NFH
التمويل الوطني

Embracing **Challenges** Expanding **Opportunities**

Annual Report 2022

Contents

Visit our corporate website for more information.

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

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His Royal Highness Prince
Salman bin Hamad Al Khalifa
The Crown Prince
and Prime Minister

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

Group Profile

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

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

During 2022, NFH launched its medical equipment financing for funding healthcare businesses for the purpose of purchasing medical equipment and its ancillary requirements. NFH also launched its solar equipment financing for the purpose of purchasing and installation of solar panels for residential and commercial buildings.

NFH has established a wholly-owned subsidiary, National Finance House Auto Mall W.L.L., for the purpose of sale and trade of motor vehicles. NFH Auto Mall provides a one-stop shopping experience for the selection, financing, registration and insurance of new and used vehicles, all in one convenient location.

Shareholders

- **Kingdom of Bahrain**
  - Bahrain National Holding Company
  - Y.K. Almoayyed & Sons
  - E.K. Kanoo B.S.C.
- **Kingdom of Saudi Arabia**
  - Almutlaq Group
- **Sultanate of Oman**
  - Oman International Development & Investment Company

OUR VISION

We aspire to be the first-choice provider of finance solutions.

OUR MISSION

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

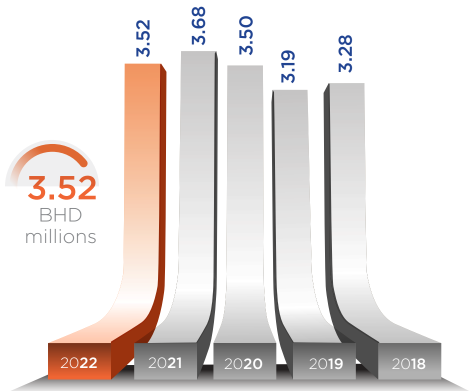
- **The provision of innovative and flexible financing solutions**
- **The delivery of personalised, speedy and responsive customer service**
- **The adoption of the highest standards of ethical behaviour**

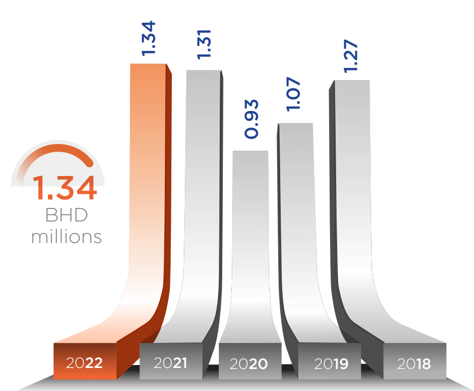
OUR VALUES

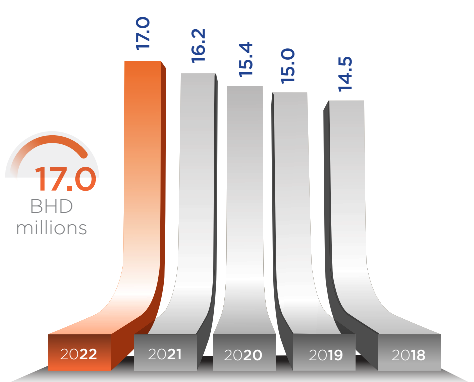
Our business activities and relationships with all stakeholders are governed by the following core values:

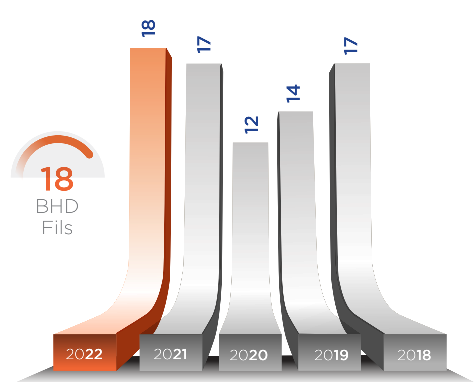
- **Consistency**
- **Integrity**
- **Performance**
- **Service**
- **Innovation**
- **Teamwork**

Financial Highlights









FIVE YEAR FINANCIAL SUMMARY

(Bahraini Dinars)

	2022	2021	2020	2019	2018
Total Assets	**53,073,839**	51,663,625	57,140,033	54,644,477	56,074,839
Total Liabilities	**36,116,089**	35,447,754	41,783,859	39,656,817	41,557,464
Total Equity	**16,957,750**	16,215,871	15,356,174	14,987,660	14,517,375
Total Income	**3,517,820**	3,678,338	3,500,769	3,187,812	3,283,474
Profit for the Year	**1,341,879**	1,309,697	925,344	1,070,286	1,273,626
Share Capital	**7,500,000**	7,500,000	7,500,000	7,500,000	7,500,000
Dividends	**600,000**	600,000	450,000	-	600,000
ROAE (%)	**8.1%**	8.3%	6.1%	7.3%	8.8%
ROA (%)	**2.5%**	2.5%	1.6%	2.0%	2.3%
EPS (in fils)	**18**	17	12	14	17

Operational Highlights

BAHRAINISATION

At the end of 2022,
the level of Bahrainisation
stood at 98%.

STRONG PRESENCE

The Group continued to maintain
strong presence and high market
share in the competitive vehicle financing
segment of the Kingdom of Bahrain

PRODUCT DIVERSIFICATION

During the year, the Group launched
two new products as a step to
diversify and expand its portfolio
of product and service offerings.

DISCIPLINED RISK MANAGEMENT

We continue to take a
disciplined approach to risk,
as reflected through the quality
of our portfolio and underwriting criteria.

PRUDENT PROVISIONING

As a prudent measure to safeguard against
the probable aftermath of the COVID-19
pandemic in the future, the Group continued
to take higher provisions for impairment
on loans to customers.

CORPORATE SOCIAL RESPONSIBILITY

In line with our corporate social responsibility
towards our community, we have allocated 5%
of the net profit for 2022 to the Donations
& Contributions Fund to support the social welfare,
healthcare and education.

Board of Directors

Talal Fuad
Kanoo

Mohammed Farouk
Almoayyed

Redha Abdulla
Ali Faraj

Sameer Ebrahim
Al Wazzan

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

Talal Fuad Kanoo

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

Managing Director & Chairman of the Executive Committee

- Ebrahim Khalil Kanoo Group, Bahrain

Member of Board of Directors

- Supreme Council for Youth & Sports, Bahrain
- Bahrain National Holding Company, Bahrain

Experience

- Over 24 years of experience in the automotive industry.

Mohammed Farouk Almoayyed

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

Chairman

Almoayyed International Group, Bahrain

Member of Board of Directors

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

Experience

- Over 17 years of experience in the field of financing, automobile, information technology solutions

Redha Abdulla Ali Faraj

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

Member of

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

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

- Bahrain National Holding Company BSC, Bahrain
- Bahrain National Insurance Company BSC (c), Bahrain
- Bahrain National Life Assurance Company BSC (c), Bahrain
- Y.K. Almoayyed & Sons Group, Bahrain
- Almoayyed International Group, Bahrain
- Almoayyed Contracting Group, Bahrain
- National Concrete Company, Bahrain
- Banader Hotels Company BSC

Member of the Board of Directors

- Al Kindi Hospital, Bahrain

Founder

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

Experience

- 62 years of experience in public and private sector experience and has own consulting business for the past 20 years.

Sanjay Kawatra

Khalid Shaheen Saqer Shaheen

Mohammed Abdullah Alwabil

Tawfeeq Mohammed Bastaki

Sameer Ebrahim Al Wazzan

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

Group Chief Executive Officer
- Bahrain National Holding Company, Bahrain

Board Vice Chairman, Member of NRCG Committee, Member of Executive Committee
- Arabian Shield Cooperative Insurance Company, KSA

Board Chairman & Chairman of NRCG Committee
- United Insurance Company, Bahrain

Experience
- Over 52 years of experience including 41 years in the Insurance sector.

Sanjay Kawatra

Board Member (Executive)
Member of Executive Committee
Appointed to the Board in 2021

Deputy Group Chief Executive Officer
- Oman International Development and Investment Company S.A.O.G (OMINVEST), Sultanate of Oman

Member of Board of Directors
- Alizz Islamic Bank, Sultanate of Oman
- National Life & General Insurance Company SAOG, Sultanate of Oman
- National Finance Company SAOG, Sultanate of Oman
- Oman Real Estate Investment Services (ORIS), Sultanate of Oman

Experience
- Over 24 years of experience in the finance and banking sector

Khalid Shaheen Saqer Shaheen

Board Member (Independent)
Vice Chairman of Executive Committee
Chairman of Audit, Compliance & Risk Committee
Vice Chairman Member of Nomination & Remuneration Committee
Appointed to the Board in 2011

Member of Board of Directors
- Ebrahim Khalil Kanoo Group, Bahrain

Fellow
- Institute of Directors, UK

Member
- National Association of Corporate Directors, USA

Experience
- Over 32 years of extensive banking experience.

Mohammed Abdullah Alwabil

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

Member of Board of Directors
- Almutlaq Real Estate Investment Company, KSA

Member of Audit Committee
- Alkhorayef Water and Power Technologies Company, KSA

Experience
- Over 32 years of experience in the investment, banking and auditing.

Tawfeeq Mohammed Bastaki

Board Member (Independent)
Member of Audit, Compliance & Risk Committee
Member of Nomination & Remuneration Committee
Appointed to the Board in 2021

Experience
- Over 42 years of banking experience in Conventional and Islamic Banking

Chairman's **Statement**

TALAL FUAD KANOO
Chairman of the Board

On behalf of the Board of Directors, it is my privilege to present the annual report of National Finance House (NFH) for the year ended 31 December 2022. Despite a year marked by a challenging operating environment, we were successful in maintaining the positive momentum of recent years. I am therefore delighted to report that 2022 was marked by record financial results, continued business growth, and further investment in the Group's IT infrastructure.

This is reflected in the Group's financial performance where net profit increased by 2.5% to BHD 1.34 million for the year ended 31 December 2022 compared to BHD 1.31 million in 2021, with basic earnings per share rising to Bahraini fils 17.9 compared with 17.5 fils the previous year. The total loan book increased by 1% to BHD 50.66 million compared to BHD 50.26 million in 2021 and Shareholders' equity increased by 5% from BHD 16.22 million in 2021 to BHD 16.96 million in 2022.

Based on these financial results, the Board of Directors is proposing a cash dividend of 8% of the paid-up capital (BHD 600 thousand) out of retained earnings for approval by the Shareholders at the Annual General Meeting to be held on 16 March 2023. As part of our social responsibility commitment towards the community, the Board of Directors is also proposing to allocate 5% of the Group's net profit for the year (BHD 67 thousand) towards donation and charity fund.

One of the key factors to our business success is we continue to strategically focus on auto financing and align all the success factors for optimum performance and enhancing customer satisfaction. In 2022, the automotive industry continued to suffer from the shortage of semiconductor chips which has prompted car manufacturers to slow or temporarily pause their production. Disruptions in the automotive supply chains, shortages of inventory, increase in freight costs due to rising fuel costs, inflation, monetary tightening and rising interest rates along with an increase in Bahraini local Government Value Added Tax (VAT) resulted in record prices for new and used vehicles. Backed by our two dominant shareholders, who are also major dealers of vehicles in the Kingdom of Bahrain and our long well-established business relationships with other major car dealers & sub-dealers, we maintained a strong market share in financing newly registered vehicles despite the inventory shortage and intensified competition.

As we execute on our product diversification strategy, we remain committed to managing our balance sheet conservatively and maintaining selective balance sheet expansion in tandem with the Group's risk appetite. During the year, the Group introduced equipment loans focusing on financing durable medical equipment and financing the purchase and installation of solar panels. This will help foster new revenue streams and expand our customer base.

Due to the evolving nature of the COVID-19 pandemic and the associated economic effects, the financial sector and regulators continued to work collaboratively to combat the impact of the pandemic. The Group extended its offer to eligible customers during the first half of 2022 to apply for six consecutive months of extensions and postponements of principal and interest repayment, which helped alleviate pressure and uncertainty for both individuals and businesses. Following the end of the debt moratorium, the Group provided a series of immediate relief measures to help its customers mitigate their financial hardships including offering a payment arrangement or deferral.

The main factors that drove global economic uncertainty and market volatility in 2022 remain the same as we enter in 2023. Rising interest rates may affect our interest rate spreads and profitability. Coupled with high inflation rates, it may also lower consumer spending and affecting the demand for new loans. With more challenges expected ahead, the Group will remain focused on its ongoing cost discipline, exploring the potential of emerging technologies and seek out the opportunities that will further accelerate our growth and enhance value generation opportunities in the years ahead.

As part of the Group's obligation to maintain utmost transparency and trust with our valued stakeholders, I am pleased to attach the tables below showing the remuneration of members of the Board of Directors and the Executive Management for the fiscal year ending 31 December 2022.

First: Board of Directors' remuneration details
(All Amounts are in Bahraini Dinars)

Name	Fixed remunerations				Variable remunerations				End-of-service award	Aggregate amount (Does not include expense allowance)	Expenses Allowance
	Total allowance for attending Board and committee meetings	Total allowance for attending Board and committee meetings	Others*	Total	Remunerations of the Chairman and Board	Incentive plans	Others**	Total			
First: Independent Directors [1]:											
1- Khaled Shaheen Saqer Shaheen	-	17,000	-	17,000	-	-	-	-	-	17,000	-
2- Tawfeeq Mohamed Bastaki	-	17,000	-	17,000	-	-	-	-	-	17,000	-
Second: Non-Executive Directors:											
1- Redha A. Faraj	5,000	12,000	-	17,000	-	-	-	-	-	17,000	-
2- Mohammed Abdullah Alwabil	5,000	3,000	-	8,000	-	-	-	-	-	8,000	-
Third: Executive Directors:											
1- Talal Fuad Ebrahim Kanoo	10,000	5,000	-	15,000	-	-	-	-	-	15,000	-
2- Mohammed Farouk Al moayyed	3,750	5,000	-	8,750	-	-	-	-	-	8,750	-
3- Sameer Ebrahim Al Wazzan	5,000	5,000	-	10,000	-	-	-	-	-	10,000	-
4- Sanjay Kawatra [2]	3,750	3,750	-	7,500	-	-	-	-	-	7,500	-
Total	32,500	67,750	-	100,250	-	-	-	-	-	100,250	-

Notes:
* It includes in-kind benefits – specific amount - remuneration for technical, administrative and advisory works (if any).
** It includes the Board member's share of the profits - Granted shares.
Other Information:
(1) Independent Directors are entitled to receive attendance allowance only per meeting attended.
(2) The Director is representing Oman International Development & Investment Co SAOG (OMINVEST) and both attendance allowance and Director's remuneration is paid directly to OMINVEST.
(3) The Group does not have any variable remuneration payments, end of service benefits, or expense allowances paid to its directors.
(4) Board remuneration represents payments proposed for the year 2022 which are subject to the approval of the shareholders in upcoming Annual General Meeting dated 16th March 2023.

Second: Executive Management remuneration details
(All Amounts are in Bahraini Dinars)

Executive Management	Total paid salaries and allowances	Total paid remuneration (Bonus)	Any other cash/ in kind remuneration for 2022	Aggregate Amount
Top 6 remunerations for executives, including CEO and Senior Financial Officer	261,812	30,204	-	292,016

With Appreciation & Gratitude

On behalf of the Board of Directors, I extend my deepest gratitude to His Majesty King Hamad bin Isa Al-Khalifa, the King of the Kingdom of Bahrain, and His Royal Highness Prince Salman bin Hamad Al-Khalifa, Crown Prince, Deputy Supreme Commander of the Armed Forces and Prime Minister, for the progressive leadership and encouragement.

I also take this opportunity to thank the Central Bank of Bahrain for their support of the Kingdom's financial and banking services sector; our valued customers and shareholders for their trust and engagement over these many years; and our management and staff for their hard work and dedication.

Talal Fuad Kanoo
Chairman of the Board

Embracing Challenges

2022 has been a challenging year which was characterized by rising global inflation, rising interest rates and supply chain issues. We embraced the challenges faced as opportunities to learn, grow, and improve.

Chief Executive Officer's **Report**

MAY A.LATIF AL-MAHMOOD
Chief Executive Officer

In spite of the unprecedented global challenges and heightened uncertainty, the Group managed to successfully deliver a robust financial performance in 2022, continuing to demonstrate its resilience and commitment in supporting its customers against ever changing economic conditions, while proactively pursuing growth opportunities.

Soaring inflation and rising interest rates have been the dominating theme for 2022. With just a few weeks before the end of the year, the Central Bank of Bahrain (CBB) further announced a 50 basis point hike to the key policy interest rate, in their ongoing effort to maintain monetary and financial stability in the Kingdom. It was the seventh interest rate hike for 2022. It follows four consecutive 75 basis points increases by the CBB during the year. Consequently, the Group's net interest income for the year 2022 decreased by 4% to BHD 2.9 million compared with BHD 3.0 million in 2021, primarily driven by the increasing cost of funding. Rising interest rates remains a primary concern for the Group, as interest rates are expected to remain elevated through most of 2023.

The worldwide semiconductor shortage that began in 2020 and the cumulative result of the supply chain disruptions continued to impact the automotive industry. Automakers were forced to cut down production of new vehicles, which have left the dealers short of many popular vehicles. Sales of new vehicles slowed down in the Kingdom of Bahrain during the first quarter of 2022 following the implementation of the ten per cent value-added tax (VAT) in January. However, the impact of the increase in VAT started to fade as the demand was outpacing the supply of new vehicles. New and pre-owned vehicle prices continued to increase amid soaring inflation and rising interest rates. Nevertheless, the Group maintained a strong market share in the automobile market in the Kingdom of Bahrain during the year 2022 and exceeded the target set for auto loans.

In an effort to diversify the Group's loan portfolio and revenue streams, the Group launched equipment loans during the year, focusing on financing durable medical equipment and the purchase and installation of solar panels for residential and commercial buildings. As we execute our product diversification strategy, we remain committed to conservatively managing our loan portfolio through maintaining our stringent underwriting standards and our tight risk management framework. We will continue to diligently explore new products and opportunities that align with our customers, communities and regulators to support Bahrain's Economic Vision 2030 and the Kingdom's transition to a resilient Net Zero economy targeted by 2060.

We continued to actively manage the risks resulting from the COVID-19 pandemic and its impacts on our customers and operations during 2022. We offered six-month deferral on loans for qualifying customers in line with the concessionary measures initiated by the CBB to mitigate the impact of COVID-19. Following the debt moratorium, we also provided a series of immediate relief measures to help our personal and small to medium business customers mitigate their financial hardships including offering extended loan repayment terms and waivers of principal and interest.

The Group retains adequate human resources to meet its objectives and invests in ongoing training and development for its staff. We are proud that Bahrainis working at the Group forms 98% of the total workforce at the end of 2022, with female staff accounting for 29% of all employees. Furthermore, and in line with our corporate social responsibility towards our community, we have also allocated 5% of the net profit for 2022 to the Donations & Contributions Fund to support the social welfare, healthcare and education sectors, subject to Shareholders' approval at their Annual General Meeting scheduled on 16 March 2023.

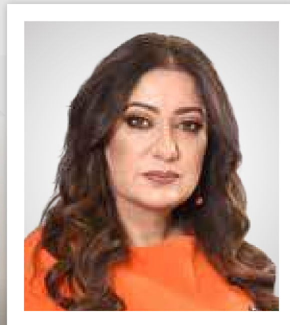
In 2022, the economy of the Kingdom of Bahrain recorded a remarkable growth despite global challenges, which was marked by uncertainty from geopolitical tensions, energy crisis, continued supply chain disruption, rising inflation and interest rates. Almost all of the economic sectors in the Kingdom saw a positive growth, primarily driven by high oil prices and development in the non-oil economy. Looking ahead, 2023 will undoubtedly present further highly challenging and unpredictable issues. The sharp increase in borrowing rates, particularly after a prolonged period of low interest rates, has impacted the demand for credit, and further rate hikes by the CBB could raise the cost of financing yet again in 2023. Nevertheless, our outlook remains cautiously optimistic, as the local economy is expected to show moderate growth. In 2023, we will continue our efforts to ensure achieving a stable and consistent growth across all parameters, while maintaining a prudent risk appetite and managing our expenses. We will also continue investing in IT infrastructure and resources to support our strategic objectives towards digital transformation, improving operational efficiency and maximizing our customer experience.

I would like to express my sincere gratitude to the Board of Directors, Central Bank of Bahrain, regulatory bodies, shareholders, customers, bankers, business associates and all other stakeholders for their invaluable support and contributions towards the continuing growth of the Group.

Furthermore, I would also like to thank the executive management and all employees for another solid performance and resilience in the face of challenges. Their untiring efforts and dedication has been a major contributor to the Group's success in what has been another demanding year.

May Al-Mahmood
Chief Executive Officer

Management Team


May Al-Mahmood

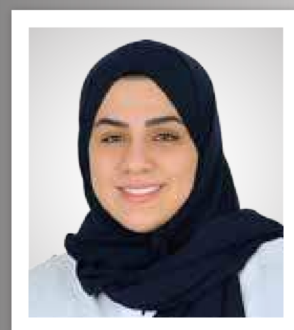

Ahmed Matar Al-Alawi


Ali Redha Mohammed


Mahdi Murad


Hussain Eid


Fatima Abdulla Yousif


Masooma Hubail

- **May Al-Mahmood**
  Chief Executive Officer
- **Ahmed Matar Al-Alawi**
  Head of Financial Control
- **Ali Redha Mohammed**
  Head of Retail
- **Mahdi A. Rasool Murad**
  Head of Risk & MLRO
- **Hussain Eid**
  Head of Enterprise PMO
  & Information Technology
- **Fatima Abdulla Yousif Ali**
  Human Resources Manager
- **Masooma Hubail**
  Compliance Officer

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

Enduring Growth

Our success over the years is demonstrated by achieving a stable and consistent growth across all parameters, while maintaining a prudent risk appetite and enduring the long business relationships that we have established with our business partners.

REVIEW OF **OPERATIONS**

Despite the global challenges which was marked by uncertainty from geopolitical tensions, energy crisis, continued supply chain disruption, rising inflation rates and rising interest rates, the Group was able to achieve to maintain a strong market share in the automobile market in the Kingdom of Bahrain and expand its product offering.

RETAIL & MARKETING

Vehicle Financing

2022 was another challenging year for the automobile industry from various aspects. In addition to the existing global semiconductor shortages and disrupted supply chains, the Russia-Ukraine conflict and COVID-19 outbreaks in China have affected global supply chains and auto production. New and pre-owned vehicle prices continued to increase amid soaring inflation and rising interest rates.

Sales of new vehicles slowed down in the Kingdom of Bahrain during the first quarter of 2022 following the implementation of ten per cent value-added tax (VAT) in January. However, the impact of the increase in VAT started to fade as the demand was outpacing the supply of new vehicles.

Despite all these challenges, the Group achieved a growth in financing vehicles in the Kingdom of Bahrain and maintained a strong market share in the automobile industry.

Medical Equipment Financing

Healthcare in the Kingdom of Bahrain is expanding rapidly with a growing number of medical health facilities being established in the Kingdom. In the medical profession, technology is changing the way patients are treated and businesses are run every day. Medical equipment financing gives doctors and health centres access to obtain the latest medical technology to setup or grow their scope of activities, expand their current facilities and upgrade medical equipment. With an objective to serve this sector, the Group launched its Medical Equipment financing during 2022.

Solar Equipment Financing

During 2022, the Group introduced its Solar Financing solutions which includes the purchase and installation of solar panels for residential and commercial buildings. While the development of renewable energy is still at an early stage in the Kingdom of Bahrain, the sector is likely to play a growing role going forward, presenting opportunities for the Group, as the Kingdom looks to better utilise its available resources and increase its electricity supplies and feedstock.

NFH Auto Mall

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

In 2022, there was a drop in the number of vehicles sold by the Auto Mall compared to the previous year. The main reason for such drop was the continuing shortage of the semiconductor chips, which forced manufacturers to slow or halt production at times over the last two years and left dealers and sub dealers with few vehicles to sell. Also, the last quarter of 2021 witnessed an increase in car sales in the Kingdom of Bahrain before the implementation of the ten per cent value-added tax (VAT) in January.

Insurance

As an appointed representative for Bahrain National Insurance (bni), the Group has partnered with BNI to offer its customers exclusive rates on motor insurance as part of the Group's auto loan product. In 2022, the Group posted an increase by 9% in its income from motor insurance commissions compared to the previous year.

Marketing

Marketing activities in 2022 included the Group's annual promotional campaign during the holy month of Ramadan, which proved to be the most successful to date; together with ongoing direct marketing campaigns with dealers and sub dealers in the Kingdom of Bahrain. The Group continued utilizing social media channels such as Instagram, Facebook, Twitter and You Tube to reinforce the brand and generate awareness. During the year, the Group participated in events and exhibitions to increase the awareness of the general public about the Group and its products and services.

Customer Service

The Group pursue to maintain its superior customer service, by providing prompt loan process as speed and simplicity are hallmark for any customer service excellence for financial institutes, to the extent of enhanced after sales customer services throughout different channels as preferred.

COLLECTIONS

The coronavirus pandemic continues to have a significant impact on the people and small to medium businesses in the Kingdom of Bahrain. In 2022, the Group continued to engage with its customers to overcome COVID-19 related challenges. In line with regulatory directives, the Group provided loan deferment options to all its eligible retail and corporate customers during the first six months of the year 2022. Following the end of payment holiday, the Group continued to offer the payment deferral option to customers experiencing financial hardship. Wherever possible, fair and mutually acceptable discounted settlements, rescheduling or restructuring of loans were achieved to take into account customers' changed economic circumstances.

The Group continued to focus on optimizing cash collections, together with a more proactive approach to managing existing and potential defaults. During 2022, there was an improvement in the cash collection after the payment moratorium period came to an end by mid of 2022.

As the economic outlook for 2023 remains highly volatile, it was challenging to assess the adequacy of provisions for impairment on loans to customers. The Group conservatively revisited its Expected Credit Loss (ECL) model to account for the uncertainty and expected increase in default rate.

CREDIT ADMINISTRATION

The Group comprehensively reviewed and amended its credit administration policy and procedures during 2022, strengthening further its credit criteria at transaction and portfolio levels. Although the adverse effect of the coronavirus pandemic reduced substantially during the second half of the year, the Group continued applying stringent lending criteria for certain customer segments. The Group also reviewed Know Your Customer (KYC) procedures, credit limits and authority levels. Full compliance was maintained with the requirements of the Credit Reference Bureau (CRB) for individual and corporate clients as well as alignment with the National Digital identity and the electronic Know-Your-Customer (eKYC) platform requirements for individual clients.

CUSTOMER COMPLAINTS

The Group has a robust independent complaints unit. All related policies, processes and procedures 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 2022, the number of serious complaints remained very low compared with the service-oriented market norms. The majority of complaints were handled immediately and successfully resolved within the same day, considerably below the regulatory five days stipulated by the CBB. This illustrates the Group's commitment to continuously improve its customer service and satisfaction standards.

HUMAN RESOURCES

During 2022, the Group continued to enhance its human capital base through the successful recruitment of talented employees. A dedicated Compliance Officer was recruited to handle the Compliance Function and Complaints as well. At the end of the year, the headcount was 48 employees, with Bahrainis comprising 98% of the total workforce; while female staff account for 29% of all employees. HR policies and procedures were updated to ensure compliance with applicable rules and regulations of Kingdom.

The Group continued to invest in staff training and professional development, which was provided either in-house or through accredited external institutions such as the Bahrain Institute of Banking & Finance. During 2022, a climate risk awareness session was provided to senior managers and directors to enhance their knowledge on the potential climate-related risk exposures and opportunities.

During the last two years, the Group focused on increasing the cyber security awareness of all its employees through identifying each user's security knowledge gaps using a Human Risk Management (HRM) platform and providing automated training programs that tackle their risk. The HRM platform was also used to deliver automated awareness training in the area of anti-money laundering and combating terrorism financing (AML/CTF), Conflict of Interest and First Aid & Fire Fighting.

With an aim of enhancing efforts to progress national

human capital development in various fields, a partnership agreement with Hope Talents was signed during the last quarter of 2022. Hope Talents program was launched to create a supportive environment to develop national talents and facilitate access to career opportunities, along with professional development through workshops, mentoring programs and networking sessions.

INFORMATION TECHNOLOGY

Throughout the year we invested in the Group's IT resilience and delivered upgrades and improvements that have reduced vulnerability. Several projects have been initiated by the Information Technology (IT) team in order to deliver better services for internal and external stakeholders. During 2022, the Group improved the IT service management and optimised value for our customers and the Group by developing a plan to include the Information Technology Infrastructure Library (ITIL) architecture into the IT Services Management as an Agile Project conception.

The Network IT infrastructure and data centre have been enhanced in order to support a range of projects towards digital transformation, new system developments, network scalability, system availability, high performance and advanced security solutions. Delivery of the Group's Cyber security framework progressed steadily towards the next maturity level of security, ensuring the most significant level of protection.

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, which features full online replication in a different location, with the participation from all departments. To ensure the highest levels of information security, two vulnerability assessment and penetration tests (VAPT) were also successfully conducted.

RISK MANAGEMENT

Given the changing economic and market conditions and the regulatory guidelines towards the implementation of tight monetary policies and in light to the adverse impact of rising interest rate during the year 2022, the Group enhanced its corporate governance by reinforcing its risk management framework and risk-related policies and procedures including revisiting the Group's pricing matrix and cost of funding.

The Group abided by the CBB directives related to moratoria on loan collections and continued offering instalments skips to the customers until mid of the year 2022. The Group managed in an efficient and effective manner the utilisation of its available cash flows to fund its business requirements by obtaining new credit facilities from reputed banks in the Kingdom Bahrain. Focus continued to be placed on adopting its Risk Based Approach (RBA), Credit Administration, KYC Policy and Procedures, Business Continuity Planning, Cyber Security, and Anti-money Laundering Practices.

COMPLIANCE

In light of the increased risk environment, and heightened expectations of the regulators, Compliance Risk Management within the Group is a focus of the Board, with oversight by the Board Audit Compliance & Risk Committee. During 2022, the Group maintained its ongoing compliance with the regulations of the Central Bank of Bahrain (CBB) and all other applicable laws and regulations of the Kingdom of Bahrain.

Expanding Opportunities

We started 2022 by outlining opportunities that will expand our product offerings, increase growth and generate long-term shareholders value and we identified two new products that were launched in 2022 to expand our customer base and scale our existing business as a leading financing Company in the Kingdom.

RISK MANAGEMENT REVIEW

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

KEY DEVELOPMENTS IN 2022

- Complied with the customer due diligence requirements stated under the CBB Financial Crime Module.
- All Group's charters, policies, processes and procedures were reviewed and updated.
- Reviewed Credit Risk and Credit Administration policy and procedures, and continued tightening customer credit assessment criteria for some impacted segments of customers.
- Reviewed and amended the Credit Scoring Risk Grading and successfully tested the forward looking approach for corporate customers which shall be used for annual risk review purposes.
- The annual high-level Risk Control Self-Assessment (RCSA) was conducted and amendments were made to cover the operational risks associated with the new products launched during the year.
- The Group's Risk Appetite Statement was reviewed. The list of Key Risk Indicators (KRIs) was further reviewed, amended and expanded.
- Customer Risk Rating (CRR) methodology was reviewed and amended to derive with customer risk profiling and the inherent risk ratings in light with the Risk Based Approach (RBA) requirements new section added along with the additional guidance set on enhance due diligence requirements as mandated by the CBB on its Financial Crime Module. Risk Based Approach (RBA) been developed and implemented in NFH's core system after considering the amendments that took place in its underlying factors weights and scoring.
- AML/CFT refresher training was provided to all staff through in-house resources. New joiners were given internal/external training, given the importance of this aspect of KYC.
- The Group's Business Continuity Planning (BCP) was enhanced with an upgraded Disaster Recovery Site (DRS) and updated departmental BCPs on a 'worst case' scenario.
- All outstanding credit and risk-related audit observations raised by the Group's internal and external auditors were effectively addressed.
- In light with the international initiatives launched and driven by the relevant international regulatory bodies to achieve the global climate goals, external workshops been attended by the Management where a forward action plan is in place towards the requirements relating the climate related risks in which the CBB would provide more insights to the licensees covering qualitative and quantitative disclosure requirements in particular during year 2023.

RISK PHILOSOPHY & APPROACH

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

RISK EXPOSURE

The Group's business is primarily exposed to following risks:

- Credit risk
- Liquidity risk
- Market risk (including interest rate and currency risks)
- Operational risk
- Cybersecurity risk
- Climate-related risk
- Legal, Compliance, Regulatory & Reputation Risks

RESPONSIBILITIES

Board of Directors

The Board of Directors has an overall responsibility for the establishment and oversight of the Group's risk management framework. The Board sets the Group's overall risk parameters and tolerance by approving the relevant risk management policies. It has established the Audit, Compliance & Risk Committee for reviewing and monitoring risk metrics and compliance with the policies approved by the Board. The Audit, Compliance & Risk Committee reviews and reports to the Board on the Group's risk profiles and risk-management activities.

Management

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

Risk Management Committee

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

Credit Committee

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

Asset & Liability Committee

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

RISK MANAGEMENT FUNCTION

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

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

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

ANTI-MONEY LAUNDERING

Combatting financial crime and complying with applicable laws and regulations is vital to ensuring the stability and integrity of the Group. The Group has a designated Money Laundering Reporting Officer (MLRO) and a Deputy MLRO (DMLRO) to ensure compliance with the anti-money laundering laws and counter-terrorism financing regulations (AML/CFT). Appropriate policies, procedures and controls are in place to detect and report money laundering and terrorist financing, verify the identity of customers and comply with economic sanctions. Annual training is conducted to all employees to raise their awareness for identifying and reporting suspicious transactions as well as detecting and mitigating frauds. In line with the CBB Financial Crime (FC) Module, annual compliance review on the effectiveness of the Group's anti-money laundering procedures, systems and controls is conducted by the MLRO. Agreed-upon procedures relating to compliance with the CBB's FC Module is conducted on an annual basis by the Group's external auditors.

BUSINESS CONTINUITY

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

During 2022, two fire drills along with two business continuity exercises and testing NFH's call-out tree, involving the disaster recovery site and all departments, were successfully carried out, together with testing of various disaster recovery scenarios. Information security measures were further enhanced by conducting two Vulnerability Assessment & Penetration Testing (VAPT) exercises, and addressing the risks identified in a timely manner. The Group has in place a robust Cyber Security Framework which includes clear ownership and management of risks associated with cyber-attacks; and a Cyber Security Incident Response Team responsible for detecting, monitoring, mitigating and reporting cyber-attacks.

CORPORATE GOVERNANCE REPORT

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

1. DEVELOPMENTS IN 2022

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

NFH continuously strives to improve the level of compliance levels in all its activities and implement best practices in compliance. During 2022, the Group continued to maintain a strong corporate governance framework to ensure compliance with the regulations of the Central Bank of Bahrain (CBB) and other statutory bodies; and other applicable laws and regulation of the Kingdom of Bahrain.

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 Group. Compliance awareness training were conducted to improve employee engagement and awareness at all levels.

2. GOVERNANCE PHILOSOPHY

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

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

3. STRUCTURE

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

4. PRINCIPLES

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

5. BOARD OF DIRECTORS

Board Composition

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

As per the Group's Memorandum and Articles of Association, the Board of Directors comprises a maximum of 10 members. The current Board consists of eight Directors of which two are Independent Directors. The Board was appointed at the Annual General Meeting held on 15 March 2021 for a period of three years. The next election / re-election of the Board of Directors for a three-year term is scheduled for March 2024.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 per cent of all Board Meetings within a calendar year and no proxy is allowed.

Roles & Responsibilities

The Board is accountable to the Group's shareholders and other stakeholders to ensure that NFH is managed in a safe and sound manner, and with an appropriate balance between financial performance and fulfilment of its public purpose. The Board is also responsible to the regulators for conducting the business of the Group within the legal and regulatory framework. The board of directors is responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards (IFRS), and for such internal control as the board of directors determines is necessary to enable the

Corporate Governance Report (Continued)

preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Induction & Training

The Group is committed to ongoing training and development for Board Members to foster trust, understanding and communication among Directors through a robust induction programme for new Board Members. All first-time Directors elected to the Board of the Group shall receive training covering the financial and business performance of the Group, the industry, regulatory and legislative requirements, corporate governance practices, risk management and Code of Ethics and Business conduct for Directors. Meetings will also be arranged with Executive Management. Re-elected Directors, who are already inducted into the Board may undergo a refresher programme. During 2022, all approved persons including members of the Board of Directors completed a minimum of 15 hours of continued professional development.

Performance Evaluation

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

Board of Directors Remuneration

The remuneration of Independent Directors comprises a fixed component while the remuneration of other members of the Board of Directors comprises a fixed and a variable component. The Fixed Remuneration comprises the sitting fees per meeting attended by the Board Member. The Variable Remuneration comprises a percentage of the net profit for one financial year. Board Members' remuneration is linked to their attendance and performance. Participation in a meeting via telephone/ video conference shall be considered an attendance of the meeting. In aggregate, directors were paid a total of BHD 100,250 as directors' remuneration and sitting fees for their contribution to the Board and Board Committees held during 2022.

In line with the provisions of the Commercial Companies Law No (21) of 2001 and its amendments, and pursuant to the provisions of Article No. (188) of the Commercial Companies Law and Article No. (125) of its Executive Regulations of No (3) for the year 2022, the Group disclosed the remuneration of members of the Board of Directors and the Executive Management for the fiscal year ended 31 December 2022 under the Chairman's Statement.

Code of Ethics & Business Conduct

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

Whistle-blower Policy

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

Conflict of Interest Policy

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

Related Party Transactions

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

As per the requirement of Article 189 of the Companies Commercial Law, all transactions with the Board of Directors are required to be approved by the Board. The Board of Directors reviewed the transactions and approved these, which were summarised, within the related party note annexed to the Financial Statements for 2022.

During 2022, there were no related party transactions which were of a materially significant nature undertaken by the Group with its Directors or Management, or relatives that may have a potential conflict with the interests of the Group. Further, there are no shares held by Directors or Senior Managers as at 31 December 2022.

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 corporate loans or writing-off loans at a certain level of exposure or obtaining new credit facilities from banks.

Communications with Stakeholders

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

The Group provides information on all events that merit announcement, either on its website – www.nfh.com.bh – or through other forms of publication. The annual results of the Group are published in two local newspapers, one in Arabic and one in English, and a copy is submitted to the Central Bank of Bahrain. All previous annual reports and quarterly / semi-annual interim financial results of the Group, and other public disclosures as stated in the Public Disclosure Module of the CBB are made available on the Group's website for a reasonable period of time.

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

6. Board Committees

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

Performance Evaluation

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

Executive Committee

Committee Composition

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

Committee Meetings

The Committee meets as necessary to play its role effectively. The meeting is requested by any member of the Committee or the Chairperson of the Board. Number of meetings held by the Committee in 2022 was four. The quorum for a meeting will be two members. In the absence of the Chairperson, the Vice Chairperson should be available to chair the meeting.

Roles & Responsibilities

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

Audit, Compliance & Risk Committee

Committee Composition

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

Committee Meetings

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

Number of meetings held by the Committee in 2022 was eight. The quorum for a meeting will be two members. All meetings must be attended by the Chairperson or Vice Chairman of the Committee.

Roles & Responsibilities

- Assist the Board of Directors in ensuring and maintaining oversight of the Group's financial reporting system, internal controls, risk management processes, audit functions, compliance with legal and regulatory requirements, and Corporate Governance guidelines.
- Assist the Board in the appointment of external and internal auditors in the context of their independence, compensation and terms of engagement.
- Review and supervise the implementation of, enforcement of, and adherence to, the Group's Code of Business Conduct.

Corporate Governance Report (Continued)

- Monitor the Compliance and Anti-Money Laundering functions.
- Review and reassess the adequacy of the Corporate Governance framework, guidelines, policies and controls; and recommend any changes to the Board for approval.

Nomination & Remuneration Committee

Committee Composition

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

Committee Meetings

The Committee meets at least twice a year to coincide with the Board meetings or as required to discharge its role effectively. Number of meetings held by the Committee in 2022 was two. The quorum for a meeting will be two members. All meetings must be attended by the Chairperson or Vice Chairperson of the Committee.

Roles & Responsibilities

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

Corporate Governance Report (Continued)

Board & Board Committee Members as at 31 December 2022

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

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

Board & Board Committee Meetings and Record of Attendance during 2022

☑ Attended ☒ Absent ☐ Not a member during this period ☎ Attended by phone / Zoom

Board of Directors

	28 Feb	26 May	24 Aug	8 Dec	% of meetings attended
Talal Fuad Ebrahim Kanoo	☎	☑	☑	☑	100%
Mohammed Farouk Almoayyed	☒	☑	☎	☑	75%
Redha A. Faraj	☎	☑	☑	☑	100%
Sameer Ebrahim Al Wazzan	☎	☎	☑	☑	100%
Sanjay Kawatra	☎	☎	☎	☒	75%
Mohammed Abdullah Alwabil	☎	☑	☑	☑	100%
Khaled Shaheen Saqer Shaheen	☎	☑	☑	☑	100%
Tawfeeq Mohamed Bastaki	☎	☑	☑	☑	100%

Corporate Governance Report (Continued)

Executive Committee

	Feb 9	May 8	Aug 14	Nov 10
Mohammed Farouk Y. Almoayyed	☎	☎	☎	☎
Khaled Shaheen Saqer Shaheen	☎	☎	☎	☎
Sameer Ebrahim Al Wazzan	☎	☎	☎	☎
Sanjay Kawatra	☎	☒	☎	☎

Audit, Compliance & Risk Committee

	Jan 31	Feb 16	Mar 30	May 24	May 29	Aug 16	Oct 25	Dec 4
Khaled Shaheen Saqer Shaheen	☎	☎	☎	☎	☑	☎	☑	☑
Redha A. Faraj	☎	☎	☎	☎	☑	☎	☑	☑
Tawfeeq Mohamed Bastaki	☎	☎	☎	☎	☑	☎	☑	☑

Nomination & Remuneration Committee

	Feb 15	Aug 22
Talal Fuad Ebrahim Kanoo	☑	☑
Khaled Shaheen Saqer Shaheen	☑	☑
Tawfeeq Mohamed Bastaki	☑	☑

7. SHAREHOLDERS

List of the Group's Shareholders as at 31 December 2022:

Shareholder's Name	Country	% Of Ownership	No. of Shares	BHD Amount of Ownership
Bahrain National Holding Company	Bahrain	34.93%	26,195,240	2,619,524
E.K. Kanoo B.S.C.	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
Almutlaq Group	K.S.A.	11.60%	8,699,360	869,936
		100%	75,000,000	7,500,000

Corporate Governance Report (Continued)

8. MANAGEMENT

The Board has delegated authority to the Chief Executive Officer (CEO) for the day-to-day management of the Group. The CEO is supported in her duties by a qualified and experienced Management team, and five committees: Management Committee, Credit Committee, Risk Management Committee, Asset & Liability Committee and IT Steering Committee. Management committees, comprising of members of the senior management, have ultimate responsibility for directing the activity of the Group, ensuring it is well run and delivering the outcomes for which it has been set up.

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

Remuneration of Approved Persons & Material Risk Takers

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

Employment of Relatives

It is the Group's policy not to encourage direct relatives of staff especially relatives of any approved persons occupying controlled function. Direct relatives are defined as spouse, brother, sister, son, daughter and direct in laws. As part of the annual reporting, the CEO must disclose to the Board on an annual basis, the direct relative of any approved persons occupying controlled functions within the Group.

For 2022, the direct relatives of approved persons occupying controlled functions within the Group has been disclosed to the Board of Directors.

9. AUDITORS

The Shareholders of the Group appointed KPMG, one of the leading accounting firms in the Kingdom of Bahrain, as the external auditors for 2022. The external auditors charged BHD 21,675 against the services rendered by them to the Group (BHD 9,850 for audit, and BHD 11,825 for condensed interim financial information review, PIRFM review, Public Disclosure review, Financial Crime Module review, Annual License Fee "ALF" review). The external auditors did not provide any other material consultative or administrative service to the Group during the year that would conflict with the independence principle.

The internal audit function was outsourced to Grant Thornton Abdulaal Gulf Audit for the year ended 31 December 2022. The scope of the internal audit function is approved by the Audit, Compliance & Risk Committee and encompasses audits and reviews of all business operations and support services. The internal audit process focuses primarily on assessing risks and internal controls and ensuring compliance with established policies, procedures and delegated authorities. The internal audit function is independent and reports directly to the Audit, Compliance & Risk Committee. During 2022, BHD 9,200 was charged by the outsourced internal auditors against the auditing services rendered to the Group.

10. COMPLIANCE

The Group conducts its business in compliance with all relevant bye-laws, rules and regulations pertaining to financial institutions. These comprise Central Bank of Bahrain rules and guidelines, legal compliance, and international accounting standards. NFH has well-documented 'Know Your Customer' guidelines, and customer due diligence policy, processes and procedures. The Group has appointed a Money Laundering Reporting Officer (MLRO), a Deputy MLRO and a Complaints Officer. The Compliance Officer reports to the CEO and has direct access to the Board of Directors through the Audit, Compliance & Risk Committee. The Corporate Secretary has direct access to the Board of Directors as per the requirements of Corporate Governance.

There were no instances of material non-compliance, and no strictures or penalties were imposed on the Group by the Central Bank of Bahrain (CBB) on any matter during the year.

Corporate Governance Report (Continued)

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

For the year 2022, the Group is fully compliant with the requirements of the CBB's HC Module, except for the following:

Board Composition

HC-1.4.5 states that at least half of the Board should be non-executive directors and at least three of those persons should be independent directors. For a licensee with a controller, at least one-third of the Board must be independent directors as per required under HC-1.5.2. Minority shareholders must generally look to independent directors' diligent regard for their interests, in preference to seeking specific representation on the Board. NFH has two independent directors in its Board instead of three directors.

CBB exemption for two independent directors was obtained on 13 November 2014 in this regard.

Chairman:

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

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

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

Nomination & Remuneration Committee:

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

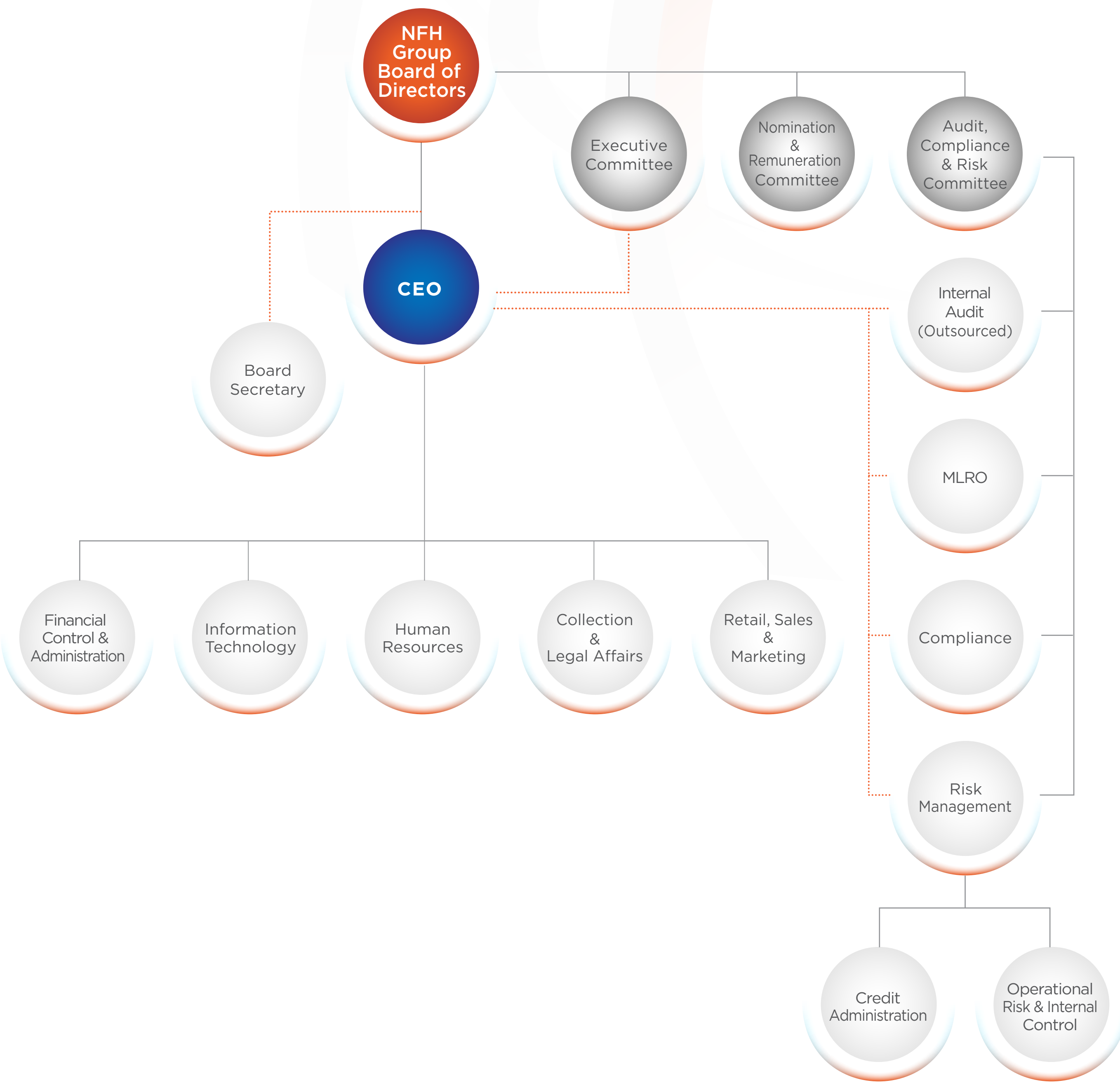
Mr. Talal Kanoo, the Chairman of the Group's Nomination & Remuneration Committee is not an independent Executive Director; however, the independence of the decision-making process is not compromised as the majority of the members are independent. Moreover, all Board Members must adhere to the Group's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

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

12. ACKNOWLEDGMENT BY THE BOARD OF DIRECTORS

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

GROUP GOVERNANCE and ORGANISATION STRUCTURE



Corporate Governance Report (Continued)

EXECUTIVE MANAGEMENT

May Al-Mahmood (CPA, MBA)
Chief Executive Officer
Joined NFH in 2006

- Over 28 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.
- FinTech, Harvard University's Office of the Vice Provost for Advances in Learning, UK.
- BSc in Accounting, University of Bahrain.
- Member of American Institute of Certified Public Accountants (AICPA).

Ahmed Matar Al-Alawi (CMA)
Head of Financial Control
Joined NFH in 2011

- Over 18 years' experience in banking, financial sector and external auditing.
- Certified Management Accountant (CMA), USA.
- BSc in Accounting, University of Yarmouk, Jordan.
- Diploma in Accounting, University of Bahrain.
- Member of The Institute of Management Accountants (IMA)

Ali Redha Mohammed (MBA)
Head of Retail
Joined NFH in 2008

- Over 23 years' experience in retail banking and financial services.
- MBA in Finance, AMA International University, Bahrain.
- BSc in Banking & Finance, and a Diploma in Commercial Studies, University of Bahrain.
- Certification in Associate Professional Risk Manager (APRM).

Mahdi A. Rasool Murad
Head of Risk & MLRO
Joined NFH in 2014

- Over 19 years' experience in credit and risk management.
- BSc in Banking & Finance, University of Bahrain.
- Certification in the Fundamentals of Financial Risk Management (FFRM) and Advance Financial Risk Management (AFRM).
- Certification in IFS-Accredited Credit Program, UK.

Hussain Eid (MBA, FinTech, Industry 4.0, ITIL, PMP, Odoo, MCSA, MCSE)
Head of Enterprise PMO (EPMO) and IT
Joined NFH in 2021

- Over 22 years' experience in IT Banking & Financial Services and Insurance (BFSI) business, Project Management Office (PMO), Implementation of Banking & Finance and Insurance core systems
- Master of Business Administration (MBA), University of Strathclyde, UK
- FinTech, The Hong Kong University of Science and Technology (HKUST)
- Industry 4.0, University at Buffalo and the State University of New York (SUNY)
- Information Technology Infrastructure Library (ITIL)
- Project Management Professional (PMP)
- On-Demand Open Object - Open ERP (Odoo)
- Microsoft Certified Systems Administrator (MCSA)
- Microsoft Certified Systems Engineer (MCSE)
- Bachelor of Science in Information Technology, Birila Institute of Technology, India
- Diploma in Business Information System, University of Bahrain
- Diploma in Computer Engineering, University of Bahrain

Fatima Abdulla Yousif Ali
Human Resources Manager
Joined NFH in 2011

- Over 34 years of experience in financial and banking sectors and aviation, of which 28 have been spent in the field of human resources.

Masooma Hubail
Compliance Officer & Board Secretary
Joined NFH in 2022

- Over 11 years of experience in Law, Corporate Governance, Compliance and Human Resources Affairs.
- Ex-Practice Lawyer for 6 years in the Kingdom of Bahrain Courts.
- BSc in Law, University of Bahrain.
- Certified Anti-Money Laundering Specialist (CAMS)

Supporting Our Customers in Financial Hardship

Following the payment holiday which ended on 30 June 2022, we provided a series of immediate relief measures to help our personal and small to medium business customers regularize their payment and mitigate their financial hardships.

CONSOLIDATED **FINANCIAL** STATEMENTS

for the year ended 31 December **2022**

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of National Finance House B.S.C (c) (the "Company") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2022, the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Standards as issued by the International Accounting Standards Board (IFRS Standards).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Kingdom of Bahrain, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The board of directors is responsible for the other information. The other information obtained at the date of this auditors' report is the report of the Chairman set out on pages 1-2.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Board of Directors for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

* The reference to pages number 1-2 should be read as pages number 8-10.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Report on other Regulatory Requirements

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

a) the Company has maintained proper accounting records and the consolidated financial statements are in agreement therewith;

b) the financial information contained in the report of the Chairman is consistent with the consolidated financial statements;

c) we are not aware of any violations during the year of the Commercial Companies Law, the CBB and Financial Institutions Law No. 64 of 2006 (as amended), the CBB Rule Book (Volume 5, applicable provisions of Volume 6 and CBB directives) or the terms of the Company's memorandum and articles of association that would have had a material adverse effect on the business of the Company or on its financial position; and

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

KPMG Fakhro
Partner Registration Number 213
23 February 2023

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022 (Bahraini Dinars)

	Note	2022	2021
ASSETS			
Cash and bank balances	4	1,483,618	616,590
Loans to customers	5	50,662,598	50,263,315
Property and equipment	6	334,759	384,248
Right-of-use assets	7	209,964	85,463
Other assets		382,900	314,009
Total assets		**53,073,839**	51,663,625
LIABILITIES AND EQUITY			
Liabilities			
Bank borrowings	8	32,863,604	32,443,495
Other liabilities	9	3,252,485	3,004,259
Total liabilities		**36,116,089**	35,447,754
Equity			
Share capital	11	7,500,000	7,500,000
Share premium		112,500	112,500
Statutory reserve		1,554,411	1,420,223
Retained earnings		7,790,839	7,183,148
Total equity (page 38)		**16,957,750**	16,215,871
Total equity and liabilities		**53,073,839**	51,663,625

The Board of Directors approved the consolidated financial statements on 23 February 2023 and signed on its behalf by:

Talal Fuad Ebrahim Kanoo
Chairman

Mohammed Farouk Y. Almoayyed
Deputy Chairman

The accompanying notes 1 to 17 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPERHENSIVE INCOME

For the year ended 31 December 2022 (Bahraini Dinars)

	Note	2022	2021
Interest income	12	4,906,067	4,831,748
Interest expense		(1,985,839)	(1,799,672)
Net interest income		**2,920,228**	3,032,076
Fees and commission income		454,300	436,241
Fees and commission expense		(152,487)	(163,173)
Net fee and commission income		**301,813**	273,068
Other income	13	295,779	373,194
Total income		**3,517,820**	3,678,338
Salaries and related costs		(884,220)	(866,550)
Other operating expenses	14	(646,454)	(630,054)
Depreciation	6 & 7	(162,271)	(165,873)
Impairment losses on loans to customers	5	(482,996)	(706,164)
Total expenses		**(2,175,941)**	(2,368,641)
Profit for the year		**1,341,879**	1,309,697
Other comprehensive income		**-**	-
Total comprehensive income for the year		**1,341,879**	1,309,697
Basic and diluted earnings per share	11	**17.89 fils**	17.46 fils

The Board of Directors approved the consolidated financial statements on 23 February 2023 and signed on its behalf by:

Talal Fuad Ebrahim Kanoo
Chairman

Mohammed Farouk Y. Almoayyed
Deputy Chairman

The accompanying notes 1 to 17 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022 (Bahraini Dinars)

2022	**Share capital**	**Share premium**	**Statutory reserve**	**Retained earnings**	**Total equity**
Balance at 1 January 2022	7,500,000	112,500	1,420,223	7,183,148	**16,215,871**
Profit and total comprehensive income for the year (page 37)	-	-	-	1,341,879	**1,341,879**
Dividends declared for 2021	-	-	-	(600,000)	**(600,000)**
Transfer to statutory reserve	-	-	134,188	(134,188)	-
At 31 December 2022	**7,500,000**	**112,500**	**1,554,411**	**7,790,839**	**16,957,750**

2021	Share capital	Share premium	Statutory reserve	Retained earnings	Total equity
Balance at 1 January 2021	7,500,000	112,500	1,289,253	6,454,421	15,356,174
Profit and total comprehensive income for the year (page 37)	-	-	-	1,309,697	1,309,697
Dividends declared for 2020	-	-	-	(450,000)	(450,000)
Transfer to statutory reserve	-	-	130,970	(130,970)	-
At 31 December 2021	7,500,000	112,500	1,420,223	7,183,148	16,215,871

The accompanying notes 1 to 17 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022 (Bahraini Dinars)

	Note	2022	2021
Operating activities			
Interest, fees and commission received		5,527,810	5,524,306
Fees and commission paid		(157,687)	(159,373)
Loans disbursed		(17,180,637)	(16,133,947)
Loan repayments		16,549,629	15,795,364
Receipt from sale of vehicles		2,192,711	2,802,715
Payment for purchase vehicles		(2,303,011)	(2,616,241)
Payments for staff salaries and related costs		(881,287)	(784,383)
Payments for other operating expenses		(628,179)	(225,187)
Net cash generated from operating activities		**3,119,349**	4,203,254
Investing activities			
Placement with banks		-	3,000,000
Purchase of property and equipment	6	(29,775)	(213,504)
Net cash (used in) / generated from investing activities		**(29,775)**	2,786,496
Financing activities			
Drawdown of bank borrowings		10,280,000	3,000,000
Repayment of bank borrowings		(9,859,891)	(10,388,224)
Interest paid		(1,955,923)	(1,990,443)
Payment of lease liabilities		(92,688)	(92,688)
Dividends paid		(600,000)	(450,000)
Net cash used in financing activities		**(2,228,502)**	(9,921,355)
Net increase / (decrease) in cash and cash equivalents		**861,072**	(2,931,605)
Cash and cash equivalents at 1 January		610,429	3,542,034
Cash and cash equivalents as at 31 December*	4	**1,471,501**	610,429

* Cash and cash equivalents as at 31 December 2022 is gross of the expected credit loss of BHD 2,634 (2021: BHD 2,634); and excluding restricted cash of BHD 14,751 (2021: BHD 8,795) collected from customers as insurance premium on behalf of the insurance company.

The accompanying notes 1 to 17 are an integral part of these consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022 (Bahraini Dinars)

1- REPORTING ENTITY

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

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

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

2- BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS"), the requirements of the Commercial Companies Law and the applicable rules and regulations issued by the Central Bank of Bahrain (the "CBB").

(b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention. The principal accounting policies applied in the preparation of these consolidated financial statements have been consistently applied to all the years presented.

(c) Functional and presentation currency

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

3- SIGNIFICANT ACCOUNTING POLICIES

(a) New accounting policies, standards, amendments and interpretations effective from 1 January 2022:

There are no new standards, amendments to the standards, which became effective as of 1 January 2022, that were relevant and had a material impact on the consolidated financial statements.

(b) Standards issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2022 and earlier application is permitted; however; the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following new standards, amendments and interpretations to standards that are relevant to the Group is not expected to have a significant impact on the Group's consolidated financial statements.

- Classification of liabilities as current or non-current (Amendments to IAS 1).
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)
- Definition of Accounting Estimates (Amendments to IAS 8)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022 (Bahraini Dinars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of consolidation

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

(d) Use of estimates and judgments

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

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

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

Impairment of financial assets

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

Significant increase in credit risk

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

Inputs, assumptions and techniques used for estimating impairment

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

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

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

Impairment of non-financial assets

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

Depreciation

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

(e) Interest income and expense

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022 (Bahraini Dinars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Fees and commission income and expenses

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

(g) Financial assets and liabilities

Financial assets
(i) Recognition and initial measurement

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

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

(ii) Classification

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

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

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

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

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

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

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

As at 31 December 2022 and 2021 the Group did not have any financial assets measured at FVOCI or FVTPL.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022 (Bahraini Dinars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

Financial liabilities

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

Reclassifications

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

(iii) Identification and measurement of impairment

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022 (Bahraini Dinars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement of ECLs

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

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

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

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

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

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

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

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

Credit-impaired financial assets

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

Evidence that a financial asset is credit-impaired includes the following observable data:

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

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

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

(h) Loans to customers

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022 (Bahraini Dinars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Property and equipment

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

(j) 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

(k) Cash and bank balances

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

(l) Statutory reserve

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

(m) Bank borrowings

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

(n) Employees' end of service benefits

(i) Bahraini employees

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

(ii) Expatriate employees

Expatriate employees on fixed contracts are entitled to leave indemnity payable under the Bahraini Labour Law for the Private Sector of 2012, based on length of service and final remuneration. Provision for this unfunded commitment has been made by calculating the notional liability had all employees left the Group at the statement of financial position date.

4- CASH AND BANK BALANCES

	2022	2021
Cash in hand	1,500	1,500
Balances with banks	1,470,001	608,929
Cash and cash equivalents	**1,471,501**	610,429
Restricted cash *	14,751	8,795
Less: expected credit loss **	(2,634)	(2,634)
Cash and bank balances	**1,483,618**	616,590

* This represents cash collected from customers as insurance premium on behalf of the insurance company.
** Represents 12-month ECL on stage 1 financial assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022 (Bahraini Dinars)

5- LOANS TO CUSTOMERS

(a) Exposure

31 December 2022	Stage 1	Stage 2	Stage 3	Total
Loans to customers	48,156,929	1,983,295	3,067,510	53,207,734
Less: expected credit loss	(497,957)	(368,489)	(1,678,690)	(2,545,136)
Net loans	**47,658,972**	**1,614,806**	**1,388,820**	**50,662,598**

31 December 2021	Stage 1	Stage 2	Stage 3	Total
Loans to customers	49,554,714	760,464	2,490,936	52,806,114
Less: expected credit loss	(441,432)	(278,818)	(1,822,549)	(2,542,799)
Net loans	49,113,282	481,646	668,387	50,263,315

(b) Expected credit loss movement

2022	Stage 1	Stage 2	Stage 3	Total
At 1 January 2021	441,432	278,818	1,822,549	2,542,799
Transfer to Stage 1	79,989	(24,360)	(55,629)	-
Transfer to Stage 2	(20,465)	48,700	(28,235)	-
Transfer to Stage 3	(16,614)	(33,867)	50,481	-
Net re-measurement of loss allowance	13,615	99,198	370,183	482,996
Write off during the year	-	-	(480,659)	(480,659)
Expected credit loss as at 31 December 2022	**497,957**	**368,489**	**1,678,690**	**2,545,136**

2021	Stage 1	Stage 2	Stage 3	Total
At 1 January 2021	250,075	116,275	1,956,938	2,323,288
Transfer to Stage 1	141,332	(39,824)	(101,508)	-
Transfer to Stage 2	(3,889)	20,957	(17,068)	-
Transfer to Stage 3	(10,068)	(48,553)	58,621	-
Net re-measurement of loss allowance	63,982	229,963	412,219	706,164
Write off during the year	-	-	(486,653)	(486,653)
Expected credit loss as at 31 December 2021	441,432	278,818	1,822,549	2,542,799

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022 (Bahraini Dinars)

6- PROPERTY AND EQUIPMENT

	Furniture and equipment	Computer software	Computer hardware	Capital work in progress	2022 Total	2021 Total
Cost						
At 1 January	631,523	557,129	202,919	211,976	1,603,547	1,403,686
Additions	2,156	-	3,650	23,969	29,775	213,504
Disposals	-	-	(365)	-	(365)	(12,788)
Transfer from WIP	-	-	11,798	(11,798)	-	-
Reclassification and other adjustments	-	-	-	-	-	(855)
At 31 December	**633,679**	**557,129**	**218,002**	**224,147**	**1,632,957**	1,603,547
Depreciation						
At 1 January	523,619	502,176	193,504	-	1,219,299	1,149,849
Charge for the year	47,778	22,082	9,404	-	79,264	82,238
Disposals	-	-	(365)	-	(365)	(12,788)
At 31 December	**571,397**	**524,258**	**202,543**	**-**	**1,298,198**	1,219,299
Net book value						
At 31 December 2022	**62,282**	**32,871**	**15,459**	**224,147**	**334,759**	
At 31 December 2021	107,904	54,953	9,415	211,976		384,248

7- RIGHT-OF-USE ASSETS

	2022	2021
Balance at 1 January	85,463	169,098
Additions	207,508	-
Depreciation charge for the year	(83,007)	(83,635)
	209,964	85,463

Right-of-use asset relate to leased properties that do not meet the definition of investment property. The Group has on lease its premises at Avenue 66 and Sitra namely. These leases are for a period of five years, with an option to renew the lease after that date subject to mutual agreement. Lease payments can be renegotiated every five years to reflect market rentals. During 2022, the Company has extended the lease agreement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022 (Bahraini Dinars)

8- BANK BORROWINGS

	2022	2021
Repayable within one year	8,901,192	8,888,960
Repayable after one year	23,962,412	23,554,535
	32,863,604	32,443,495

These are term loans with floating interest rates, which are subject to re-pricing on a monthly, quarterly, or on half-yearly basis. The effective interest rate on borrowings was within the range of 3.75% to 9.03% p.a. (2021: 3.73% to 5.25% p.a.). Of the total borrowings, BHD 26 million (2021: BHD 27 million) is secured by assignment of customer loans.

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

	2022	2021
At 1 January	32,443,495	39,881,532
Proceeds from bank borrowings	10,280,000	3,000,000
Repayment of bank borrowings	(9,859,891)	(10,438,037)
At 31 December	**32,863,604**	32,443,495

9. OTHER LIABILITIES

	2022	2021
Payable to agents for vehicles financed	2,121,920	2,122,462
Payable to equipment dealers	35,700	-
Payable to insurance companies	500,801	322,529
Lease liability	212,369	92,324
Interest payables	133,437	103,522
Accrued expenses and other liabilities	248,258	363,422
	3,252,485	3,004,259

Maturity analysis of contractual discounted cash flows of lease liability:

	2022	2021
Within one year	45,768	81,870
More than one year	166,601	10,454
	212,369	92,324

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022 (Bahraini Dinars)

10- RELATED PARTY TRANSACTIONS

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

Related party transactions	2022	2021
Capital expenditure		
Furniture and equipment and capital work-in-progress (Shareholder)	3,900	68,805
Operating income		
Insurance commission - Motor vehicles (Shareholder)	42,705	39,118
Operating expenses		
Auto Mall purchases of vehicles (Shareholders)	432,196	451,759
Insurance premium charges (Shareholder)	218,550	184,501
Salaries and related costs (Shareholder) *	15,795	13,662
Other operating expenses (Shareholders)	59,483	64,822

* This amount relates to NFH Group contribution of employees saving scheme and does not include employees contribution.

Related party balances	2022	2021
Payable for vehicles financed (Shareholders)	1,435,001	950,766
Payable for insurance premiums (Shareholder)	29,428	17,841
Prepaid expenses (Shareholders)	19,611	17,364
Payable for operating and capital expenditure (Shareholders)	6,826	25,956
Receivable of insurance agency commission (Shareholder)	8,416	5,866

Transactions with key management personnel

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

	2022	2021
Key management compensation	260,914	214,202
Board of Directors remuneration (accrual)	32,500	30,000
Committee attendance allowances	67,750	57,750
Staff loans disbursed	-	4,800

Balances with key management personnel

	2022	2021
Board of Directors remuneration (accrual)	32,500	30,000
Committee attendance allowances	-	5,000
Staff loan	-	3,915

Certain transactions were approved by the Board of Directors under Article189(b) of the Commercial Companies Law in the financial year ended 31 December 2022 where the chairman, directors or managers had a direct or indirect interest in the contracts or transactions which have been approved by the Board.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022 (Bahraini Dinars)

11- SHARE CAPITAL

	2022	2021
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	**17.89 fils**	17.46 fils

The earning per share is calculated by dividing the net income of BHD 1,341,879 (2021: BHD 1,309,697) by the number of shares outstanding at the end of the year of 75 million shares (2021: 75 million shares). Diluted earnings per share is same as basic earnings per share as the Group does not have any potential dilutive instruments in issue.

The Board of Directors proposed a cash dividend of 8% of the paid-up capital. This amounts to BHD 600,000 (2021: BHD 600,000).

In addition, Board of Directors' remuneration proposed for the year was BHD 32,500 (2021: 30,000).

12- INTEREST INCOME

	2022	2021
Interest on loans to customers	4,904,699	4,760,148
Interest on bank term deposits	1,368	71,600
	4,906,067	4,831,748

13- OTHER INCOME

	2022	2021
Recoveries from loans previously written off *	166,042	214,867
Net income from automotive sales **	128,336	150,520
Other miscellaneous income	1,401	7,807
	295,779	373,194

* The recoveries are non-recurring and mainly dependent on legal cases.
** The net income is resultant from automobile sales amounting to BHD 2,192,711 (2021: BHD 2,803,373).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022 (Bahraini Dinars)

14- OTHER OPERATING EXPENSES

	2022	2021
Computer maintenance and support expenses	95,078	96,754
Parking and others	10,098	10,218
Legal and professional charges	70,320	78,997
Communication expense	41,861	47,376
Advertising and publicity expense	34,703	29,290
Committee attendance allowances	68,395	59,217
Board of directors' remuneration	32,500	30,000
Printing and stationery expense	16,675	12,413
Net impairment of other assets	-	21,612
VAT expenses	44,886	23,166
Others	231,938	221,011
	646,454	630,054

15- FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Risk management framework and overview

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022 (Bahraini Dinars)

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Credit risk

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

The responsibility for the management of credit risk rest with management and the Credit Committee, comprising five members, Chief Executive Officer, Head of Financial Control, Head of Retail and Head of Risk Management.

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

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

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

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

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2022	2021
Balances with banks	1,482,118	615,090
Loans to customers	50,662,598	50,263,315
	52,144,716	50,878,405

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022 (Bahraini Dinars)

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Credit risk (continued)

Concentration of credit risk

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

	2022	2021
Concentration by sector		
Corporate	12,855,878	12,385,985
Retail	37,806,720	37,877,330
Financial institutions	1,482,118	615,090
	52,144,716	50,878,405

Monitoring of credit risk

Generating the term structure of PD

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022 (Bahraini Dinars)

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Credit risk (continued)

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

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

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy.

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

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

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

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behavior over a period of 6 months ("cooling-off period") before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL. During 2021, the Group has applied the CBB's concessionary measures which allows to reduce the cooling-off period to 3 months.

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

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

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

Significant increase in credit risk

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022 (Bahraini Dinars)

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Credit risk (continued)

The Group's credit risk profile based on ageing by sector / counterparty is as follows:
All loans are domestic and are granted to borrowers within the Kingdom of Bahrain.

2022

A. Corporate loans	Stage 1	Stage 2	Stage 3	Total
Current	12,123,249	236,514	35,734	12,395,497
Past due loans:				
1 to 29 days	231,201	17,747	11,750	260,698
30 to 59 days	-	142,500	45,789	188,289
60 to 89 days	-	141,494	81,818	223,312
90 days to 1 year	-	-	163,549	163,549
1 year to 3 years	-	-	383,422	383,422
More than 3 years	-	-	41,353	41,353
Gross carrying value	**12,354,450**	**538,255**	**763,415**	**13,656,120**
Expected credit loss	154,223	125,464	520,555	800,242
Net carrying value	**12,200,227**	**412,791**	**242,860**	**12,855,878**

B. Retail loans

Current	34,390,943	67,244	279,904	34,738,091
Past due loans:				
1 to 29 days	1,411,536	32,250	73,253	1,517,039
30 to 59 days	-	906,252	179,406	1,085,658
60 to 89 days	-	439,294	430,839	870,133
90 days to 1 year	-	-	662,148	662,148
1 year to 3 years	-	-	642,941	642,941
More than 3 years	-	-	35,604	35,604
Gross carrying value	**35,802,479**	**1,445,040**	**2,304,095**	**39,551,614**
Expected credit loss	343,734	243,025	1,158,135	1,744,894
Net carrying value	**35,458,745**	**1,202,015**	**1,145,960**	**37,806,720**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022 (Bahraini Dinars)

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Credit risk (continued)

2021

A. Corporate loans	Stage 1	Stage 2	Stage 3	Total
Current	11,978,407	1,942	27,644	12,007,993
Past due loans:				
1 to 29 days	318,849	12,798	-	331,647
30 to 59 days	-	80,811	12,509	93,320
60 to 89 days	-	19,264	34,342	53,606
90 days to 1 year	-	-	297,656	297,656
1 year to 3 years	-	-	424,038	424,038
More than 3 years	-	-	1,624	1,624
Gross carrying value	12,297,256	114,815	797,813	13,209,884
Expected credit loss	116,389	47,331	660,179	823,899
Net carrying value	12,180,867	67,484	137,634	12,385,985

B. Retail loans				
Current	36,542,364	34,104	243,609	36,820,077
Past due loans:				
1 to 29 days	715,094	4,667	40,106	759,867
30 to 59 days	-	490,737	103,853	594,590
60 to 89 days	-	116,141	140,285	256,426
90 days to 1 year	-	-	418,233	418,233
1 year to 3 years	-	-	731,708	731,708
More than 3 years	-	-	15,329	15,329
Gross carrying value	37,257,458	645,649	1,693,123	39,596,230
Expected credit loss	325,043	231,487	1,162,370	1,718,900
Net carrying value	36,932,415	414,162	530,753	37,877,330

Stage 3 includes exposures in the first four ageing buckets (i.e. Current to 60 to 89 days) which are not past due however continue to be classified as stage 3 until the completion of cooling-off period of 6 months (2021: cooling-off period of 3 months).

Non-performing exposure:

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

Loans that are “past due below 90 days but not impaired” are those for which contractual interest and principal payments are past due but the Group believes that they are not impaired on the basis of the level of security or collateral available and / or the stage of collection of amounts owed to the Group. As at 31 December 2022, loans past due below 90 days but not impaired amounted to BHD 3,322,274 (2021: BHD 1,758,361).

During the year, loans amounting to BHD 10,359 (2021: BHD 3,795) were restructured and due to the minor nature of the restructuring concession, there was no significant impact on the Group’s provisions on loans and advances impairment and present and future earnings. The Group renegotiates loans to customers in financial difficulties (referred to as ‘forbearance activities’) to maximise collection opportunities and minimise the risk of default.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022 (Bahraini Dinars)

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Credit risk (continued)

Under the Group's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms. The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Group Audit, Compliance and Risk Committee regularly reviews reports on forbearance activities.

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

The Group holds collateral against loans to customers in the form of mortgage interests over vehicles financed. In case of loans granted using hire purchase contracts, the vehicles financed are solely registered in the name of the Group and hence they are considered more secured. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. The principal type of collateral is the vehicle financed.

As at 31 December 2022, the market value of collaterals represents 81% (2021: 84%) of the Company's credit exposure (loans to customers). As of 31 December 2022, loans include hire purchase contracts of BHD 26,615,255 (2021: BHD 24,485,255) representing 50% (2021: 46%) of the total portfolio.

As at 31 December 2022 total non-performing loans (excluding BHD 1,138,493 (2021: BHD 602,349) of non-performing loans in cooling-off period and those less than 90 days past due) were BHD 1,929,017(2021: BHD 1,888,587). Interest on non-performing loans is suspended and is not recognised in the profit and loss until the interest is recovered from the borrower or the loan is upgraded after restructuring. In accordance with the Central Bank of Bahrain guidelines, loans that have been classified as non-performing should remain classified as non-performing for a cooling off period of not less than 6 months from the date of becoming performing. During 2021, the Group has applied the CBB's concessionary measures which allows to reduce the cooling-off period to 3 months.

During the year ended 31 December 2022, the average gross credit exposure for cash and balances with banks is BHD 1,373,420 (2021: BHD 1,707,229), placements with banks is BHD nil (2021: BHD 2,381,507) and loans and advances to customers is BHD 51,579,223 (2021: BHD 49,854,212). Such amounts are calculated based on the average of monthly results.

Liquidity risk

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

Management of liquidity risk

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022 (Bahraini Dinars)

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Liquidity risk (continued)

31 December 2022	Carrying amount	Contractual cash flows	6 months or less	6 to 12 months	More than 12 months
Bank borrowings	32,863,604	38,224,281	5,648,083	5,432,457	27,143,741
Accounts payable	2,622,721	2,622,721	2,622,721	-	-
Lease liability	212,369	255,492	35,844	25,344	194,304
	35,698,694	**41,102,494**	**8,306,648**	**5,457,801**	**27,338,045**

31 December 2021	Carrying amount	Contractual cash flows	6 months or less	6 to 12 months	More than 12 months
Bank borrowings	32,443,495	35,017,867	5,117,401	4,823,221	25,077,245
Accounts payable	2,140,303	2,140,303	2,140,303	-	-
Lease liability	92,324	98,240	46,344	37,896	14,000
	34,676,122	37,256,410	7,304,048	4,861,117	25,091,245

Market risks

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

Interest rate risk

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

31 December 2022	Fixed rate	Floating rate	Non-interest bearing	Total
Cash and bank	-	-	1,483,618	1,483,618
Loans to customers	50,662,598	-	-	50,662,598
Other assets	-	-	133,494	133,494
	50,662,598	**-**	**1,617,112**	**52,279,710**
Bank borrowings	-	32,863,604	-	32,863,604
Other liabilities	-	-	3,252,485	3,252,485
	-	**32,863,604**	**3,252,485**	**36,116,089**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022 (Bahraini Dinars)

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Interest rate risk (continued)

31 December 2021	Fixed rate	Floating rate	Non-interest bearing	Total
Cash and bank	-	-	616,590	616,590
Loans to customers	50,263,315	-	-	50,263,315
Other assets	-	-	66,520	66,520
	50,263,315	-	683,110	50,946,425
Bank borrowings	-	32,443,495	-	32,443,495
Other liabilities	-	-	3,004,259	3,004,259
	-	32,443,495	3,004,259	35,447,754

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 2021.

	Profit or loss		Equity	
	100 bp increase	100 bp decrease	100 bp Increase	100 bp de-crease
31 December 2022				
Bank borrowings	**(403,957)**	**403,957**	**(403,957)**	**403,957**
31 December 2021				
Bank borrowings	(398,815)	398,815	(398,815)	398,815

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

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

	Carrying amount	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Non- interest bearing
31 December 2022							
Cash and bank	1,483,618	-	-	-	-	-	1,483,618
Loans to customers	50,662,598	2,421,886	3,200,167	6,181,477	36,505,386	2,353,682	-
Other assets	133,494	-	-	-	-	-	133,494
	52,279,710	**2,421,886**	**3,200,167**	**6,181,477**	**36,505,386**	**2,353,682**	**1,617,112**
Bank borrowings	32,863,604	2,154,626	2,326,388	4,420,178	23,450,585	511,827	-
Other liabilities	3,252,485	19,060	8,743	17,965	166,601	-	3,040,116
	36,116,089	**2,173,686**	**2,335,131**	**4,438,143**	**23,617,186**	**511,827**	**3,040,116**
Interest rate gap	16,163,621	248,200	865,036	1,743,334	12,888,200	1,841,855	(1,423,004)
Cumulative interest rate gap	**16,163,621**	**248,200**	**1,113,236**	**2,856,570**	**15,744,770**	**17,586,625**	**16,163,621**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022 (Bahraini Dinars)

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Interest rate risk (continued)

	Carrying amount	Less than 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Non- interest bearing
31 December 2021							
Cash and bank	616,590	-	-	-	-	-	616,590
Loans to customers	50,263,315	2,792,946	3,023,351	6,129,164	35,711,773	2,606,081	-
Other assets	66,520	-	-	-	-	-	66,520
	50,946,425	2,792,946	3,023,351	6,129,164	35,711,773	2,606,081	683,110
Bank borrowings	32,443,495	2,359,760	2,193,074	4,336,126	23,554,535	-	-
Other liabilities	3,004,259	22,158	22,441	37,271	10,454	-	2,911,935
	35,447,754	2,381,918	2,215,515	4,373,397	23,564,989	-	2,911,935
Interest rate gap	15,498,671	411,028	807,836	1,755,767	12,146,784	2,606,081	(2,228,825)
Cumulative interest rate gap	15,498,671	411,028	1,218,864	2,974,631	15,121,415	17,727,496	15,498,671

Currency risk

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

Fair value

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

If an asset or a liability measured at fair value has a bid price and an ask price, the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price. The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022 (Bahraini Dinars)

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Operational risks

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

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

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

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

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

Legal contingencies risk

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

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

Capital management

The Central Bank of Bahrain sets and monitors capital requirements for the Group. According to the terms of the license granted by the Central Bank of Bahrain, the Group is required to maintain a minimum paid-up capital of BHD 5,000,000 and the borrowings may not exceed five times the capital and reserves (shareholders' equity). As at 31 December 2022, Group's paid up share capital was BHD 7,500,000 (2021: BHD 7,500,000) and the borrowing to capital and reserves ratio was 1.94 (2021: 2.00).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022 (Bahraini Dinars)

16- MATURITY PROFILE

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

31 December 2022	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	5 to 10 years	Total
Assets						
Cash and bank	1,483,618	-	-	-	-	1,483,618
Loans to customers	2,421,886	3,200,167	6,181,477	36,505,386	2,353,682	50,662,598
Other assets	133,494	-	-	-	-	133,494
	4,038,998	**3,200,167**	**6,181,477**	**36,505,386**	**2,353,682**	**52,279,710**
Liabilities						
Bank borrowings	2,154,626	2,326,388	4,420,178	23,450,585	511,827	32,863,604
Other liabilities	3,059,176	8,743	17,965	166,601	-	3,252,485
	5,213,802	**2,335,131**	**4,438,143**	**23,617,186**	**511,827**	**36,116,089**

31 December 2021	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	5 to 10 years	Total
Assets						
Cash and bank	616,590	-	-	-	-	616,590
Loans to customers	2,792,946	3,023,351	6,129,164	35,711,773	2,606,081	50,263,315
Other assets	66,520	-	-	-	-	66,520
	3,476,056	3,023,351	6,129,164	35,711,773	2,606,081	50,946,425
Liabilities						
Bank borrowings	2,359,760	2,193,074	4,336,126	23,554,535	-	32,443,495
Other liabilities	2,934,093	22,441	37,271	10,454	-	3,004,259
	5,293,853	2,215,515	4,373,397	23,564,989	-	35,447,754

The expected credit loss to the loans to customers of BHD 2,545,136 (2021: BHD 2,542,799) has been netted against the cash flows expected within 3 months.

17. COMPARATIVES

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

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