

Maintaining the *momentum*

ANNUAL REPORT 2015

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

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His Royal Highness Prince
Khalifa Bin Salman
Al Khalifa

The Prime Minister of
the Kingdom of Bahrain



His Majesty King
Hamad Bin Isa
Al Khalifa

The King of
the Kingdom of Bahrain



His Royal Highness Prince
Salman Bin Hamad
Al Khalifa

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



Maintaining the *momentum*

Despite challenging market conditions for most of 2015, NFH was successful in maintaining the positive momentum of recent years. Key achievements include posting record financial results, achieving continued business growth, introducing new customer service initiatives, and further strengthening the operating infrastructure.

Company Profile

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

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

Vision, Mission and Values

OUR VISION

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

OUR MISSION

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

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

VALUES

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

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

Shareholders

Kingdom of Bahrain

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

Sultanate of Oman

Oman International Development
and Investment Company

Kingdom of Saudi Arabia

Almutlaq Group

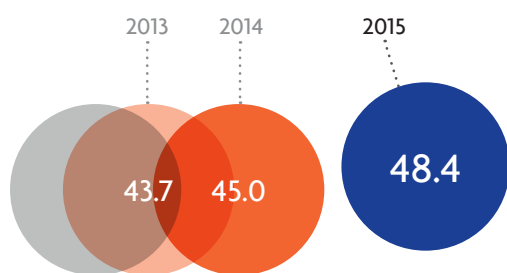
2015 at a Glance

DESPITE HIGHLY COMPETITIVE MARKET CONDITIONS DURING THE YEAR, NFH POSTED A RECORD NET PROFIT OF BD 1.18 MILLION AND ACHIEVED 9% NET GROWTH IN VEHICLE FINANCING

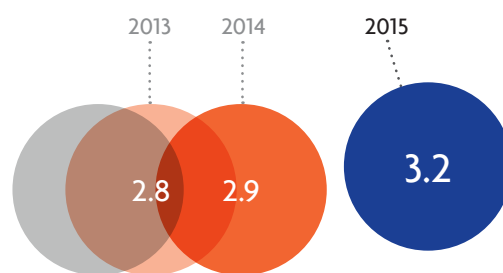
- New vehicle registrations in Bahrain in line with 5-year average
- Disbursed higher number of loans valued at BD 21.67 million
- Loan book grew by 6% to BD 45.83 million
- Market share of vehicle financing increased to 12.4%
- Implemented new core banking system
- Commissioned new customer relationship management system
- Vendor appointed for implementing Bahrain Electronic Funds Transfer System
- Achieved customer satisfaction rating of 97.4%
- Maintained headcount at 47 with 96% Bahraini nationals
- Introduced new Staff Savings Scheme
- Complied with latest regulatory requirements from the Central Bank of Bahrain appointed as Money Laundering Reporting Officer
- Head of Risk appointed MLRO
- Reviewed and updated all Company policies and procedures

Financial Highlights

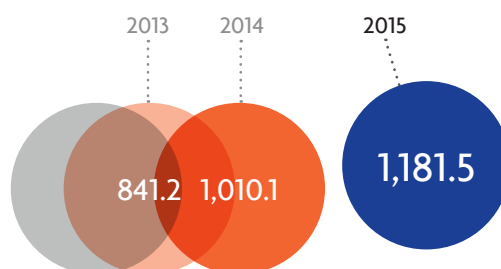
(Bahraini Dinars)	2015	2014	2013	2012	2011
Total Assets	48,357,282	45,031,442	43,662,983	40,290,522	33,420,011
Total Liabilities	35,167,644	32,573,306	31,839,926	28,933,694	22,785,135
Total Equity	13,189,638	12,458,136	11,823,057	11,356,828	10,634,876
Total Income	3,170,091	2,928,248	2,796,647	2,510,739	2,259,991
Profit for the Year	1,181,502	1,010,079	841,229	721,952	801,015
Share Capital	7,500,000	7,500,000	7,500,000	7,500,000	7,500,000



Total Assets
(BD millions)



Total Income
(BD millions)



Profit for the Year
(BD thousands)

Board of Directors



Farouk Yousuf Khalil Almoayyed

Chairman, Non-Independent Non-Executive, Chairman of Remuneration & Nomination Committee
Appointed to the Board in 2006

Chairman:

Y. K. Almoayyed & Sons, Bahrain
Y. K. Almoayyed & Sons Properties Co.,
Bahrain
Almoayyed International Group, Bahrain
National Bank of Bahrain, Bahrain
Bahrain National Holding Company, Bahrain
Bahrain Duty Free Shop Complex, Bahrain

Gulf Hotels Group, Bahrain
Ahlia University, Bahrain
Ashrafs, Bahrain

Member of Board of Directors:
Investcorp Bank, Bahrain



Fuad Ebrahim Kanoo

Deputy Chairman, Non-Independent Non-Executive
Appointed to the Board in 2006

Vice Chairman:

Ebrahim Khalil Kanoo Group, Bahrain

Member of Board of Directors:

Trafco Group BSC, Bahrain
Bahrain Water Bottling & Beverages Co. SPC, Bahrain



Al Sayyida Rawan Ahmed Al-Said

Non-Independent Non-Executive Director, Member of Audit & Corporate Governance Committee
Appointed to the Board in 2008

Managing Director & CEO

Takaful Oman Insurance SAOG, Oman

Chairperson

Al Kawther Fund (Islamic Compliant
Fund), Oman
Oman Investment Corporation SAOC, Oman
National Equity Fund (NEF), Oman
Oman GCC Equity Fund, Oman

Deputy Chairperson

Takaful Oman Insurance SAOG, Oman

Member of Board of Directors

National Bank of Oman, Oman
Oman National Investment Development
Company Holding (TANMIA) SAOG, Oman
Oman Oil Company, Oman
National Investment Funds Company, Oman
Public Authority for SME Development, Oman
International General Insurance (IGI), Jordan
Ministry of Justice - Investment Committee of
Orphans & Incapacitated Funds, Oman



Mohammed Farouk Almoayyed

Non-Independent Executive Director, Member of Executive Committee
Appointed to the Board in 2006

Vice Chairman & Managing Director

Almoayyed International Group, Bahrain

Member of Board of Directors

Y.K. Almoayyed & Sons, Bahrain
Almoayyed Contracting Group, Bahrain
Bahrain Economic Development Board,
Bahrain
The Bahrain Chamber of Commerce &
Industry, Bahrain

Bahrain Maritime and Mercantile International
(BMMI), Bahrain

Banader Hotels Company BSC, Bahrain
Lanterns Lounge WLL, Bahrain
Mirai Restaurant WLL, Bahrain
Global Sourcing and Supply Holding (GSS)
SPC, Bahrain

Bayader Company for Restaurant
Management SPC, Bahrain



Talal Fuad Kanoo

Non-Independent Executive Director, Chairman of Executive Committee
Appointed to the Board in 2006

Director

Ebrahim Khalil Kanoo Group Corporate Services, Bahrain

Chairman

Al Ahli Club, Bahrain

Member of Board of Directors

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



Sameer Ebrahim Al Wazzan

Non-Independent Executive Director, Member of Executive Committee
Appointed to the Board in 2014

Chief Executive Officer

Bahrain National Holding Company, Bahrain

Member of the Board of Directors

United Insurance Company, Bahrain
Al Kindi Specialized Hospital, Bahrain

iAssist Middle East W.L.L., Bahrain

Bahrain Insurance Association, Bahrain

Motor Vehicle Compensation Fund, Bahrain

Arabian Shield Insurance Cooperative, KSA

Doha Bank Assurance Company, Qatar



Khalid Shaheen Saqer

Independent Non-Executive Director, Vice Chairman of Executive Committee, Member of Audit & Corporate Government Committee, Member of Remuneration & Nomination Committee
Appointed to the Board in 2011

Member of Board of Directors, Member of Audit Committee

BFC Group Holdings, Bahrain

Member of Board of Directors, Member of the Executive Committee

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

Member of the Disciplinary Board

Bahrain Bourse

Founder

Hermes Consulting S.P.C., Bahrain

Executive Chairman

Khalid Shaheen & Sons Trading Co. WLL, Bahrain

Fellow

Institute of Directors, UK



Kalyan Sunderam

MBA, CFA, PRM & ACIB

Independent Non-Executive Director, Chairman of Audit & Corporate Governance Committee
Member of Remuneration & Nomination Committee
Appointed to the Board in 2012

Advisor to the CEO

First Energy Bank, Bahrain

Vice Chairman Education Committee

Professional Risk Managers' International Association, USA

Chairman's *Statement*

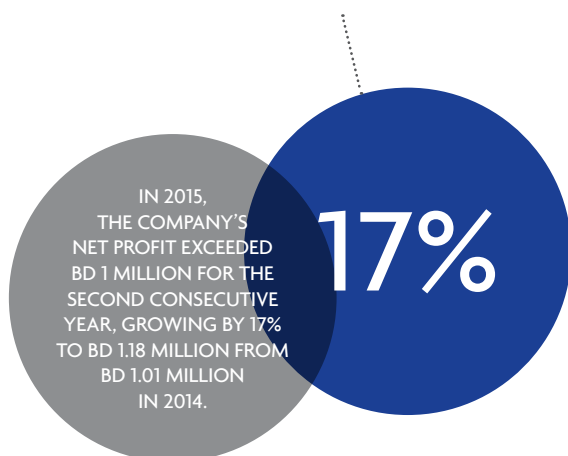
ON BEHALF OF THE BOARD OF DIRECTORS, IT IS MY PRIVILEGE TO PRESENT THE FINANCIAL STATEMENTS OF NATIONAL FINANCE HOUSE (NFH) FOR THE YEAR ENDED 31 DECEMBER 2015. DESPITE INCREASINGLY VOLATILE MARKET CONDITIONS, WE WERE SUCCESSFUL IN MAINTAINING THE POSITIVE MOMENTUM OF RECENT YEARS.



Farouk Yousuf Khalil Almoayyed
Chairman of the Board

I am therefore delighted to report that 2015 was marked by record financial results, continued business growth, and further strengthening of the Company's support and control infrastructure.

NFH posted another record financial performance in 2015, with net profit growing to a new high of BD 1.18 million from BD 1.01 million the previous year. Total operating income increased to BD 3.17 million compared with BD 2.93 million in 2014, with basic and diluted earnings per share increasing to Bahraini fils 15.7 (2014: 13.5 fils). At the end of 2015, shareholders' equity had risen to BD 13.19 million (2014: BD 12.46 million), resulting in an improved return on average equity of 9.2 per cent (2014: 8.3 per cent). Total operating expenses increased to BD 1.99 million (2014: BD 1.92 million), primarily due to increased depreciation cost related to the new core system implementation, and introduction of a Staff Saving Scheme. At the end of the year, total assets had increased to BD 48.36 million from BD 45.03 million at the end of 2014.



Based on the Company's 2015 financial results, the Board of Directors is proposing a cash dividend of 7 per cent of the paid-up capital (BD 525 thousand) out of retained earnings, subject to approval by the Shareholders at the Annual General Meeting to be held on 24 February 2015.

Despite the market remaining highly competitive in 2015, NFH achieved an increased net growth in vehicle financing of 9 per cent. The value of disbursed loans grew to BD 21.67 million, and market share rose to 12.4 per cent. At the end of the year, the total loan book stood at BD 45.8 million compared with BD 43.2 million at the end of 2014.

A key development during the year was the implementation of the Company's new core banking system. This provides NFH with a highly-robust support and control infrastructure, which is a vital factor in supporting current activities, and future growth and development. The Company also continued to invest in the training and development of

its staff, together with enhancing employee benefits. The provision of rewarding career opportunities for Bahraini nationals, who comprise 96 per cent of the workforce, remains a key priority.

NFH further strengthened its corporate governance and risk management frameworks in 2015, to ensure ongoing compliance with the regulatory requirements. In the light of volatile market conditions, all Company policies and procedures were comprehensively reviewed and updated.

During the year, there were changes to the composition of the Board of Directors with Mr. Bader Abdulmohsin Almutlaq resigning from the Board. I take this opportunity to thank Mr. Almutlaq for his valuable contribution to the Company since 2012.

Looking ahead, we expect 2016 to be a particularly challenging year, marked by tougher market conditions and a more volatile economic environment. Key factors include declining oil prices, uncertain global economic growth, and rising regional geo-political tensions. Like its GCC counterparts, Bahrain has begun to introduce measures to reduce government expenditure and minimise the impact of lower oil revenues on its fiscal budget.

Given this scenario, NFH will undoubtedly find it challenging to maintain the levels of profitability achieved in the previous two years. However, the Board has full confidence in Management's ability to address all future challenges, and identify opportunities for sustaining the Company's business activities and protecting its market share.

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

I take this opportunity to extend my appreciation to our shareholders for their financial support and unwavering confidence; and to our customers and business partners for their enduring trust and loyalty. Finally, I acknowledge the continued hard work and commitment of our management and staff during 2015.

Farouk Yousuf Khalil Almoayyed
Chairman of the Board

Chief Executive Officer's Report

I am delighted to report that 2015 proved to be another successful year for NFH, highlighted by a number of notable business and operational achievements. These include growing the Company's revenues and market share in Bahrain's highly-competitive vehicle financing sector, and further strengthening our institutional capability.

The record financial results by NFH in 2015 illustrate our success in continuing to grow the business, marked by a net growth of 9 per cent in vehicle financing activities, and market share increasing to 12.4 per cent. Given the growing intensity of competition throughout the year, and more challenging economic and market conditions during the second six months, this constitutes a significant achievement. A key factor in our success continues to be the enduring relationships that we have established with our customers and business partners.

The Company's key competitive differentiator is an unrelenting commitment to the highest levels of customer service, including speed of processing loan applications, rather than competing on price. It is therefore extremely encouraging that our customers rated their satisfaction at 97.4 per cent in 2015, which is on par with the highest rating achieved to date. We continued to improve the 'customer experience' with the introduction of a number of new initiatives, which were enabled by the successful



implementation of the Company's new core banking system (CBS) supported by a Customer Relationship Management (CRM) system that will further enhance customer satisfaction and retention rates.

The new system has significantly strengthened the Company's operating infrastructure by integrating, centralising and automating all aspects of the business, both front and back office. This has enabled greater accuracy, control, security and speed of processing; while providing measurable benefits in terms of enhanced productivity, efficiency and customer service; together with the provision of timely information to management for improved decision making.

As a services-oriented business, we regard our people as the Company's most important assets. We continued to invest in training and development, and also enhanced employee benefits with the introduction of a new Staff Savings Scheme. Importantly, we continued to make good progress in evolving NFH into a performance-oriented organisation, with measurable goals being used as part of annual staff appraisals. In addition, the validity of our succession planning policy was reinforced during the year, with the vacancy of IT Manager being filled internally.

We took steps to further strengthen our corporate governance and risk management control frameworks in 2015. A key development was Board approval for the comprehensive update of all Company policies and procedures, which were reviewed in the light of current regulatory requirements and market conditions.

Looking to the future, we are fully aware that 2016 will be a very challenging and volatile year. Government fiscal measures to offset the dramatic fall in oil prices – now at their lowest level since the financial crisis – are likely to affect corporate sentiment and consumer spending. We are entering a new and uncertain economic order, but our achievements in 2015 and the measures we have introduced over the past few years to transform NFH, will serve to minimise any impact on our business.

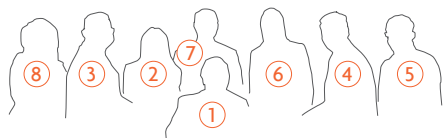
In conclusion, I would like to thank our Board of Directors for its continued encouragement, support and counsel. I also pay tribute to the positive attitude and performance of our management and staff in maintaining the momentum during 2015.

Venkatachalam PS
Chief Executive Officer

Management Team



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



ENHANCING CUSTOMER SERVICE

SUPERIOR CUSTOMER SERVICE CONTINUES TO ACT AS A KEY COMPETITIVE DIFFERENTIATOR FOR NFH. DURING 2015, THE COMPANY CONTINUED TO IMPROVE THE 'CUSTOMER EXPERIENCE' WITH A NUMBER OF NEW INITIATIVES, WHICH WERE ENABLED BY IMPLEMENTATION OF THE NEW CORE BANKING SYSTEM. THESE INCLUDE FASTER LOAN APPLICATION PROCESSING, IMPROVED REAL-TIME FUNCTIONALITY FOR ONLINE PAYMENT TRANSACTIONS; AND A MORE PERSONAL AND RESPONSIVE SERVICE THROUGH A NEW CUSTOMER RELATIONSHIP MANAGEMENT SYSTEM.



Review of Operations

RETAIL & MARKETING

Vehicle Financing

Despite intensified competition, NFH achieved a 9 per cent net growth in vehicle financing for 2015, disbursing a higher number of loans valued at BD 21.7 million, and exceeding annual business targets. The majority of loans were for the purchase of cars by individuals, with heavy vehicle and construction equipment financing remaining flat. As a result of this business growth, NFH's market share increased to 12.4 per cent. New vehicle registrations in the Kingdom of Bahrain during 2015 were in line with the average for the past five years.

The Company's service desks at the Toyota, Nissan and Majestic car showrooms continued to perform strongly, providing finance for the majority of new vehicle sales. NFH considers this differentiating approach to be more cost-effective and customer-convenient than opening additional new branches. The performance of the newly-established Sales team that addresses the fleet financing requirements of large companies, exceeded expectations.

Marketing

Marketing activities in 2015 included the traditional promotional campaign during the Holy Month of Ramadan, which surpassed the business record set the previous year. NFH also continued its programme of special offers for employees of some of Bahrain's major local companies and public sector organisations. Importantly, the Company continued to benefit from word-of-mouth referrals by satisfied customers, which constitutes one of the most effective forms of marketing. The new customer relationship management (CRM) system, which was implemented during the year, will facilitate a more sophisticated and targeted approach to marketing.



CUSTOMER SERVICE

Superior customer service and loan processing times continue to act as key competitive differentiators for NFH. During 2015, the Company continued to improve the 'customer experience' with a number of new initiatives. The new core banking system (CBS) provides a range of improved customer-oriented benefits, such as faster loan application processing, improved real-time functionality for online payment transactions; and a more personal and responsive service through a new customer relationship management (CRM) system.

In addition, plans were finalised for the launch of special applications for mobile devices, which are expected to be introduced in 2016. The agreement with Ahli United Bank to enable customers to make loan repayments through its branch network continued to prove popular, with more customers utilising this service during the year. The planned implementation by NFH of the new Electronic Funds Transfer System (EFTS) launched in 2015 by the Central Bank of Bahrain and The Benefit Company, will provide greater convenience for customers in making payments on time.

The very high level of satisfaction by NFH customers was maintained during the year. The annual Call Centre report for 2015, which logs the results of regular telephone calls to new and existing customers by Customer Service staff, showed that customers rated their satisfaction with the service received from NFH at 97.4 per cent, which remained on par with the highest ratings achieved to date by the Company.

COLLECTIONS

Collections improved in 2015, contributing to the ongoing reduction in delinquency rates; and with the ratio of non-performing loans (NPLs) to gross loans reducing to 3.26 per cent compared with 3.37 percent the previous year. A key success factor continued to be the quality of underwriting, supported by strengthened credit criteria, and an effective and efficient mechanism for monitoring the lending function. The focus on cash collections was maintained in preference to restructuring or rescheduling loans; while the number of legal actions, which are only taken as a last resort, reduced during the year. Adopting a proactive approach to managing existing and potential defaults, NFH provided business advisory services to its customers, and further extension of credit to alleviate more promising problem loans.

CREDIT ADMINISTRATION

During 2015, the Company's credit administration policy and procedures manual was reviewed and revised; and credit criteria were further strengthened in line with market conditions and regulatory requirements. In addition, the migration of all loan agreements to the new core banking system (CBS) was completed, in full compliance with the requirements of the Credit Reference Bureau for individual and corporate clients. The implementation of

Review of Operations (continued)



CBS during the year has enhanced the automation of credit administration processes and work flows; and speeded up the provision of timely information to management for improved decision making.

CUSTOMER COMPLAINTS

Policies, processes and procedures for the Company's independent Complaints Unit were reviewed during the year. These cover the receipt, logging, monitoring, follow-up and resolution of complaints, which are reported on a quarterly basis to the Central Bank of Bahrain (CBB). In 2015, serious complaints remained very low compared with service-oriented market norms, reflecting the Company's commitment to continuously improve its customer service and satisfaction standards. The majority of complaints were successfully resolved within two days compared with the regulatory five days stipulated by the CBB. Overall, more suggestions than complaints were logged during the year.

COMPLIANCE

NFH continued to strengthen its corporate governance framework to ensure ongoing compliance with the regulations of the Central Bank of Bahrain (CBB) and other statutory bodies; and also the requirements of the Code of Corporate Governance of the Kingdom of Bahrain issued by the Ministry of Industry & Commerce. Full details are included in the Corporate Governance Review of this annual report.

RISK MANAGEMENT

The Company comprehensively strengthened its risk management framework during the year to mitigate its risk exposure, and ensure compliance with all regulatory requirements. The Head of Risk was appointed Anti-Money Laundering Officer (MLRO) following approval by the Central Bank of Bahrain. Full details are included in the Risk Management Review of this annual report.

HUMAN RESOURCES

With the successful implementation of measurable goals as part of annual staff appraisals, NFH made good progress in 2015 towards its planned evolution as a performance-oriented organisation. Key HR developments during the year included the launch of a new Staff Savings Scheme; and commissioning of a human resources management system (HRMS) following implementation of the Company's new core banking system. The number of employees was maintained at 47, with Bahrainis comprising 96 per cent of the total workforce, constituting one of the highest levels among financial institutions in the Kingdom.

NFH continued to invest in staff training and professional development during 2015. This is provided primarily through the Bahrain Institute of Banking & Finance, with a focus on sales and customer service, quality and communications. Regulatory training during the year included special courses on anti-money laundering, fraud risk awareness and business continuity planning. In addition, as part of the Company's health and safety policy, advice on health-related and lifestyle issues was provided for staff.

INFORMATION TECHNOLOGY

The Company's new core banking system (CBS) went live in May 2015, with the implementation of core modules for financial control, vehicle financing, credit administration and data management. By the end of the year, additional key interfaces had been implemented. These include a customer relationship management (CRM) system, human resource management system (HRMS), and the migration of online banking from a cloud to a secure server; together with a lightweight directory access protocol (LDAP), which enables access to all applications with a single username and password. In addition, plans were finalised for the launch of special applications for mobile devices in 2016; and a vendor was selected to assist in accommodating implementation of Bahrain's new Electronic Funds Transfer System (EFTS).

In line with CBB regulations, two business continuity planning (BCP) exercises were conducted. These involved successful testing of the BCP centre and disaster recovery site at Sitra (which features full online replication), with the involvement of all departments. To ensure the highest levels of information security, internal and external vulnerability assessment and penetration testing (VAPT) was also conducted, with no major risks being identified.

STRENGTHENING THE OPERATING INFRASTRUCTURE

IMPLEMENTATION OF THE NEW CORE BANKING SYSTEM HAS SIGNIFICANTLY STRENGTHENED THE COMPANY'S SUPPORT AND CONTROL INFRASTRUCTURE BY INTEGRATING, CENTRALISING AND AUTOMATING ALL ASPECTS OF THE BUSINESS, BOTH FRONT AND BACK OFFICE. THIS HAS ENABLED GREATER ACCURACY, CONTROL, SECURITY AND SPEED OF PROCESSING; WHILE PROVIDING MEASURABLE BENEFITS IN TERMS OF ENHANCED PRODUCTIVITY, EFFICIENCY AND CUSTOMER SERVICE; TOGETHER WITH THE PROVISION OF TIMELY INFORMATION TO MANAGEMENT FOR IMPROVED DECISION MAKING.



Risk Management *Review*

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

KEY DEVELOPMENTS IN 2015

- Reviewed and updated all Company policies and procedures
- Completed a Risk Control Self-Assessment (RCSA) to identify key risks, and conducted follow-up training workshops for process and risk owners throughout the Company
- Addressed all outstanding credit and risk-related audit points raised by internal, external and regulatory auditors
- Carried out a Risk Awareness Survey of all staff
- Reviewed and revised the Charter of the Risk Management Committee
- Reviewed and updated AML/CFT and KYC policies and procedures
- Created a Customer Risk Assessment methodology with annual monitoring
- Installed a Maker-Checker system as an integral part of the new core banking system to ensure segregation between creation and authorisation of all transactions

RISK PHILOSOPHY & APPROACH

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

RISK EXPOSURE

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

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

RESPONSIBILITIES

Board of Directors

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

Management

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

Risk Management Committee

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

Credit Committee

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

Asset & Liability Committee

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

RISK MANAGEMENT FUNCTION

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

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

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

ANTI-MONEY LAUNDERING

NFH has a designated Money Laundering Reporting Officer (MLRO) and a Deputy MLRO (DMLRO). The Company has implemented an anti-money laundering (AML) and counter-terrorism financing (CFT) policy, and annually trains staff to raise awareness of identifying and reporting suspicious transactions. NFH follows prudent practices related to Customer Due Diligence and Beneficial Ownership, and Know Your Customer (KYC) principles. In accordance with regulatory requirements, the MLRO reviews the effectiveness of the AML/CFT procedures, systems and controls at least once a year. The Company's anti-money laundering measures are audited annually by independent external auditors for NFH, to provide a separate assurance to the Compliance Directorate of the CBB.

BUSINESS CONTINUITY

The Company is committed to providing uninterrupted service of all key business resources required to support critical business activities. This is achieved through identifying potential threats to the Company, and providing a framework for a response that safeguards all stakeholders, including employees and customers. The Company's Business Continuity Plan includes data recovery and information security. During 2015, two business continuity exercises, involving the disaster recovery site and all departments, were successfully carried out; together with testing of various disaster recovery scenarios. Information security measures were improved by conducting Vulnerability Assessment & Penetration Testing (VAPT), and addressing the risks identified in a timely manner. In addition, fire drill and evacuation exercises were carried out at the head office and Sitra branch office.



Corporate Governance *Report*

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

DEVELOPMENTS IN 2015

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

During 2015, NFH continued to strengthen its corporate governance framework to ensure compliance with the regulations of the Central Bank of Bahrain (CBB) and other statutory bodies; and also the requirements of the Code of Corporate Governance of the Kingdom of Bahrain issued by the Ministry of Industry & Commerce. The Board has reviewed and approved amendments to the corporate governance framework and policies, Board Committees' charters, Management Committee Charters, risk management policies and all other policies of the Company. The Board has also approved amendments to the remuneration policies and Board performance evaluation policies to comply with the CBB's requirements.

COMPANY PHILOSOPHY

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

STRUCTURE

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

PRINCIPLES

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

BOARD OF DIRECTORS

Board Composition

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

Board Meetings

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

Roles & Responsibilities

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

Induction & Training

The Company is committed to ongoing training and development for Board Members to foster trust, understanding and communication among Directors through a robust induction programme for new Board Members. All first-time Directors elected to the Board of the Company shall receive training covering the financial and business performance of the Company, the industry, regulatory and legislative requirements, corporate governance practices, risk management and Code of Ethics and Business conduct for Directors. Meetings will also be arranged with Executive Management. Re-elected Directors, who are already inducted in to the Board may undergo a refresher programme. A continuing awareness programme is adopted through presentations at Board meetings and distribution of publications.

Performance Evaluation

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

Board of Directors Remuneration

The remuneration of Independent Directors comprises a fixed component while the remuneration of other Members of the Board of Directors comprises a fixed and a variable component. The Fixed Remuneration comprises the sitting fees per meeting attended by the Board Member. The Variable Remuneration comprises a percentage of the net profit for one financial year. Board Members' remuneration is linked to their attendance and performance. Participation in a meeting via telephone/video conference shall be considered an attendance of the meeting. In aggregate, Directors were paid a total of BD 58,250 as annual remuneration and sitting fees for their contribution to the Board and Board Committees held during 2015.

Code of Ethics & Business Conduct

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

Whistle-blower Policy

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

Conflict of Interest Policy

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

Related Party Transactions

There are no shares held by Directors or Senior Managers as at 31 December 2015. Transactions with related parties are disclosed in detail in Notes annexed to the Financial Statements for 2015.

Corporate Governance Report (continued)

Material transactions

Material transactions that require Board / Board Committees approval are mainly related to lending transactions at a level exceeding certain pre-defined exposure levels.

Similarly, approval is required for restructuring or writing-off loans at a certain level of exposure, or obtaining new credit facilities from banks.

Communications with Stakeholders

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

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

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

BOARD COMMITTEES

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

Performance Evaluation

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

Executive Committee

Committee Composition

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

Committee Meetings

The Committee meets as necessary to play its role effectively. The meeting is requested by any member of the Committee or the Chairperson of the Board. Number of meetings held by the Committee in 2015 was four. The quorum for a meeting will be three members. In the absence of the Chairperson, the Vice Chairperson should be available to chair the meeting.

Roles & Responsibilities

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

Audit & Corporate Governance Committee

Committee Composition

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

Committee Meetings

The Committee meets 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 2015 was four. The quorum for a meeting will be two members. However, all meetings must be attended by the Chairperson of the Committee.

Roles & Responsibilities

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

Nomination & Remuneration Committee

Committee Composition

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

Committee Meetings

The Committee meets at least twice a year to coincide with the Board meetings or as required to discharge its role effectively. Number of meetings held by the Committee in 2015 was two. The quorum for a meeting will be two members. However, all meetings must be attended by the Chairperson of the Committee.

Roles & Responsibilities

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

Corporate Governance Report (continued)

Board & Board Committees Members as at 31 December 2015

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

Directors	Directorship Type	Board	Executive Committee	Audit & Corporate Governance Committee	Nomination & Remuneration Committee
Farouk Yousuf Khalil Almoayyed	Non-Executive	Chairman			Chairman
Fuad Ebrahim Kanoo	Non-Executive	Deputy Chairman			
Sameer Ebrahim Al Wazzan	Executive	Member	Member		
Al Sayyida Rawan Ahmed Al Said	Non-Executive	Member		Member	
Mohammed Farouk Almoayyed	Executive	Member	Member		
Talal Fuad Ebrahim Kanoo	Executive	Member	Chairman		
Khaled Shaheen Saqer Shaheen	Independent Non-Executive	Member	Deputy Chairman	Member	Member
Kalyan Sunderam	Independent Non-Executive	Member		Chairman	Member

Board & Board Committee Meetings and Record of Attendance during 2015

✓ Attended × Absent □ Not a member during this period

Board of Directors	25 Feb	19 May	18 Oct	7 Dec	% of meetings attended
Farouk Yousuf Khalil Almoayyed	✓	✓	✓	✓	100%
Fuad Ebrahim Kanoo	✓	✓	×	✓	75%
Sameer Ebrahim Al Wazzan	✓	✓	✓	✓	100%
Al Sayyida Rawan Ahmed Al Said	✓	×	✓	✓	75%
Mohammed Farouk Almoayyed	✓	×	✓	✓	75%
Talal Fuad Ebrahim Kanoo	×	✓	✓	✓	75%
Khaled Shaheen Saqer Shaheen	✓	✓	✓	✓	100%
Kalyan Sunderam	×	✓	✓	✓	75%
Bader Abdulmohsin Almutlaq (member until 13/09/2015)	×	✓	□	□	50%

Executive Committee	18 February	6 May	8 September	24 November
Talal Fuad Ebrahim Kanoo	✓	✓	✓	✓
Khaled Shaheen Saqer Shaheen	✓	✓	✓	✓
Mohammed Farouk Y. Almoayyed	✓	×	✓	✓
Sameer Ebrahim Al Wazzan	✓	✓	✓	✓

Audit & Corporate Governance Committee	25 February	19 May	18 August	30 November
Kalyan Sunderam	✓	✓	✓	✓
Khaled Shaheen Saqer Shaheen (appointed on 19/05/2015)	□	□	✓	✓
Al Sayyida Rawan Ahmed Al Said	✓	×	✓	✓
Bader Abdulmohsin Almutlaq (member until 19/05/2015)	×	✓	□	□

Audit & Corporate Governance Committee	25 February	7 December
Farouk Yousuf Khalil Almoayyed	✓	✓
Fuad Ebrahim Kanoo (member until 19/05/2015)	✓	□
Khaled Shaheen Saqer Shaheen	✓	✓
Kalyan Sunderam (appointed on 19/05/2015)	□	✓

SHAREHOLDERS

During 2015, Almutlaq Group, one of the Company's shareholders from the Kingdom of Saudi Arabia, expressed their intention to sell their stake of 11.6% in National Finance House (NFH) which is equivalent to 8,699,360 shares. Legal formalities in respect to selling the shares and amending the Company's articles of association and commercial registration have not yet been finalised.

Also, during 2015, Oman National Investment Corporation Holding (ONIC) merged with Oman International Development and Investment Company (OMINVEST) under the name of the latter. An extraordinary general meeting (EGM) will be held to change the name of the shareholder and amend the Company's articles of association. The following is the list of NFH shareholders as at 31 December 2015.

List of NFH Shareholders as at 31 December 2015

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

Corporate Governance Report (continued)

MANAGEMENT

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

Managerial Remuneration

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

Remuneration of Approved Persons & Material Risk Takers

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

AUDITORS

The Shareholders of the Company appointed KPMG, one of the leading accounting firms in Bahrain, as the external auditors for 2015. During the year, BD 15,400 was charged by the external auditors against the services rendered by them to the Company (BD 8,000 for audit, and BD 7,400 for other services).

The internal audit function is outsourced to Grant Thornton Abdulaal Gulf Audit, a leading professional services firm offering audit and advisory services to businesses across the Kingdom of Bahrain since 2000. During 2015, BD 7,600 was charged by the internal auditors against the auditing services rendered by them to the Company.

Compliance

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

There were no instances of material non-compliance, and no strictures were imposed on the Company by the Central Bank of Bahrain (CBB) or any statutory authority, on any matter during the year. Penalties were limited to BD 150 paid to the CBB for four uncleaned accounts in the Bahrain Credit Reference Bureau (BCRB).

Non-Compliance with High Level Controls Module of CBB Rulebook

For the year 2015, the Company is fully compliant with the requirements of the CBB's HC Module, except for the following:

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

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

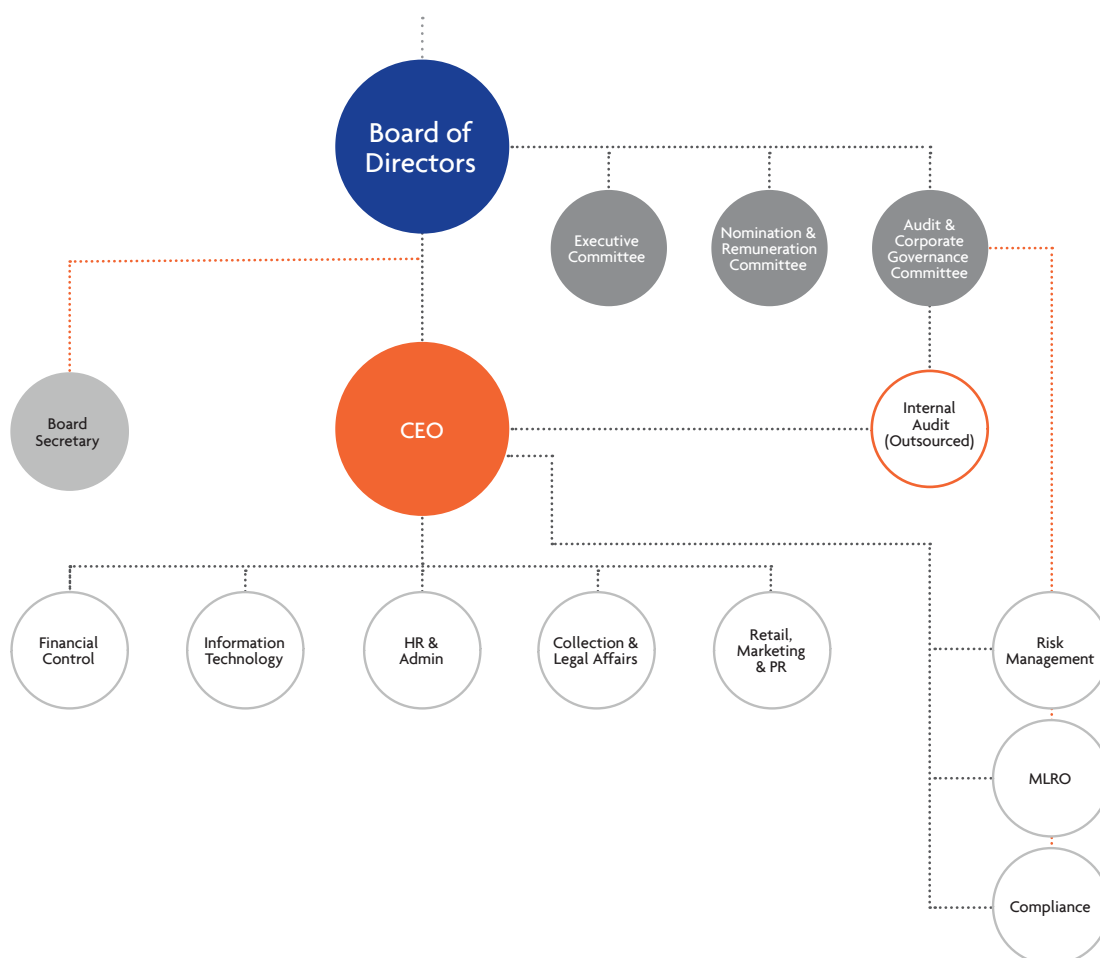
HC-1.4.6 states that the Chairman of the Board should be an independent director so that there will be an appropriate balance of power and greater capacity of the Board for independent decision making.

NFH's Chairman, Mr. Farouk Almoayyed is not an independent director. However, taking into consideration the business dealings that NFH has with Almoayyed Group under the administration of Mr. Farouk Almoayyed, the Company is of the view that this does not compromise the high standards of corporate governance that the Company maintains since NFH pursues strict policies to manage conflicts of interest in Board decisions and apply arms-length principle followed by transparent tendering and approval processes.

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

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

GOVERNANCE AND ORGANISATION STRUCTURE



Corporate Governance Report (continued)

EXECUTIVE MANAGEMENT

Venkatachalam PS (CGEIT, CRISC, CISM, CISA, CICA, CCS, CAIIB)

Chief Executive Officer

Joined NFH in 2012

- Over 31 years' experience in the financial sector with proficiency in banking and technology; Held several senior management positions in banks
- Member of Information System Audit Control & Assurance, USA.
- Member of the Institute of Internal Control, USA.
- Member of the Indian Institute of Bankers.
- BSc degree, Bangalore University.
- Postgraduate Diploma in computer applications, Madurai Kamaraj University, India.

May Al-Mahmood (CPA, MBA)

Head of Financial Control & Compliance Officer

Joined NFH in 2006

- Over 22 years' experience in banking, financial sector and external auditing.
- Certified Public Accountant (CPA), Colorado State Board of Accountancy, USA.
- MBA in Finance, University of Hull, UK.
- BSc in Accounting, University of Bahrain.

Ali Redha Mohammed (MBA)

Head of Retail

Joined NFH in 2008

- Over 17 years' experience in retail banking and financial services.
- MBA in Finance, AMA International University.
- BSc in Banking & Finance, and a Diploma in Commercial Studies, University of Bahrain.

Tariq Abdulaziz Ahmed

Head of Collections

Joined NFH in 2012

- Over 20 years' experience in collection and legal affairs.
- Advanced Diploma in Banking Studies, Bahrain Institute of Banking and Finance.

Mahdi A. Rasool Murad

Head of Risk & MLRO

Joined NFH in 2014

- Over 13 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).
- Studying MBA in Risk Management along with Certification in Associate Professional Risk Manager (APRM).

Naheed Najaf (MBA)

Head of Special Projects & Complaints Officer

Joined NFH in 2008

- Over 17 years' experience in insurance services.
- MBA, University of Strathclyde, UK.
- BSc in Banking & Finance, University of Bahrain.
- Diploma in Commercial Studies & Management Insurance, Bahrain Institute of Banking and Finance.
- Pursuing ACII (Associated Chartered Insurance Institute).

Mahmood Faridoon

Manager – Information Technology

Joined NFH in 2012

- Over 10 years' experience in information technology.
- BSc in Computer & Information System, Gulf University.
- Certification in Microsoft Certified in System Engineering (MCSE) & Red Hat Certified System Administrator I, II (RHCSA I, RHCSA II).

Fatima Abdulla Yousif

Human Resources & Administration

Joined NFH in 2011

- Over 28 years of experience, of which 24 have been spent in the field of human resources.

Financial Statements

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Independent Auditors' Report to the Shareholders

31 December 2015

Report on the financial statements

We have audited the accompanying financial statements of National Finance House BSC (c) (the "Company"), which comprise the statement of financial position as at 31 December 2015, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Responsibility of the board of directors for the financial statements

The board of directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other regulatory requirements

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

- a) the Company has maintained proper accounting records and the financial statements are in agreement therewith;
- b) the financial information contained in the chairman's report is consistent with the financial statements;
- c) we are not aware of any violations during the year of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 5, applicable provisions of Volume 6 and CBB directives), or the terms of the Company's memorandum and articles of association that would have had a material adverse effect on the business of the Company or on its financial position; and
- d) satisfactory explanations and information have been provided to us by management in response to all our requests.

KPMG Fakhro
Partner Registration No. 100
24 February 2016

Statement of Financial Position

as at 31 December 2015 (Bahraini Dinars)

	Note	2015	2014
ASSETS			
Cash and cash equivalents	4	1,761,589	1,162,268
Loans to customers	5	45,835,998	43,190,053
Furniture, fixtures, equipment and capital work in progress	6	489,200	464,892
Other assets		270,495	214,229
Total assets		48,357,282	45,031,442
LIABILITIES AND EQUITY			
Liabilities			
Bank borrowings	7	33,859,253	30,957,432
Other liabilities	8	1,308,391	1,615,874
Total liabilities		35,167,644	32,573,306
Equity			
Share capital	10	7,500,000	7,500,000
Share premium		112,500	112,500
Statutory reserve		715,214	597,064
Retained earnings		4,861,924	4,248,572
Total equity (page 31)		13,189,638	12,458,136
Total equity and liabilities		48,357,282	45,031,442

The Board of Directors approved the financial statements consisting of pages 29 to 50 on 24 February 2016 and signed on its behalf by:



Farouk Yousuf Khalil Almoayyed
Chairman



Fuad Ebrahim Kanoo
Deputy Chairman

The notes on pages 33 to 50 are an integral part of these financial statements.

Statement of Profit or Loss and other Comprehensive Income

for the year ended 31 December 2015 (Bahraini Dinars)

	Note	2015	2014
Interest income	11	4,240,342	3,921,163
Interest expense		(1,434,881)	(1,314,533)
Net interest income		2,805,461	2,606,630
Fees and commission income		790,515	691,758
Fees and commission expense		(425,885)	(370,140)
Net fee and commission income		364,630	321,618
Total income		3,170,091	2,928,248
Staff costs		897,065	845,422
Depreciation	6	140,820	84,059
Impairment on loans to customers, net of recoveries	5	323,024	356,305
Other operating expenses	12	627,680	632,383
Total expenses		1,988,589	1,918,169
Profit for the year		1,181,502	1,010,079
Other comprehensive income		-	-
Total comprehensive income for the year		1,181,502	1,010,079
Basic earnings per share	10	15.8 fils	13.5 fils

The Board of Directors approved the financial statements consisting of pages 29 to 50 on 24 February 2016 and signed on its behalf by:



Farouk Yousuf Khalil Almoayyed
Chairman



Fuad Ebrahim Kanoo
Deputy Chairman

The notes on pages 33 to 50 are an integral part of these financial statements.

Statement of Changes in Equity

for the year ended 31 December 2015 (Bahraini Dinars)

2015	Share capital	Share premium	Statutory reserve	Retained earnings	Total equity
At 1 January 2015	7,500,000	112,500	597,064	4,248,572	12,458,136
Profit and total comprehensive income for the year (page 30)	-	-	-	1,181,502	1,181,502
Dividends declared for 2014	-	-	-	(450,000)	(450,000)
Transfer to statutory reserve	-	-	118,150	(118,150)	-
At 31 December 2015	7,500,000	112,500	715,214	4,861,924	13,189,638

2014	Share capital	Share premium	Statutory reserve	Retained earnings	Total equity
At 1 January 2014	7,500,000	112,500	496,056	3,714,501	11,823,057
Profit and total comprehensive income for the year (page 30)	-	-	-	1,010,079	1,010,079
Dividends declared for 2013	-	-	-	(375,000)	(375,000)
Transfer to statutory reserve	-	-	101,008	(101,008)	-
At 31 December 2014	7,500,000	112,500	597,064	4,248,572	12,458,136

The notes on pages 33 to 50 are an integral part of these financial statements.

Statement of Cash Flows

for the year ended 31 December 2015 (Bahraini Dinars)

	Note	2015	2014
OPERATING ACTIVITIES			
Interest, fees and commission received		5,030,851	4,598,330
Loans disbursed		(21,670,707)	(19,095,702)
Loan repayments		18,272,292	16,437,812
Payments for staff salaries and related costs		(860,934)	(779,716)
Payments for other operating expenses		(1,043,127)	(1,434,152)
Net cash used in operating activities		(271,625)	(273,428)
INVESTING ACTIVITIES			
Purchase of furniture, fixtures and equipment	6	(165,128)	(167,457)
Sale of furniture, fixtures and equipment		6	71
Net cash used in investing activities		(165,122)	(167,386)
FINANCING ACTIVITIES			
Proceeds from bank borrowings		10,000,000	8,000,000
Repayment of bank borrowings		(7,098,179)	(6,253,232)
Interest paid		(1,415,753)	(1,297,379)
Dividends paid		(450,000)	(375,000)
Net cash from financing activities		1,036,068	74,389
Net increase/ (decrease) in cash and cash equivalents		599,321	(366,425)
Cash and cash equivalents at 1 January		1,162,268	1,528,693
Cash and cash equivalents as at 31 December	4	1,761,589	1,162,268

The notes on pages 33 to 50 are an integral part of these financial statements.

Notes to the Financial Statements

for the year ended 31 December 2015 (Bahraini Dinars)

1 REPORTING ENTITY

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

2 BASIS OF PREPARATION

a. Statement of compliance

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

b. Basis of measurement

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

c. Functional and presentation currency

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

d. Use of estimates and judgements

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

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

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

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

e. New standards, amendments and interpretations effective from 1 January 2015

The following standards, amendments and interpretations, which became effective as of 1 January 2015, are relevant to the Company:

The amendments to IAS 19 clarify how an entity should account for contributions made by employees or third parties to define benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

• Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)

For contributions that are independent of the number of years of service, the entity may either recognize the contributions as a reduction in the service cost in the period in which the related service is rendered, or to attribute them to the employees periods of service using the project unit credit method; whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees periods of service.

• Annual improvements to IFRSs 2010-2012 cycle and 2011-2013 cycle

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

The annual improvements to IFRSs to 2010-2012 and 2011-2013 cycles include a number of amendments to various IFRSs. Most amendments will apply prospectively for annual periods beginning on or after 1 July 2014; earlier application is permitted (along with the special transitional requirement in each case), in which case the related consequential amendments to other IFRSs would also apply.

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2015 (Bahraini Dinars)

2 BASIS OF PREPARATION (continued)

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

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2015, and have not been applied in preparing these financial statements. Those which are relevant to the Company are set out below. The Company does not plan to early adopt these standards.

• IFRS 9 - Financial Instruments

IFRS 9 published in July 2014, replaces the existing IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 9.

• IFRS 15 – Revenue from Contracts with Customers

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

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted.

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

• Annual improvements to IFRSs 2012-2014 cycle

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

The amendments are not expected to have any material impact on the financial statements of the Company.

g. Early adoption of standards

The Company did not early adopt new or amended standards in 2015.

Notes to the Financial Statements (continued)

for the year ended 31 December 2015 (Bahraini Dinars)

3 SIGNIFICANT ACCOUNTING POLICIES

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

a. Interest income and expense

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

b. Fees and commission income and expenses

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

c. Financial assets and liabilities

(i) Recognition

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

(ii) De-recognition

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

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

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2015 (Bahraini Dinars)

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Financial assets and liabilities (continued)

(iii) Offsetting

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

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

(iv) Amortised cost measurement

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

(v) Identification and measurement of impairment

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

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

The Company considers evidence of impairment for loans both at specific asset and collective level. All individually significant loans are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not identified.

Loans that are not individually significant are collectively assessed for impairment by grouping together loans with similar credit risk characteristics.

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

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

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2015 (Bahraini Dinars)

d. Loans and advances

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

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

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

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

f. Depreciation

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

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

g. Cash and cash equivalents

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

h. Statutory reserve

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

i. Impairment of non-financial assets

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

j. Borrowings from banks

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2015 (Bahraini Dinars)

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

k. Provisions

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

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

l. Employees' end of service benefits

(i) Bahraini employees

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

(i) Expatriate employees

Expatriate employees on fixed contracts are entitled to leave indemnity payable under the Bahraini Labour Law for the Private Sector of 1976, based on length of service and final remuneration. Provision for this unfunded commitment has been made by calculating the notional liability had all employees left the Company at the statement of financial position date.

4 CASH AND CASH EQUIVALENTS

	2015	2014
Cash in hand	1,200	1,200
Balance with banks	1,760,389	1,161,068
	1,761,589	1,162,268

5 LOANS TO CUSTOMERS

	2015	2014
Gross loans	47,093,789	44,177,621
Less: impairment allowance	(1,257,791)	(987,568)
	45,835,998	43,190,053

Notes to the Financial Statements (continued)

for the year ended 31 December 2015 (Bahraini Dinars)

The movement on impairment allowance was as follows:

	2015	2014
At 1 January	987,568	1,793,190
Charge for the year	477,679	356,305
Written off during the year	(207,456)	(1,161,927)
At 31 December	1,257,791	987,568

During the year, the Company recovered BD 154,655 (2014: Nil) against loans written off in the previous years.

6 FURNITURE, FIXTURES, EQUIPMENT AND CAPITAL WORK IN PROGRESS

	Furniture and equipment	Computer software	Computer hardware	Capital work in progress	2015 Total	2014 Total
Cost						
At 1 January	494,444	103,506	195,435	175,582	968,967	810,602
Additions	3,426	153,688	8,014	-	165,128	167,457
Transfers	-	175,582	-	(175,582)	-	-
Disposals	(1,183)	-	(6,934)	-	(8,117)	(9,092)
At 31 December	496,687	432,776	196,515	-	1,125,978	968,967
Depreciation						
At 1 January	296,632	89,287	118,156	-	504,075	428,213
Charge for the year	60,190	47,753	32,877	-	140,820	84,059
Disposals	(1,183)	-	(6,934)	-	(8,117)	(8,197)
At 31 December	355,639	137,040	144,099	-	636,778	504,075
Net book value						
At 31 December 2015	141,048	295,736	52,416	-	489,200	-
At 31 December 2014	197,812	14,219	77,279	175,582	-	464,892

Notes to the Financial Statements (continued)

for the year ended 31 December 2015 (Bahraini Dinars)

7 BANK BORROWINGS

	2015	2014
Repayable within one year	12,162,965	8,727,803
Repayable after one year	21,696,288	22,229,629
	33,859,253	30,957,432

These are term loans with floating interest rates, which are subject to re-pricing on a monthly or on half-yearly basis. The effective interest rate on borrowings was within the range of 3.00 % to 5.00 % p.a. (2014: 2.86 % to 4.48 % p.a.). Of the total borrowings, BD 28.9 million (2014: BD 28.9 million) is secured by assignment of customer loans.

8 OTHER LIABILITIES

	2015	2014
Payable for vehicles financed	844,541	1,273,987
Accrued expenses	463,850	341,887
	1,308,391	1,615,874

9 RELATED PARTY TRANSACTIONS

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

Related party transactions	2015	2014
Expenses		
Insurance premium charges (shareholder)	164,784	139,853

Related party balances	2015	2014
Payable for vehicles financed (shareholders)	532,365	843,502
Prepaid expenses (shareholders)	12,293	11,904

Notes to the Financial Statements (continued)

for the year ended 31 December 2015 (Bahraini Dinars)

Transactions with key management personnel

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

	2015	2014
Key management compensation	244,188	216,261
Board of Directors remuneration and committee attendance allowances	75,454	69,977
Staff loan	18,500	-

Balances with key management personnel

	2015	2014
Staff loan	11,896	3,328

10 SHARE CAPITAL

	2015	2014
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	15.8 fils	13.5 fils

The earning per share is calculated by dividing the net income of BD 1,181,502 (2014: BD 1,010,079) by the number of shares outstanding at the end of the year of 75 million shares (2014: 75 million shares).

The Board of Directors propose a cash dividend of 7% (2014: 6%) of the paid-up capital. This amount to BD 525,000 (2014: BD 450,000).

In addition the Board of Directors propose a distribution of BD 24,000 (2014: BD 18,750) as Board of Directors remuneration.

Notes to the Financial Statements (continued)

for the year ended 31 December 2015 (Bahraini Dinars)

11 INTEREST INCOME

	2015	2014
Interest on loans to customers	4,220,463	3,907,472
Interest on bank term deposits	19,879	13,691
	4,240,342	3,921,163

12 OTHER OPERATING EXPENSES

	2015	2014
Rent	70,146	70,497
Communication expense	33,137	33,613
Office expenses	324,608	299,342
Printing and stationery expense	11,390	17,279
Computer maintenance and support expenses	53,760	44,553
Legal and professional charges	63,790	109,906
Advertising and publicity expense	46,849	38,443
Board of Directors' remuneration	24,000	18,750
	627,680	632,383

13 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Risk management framework and overview

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

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

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

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2015 (Bahraini Dinars)

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

Credit risk

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

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

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

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

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2015 (Bahraini Dinars)

13 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Credit risk (continued)

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:

	2015	2014
Cash and cash equivalents	1,760,389	1,161,068
Loans to customers	45,835,998	43,190,053
	47,596,387	44,351,121

Concentration of credit risk

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

	2015	2014
Concentration by sector		
Corporate	13,277,833	11,603,965
Retail	32,558,165	31,586,088
Financial institutions	1,760,389	1,161,068
	47,596,387	44,351,121

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

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2015 (Bahraini Dinars)

2014	Gross amount	Impairment allowance	Net amount
Current	38,465,920	31,834	38,434,086
Past due:			
0 – 89 days	4,223,357	31,621	4,191,736
90 – 180 days	326,145	39,682	286,463
> 180 days	1,162,199	884,431	277,768
	44,177,621	987,568	43,190,053

During the year ended 31 December 2015, loans amounting to BD 19,302 (2014: BD 80,349) were restructured. The Company renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Company's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms. The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Company Audit and Corporate Governance Committee regularly reviews reports on forbearance activities.

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

The Company holds collateral against loans and advances to customers in the form of mortgage interests over vehicles financed. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Percentage of credit exposure (loans to customers) that is subject to collateral requirements was 114%, (2014: 98%) the principal type of collateral is the vehicle financed.

Total non-performing loans as defined by the CBB (> 90 days past due) at 31 December 2015 were BD 1,535,651 (2014: BD 1,488,344). Interest on loans that are 90 days past due is suspended as required by the CBB.

Liquidity risk

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

Management of liquidity risk

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

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2015 (Bahraini Dinars)

13 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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

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

31 December 2015	Carrying amount	Contractual cash flows	6 months or less	6 - 12 months	More than 12 months
Bank borrowings	33,859,253	36,466,005	4,309,316	9,223,481	22,933,208
Accounts payable	844,541	844,541	844,541	-	-
	34,703,794	37,310,546	5,153,857	9,223,481	22,933,208
31 December 2014	Carrying amount	Contractual cash flows	6 months or less	6 - 12 months	More than 12 months
Bank borrowings	30,957,432	34,049,042	4,003,126	5,876,589	24,169,327
Accounts payable	1,273,987	1,273,987	1,273,987	-	-
	32,231,419	35,323,029	5,277,113	5,876,589	24,169,327

Market risks

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

Interest rate risk

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2015 (Bahraini Dinars)

31 December 2015	Fixed rate	Floating rate	Non-interest bearing	Total
Cash and cash equivalents	-	-	1,761,589	1,761,589
Loans to customers	45,835,998	-	-	45,835,998
Other assets	-	-	270,495	270,495
	45,835,998	-	2,032,084	47,868,082
Bank borrowings	-	33,859,253	-	33,859,253
Other liabilities	-	-	1,308,391	1,308,391
	-	33,859,253	1,308,391	35,167,644
31 December 2014	Fixed rate	Floating rate	Non-interest bearing	Total
Cash and cash equivalents	-	-	1,162,268	1,162,268
Loans to customers	43,190,053	-	-	43,190,053
Other assets	-	-	214,229	214,229
	43,190,053	-	1,376,497	44,566,550
Bank borrowings	-	30,957,432	-	30,957,432
Other liabilities	-	-	1,615,874	1,615,874
	-	30,957,432	1,615,874	32,573,306

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 2014.

	Profit or loss		Equity	
	100 bp increase	100 bp decrease	100 bp Increase	100 bp decrease
31 December 2015				
Borrowings from banks	(386,928)	386,928	(386,928)	386,928
31 December 2014				
Borrowings from banks	(351,489)	351,489	(351,489)	351,489

Notes to the Financial Statements (continued)

for the year ended 31 December 2015 (Bahraini Dinars)

13 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Interest rate risk (continued)

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

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

	Carrying amount	Less than 3 months	3-6 months	6 - 12 months	1-6 years	More than 6 years	Non-interest bearing
31 December 2015							
Cash and cash equivalents	1,761,589	-	-	-	-	-	1,761,589
Loans to customers	45,835,998	2,966,615	3,347,672	6,391,348	33,130,083	280	-
Other assets	270,495	-	-	-	-	-	270,495
	47,868,082	2,966,615	3,347,672	6,391,348	33,130,083	280	2,032,084
Bank borrowings	33,859,253	1,603,242	1,853,241	8,706,482	21,511,124	185,164	-
Other liabilities	1,308,391	-	-	-	-	-	1,308,391
	35,167,644	1,603,242	1,853,241	8,706,482	21,511,124	185,164	1,308,391
	Carrying amount	Less than 3 months	3-6 months	6 - 12 months	1-6 years	More than 6 years	Non-interest bearing
31 December 2014							
Cash and cash equivalents	1,162,268	-	-	-	-	-	1,162,268
Loans to customers	43,190,053	2,976,869	3,458,822	6,450,648	30,299,126	4,588	-
Other assets	214,229	-	-	-	-	-	214,229
	44,566,550	2,976,869	3,458,822	6,450,648	30,299,126	4,588	1,376,497
Bank borrowings	30,957,432	1,723,629	1,668,054	5,336,120	22,044,439	185,190	-
Other liabilities	1,615,874	-	-	-	-	-	1,615,874
	32,573,306	1,723,629	1,668,054	5,336,120	22,044,439	185,190	1,615,874

Notes to the Financial Statements (continued)

for the year ended 31 December 2015 (Bahraini Dinars)

Currency risk

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

Fair values

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

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

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

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

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

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

Operational risks

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

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

Notes to the Financial Statements (continued)

for the year ended 31 December 2015 (Bahraini Dinars)

13 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Operational risks (continued)

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

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

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

Classification of financial assets and financial liabilities

All financial assets and financial liabilities are classified as “loans and advances” and “liabilities” at amortised cost.

Capital management

The Central Bank of Bahrain sets and monitors capital requirements for the Company. According to the conventional financing Company license granted by the Central Bank of Bahrain the Company should maintain a minimum paid-up capital of BD 5,000,000 and the borrowings may not exceed five times the capital and reserves (shareholders equity) of the Company. As on 31 December 2015 Company's paid-up share capital is BD 7,500,000 (2014: BD 7,500,000) and the borrowing to capital and reserves ratio on 31 December 2015 is 2.57 (2014: 2.48).

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

14 COMPARATIVES

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

