Wazzan

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

Talal Fuad Kanoo

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

Managing Director & Chairman of the Executive Committee

- ▶ Ebrahim Khalil Kanoo Group, Bahrain

Head of the Executive Office

- ▶ Gulf Medical and Diabetes Center B.S.C.(c)

Member of Board of Directors

- ▶ Ebrahim Khalil Kanoo BSC (c), Bahrain.
- ▶ Motor City Holding BSC (c), Bahrain
- ▶ Bahrain National Holding Company, Bahrain
- ▶ Supreme Council for Youth & Sports, Bahrain
- ▶ Bahrain Basketball Association, Bahrain
- ▶ INJAZ, Bahrain

Mohammed Farouk Almoayyed

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

Chairman

Almoayyed International Group, Bahrain

Member of Board of Directors

- ▶ Y.K. Almoayyed & Sons Group, Bahrain
- ▶ Almoayyed Contracting Group, Bahrain
- ▶ The Bahrain Chamber of Commerce & Industry, Bahrain
- ▶ Bahrain Maritime and Mercantile International (BMMI), Bahrain
- ▶ Banader Hotels Company BSC, Bahrain
- ▶ Lanterns Lounge WLL, Bahrain
- ▶ Mirai Restaurant WLL, Bahrain
- ▶ Global Sourcing and Supply Holding (GSS) SPC, Bahrain
- ▶ Bayader Company for Restaurant Management SPC, Bahrain
- ▶ INJAZ, Bahrain

Redha Abdulla Ali Faraj

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

Member of

- ▶ Shura Council, Bahrain
- ▶ Minors Estate Guardianship Council, Bahrain

Member of the Board of Directors and Chairman of Audit, Risk & Compliance Committee

- ▶ Bahrain National Holding Company BSC, Bahrain
- ▶ Bahrain National Insurance Company BSC (c), Bahrain
- ▶ Bahrain National Life Assurance Company BSC (c), Bahrain
- ▶ Bahrain Maritime and Mercantile International (BMMI), Bahrain
- ▶ Y.K. Almoayyed & Sons Group, Bahrain
- ▶ Almoayyed International Group, Bahrain
- ▶ Almoayyed Contracting Group, Bahrain
- ▶ National Concrete Company, Bahrain
- ▶ Banader Hotels Company BSC, Bahrain
- ▶ i Assist Middle East WLL, Bahrain

Founder

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



Robert Pancras



Mohammad Alwabil



Khalid Shaheen
Saqer Shaheen



Kalyan Sunderam

Sameer Ebrahim Al Wazzan

Board Member (Executive)
Member of Executive Committee
Appointed to the Board in 2014

Chief Executive Officer

- ▶ Bahrain National Holding Company, Bahrain

Board Vice Chairman, Chairman of NRCG Committee, Chairman of Risk Management Committee, Member of Executive Committee

- ▶ Arabian Shield Cooperative Insurance Company, KSA

Board Vice Chairman & Chairman of the Audit Committee

- ▶ United Insurance Company, Bahrain

Member of the Board of Directors

- ▶ Al Kindi Specialised Hospital, Bahrain

Robert Pancras

Board Member (Executive)
Member of Executive Committee
Appointed to the Board in 2018

Chief Executive Officer

- ▶ National Finance Co. SAOG, Sultanate of Oman

Mohammed Abdullah Alwabil

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

Member of Board of Directors

- ▶ Almutlaq Group Company, KSA
- ▶ Almutlaq Real Estate Investment Company, KSA

Member of Audit Committee

- ▶ The Middle East Battery Company, KSA

Khalid Shaheen Saqer Shaheen

Board Member (Independent)
Vice Chairman of Executive Committee
Vice Chairman of Audit, Risk & Compliance Committee
Vice Chairman 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 Board of Directors

- ▶ Dar Al-Osool, Kingdom of Saudi Arabia

Member of the Board and Chairman of the Audit Committee

- ▶ Gulf Medical & Diabetes Center, Bahrain

Member of the Disciplinary Board

- ▶ Bahrain Bourse, Bahrain

Member of the Advisory Board

- ▶ Bahrain Association of Banks (BAB), Bahrain

Fellow

- ▶ Institute of Directors, UK

Member

- ▶ National Association of Corporate Directors, USA

Kalyan Sunderam

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

Managing Director

- ▶ Kronin Management Consultants S.P.C, Bahrain

Executive Director

- ▶ CFA Society, Bahrain

Member of Education Committee

- ▶ Professional Risk Managers' International Association, USA

Chairman's Statement



- ▶ Our strategy is to diversify the Company's revenue streams and expand our customer reach, our effort is to strengthen our relationships with our business partners and dealers and to provide effective financing solutions to our valued customers.

TALAL FUAD KANOO
Chairman of the Board

On behalf of the Board of Directors, it is my privilege to present the annual report and the consolidated financial statements of National Finance House (NFH) for the year ended 31 December 2019. I am pleased to report that the Group continued to post positive financial results with net profits exceeding BHD 1 million for the sixth consecutive year. This was achieved despite a challenging market and intense competitive conditions which reflect the new market reality.

In 2019, sales of new vehicles in Bahrain dropped by 35 per cent resulting in a decrease in loan disbursements to BHD 18.6 million compared to BHD 25.6 million in 2018. The Group's market share in financing newly registered vehicles remained roughly at the same level of 17.27 per cent as compared to 17.24 per cent in 2018. At the end of the year, the total loan book declined slightly by 4 per cent to BHD 50.74 million compared to BHD 53.10 million in 2018, while shareholders' equity increased by 3 per cent from BHD 14.52 million in 2018 to BHD 14.99 million in 2019. Net profit of BHD 1.07 million registered for the year ended 31 December 2019 compared to BHD 1.27 million registered in the previous year.

In terms of implementing our strategy to diversify the Company's revenue streams and expand our customer reach, we have launched "NFH Auto Mall" in May 2019. The Auto Mall complements the Group's core business of auto finance by offering multiple in-house services all under one roof, including vehicle registration and insurance cover, and thereby providing a convenient one-stop shop solution to our customers for purchasing a vehicle and securing a loan.

We continue our effort to strengthen our relationships with our business partners and dealers and to provide effective financing solutions to our valued customers. We continue to explore means by which we can improve our processes in order that we provide the most efficient services to our customers.

During the year, there were changes to the composition of the Board of Directors, whereby Mr. Khaled Saleh Alkhattaf, representative of Almutlaq Group, had resigned from the Board and was replaced by Mr. Mohammed Alwabil. In this regard, on behalf of the Board of Directors, I would like to thank Mr. Alkhattaf for his contribution and support during his tenure and to welcome



Our effort to strengthen our relationships with our business partners and dealers and to provide effective financing solutions to our valued customers.

Mr. Alwabil, looking forward to his active positive contribution.

I would like to take this opportunity to welcome Mr. Mohammed Dohadwala, who was appointed as the Chief Executive Officer in October 2019.

He joins NFH with 27 years of banking and financial services experience.

The Board of Directors look forward to his contribution in continuing to build on the past successes.

With Appreciation & Gratitude

On behalf of the Board of Directors, I take this opportunity to express my sincere appreciation & gratitude to His Majesty King Hamad bin Isa Al-Khalifa, His Royal Highness Prime Minister Prince Khalifa bin Salman Al-Khalifa and His Royal Highness Prince Salman bin Hamad Al-Khalifa, Crown Prince, Deputy Supreme Commander and First Deputy Premier, for their progressive leadership and encouragement.

Our appreciation is also extended to our shareholders, customers, our business partners, and to the Central Bank of Bahrain for their support.

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

Talal Fuad Kanoo
Chairman of the Board

Chief Executive Officer's Report



- ▶▶ The mission of providing fast, easy and flexible financing is inspired by forward-thinking shareholders who have the patience and perseverance to support the vision of the Group over the long term.

MOHAMMED DOHADWALA
Chief Executive Officer

Professional, knowledgeable and committed were the adjectives that came to mind as I was welcomed by my colleagues into NFH in October 2019. Indeed, the mission of providing fast, easy and flexible financing solutions is taken very seriously by the team at NFH. Undoubtedly, this focus is inspired by forward-thinking shareholders who have the patience and perseverance to support the vision of the Group over the long term.

Most oil-dependent economies have been struggling since 2015 to balance their budget deficits, triggering unprecedented changes in the way business is done. Bahrain is no exception and the introduction of VAT in 2019 had a significant impact on vehicular sales in Bahrain. Statistics released by the Traffic Department show that the market for new cars declined by as much as 35% in 2019. In spite of this, NFH managed to hold on to its

market share and saw only a small decline in its loan book. Given the strong headwinds to business, maintaining a profit level of more than BHD 1 million was no ordinary achievement.

The NFH Auto Mall was launched in May 2019 and offers a good potential to diversify the revenue streams at NFH and at the same time improve the core brand salience of NFH - making car ownership easy. New and innovative marketing plans have been devised for 2020 to support this business.

Strong and time-tested relations with the car dealers and sub-dealers stood NFH in good stead through the difficult times in 2019. Going forward, these relations will be further strengthened through a number of measures designed to support sale closures at the showrooms. From co-branding to personnel



the market
for new cars
declined by
as much as
35%
in 2019

support, the dealers will find NFH to be a trusted partner in their business.

In particular, the credit review function at NFH will be enhanced so as to make turn-around quicker and more detailed in terms of credit scoring. This will allow for finer pricing that should benefit all stakeholders involved. This should also translate into improving NPL metrics.

Information Technology has become an inseparable part of the financial services industry. At NFH, the aim is to find cost-effective solutions that keep up with the expectations of a digital-friendly market place.

NFH owes gratitude to its partner banks for their continued support. Most banks increased their funding lines to NFH in 2019. NFH looks forward to deepening its relations

with them for mutual benefit and also widening the number of its partner banks to reduce concentration risks.

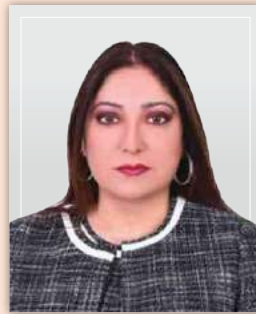
Going into 2020, the team's focus will be to build sustained competitive advantage and at the same time balance the requirements of shareholders, customers, car dealers, banks and the regulators - a fine balance that will call on the team's professionalism, knowledge and commitment.

Mohammed Dohadwala
Chief Executive Officer

Management Team



Mohammed Dohadwala



May Al-Mahmood



Ali Redha Mohammed



Mahdi Murad



Mahmood Fraidoon



Fatima Abdulla Yousif

Mohammed Dohadwala
Chief Executive Officer

May Al-Mahmood
Head of Financial Control & Compliance Officer

Ali Redha Mohammed
Head of Retail

Mahdi Murad
Head of Risk & MLRO

Mahmood Mohammed Fraidoon
Head of Information Technology

Fatima Abdulla Yousif Ali
Human Resources

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



EARNING
TRUST

We believe that building trust and confidence in the workplace is a key pillar for our organization's success.

NFH AUTO MALL

Launched in May 2019, the new NFH Auto Mall provides customers with a convenient one-stop shop for the selection, financing, registration and insurance of a wide range of leading automobile brands and quality used cars.



REVIEW OF OPERATIONS

2019 was a challenging year in terms of delivering the financial results we expected.

The introduction of VAT at the beginning of 2019 had a significant impact on car sales in the Kingdom of Bahrain which caused a drop in The Group's auto loan financing portfolio.

RETAIL & MARKETING

Vehicle Financing

NFH maintained its market share of new vehicle finance, in spite of an extremely challenging market situation. The introduction of VAT, higher cost of living and economic uncertainty conspired to sharply reduce the number of new cars sold in the Kingdom of Bahrain by more than 35% as compared to 2018. There was a distinct switch in customer preferences towards more fuel-efficient and economic models, which is a core customer segment for the Group. The majority of loans were for the purchase of cars by individuals. The Group's existing service desks at the showroom of Toyota, Nissan, Majestic Motors and Royal Class Motors continued to perform strongly.

Insurance

Insurance Income from insurance commissions saw a net growth of 27 per cent in comparison to 2018. This growth is particularly heartening, given the tough and competitive market conditions in this segment. Going forward, the Group will continue to expand its insurance offerings, as a convenient add-on for new car buyers.

NFH Auto Mall

NFH Auto mall, a wholly owned subsidiary of NFH, was launched in the middle of 2019. Conveniently located in Sitra, the hub of car dealerships in Bahrain, NFH Auto Mall provides a one-stop shopping experience for the selection of a wide variety of new and used motor vehicles.

The customer gets a full package of financing, registration and insurance, all under one roof. The response to the Auto Mall has been very encouraging and ambitious plans are in place to grow this business in 2020.

Marketing

Marketing activities in 2019 focused on strengthening the existing good

relations with car dealers and sub-dealers. An aggressive promotional campaign during the holy month of Ramadan witnessed good traction. The Group continued utilizing social media channels such as Instagram, Facebook, Twitter and You Tube to reinforce the brand and generate awareness. A mobile banking application is scheduled to launch in 2020. It will provide customers with a convenient, controllable and 24/7 secure service availability.

Customer Service

Superior customer service and faster loan processing times continue to act as key competitive differentiators. During 2019, the Group maintained its focus on further enhancing the 'customer experience'. The use of systems to improve turn-around times, a re-designed website with new user-friendly features, active social media links and an in-house Call Centre supported service availability.



Focusing on strengthening the existing good relations with car dealers

Auto Mall

provides a one-stop shopping experience for the selection of a wide variety of new and used motor vehicles.

COLLECTIONS

The Collections team put in place various strategies to mitigate delinquencies. Proactive calling and the use of automated reminders through messaging systems played an important role in helping customers to remain up-to-date with their instalments. Wherever possible, fair and mutually agreeable restructuring of loans, including repossession, was done to take into account a customer's changed economic circumstances.

CREDIT ADMINISTRATION

The Group comprehensively reviewed and amended its credit administration policy in 2019; and further strengthened its credit criteria in line with changing economic and market conditions. The Group also reviewed its

Know Your Customer (KYC) procedures, credit rates and authority levels. During 2019, full compliance was maintained with their requirements of the Credit Reference Bureau (CRB) for individual and corporate clients.

CUSTOMER COMPLAINTS

All policies, processes and procedures for the Group's independent Complaints Unit were reviewed during the year. These cover the receipt, logging, monitoring, follow-up and resolution of complaints, which are reported on a quarterly basis to the Central Bank of Bahrain (CBB). In 2019, the number of serious complaints remained very low compared with service-oriented market norms. The majority of complaints were handled immediately and successfully resolved within the same day, considerably below the regulatory five days stipulated by the CBB. This illustrates the Group's commitment to continuously improve its customer service and satisfaction standards.

HUMAN RESOURCES

During 2019, the Group continued to enhance its human capital base through the successful recruitment of additional talent.





NEW SERVICE DESK

The headcount increased from 53 to 55 employees, with Bahrainis now comprising 93 per cent of the total workforce. Female staff account for 27 per cent of all employees.

NFH continued to invest in staff training and professional development, which is provided either in-house or through accredited external institutions such as the Bahrain Institute of Banking & Finance. All staff were refreshed with mandatory trainings such as anti-money laundering, safety at work and the PDPL Law.

Additionally, specialized training was provided to staff whenever required.

INFORMATION TECHNOLOGY

NFH further strengthened its information and communications technology (ICT) infrastructure in 2019. Key developments include the automation of processes, functional and compliance enhancements in systems, and reaching final stages of launching a new mobile banking application. With the world moving toward digital transformation, NFH is working toward closing the gap

between what digital constituents demand and what an analog company can deliver.

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

COMPLIANCE

In light of the increased risk environment, and heightened expectations of the regulators, Compliance Risk Management within the Group is a focus of the Board, with oversight by the Board Audit, Compliance & Risk Committee. During 2019, the Group maintained

its 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 and Tourism.

The Group has implemented IFRS 16 Leases with a transition date of 1 January 2019 which resulted in changes in accounting policies and adjustments to the amounts from those previously recognised in the financial statements as at 31 December 2018. The impact from the adoption of this standard is disclosed in detail in Notes annexed to the Financial Statements for 2019. The Group has also implemented effective procedures to collect and discharge its duties in relation to the newly introduced Value Added Tax (VAT), in compliance with the applicable laws and guidelines of the National Bureau for Revenue (NBR).

Compliance with the provisions of the Personal Data Protection Law (PDPL), which came into force on 1st August 2019 was also ensured.



Superior customer service and faster loan processing times continue to act as key competitive differentiators.

New policies and procedures were formulated in addition to updating existing policies and procedures governing data collection, processing and retention. Full details are included in the Corporate Governance Report of this annual report.

RISK MANAGEMENT

Given the changing economic and market conditions and new regulatory requirements, the group strengthened its corporate governance by further strengthening its operational risk management framework, setting up an internal control framework, risk-related policies and procedures and complied with the new regulation imposed by CBB in enhancing the procedures under financial crime module during the year.

Focus continued to be 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.

Building **Relationships**

During 2019,
we continued to strengthen
our relationships
with our business partners
and dealers to provide
effective financing solutions
to our valued customers.

RISK MANAGEMENT REVIEW

In line with best practice and to further strengthen the Group's governance, NFH set up an effective Risk Management and Internal Control Framework to identify, monitor and control risks to which the Group may be exposed. The Risk Management Department oversees the effective implementation of all necessary policies, procedures, controls and systems to monitor, manage and mitigate these risks. An annual assessment and review of all risk management policies, processes and procedures is conducted to ensure that the Group's risk policies and risk tolerance are in compliance with the guidelines of the Central Bank of Bahrain; in line with the strategic direction and risk appetite specified by the Board; and that they are well-documented and regularly communicated throughout the organization.

KEY DEVELOPMENTS IN 2019

- The Personal Data Protection Law came into effect in Bahrain in August 2019. NFH successfully implemented and complied with the Law by adopting necessary policies and procedures to maintain the confidentiality of customer's personal and sensitive data.
- NFH successfully enrolled into the Bahrain E-KYC project. E-KYC is used to authenticate the identities of clients and validate their information before granting financial services.
- NFH complied with the amended Agreed Upon Procedures for year 2019 for testing compliance with the Financial Crime Module requirement.
- The Risk Management team was expanded with the recruitment of a Senior Internal Control and Operational Risk Officer.
- The Group's charters, policies, processes and procedures were reviewed and updated.
- NFH reviewed Credit Risk and Credit Administration policy and procedures, and tightened customer credit assessment criteria.
- The annual high-level Risk Control Self-Assessment (RCSA) for Retail, new Insurance business and the mobile application was carried out. The RCSA was also extended to cover all processes for each department with a customised automation system.
- The Group's Risk Appetite Statement was reviewed. The list of Key Risk Indicators (KRIs) was expanded.

- Customer Risk Rating (CRR) methodology was reviewed and amended.
- AML/CFT refresher training was provided to all staff through in-house resources. New joiners were given external training, given the importance of this aspect of KYC.
- The Group's Business Continuity Planning (BCP) was enhanced with an upgraded Disaster Recovery Site (DRS) and updated departmental BCPs on a 'worst case' scenario.
- All outstanding credit and risk-related audit points raised by internal, external and regulatory auditors were effectively addressed.

RISK PHILOSOPHY & APPROACH

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

RISK EXPOSURE

The Group's business is primarily exposed to the following 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 Group's risk management framework. The Board sets the Group's overall risk parameters and tolerance by approving the relevant risk management policies. It has established the Audit, Compliance & Risk Committee for reviewing and monitoring risk metrics and compliance with the policies approved by the Board. The Audit, Compliance & Risk Committee reviews and reports to the Board on the Group's risk profiles and risk-management activities.

Management

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

Risk Management Committee

The Risk Management Committee is responsible for identifying all risks to which NFH may be exposed; and for implementing necessary

Risk Management Review continued

policies, procedures, controls and systems to effectively monitor and manage these risks.

Credit Committee

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

Asset & Liability Committee

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

RISK MANAGEMENT FUNCTION

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

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

- Implement the Risk Management Framework on a Group-wide basis and identify risk owners.
- Implement the Internal Control Framework on a Group-wide basis and identify control gaps across all processes.
- Effectively identify, assess, monitor, mitigate and report risks across all business units and processes.

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

ANTI-MONEY LAUNDERING

NFH has a designated Money Laundering Reporting Officer (MLRO) and a Deputy MLRO (DMLRO). The Group has implemented an anti-money laundering (AML) and counter-terrorism financing (CFT) policy, and annually trains staff to raise awareness for identifying and reporting suspicious transactions. In light of the amended Agreed Upon Procedures issued by CBB during the year 2019 for testing compliance with the Financial Crime Module covering the quality of procedures, systems and controls in relation to Module FC requirements, NFH follows prudent practices related to Customer Due Diligence and Beneficial Ownership, screening abnormal transactions and Know

Your Customer (KYC) principles. In accordance with regulatory requirements, the MLRO reviews the effectiveness of the AML/CFT procedures, systems and controls at least once a year. The Group's anti-money laundering measures are audited annually by independent external auditors for NFH, to provide a separate assurance to the Compliance Directorate of the CBB.

BUSINESS CONTINUITY

The Group is committed to providing uninterrupted service to its valued customers in spite of business continuity challenges like natural calamities or other events. This is achieved through identifying potential threats to the Group, and providing a framework for a response that safeguards all stakeholders, including employees and customers. The Group's Business Continuity Plan includes data recovery and information security.

During 2019, two fire drills along with 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 Group has in place a robust Cyber Security Framework which includes clear ownership and management of risks associated with cyber-attacks; and a Cyber Security Incident Response Team responsible for detecting, monitoring, mitigating and reporting cyber-attacks. No serious cyber security incidents were encountered during 2019.

CORPORATE GOVERNANCE REPORT

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

1. DEVELOPMENTS IN 2019

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

NFH continuously strives to improve the level of compliance levels in all its activities and implement best practices in compliance. During 2019, 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 the requirements of the Code of Corporate Governance of the Kingdom of Bahrain issued by the Ministry of Industry Commerce & Tourism.

To ensure the Group's compliance with the provisions of the Personal Data Protection Law (PDPL), which came into force on 1st August 2019, new policies and procedures were formulated in addition to updating existing policies and procedures governing data collection, processing and retention.

Compliance awareness training were conducted to improve employee engagement and awareness at all levels. The Board has reviewed and approved all new policies and amendments to the corporate governance framework and policies, Board Committees' Charters, Management Committee Charters, risk management policies and all other policies of the Group.

2. GOVERNANCE PHILOSOPHY

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

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

3. STRUCTURE

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

4. PRINCIPLES

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

5. BOARD OF DIRECTORS

Board Composition

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

As per the Group's Memorandum and Articles of Association, the Board of Directors comprises a maximum of 10 members. The current Board consists of eight Directors of which two are Independent 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.

Corporate Governance Review continued

Board Meetings

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

Roles & Responsibilities

The Board is accountable to the Group's shareholders and other stakeholders to ensure that NFH is managed in a safe and sound manner, and with an appropriate balance between financial performance and fulfilment of its public purpose. The Board is also responsible to the regulators for conducting the business of the Group within the legal and regulatory framework. The board of directors is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as the board of directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Induction & Training

The Group is committed to ongoing training and development for Board Members to foster trust, understanding and communication among Directors through a robust induction programme for new Board Members. All first-time Directors elected to the Board of the Group shall receive training covering the financial and business performance of the Group, the industry, regulatory and legislative requirements, corporate governance practices, risk management and Code of Ethics and Business conduct for Directors. Meetings will also be arranged with Executive Management. Re-elected Directors, who are already inducted in to the Board may undergo a refresher programme. During 2019, all approved persons including members of the Board of Directors completed a minimum of 15 hours of continued professional development.

Performance Evaluation

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

Board of Directors Remuneration

The remuneration of Independent Directors comprises a fixed component while the remuneration of other members of the Board of Directors comprises a fixed and a variable component. The Fixed Remuneration comprises the sitting fees per meeting attended by the Board Member. The Variable Remuneration comprises a percentage of the net profit for one financial year. Board Members' remuneration is linked to their attendance and performance. Participation in a meeting via telephone/video conference shall be considered an attendance of the meeting. In aggregate, directors were paid a total of BHD 90,000 as annual remuneration and sitting fees for their contribution to the Board and Board Committees held during 2019.

Code of Ethics & Business Conduct

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

Whistle-blower Policy

The Group has a whistle-blower scheme in place with designated officials to whom the employee can approach and report any breach or suspected breach of laid down policies and procedures, in confidentiality.

Conflict of Interest Policy

The Board has approved a Conflict of Interest Policy to ensure high standards of Corporate Governance and ethical business dealings. The Policy identifies areas of conflict of interest, and internal policies and controls designed to prevent and manage conflict of interest. It also identifies disclosure requirements of conflict of interest. In the event of the Board or its Committees considering any issues involving conflict of interest of Directors, such Director will abstain from voting. During the year, there were no potential conflicts of interest of any member of the Board of Directors between their duties to the Group and their private interests and/or other duties.

Related Party Transactions

Controlling relations with related party transactions are enshrined in various policies, charters and agreements. The Group's dealings with its shareholders and/or Board of Directors are conducted on an arms-length basis in respect of borrowings received from them. If loans are extended to related parties, these are approved based on the authorities delegated by the Board of Directors to the Management. Lending transactions to related party, at a certain level of exposure, require Board

Corporate Governance Review continued

approval. The Board or Senior Management must abstain themselves from the decision making process for credits to companies and individuals related to them.

As per the requirement of Article 189 of the Companies Commercial Law, all transactions with the Board of Directors are required to be approved by the Board. The Board of Directors reviewed the transactions and approved these, which were summarised, within the related party note annexed to the Financial Statements for 2019. There are no shares held by Directors or Senior Managers as at 31 December 2019.

Material transactions

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

Communications with Stakeholders

The Group has a public disclosure policy approved by the Board of Directors. The Group conducts all communications with its stakeholders in a transparent, accurate and timely manner. Main channels of communications comprise an annual general meeting, annual report, semi-annual and annual financial statements, corporate website, and regular announcements in the appropriate local media.

The Group provides information on all events that merit announcement, either on its website - www.nfh.com.bh - or through other forms of publication.

The annual results of the Group are published in two local newspapers, one in Arabic and one in English, and a copy is submitted to the Central Bank of Bahrain. All previous annual reports and quarterly / semi-annual interim financial results of the Group, and other public disclosures as stated in the Public Disclosure Module of the CBB are made available on the Group's website for a reasonable period of time.

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

6. BOARD COMMITTEES

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

Performance Evaluation

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

Executive Committee

Committee Composition

The Board nominates the members including the Chairperson. The Committee comprises a minimum of three Directors and the Chief Executive Officer. Members will be appointed for a period of three years. The term of service of the Members who are also Directors shall be co-terminus with their service to the Board.

Committee Meetings

The Committee meets as necessary to play its role effectively. The meeting is requested by any member of the Committee or the Chairperson of the Board. Number of meetings held by the Committee in 2019 was six. The quorum for a meeting will be two members. In the absence of the Chairperson, the Vice Chairperson should be available to chair the meeting.

Roles & Responsibilities

- Oversee the financial and business performance of the Group and guide the Group in its relations with shareholders and other key stakeholders, including regulators and media.
- Take overall responsibility for establishing the business objectives and targets of the Group, and the strategic direction and control of the Group's business activity, within the authorities delegated to it by the Board.
- Credit approvals within a range specified by the Board.
- Review the policies, business plan and annual budget for approval of the Board.
- Approve expenditure and other financial commitments within the authorities delegated to the Committee, and make recommendations to the Board seeking the necessary approval for proposals beyond its powers.

Corporate Governance Review continued

Audit, Compliance & Risk Committee

Committee Composition

The Board nominates the members including the Chairperson. The Committee comprises a minimum of three members at which the majority of members must be Independent Directors including the Chairperson. Members will be appointed for a period of three years. The term of service of the members who are also Directors shall be co-terminus with their service to the Board.

Committee Meetings

The Committee meets once in a calendar quarter to coincide with the financial reporting and audit cycle to review quarterly financial results.

Number of meetings held by the Committee in 2019 was four. The quorum for a meeting will be two members. However, all meetings must be attended by the Chairperson or Vice Chairman of the Committee.

Roles & Responsibilities

- Assist the Board of Directors in ensuring and maintaining oversight of the Group's financial reporting system, internal controls, risk management processes, audit functions, compliance with legal and regulatory requirements, and Corporate Governance guidelines.
- Assist the Board in the appointment of external and internal auditors in the context of their independence, compensation and terms of engagement.
- Review and supervise the implementation of, enforcement of, and adherence to, the Group's Code of Business Conduct.
- Monitor the Compliance and Anti-Money Laundering functions.
- Review and reassess the adequacy of the Corporate Governance framework, guidelines, policies and controls; and recommend any changes to the Board for approval.

Nomination & Remuneration Committee

Committee Composition

The Board nominates the members including the Chairperson. The Committee comprises a minimum of three members 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 2019 was two. The quorum for a meeting will be two members. However, all meetings must be attended by the Chairperson or Vice Chairperson of the Committee.

Roles & Responsibilities

- Ensure that the Board comprises individuals who are best able to discharge the responsibilities of a Director; and that they have an appropriate mix of skills, experience and expertise.
- Evaluate and recommend the composition of the Board of Directors and Board Committees.
- Consider and recommend the appointment of Directors including independent Non-Executive Directors.
- Review the remuneration policies for the Board and Senior Management.
- Determine the processes for evaluating the effectiveness of individual Directors and the Board as a whole.
- Ensure that plans are in place for orderly succession of the Senior Management team.
- Evaluate the Chief Executive Officer's performance in light of the Group's corporate goals, agreed strategy, objectives and business plans.

Corporate Governance Review continued

BOARD & BOARD COMMITTEES MEMBERS AS AT 31 DECEMBER 2019

Mr. Mohammed Abdullah Alwabil representing Almutlaq Group was appointed on 26 May 2019 as an Executive Director on the Board replacing Mr. Khaled Saleh Alkhattaf.

The classification of 'Executive' Directors, 'Non-Executive' Directors and 'Independent' Directors is as per definitions stipulated by the CBB. None of the other Directors have any inter-relationship.

Directors	Directorship Type	Board	Executive Committee	Audit, Compliance & Risk Committee	Nomination & Remuneration Committee
Talal Fuad Ebrahim Kanoo	Executive	Chairman			Chairman
Mohammed Farouk Almoayyed	Executive	Deputy Chairman	Chairman		
Redha A. Faraj	Non-Executive	Member		Member	
Sameer Ebrahim Al Wazzan	Executive	Member	Member		
Robert Pancras	Executive	Member	Member		
Mohammed Abdullah Alwabil	Non-Executive	Member			
Khaled Shaheen Saqer Shaheen	Independent	Member	Deputy Chairman	Deputy Chairman	Deputy Chairman
Kalyan Sunderam	Independent	Member		Chairman	Member

Board & Board Committee Meetings and Record of Attendance during 2019

Attended Absent Not a member during this period Attended by phone

Board of Directors

	27 Feb	10 Jun	19 Aug	25 Nov	% of meetings attended
Talal Fuad Ebrahim Kanoo	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	100%
Mohammed Farouk Almoayyed	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	100%
Redha A. Faraj	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	100%
Sameer Ebrahim Al Wazzan	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	75%
Robert Pancras	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	100%
Mohammed Abdullah Alwabil (appointed on 26/05/2019)	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	100%
Khaled Saleh Alkhattaf (left on 27/03/2019)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	100%
Khaled Shaheen Saqer Shaheen	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	100%
Kalyan Sunderam	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	100%

Corporate Governance Review continued

Executive Committee

	Feb 17	May 6	May 29	Sep 18	Oct 31	Nov 17
Mohammed Farouk Y. Almoayyed	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Khaled Shaheen Saqer Shaheen	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Sameer Ebrahim Al Wazzan	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Robert Pancras	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Audit, Compliance & Risk Committee

	Feb 20	May 30	Aug 18	Nov 28 & 21
Kalyan Sunderam	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Khaled Shaheen Saqer Shaheen	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Redha A. Faraj	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Khaled Saleh Alkhattaf (left on 27/03/2019)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Nomination & Remuneration Committee

	27 Feb	25 Nov
Talal Fuad Ebrahim Kanoo	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Khaled Shaheen Saqer Shaheen	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Kalyan Sunderam	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

Corporate Governance Review continued

7. SHAREHOLDERS

List of NFH Shareholders as at 31 December 2019

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

8. MANAGEMENT

The Board has delegated authority to the Chief Executive Officer for the day-to-day management of the Group. 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. Management committees, comprising of members of the senior management, have ultimate responsibility for directing the activity of the Group, ensuring it is well run and delivering the outcomes for which it has been set up.

The Compliance Officer reports to the CEO and has direct access to the Board of Directors through the Audit, Compliance & Risk Committee. The Corporate Secretary has direct access to the Board of Directors as per the requirements of Corporate Governance.

Managerial Remuneration

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

Remuneration of Approved Persons & Material Risk Takers

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

Employment of Relatives

It is the Group's policy not to recruit direct relatives of staff especially relatives of any approved persons occupying controlled function unless authorized by the Executive Committee. Direct relatives are defined as spouse, brother, sister, son, daughter and direct in laws.

As part of the annual reporting, the CEO must disclose to the Board on an annual basis, the direct relative of any approved persons occupying controlled functions within the Group.

9. AUDITORS

The Shareholders of the Group appointed KPMG, one of the leading accounting firms in Bahrain, as the external auditors for 2019. During 2018 & 2019, the external auditors provided consultancy services for impact assessment and implementation of value-added-tax (VAT) compliance framework. However, they did not provide any other material consultative or administrative service to the Group during the year that would conflict with the independence principle. The external auditors charged BD 27,550 against the services rendered by them to the Group (BD 9,500 for audit, and BD 18,050 for condensed interim financial information review, PIRFM review, semi-annual and annual PD review, AML report review, ALF review, VAT post implementation services).

Corporate Governance Review continued

Following the resignation of the Head of Internal Audit on 23rd June 2019, the internal audit function was outsourced to Grant Thornton Abdulaal Gulf Audit for the remaining six months ended 31 December 2019. The scope of the internal audit function is approved by the Audit, Compliance & Risk Committee and encompasses audits and reviews of all business operations and support services. The internal audit process focuses primarily on assessing risks and internal controls and ensuring compliance with established policies, procedures and delegated authorities. The internal audit function is independent and reports directly to the Audit, Compliance & Risk Committee. During 2019, BD 7,750 was charged by the outsourced internal auditors against the auditing services rendered to the Group and for performing the semi-annual penetration testing and vulnerability assessment.

10. COMPLIANCE

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

There were no instances of material non-compliance, and no strictures were imposed on the Group by the Central Bank of Bahrain (CBB) or any statutory authority, on any matter during the year. An amount of BHD 50 was paid to the CBB for one open account that was not rectified in the Bahrain Credit Reference Bureau (BCRB).

11. NON-COMPLIANCE WITH HIGH LEVEL CONTROLS MODULE OF CBB RULEBOOK

For the year 2019, the Group is fully compliant with the requirements of the CBB's HC Module, except for the following:

Chairman:

HC-1.4.6 states that the Chairman of the Board should be an independent director and HC-1.4.8 states that the Chairman must not be an Executive Director.

Mr. Talal Kanoo is non-independent Executive Director. However, taking into consideration the business dealings that NFH has with E.K. Kanoo, the Group is of the view that this does not compromise the high standards of corporate governance that the Group maintains, since NFH pursues strict policies to manage conflicts of interest in Board decisions and apply arms-length principle followed by transparent tendering and approval processes.

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

Nomination & Remuneration Committee:

HC-4.2.2 & HC-5.3.2 state that the committee should include only independent directors or, alternatively, only non-executive directors of whom a majority are independent directors and the chairman is an independent director.

Mr. Talal Kanoo, the Chairman of the Group's Nomination & Remuneration Committee is not an independent Executive Director; however, the independence of the decision-making process is not compromised as the majority of the members are independent. Moreover, all Board Members must adhere to the Group's policies including Code of Ethics & Business Conflict and Conflict of Interest Policy, to promote objectivity in decision-making.

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

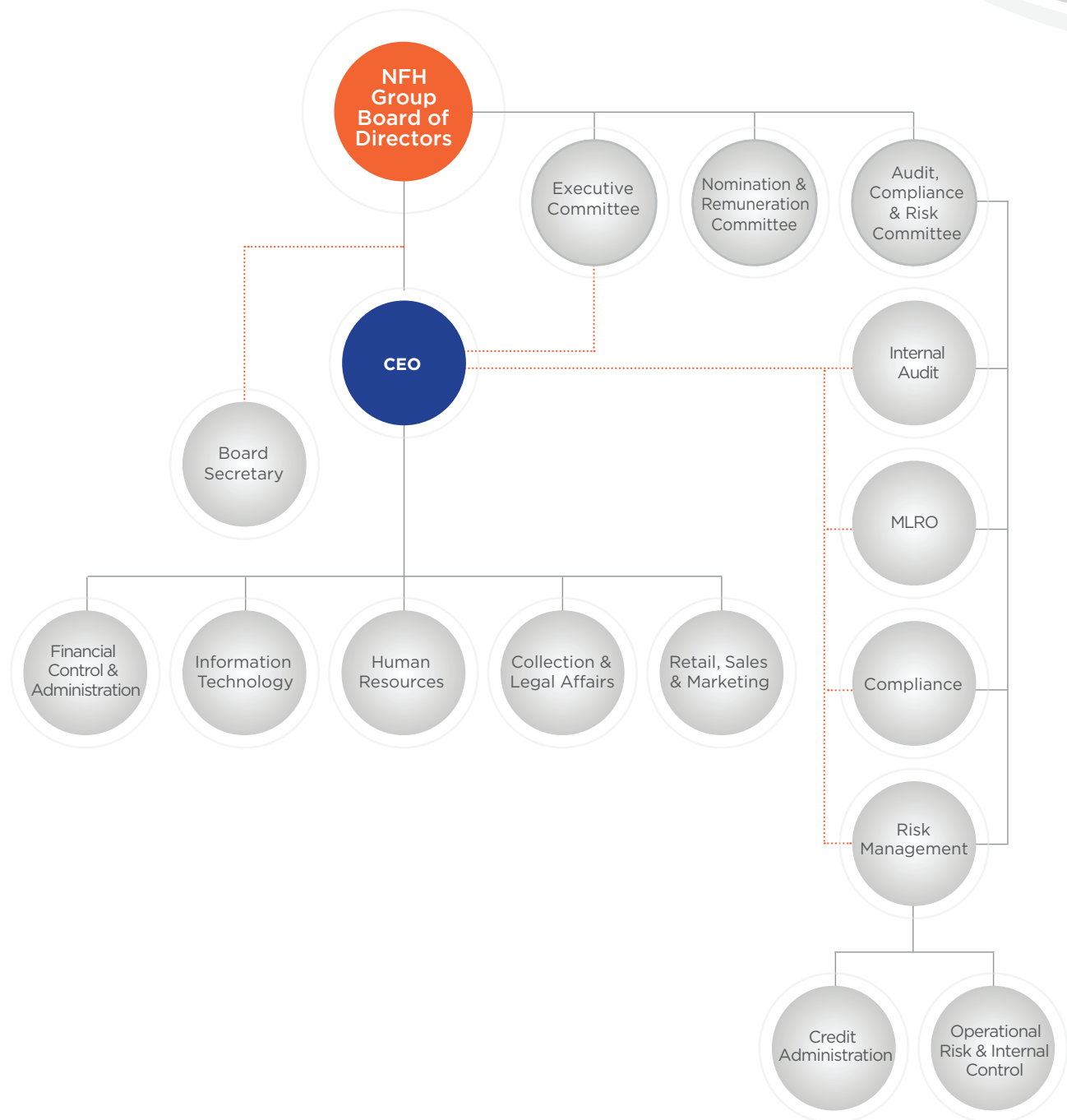
12. ACKNOWLEDGMENT BY THE BOARD OF DIRECTORS

The Board confirms that to the best of its knowledge and belief that:

- The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and other applicable standards and rules;
- The efficiency and adequacy of the internal control systems of NFH have been reviewed and are in compliance with internal rules and regulations;
- The financial statements have been prepared on the going concern basis and there are no material things that affect the continuation of NFH and its ability to continue its operations in the foreseeable future.

Corporate Governance Review continued

GROUP GOVERNANCE AND ORGANISATION STRUCTURE



Corporate Governance Review continued

EXECUTIVE MANAGEMENT

Mohammed Dohadwala

(CFA, CIPM, CAIA)
Chief Executive Officer
Joined NFH in 2019

- ◆ Over 27 years' experience in the banking and financial sector.
- ◆ CFA, CFA Institute, USA
- ◆ CIPM, CFA Institute, USA
- ◆ Chartered Alternative Investment Analyst (CAIA)
- ◆ Islamic Finance Qualification, CISI, UK
- ◆ MBA, Indian Institute of Management, Calcutta (Finance & Marketing)
- ◆ Bachelor of Technology in Mechanical Engineering, Indian Institute of Technology, Bombay
- ◆ 200 Hour Teacher Training, Yogaworks, New York

May Al-Mahmood

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

- ◆ Over 26 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 21 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 17 years' experience in credit and risk management.
- ◆ BSc in Banking & Finance, University of Bahrain.
- ◆ Certification in the Fundamentals of Financial Risk Management (FFRM) and Advance Financial Risk Management (AFRM).
- ◆ Certification in IFS-Accredited Credit Program, UK.
- ◆ Currently pursuing certification in Professional Risk Manager (PRM).

Mahmood Mohammed Fraidoon

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

- ◆ Over 14 years' experience in Information Technology.
- ◆ BSc in Computer & Information System, Gulf University.
- ◆ Certified Information Systems Auditor (CISA) from ISACA, USA.
- ◆ Certified Information Security Manager (CISM) from ISACA, USA.
- ◆ Certified in Risk and Information Systems Control (CRISC) from ISACA, USA.
- ◆ Certified in the Governance of Enterprise IT (CGEIT) from ISACA, USA.
- ◆ Certified Solutions Architect from Amazon Web Services.
- ◆ Certification in Microsoft Certified in System Engineering (MCSE).

Fatima Abdulla Yousif Ali

Human Resources
Joined NFH in 2011

- ◆ Over 32 years of experience in financial and banking sectors and aviation, of which 28 have been spent in the field of human resources.

“

Trust takes years to build,
seconds to break,
and forever to repair.

”

• **Amy Rees**

“

The only way a relationship will last is if you see your relationship as a place that you go to give, and not a place that you go to take.

”

● **Anthony Robbins**

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

31 December 2019

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENT

Opinion

We have audited the accompanying consolidated financial statements of National Finance House B.S.C (c) (the "Company") and its subsidiary (together, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated 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 consolidated financial statements section of our report. We are independent of the Group 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 Report of the Chairman set out on pages 8 to 9.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information,

we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the consolidated financial statements.

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENT.

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 consolidated 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 consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (continued)

31 December 2019

for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report.

However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Report on other regulatory requirements

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

- a) the Company has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
- b) the financial information contained in the chairman's report is consistent with the consolidated financial statements;
- c) we are not aware of any violations during the year of the Commercial Companies Law, the CBB and Financial Institutions Law No. 64 of 2006 (as

amended), the CBB Rule Book (Volume 5, applicable provisions of Volume 6 and CBB directives), or the terms of the Company's memorandum and articles of association that would have had a material adverse effect on the business of the Company or on its financial position; and

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



KPMG Fakhro
Partner Registration No. 213
27 February 2020

Consolidated Statement of Financial Position

as at 31 December 2019 (Bahraini Dinars)

	Note	2019	2018
ASSETS			
Cash and cash equivalents	4	2,912,801	2,281,569
Loans to customers	5	50,740,634	53,097,407
Property and equipment	6	586,643	324,992
Other assets		404,399	370,871
Total assets		54,644,477	56,074,839
LIABILITIES AND EQUITY			
Liabilities			
Bank borrowings	7	37,307,238	38,531,049
Other liabilities	8	2,349,579	3,026,416
Total liabilities		39,656,817	41,557,465
Equity			
Share capital	10	7,500,000	7,500,000
Share premium		112,500	112,500
Statutory reserve		1,196,719	1,089,690
Retained earnings		6,178,441	5,815,184
Total equity (page 39)		14,987,660	14,517,374
Total equity and liabilities		54,644,477	56,074,839

The Board of Directors approved the consolidated financial statements on 27 February 2020 and signed on its behalf by:



Talal Fuad Ebrahim Kanoo
Chairman



Mohammed Farouk Y. Al moayed
Deputy Chairman

The accompanying notes 1 to 16 are an integral part of these consolidated financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2019 (Bahraini Dinars)

	Note	2019	2018
Interest income	11	4,970,614	4,853,463
Interest expense		(2,525,710)	(2,338,090)
Net interest income		2,444,904	2,515,373
Fees and commission income		909,648	1,250,938
Fees and commission expense		(396,802)	(619,172)
Net fee and commission income		512,846	631,766
Other income	12	230,062	136,335
Total income		3,187,812	3,283,474
Salaries and related costs		(990,310)	(1,012,866)
Other operating expenses	13	(677,218)	(701,046)
Depreciation	6	(215,587)	(107,502)
Impairment losses on loans to customers	5	(234,411)	(188,434)
Total expenses		(2,117,526)	(2,009,848)
Profit for the year		1,070,286	1,273,626
Other comprehensive income		-	-
Total comprehensive income for the year		1,070,286	1,273,626
Basic and diluted earnings per share	10	14.27 fils	16.98 fils

The Board of Directors approved the consolidated financial statements on 27 February 2020 and signed on its behalf by:



Talal Fuad Ebrahim Kanoo
Chairman



Mohammed Farouk Y. Al moayed
Deputy Chairman

The accompanying notes 1 to 16 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2019 (Bahraini Dinars)

2019	Share capital	Share premium	Statutory reserve	Retained earnings	Total equity
Balance at 1 January 2019	7,500,000	112,500	1,089,690	5,815,184	14,517,374
Profit and total comprehensive income for the year (page 38)	-	-	-	1,070,286	1,070,286
Dividends declared for 2018	-	-	-	(600,000)	(600,000)
Transfer to statutory reserve	-	-	107,029	(107,029)	-
At 31 December 2019	7,500,000	112,500	1,196,719	6,178,441	14,987,660

2018	Share capital	Share premium	Statutory reserve	Retained earnings	Total equity
At 31 December 2017	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
Profit and total comprehensive income for the year	-	-	-	1,273,626	1,273,626
Dividends declared for 2017	-	-	-	(600,000)	(600,000)
Transfer to statutory reserve	-	-	127,363	(127,363)	-
At 31 December 2018	7,500,000	112,500	1,089,690	5,815,184	14,517,374

The accompanying notes 1 to 16 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2019 (Bahraini Dinars)

	Note	2019	2018
Operating activities			
Interest, fees and commission received		6,073,582	6,104,401
Loans disbursed		(18,573,338)	(25,641,524)
Loan repayments		19,788,937	22,271,355
Payments for staff salaries and related costs		(1,091,967)	(999,339)
Payments for other operating expenses		(1,171,283)	(1,345,628)
Net cash generated from operating activities		5,025,931	389,265
Investing activities			
Deposits with banks		-	2,000,000
Purchase of furniture, fixtures and equipment	6	(143,590)	(198,035)
Sale of furniture, fixtures and equipment		1,360	143
Net cash (used in)/ generated from investing activities		(142,230)	1,802,108
Financing activities			
Drawdown of bank borrowings		15,000,000	11,495,163
Repayment of bank borrowings		(16,223,811)	(10,105,171)
Interest paid		(2,465,363)	(2,238,387)
Dividends paid		(600,000)	(600,000)
Net cash used in financing activities		(4,289,174)	(1,448,395)
Net increase in cash and cash equivalents		594,527	742,978
Cash and cash equivalents at 1 January		2,320,122	1,577,144
Cash and cash equivalents as at 31 December*	4	2,914,649	2,320,122

* Cash and cash equivalents as at 31 December 2019 is gross of the expected credit loss of BD 1,848 (2018: BD38,553).

The accompanying notes 1 to 16 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019 (Bahraini Dinars)

1- REPORTING ENTITY

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

The Company established a wholly owned subsidiary, National Finance House Auto Mall S.P.C ("NFH Auto Mall"), for the purpose of sale/trade of motor vehicles. NFH Auto Mall was registered with the Ministry of Industry, Commerce and Tourism on 19 March 2017 with registration no. 111539-1.

The consolidated financial statements comprise the financial statements of the Company and its subsidiary (together, referred to as the "Group").

2- BASIS OF PREPARATION

a. Statement of compliance

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

b. Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention. The principal accounting policies applied in the preparation of these consolidated financial statements have been consistently applied to all the years presented except as described in note 3 (a).

c. Functional and presentation currency

The consolidated financial statements are presented in Bahraini Dinars, which is also the Group's functional currency.

3- SIGNIFICANT ACCOUNTING POLICIES

a. New standards, amendments and interpretations effective from 1 January 2019:

The Group has applied IFRS 16 with a transition date of 1 January 2019 which resulted in changes in accounting policies and adjustments to the amounts from those previously recognised in the financial statements as at 31 December 2018.

As permitted by the transitional provisions of IFRS 16, the Group elected to use the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported

under IAS 17 'Leases' and IFRIC 4 'Determining whether an arrangement contains a lease'.

Set out below are the details of the specific IFRS 16 accounting policies applied in the current period and the IFRS 16 transition impact disclosures for Group.

(i) Changes in accounting policies

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.

The new definition of a lease under IFRS 16 has been applied for contracts entered into, or changed, on or after 1 January 2019.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019 (Bahraini Dinars)

3- SIGNIFICANT ACCOUNTING POLICIES (Continued)

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
- 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.

Short-term leases and leases of low-value assets:

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.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 to contracts that were previously identified as leases. The impact from the adoption of IFRS 16 as at 1 January 2019 has resulted in an increase in property and equipment by BD 336,365 and an increase in other liabilities by BD 336,365.

The restated depreciation of right-of-use asset is captured within depreciation in the income statement whereas the interest expense on the lease liability is captured within interest expense in the income statement in 2019. In 2018, the lease rentals were included within other operating expenses in the income statement.

b. Basis of consolidation

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

c. Use of estimates and judgments

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019 (Bahraini Dinars)

3- SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Impairment of non-financial assets:

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

Depreciation

The management estimates the useful lives and residual values of furniture, fixture and equipment periodically. Refer to note 3 (i).

d. Interest income and expense

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

e. Fees and commission income and expenses

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

f. Financial assets and liabilities

1) Financial assets

(i) Recognition and initial measurement

The Group initially recognises loans to customers and borrowings from banks on the date that they are originated. All other financial assets and financial liabilities are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

All other financial assets are classified as measured at FVTPL.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019 (Bahraini Dinars)

3- SIGNIFICANT ACCOUNTING POLICIES (Continued)

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment:

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

As at 31 December 2019 the Group did not have any financial assets measured at FVOCI or FVTPL.

Assessment of whether contractual cash flows are solely payments of principal and interest:

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse loans); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

Financial liabilities:

The Group classifies its financial liabilities as measured at amortised cost.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

(iii) Identification and measurement of impairment

The Group recognises loss allowances for ECL on loans to customers, deposits and balances with banks.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019 (Bahraini Dinars)

3- SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD)
- loss given default (LGD)
- exposure at default (EAD)

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

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

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise; or
- it is probable that the borrower will enter bankruptcy or other financial reorganisation.

Presentation of allowance for ECL in the statement of financial position Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For retail customers, the gross carrying amount when the financial asset is 3 years past due is written off based on historical experience of recoveries of similar assets. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019 (Bahraini Dinars)

3- SIGNIFICANT ACCOUNTING POLICIES (Continued)

g. Loans to customers

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

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

h. Property and equipment

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

i. 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

j. Cash and cash equivalents

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

k. Statutory reserve

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

l. Bank borrowings

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

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 Group at the statement of financial position date.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019 (Bahraini Dinars)

4 CASH AND CASH EQUIVALENTS

	2019	2018
Cash in hand	1,500	1,200
Balances with banks	2,913,149	2,318,922
	2,914,649	2,320,122
Less: expected credit loss *	(1,848)	(38,553)
	2,912,801	2,281,569

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

5 LOANS TO CUSTOMERS

(a) Exposure

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

31 December 2018	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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019 (Bahraini Dinars)

5 LOANS TO CUSTOMERS (continued)

2018	Stage 1	Stage 2	Stage 3	Total
At 1 January 2018 (restated)	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

6 PROPERTY AND EQUIPMENT

	Furniture and equipment	Computer software	Computer hardware	WIP	Right-of-use asset	2019 Total	2018 Total
Cost							
At 1 January	419,199	460,528	204,883	184,677	-	1,269,287	1,198,614
Additions/ transitions	13,836	11,992	4,191	113,571	336,365	479,955	198,035
Disposals	(8,803)	(110)	(10,337)	-	-	(19,250)	(127,362)
Transfer from WIP	215,447	59,731	9,302	(284,480)	-	-	-
Reclassification and other adjustments	-	-	-	(3,280)	-	(3,280)	-
At 31 December	639,679	532,141	208,039	10,488	336,365	1,726,712	1,269,287
Depreciation							
At 1 January	403,694	344,873	195,728	-	-	944,295	926,273
Charge for the year	40,961	83,514	7,708	-	83,404	215,587	107,502
Disposals	(8,803)	(73)	(10,337)	-	-	(19,213)	(89,480)
Reclassification and other adjustments	-	(600)	-	-	-	(600)	-
At 31 December	435,852	427,714	193,099	-	83,404	1,140,069	944,295
Net book value							
At 31 December 2019	203,827	104,427	14,940	10,488	252,961	586,643	
At 31 December 2018	15,505	115,655	9,155	184,677	-		324,992

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019 (Bahraini Dinars)

7 BANK BORROWINGS

	2019	2018
Repayable within one year	10,018,456	16,423,808
Repayable after one year	27,288,782	22,107,241
	37,307,238	38,531,049

These are term loans with floating interest rates, which are subject to re-pricing on a monthly, quarterly, or on half-yearly basis. The effective interest rate on borrowings was within the range of 4.51% to 7.41% p.a. (2018: 4.99% to 7.41% p.a.). Of the total borrowings, BD 35 million (2018: BD 31 million) is secured by assignment of customer loans.

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

	2019	2018
At 1 January	38,531,049	37,141,057
Proceeds from bank borrowings	15,000,000	11,495,163
Repayment of bank borrowings	(16,223,811)	(10,105,171)
At 31 December	37,307,238	38,531,049

8 OTHER LIABILITIES

	2019	2018
Payable to agents for vehicles financed	1,619,075	2,525,838
Payable for insurance companies	31,892	55,427
Lease liability	259,279	-
Accrued expenses	439,333	445,151
	2,349,579	3,026,416

Maturity analysis of contractual undiscounted cash flows:

	2019
Less than 1 year	92,688
1 to 3 years	187,428
Total undiscounted lease payments	280,116

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019 (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 Group.

Related party transactions	2019	2018
Capital expenditure		
Furniture and equipment and WIP (Shareholder)	108,423	131,926
Operating income		
Insurance commission - Motor vehicles (Shareholder)	40,771	41,399
Operating expenses		
Auto Mall purchases of vehicles (shareholders)	314,006	-
Insurance premium charges (Shareholders)	203,983	198,799
Call centre charges (Shareholder)	10,500	18,000
Salesman commission (Shareholders)	58,015	104,791
Other operating expenses (Shareholders)	51,632	28,504
Related party balances	2019	2018
Payable for vehicles financed (Shareholders)	1,071,798	1,095,984
Payable for insurance premiums (Shareholders)	31,892	55,427
Prepaid expenses (Shareholders)	19,678	14,382
Payable of salesman commission (Shareholders)	5,975	11,658
Payable for operating and capital expenditure (Shareholders)	15,429	-
Receivable of insurance agency commission (Shareholders)	4,011	8,058

Transactions with key management personnel

Key management personnel of the Group comprise the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group. The key management personnel compensation (including staff loan) is as follows:

	2019	2018
Key management compensation	292,084	358,737
Board of Directors remuneration and committee attendance allowances	100,730	82,291
Staff loan	-	12,600

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019 (Bahraini Dinars)

9 RELATED PARTY TRANSACTIONS (continued)

Balances with key management personnel

	2019	2018
Staff loan	531	11,518

Certain transactions were approved by the Board of Directors under Article 189 (b) of the Commercial Companies Law in the financial year ended 31 December 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.

10 SHARE CAPITAL

	2019	2018
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	14.27 fils	16.98 fils

The earning per share is calculated by dividing the net income of BD 1,070,286 (2018: BD 1,273,626) by the number of shares outstanding at the end of the year of 75 million shares (2018: 75 million shares). Diluted earnings per share is same as basic earnings per share as the Group does not have any potential dilutive instruments in issue.

The Board of Directors proposed a cash dividend of 8% (2018: 8%) of the paid-up capital. This amounts to BD 600,000 (2018: BD 600,000).

In addition, the Board of Directors proposed BD 19,000 (2018: BD 22,000) as Board of Directors' remuneration.

11 INTEREST INCOME

	2019	2018
Interest on loans to customers	4,967,399	4,832,363
Interest on bank term deposits	3,215	21,100
	4,970,614	4,853,463

12 OTHER INCOME

Other income includes recoveries of BD 179,052 (2018: BD 122,683) from loans written off in the prior years, profit from sales of automotive and miscellaneous income.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019 (Bahraini Dinars)

13 OTHER OPERATING EXPENSES

	2019	2018
Office expenses	333,081	308,037
Computer maintenance and support expenses	78,100	82,939
Rent	10,578	97,166
Legal and professional charges	102,899	74,021
Communication expense	52,171	50,291
Advertising and publicity expense	41,341	49,926
Board of directors' remuneration	19,000	22,000
Printing and stationery expense	12,946	16,666
Net impairment of other assets	27,102	-
	677,218	701,046

14 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Risk management framework and overview

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

Financial instruments comprise of financial assets and financial liabilities. Financial assets of the Group consist of cash and cash equivalents, loans to customers and other assets. Financial liabilities of the Group consist of bank borrowings and other liabilities. Accounting policies in respect of financial assets and financial liabilities are set out in Note 3.

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

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

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

Credit risk

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019 (Bahraini Dinars)

14 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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

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

All loans are with local individuals (retail) and locally incorporated entities. The credit risk on these loans is actively managed and rigorously monitored in accordance with well-defined credit policies and procedures.

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

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

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:

	2019	2018
Balances with banks	2,911,301	2,280,369
Loans to customers	50,740,634	53,097,407
	53,651,935	55,377,776

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019 (Bahraini Dinars)

14 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Concentration of credit risk

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

	2019	2018
Concentration by sector		
Corporate	13,291,700	13,136,755
Retail	37,448,934	39,960,652
Financial institutions	2,911,301	2,280,369
	53,651,935	55,377,776

Monitoring of credit risk

Generating the term structure of PD

Ageing buckets based on days past due ("Ageing buckets") are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by ageing buckets.

The Group employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default.

Based on consideration of a variety of external actual and forecast information, the Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The Group then uses these forecasts to adjust its estimates of PDs.

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

Using its expert credit judgement and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is equal or more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer.

An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019 (Bahraini Dinars)

14 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

The Group renegotiates loans to customers in financial difficulties (referred to as ‘forbearance activities’) to maximise collection opportunities and minimise the risk of default. Under the Group’s forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy.

For financial assets modified as part of the Group’s forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Group’s ability to collect interest and principal and the Group’s previous experience of similar forbearance action. As part of this process, the Group evaluates the borrower’s payment performance against the modified contractual terms and considers various behavioral indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behavior over a period of 12 months before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on economic experts and consideration of a variety of external actual and forecast information. The Group formulates a ‘base case’ view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome.

Key macro-economic indicators include: Oil price, Consumers purchase index (CPI), Real GDP growth, Real interest rate (RIR), Unemployment rate, Domestic credit growth, Central Government revenue as percentage of GDP and Central Government expenditure as percentage of GDP.

The base case represents a most-likely outcome and is aligned with information used by the Group for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes.

Significant increase in credit risk

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019 (Bahraini Dinars)

14 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

The Group's credit risk profile based on ageing by sector / counterparty is as follows:

All loans are domestic and are granted to borrowers within the Kingdom of Bahrain.

2019

A. Corporate loans

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

B. Retail loans

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019 (Bahraini Dinars)

14 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

2018

C. Corporate loans	Stage 1	Stage 2	Stage 3	Total
Current	12,425,392	12,583	48,609	12,486,584
Past Due Loans:				
1 - 29 days	296,188	6,471	24,177	326,836
30 - 59 days	-	119,170	102,310	221,480
60 - 89 days	-	105,692	110,445	216,137
90 days - 1 year	-	-	270,941	270,941
1 year - 3 years	-	-	328,377	328,377
More than 3 years	-	-	-	-
Gross carrying value	12,721,580	243,916	884,859	13,850,355
Expected credit loss	67,650	40,059	605,891	713,600
Net carrying value	12,653,930	203,857	278,968	13,136,755

D. Retail loans

Current	37,595,181	63,852	209,853	37,868,886
Past Due Loans:				
1 - 29 days	957,363	-	24,605	981,968
30 - 59 days	-	719,883	130,842	850,725
60 - 89 days	-	268,684	171,477	440,161
90 days - 1 year	-	-	549,646	549,646
1 year - 3 years	-	-	562,346	562,346
More than 3 years	-	-	8,942	8,942
Gross carrying value	38,552,544	1,052,419	1,657,711	41,262,674
Expected credit loss	172,123	130,393	999,506	1,302,022
Net carrying value	38,380,421	922,026	658,205	39,960,652

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

Non-performing exposure:

The Group has systems and procedures in place to generate alerts in case of past dues in any account. A stringent classification process is followed for all accounts with past dues of over 90 days.

Loans that are "past due below 90 days but not impaired" are those for which contractual interest and principal payments are past due but the Group believes that 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 Group. As at 31 December 2019, loans past due below 90 days but not impaired amounted to BD 2,453,793 (2018: BD 2,473,451).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019 (Bahraini Dinars)

14 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

As at 31 December 2019, loans amounting to BD 35,198 (2018: BD 71,384) were restructured and due to the minor nature of the restructuring concession, there was no significant impact on the Group's provisions on loans and advances impairment and present and future earnings. The Group renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms. The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Group Audit, Compliance and Risk Committee regularly reviews reports on forbearance activities.

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

The Group holds collateral against loans to customers in the form of mortgage interests over vehicles financed. In case of loans granted using hire purchase contracts, the vehicles financed are solely registered in the name of the Group and hence they are considered more secured. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Percentage of credit exposure (loans to customers) that is subject to collateral requirements was 103%, (2018: 107%) the principal type of collateral is the vehicle financed. As of 31 December 2019, loans include hire purchase contracts of BD 21,893,239 (2018: BD 21,614,374) representing 42% (2018: 39%) of the total portfolio.

As at 31 December 2019 total non-performing loans (excluding BD 986,474 (2018: BD 822,318) of non-performing loans in cooling off period and those less than 90 days past due) were BD 1,924,373 (2018: BD 1,720,252). Interest on non-performing loans is suspended and is not recognised in the profit and loss until the interest is recovered from the borrower or the loan is upgraded after restructuring. In accordance with the Central Bank of Bahrain guidelines, loans that have been classified as non-performing should remain classified as non-performing for a cooling off period of not less than 1 year from the date of becoming performing.

During the year ended 31 December 2019, the average gross credit exposure for cash and balances with banks is BD 2,265,676 (2018: BD 2,210,386), deposits with banks is BD Nil (2018: BD 500,000) and loans and advances to customers is BD 51,508,429 (2018: BD 50,704,299). Such amounts are calculated based on the average of monthly results.

Liquidity risk

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

Management of liquidity risk

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

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

The liquidity position of the Group is monitored by the Chief Executive Officer and Financial Controller. Surplus and deficit of short- and long-term positions of the Group are managed as appropriate by the Finance Department. The Group ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme. The contractual maturities of financial liabilities, including interest payments is set out below. This shows the undiscounted cash flows on the Group's financial liabilities on the basis of their earliest possible contractual maturity.

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For the year ended 31 December 2019 (Bahraini Dinars)

14 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

31 December 2019	Carrying amount	Contractual cash flows	6 months or less	6 to 12 months	More than 12 months
Bank borrowings	37,307,238	42,377,933	6,096,990	5,888,571	30,392,372
Accounts payable	1,650,967	1,650,967	1,650,967	-	-
	38,958,205	44,028,900	7,747,957	5,888,571	30,392,372
31 December 2018	Carrying amount	Contractual cash flows	6 months or less	6 to 12 months	More than 12 months
Bank borrowings	38,531,049	43,308,448	6,998,083	11,550,593	24,759,772
Accounts payable	2,581,265	2,581,265	2,581,265	-	-
	41,112,314	45,889,713	9,579,348	11,550,593	24,759,772

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 Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. The principal market risk to which the Group is exposed is interest rate risk with its asset and liability management activities.

Interest rate risk

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

31 December 2019	Fixed rate	Floating rate	Non-interest bearing	Total
Cash and cash equivalents	-	-	2,912,801	2,912,801
Loans to customers	50,740,634	-	-	50,740,634
Other assets	-	-	404,399	404,399
	50,740,634	-	3,317,200	54,057,834
Bank borrowings	-	37,307,238	-	37,307,238
Other liabilities	-	-	2,349,579	2,349,579
	-	37,307,238	2,349,579	39,656,817
31 December 2018	Fixed rate	Floating rate	Non-interest bearing	Total
Cash and cash equivalents	-	-	2,281,569	2,281,569
Loans to customers	53,097,407	-	-	53,097,407
Other assets	-	-	370,871	370,871
	53,097,407	-	2,652,440	55,749,847
Bank borrowings	-	38,531,049	-	38,531,049
Other liabilities	-	-	3,026,416	3,026,416
	-	38,531,049	3,026,416	41,557,465

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For the year ended 31 December 2019 (Bahraini Dinars)

14 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2019.

	Profit or loss		Equity	
	100 bp increase	100 bp decrease	100 bp Increase	100 bp decrease
31 December 2019				
Bank borrowings	(389,058)	389,058	(389,058)	389,058
31 December 2018				
Bank borrowings	(380,942)	380,942	(380,942)	380,942

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

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

	Carrying amount	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Non-interest bearing
31 December 2019							
Cash and cash equivalents	2,912,801	-	-	-	-	-	2,912,801
Loans to customers	50,740,634	3,269,426	3,822,250	7,231,127	35,529,778	888,053	-
Other assets	404,399	-	-	-	-	-	404,399
	54,057,834	3,269,426	3,822,250	7,231,127	35,529,778	888,053	3,317,200
Bank borrowings	37,307,238	2,557,087	2,487,123	4,974,246	25,556,882	1,731,900	-
Other liabilities	2,349,579	-	-	-	-	-	2,349,579
	39,656,817	2,557,087	2,487,123	4,974,246	25,556,882	1,731,900	2,349,579

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019 (Bahraini Dinars)

14 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

	Carrying amount	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Non-interest bearing
31 December 2018							
Cash and cash equivalents	2,281,569	-	-	-	-	-	2,281,569
Loans to customers	53,097,407	3,022,640	3,947,405	7,521,447	37,420,542	1,185,373	-
Other assets	370,871	-	-	-	-	-	370,871
	55,749,847	3,022,640	3,947,405	7,521,447	37,420,542	1,185,373	2,652,440
Bank borrowings	38,531,049	2,817,294	3,017,298	10,589,216	21,786,541	320,700	-
Other liabilities	3,026,416	-	-	-	-	-	3,026,416
	41,557,465	2,817,294	3,017,298	10,589,216	21,786,541	320,700	3,026,416

Currency risk

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

Fair value

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

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

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

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

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

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

Operational risks

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

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019 (Bahraini Dinars)

14 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit.

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

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

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

Legal Contingencies risk

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

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

Classification of financial assets and financial liabilities

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

Capital management

The Central Bank of Bahrain sets and monitors capital requirements for the Group. According to the terms of the license granted by the Central Bank of Bahrain, the Group is required to maintain a minimum paid-up capital of BD 5,000,000 and the borrowings may not exceed five times the capital and reserves (shareholders equity). As on 31 December 2019, Group's paid up share capital was BD 7,500,000 (2018: BD 7,500,000) and the borrowing to capital and reserves ratio was 2.49 (2018: 2.65).

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019 (Bahraini Dinars)

15 MATURITY PROFILE

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

31 December 2019	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	5 to 10 years	Total
Assets						
Cash and cash equivalents	2,912,801	-	-	-	-	2,912,801
Loans to customers	3,269,426	3,822,250	7,231,127	35,529,778	888,053	50,740,634
Other assets	404,399	-	-	-	-	404,399
	6,586,626	3,822,250	7,231,127	35,529,778	888,053	54,057,834
Liabilities						
Bank borrowings	2,557,087	2,487,123	4,974,246	26,938,382	350,400	37,307,238
Other liabilities	2,110,226	20,190	41,131	178,032	-	2,349,579
	4,667,313	2,507,313	5,015,377	27,116,414	350,400	39,656,817
31 December 2018	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	5 to 10 years	Total
Assets						
Cash and cash equivalents	2,281,569	-	-	-	-	2,281,569
Loans to customers	3,022,640	3,947,405	7,521,447	37,420,542	1,185,373	53,097,407
Other assets	370,871	-	-	-	-	370,871
	5,675,080	3,947,405	7,521,447	37,420,542	1,185,373	55,749,847
Liabilities						
Bank borrowings	2,817,294	3,017,298	10,589,216	21,786,541	320,700	38,531,049
Other liabilities	3,026,415	-	-	-	-	3,026,415
	5,843,709	3,017,298	10,589,216	21,786,541	320,700	41,557,464

The expected credit loss of BD 1,911,745 (2018: BD 2,015,622) has been netted against the cash flows expected within 3 months.

16 COMPARATIVES

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