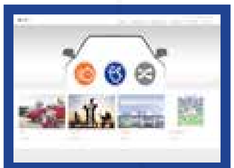
NFH التمويل الوطني

Charting Our Future

Annual Report 2023

Contents



Visit
our corporate website for more information.

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

POSTAL ADDRESS
P.O. Box 21774, Manama
Kingdom of Bahrain

WEBSITE
www.nfh.com.bh

EMAIL
info@nfh.com.bh

TOLL FREE
8000 8005

★ BRANCHES

Main Office
Office 186, Road 66, Block 364
Bilad Al Qadeem
Telephone: (+973) 17 407 407
General Fax: (+973) 17 403 995 / 17 403 378

Auto Mall & Sitra Office
Office 150, Building 5162
Road 10, Block 606
Shaikh Jaber Al-Ahmad Al Sabah Highway, Sitra
Telephone: (+973) 17 120 120

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 formed a wholly-owned subsidiary, National Finance House Auto Mall W.L.L., for the sale and trading of motor vehicles. The Auto Mall offers a one-stop shopping experience for new and used vehicle selection, finance, registration, and insurance, 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 VALUES

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

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

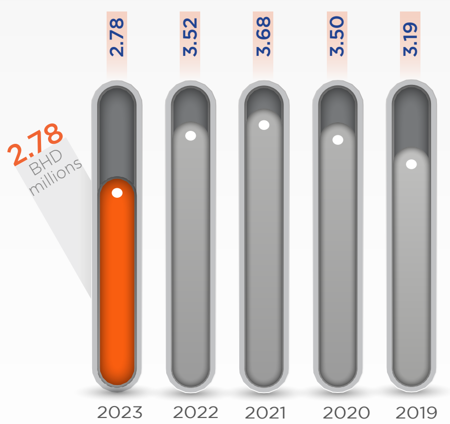
OUR MISSION

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

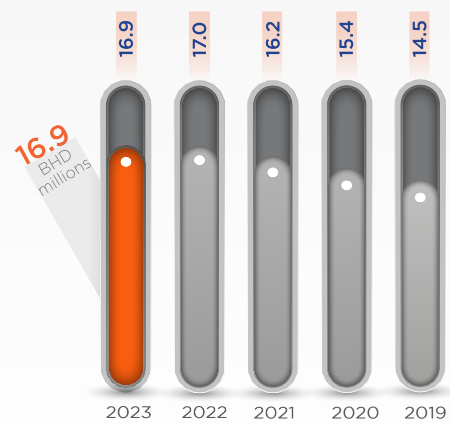
- **The provision of innovative and flexible financing solutions**
- **The delivery of personalised, speedy and responsive customer service**
- **The adoption of the highest standards of ethical behaviour**

Financial Highlights

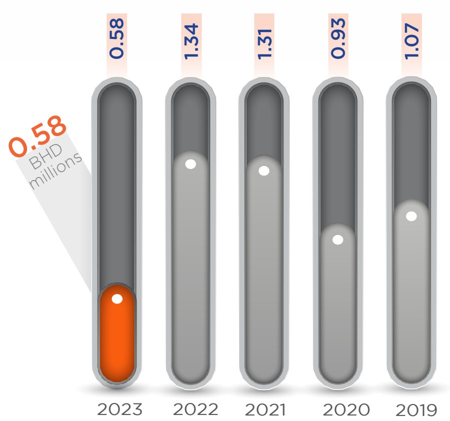
TOTAL INCOME



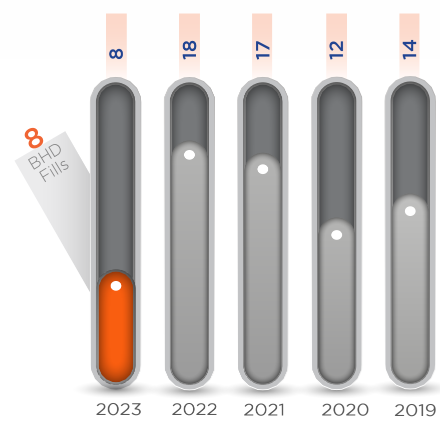
TOTAL EQUITY



PROFIT FOR THE YEAR



EARNING PER SHARE



FIVE YEAR FINANCIAL SUMMARY

(Bahraini Dinars)

	2023	2022	2021	2020	2019
Total Assets	**50,385,587**	53,073,839	51,663,625	57,140,033	54,644,477
Total Liabilities	**33,446,496**	36,116,089	35,447,754	41,783,859	39,656,817
Total Equity	**16,939,091**	16,957,750	16,215,871	15,356,174	14,987,660
Total Income	**2,784,865**	3,517,820	3,678,338	3,500,769	3,187,812
Profit for the Year	**581,341**	1,341,879	1,309,697	925,344	1,070,286
Share Capital	**7,500,000**	7,500,000	7,500,000	7,500,000	7,500,000
Dividends	**-**	600,000	600,000	450,000	-
ROAE (%)	**3.4%**	8.1%	8.3%	6.1%	7.3%
ROA (%)	**1.2%**	2.5%	2.5%	1.6%	2.0%
EPS (in fils)	**8**	18	17	12	14

Operational Highlights

BAHRAINISATION

As of the conclusion of the year 2023, the level of Bahrainisation reached an impressive rate of 98%.

STRONG PRESENCE

The Group persisted in upholding its robust presence and commanding a significant market share in the fiercely competitive vehicle financing sector within the Kingdom of Bahrain.

HUMAN RESOURCES MANAGEMENT SYSTEM (HRMS)

Promptly and effectively executed the transition to paperless digitization in the domain of human resource management.

DISCIPLINED RISK MANAGEMENT

We maintain a steadfast commitment to disciplined risk management practices, evident in the meticulous scrutiny applied to our portfolio and underwriting criteria.
This approach ensures the maintenance of high-quality standards and reinforces the integrity of our risk management.

ENHANCED IT INFRASTRUCTURE

The network IT infrastructure and data center underwent enhancements to facilitate various projects geared towards digital transformation. These upgrades were focused on improving network scalability, system availability, performance, and implementing advanced security solutions.

STRENGTHENING OUR COLLECTION EFFORTS

In 2023, the Group implemented a strategy aimed at strengthening collection efforts. With a focus on efficiency, transparency, and empathy, the Group was committed to diligently retrieving outstanding debts while supporting customers through challenging times.

Board of **Directors**

● Talal Fuad Kanoo ● Mohammed Farouk Almoayyed ● Redha Abdulla Ali Faraj

The board of directors comprises distinguished local and regional business leaders, each possessing a diverse array of skills, experience, and expertise. Their collective background encompasses various industries and disciplines, ranging from finance and technology to strategic planning and governance. This diverse composition enriches the board's discussions and decision-making processes, fostering a comprehensive approach to addressing the company's challenges and opportunities.

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 25 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
- Tamkeen
- 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 18 years of experience in the field of financing, automobile, information technology solutions

Redha Abdulla Ali Faraj

Board Member (Non-Executive)
Chairman 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
- Y.K. Almoayyed & Sons Group, Bahrain
- Almoayyed International Group, Bahrain
- Almoayyed Contracting Group, Bahrain
- National Concrete Company, Bahrain
- Banader Hotels Company BSC

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

Experience
- 63 years of experience in public and private sector experience and has own consulting business for the past 21 years.

Raed Abdulla Fakhri

Ahmed Adnan Al-Aseeri

Sanjay Kawatra

Raed Abdulla Fakhri

Board Member (Executive)
Member of Executive Committee
Appointed to the Board in 2023

Group Chief Executive Officer

- Bahrain National Holding B.S.C.
- Member of the Board of Directors
- Investrade
- BDI Partners

Experience

- Over 30 years of experience in business development, investment and portfolio management

Ahmed Adnan Al-Aseeri

Board Member (Executive)
Member of the Executive Committee
Appointed to the Board in 2023

Chief Strategy Officer

- Bahrain National Holding B.S.C.

Experience

- Over 16 years of experience across consulting, private equity, real estate investments, business building and portfolio management.

Sanjay Kawatra

Board Member (Executive)
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
- LIVA Group SAOG
- National Finance Company SAOG, Sultanate of Oman

Experience

- Over 25 years of experience in the finance and banking sector.

Board of **Directors**

Mohammad Alwabil

Khalid Shaheen Saqer Shaheen

Tawfeeq Mohammed Bastaki

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

- First Milling Company, KSA

Experience

- Over 33 years of experience in the investment, banking and auditing.

Khalid Shaheen Saqer Shaheen

Board Member (Independent)
Member of Audit, Compliance & Risk Committee
Deputy Chairman 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 33 years of extensive banking experience.

Tawfeeq Mohammed Bastaki

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

Experience

- Over 43 years of banking experience in Conventional and Islamic Banking

Charting The Future

The Group's vision towards charting the future is marked by a commitment to digitalization, sustainability, and strategic agility.

With a clear focus on setting ambitious goals and fostering a culture of continuous improvement, the Group aims to navigate the ever-changing business landscape with confidence. This vision is underpinned by a dedication to proactive planning, resilient strategies, and a profound belief in the transformative power of forward-thinking leadership.

Board of **Directors' Report**

TALAL FUAD KANOO
Chairman of the Board

It is our privilege to present the annual report of National Finance House (NFH) for the year ended 31 December 2023. Our Group faced a complex and challenging landscape marked by the ongoing surge in inflation, increasing interest rates, and a geopolitical climate. Additionally, we encountered further challenges within this multifaceted economic environment. These encompassed supply chain disruptions, heightened market volatility, and shifting consumer preferences. Amidst this intricate backdrop, sustaining profitability proved to be an even more formidable task for our Group during the year 2023. Nevertheless, we remained committed to navigating these challenges and adapting to the evolving business landscape.

Our dedication to resilience and adaptability is exemplified by the Group's financial performance in the past year. The net profit for the fiscal year ending on December 31, 2023, decreased by 57%, resulting in an amount of BHD 581 thousand, as compared to the robust BHD 1.34 million achieved in 2022. The primary reason for this decline can be attributed to the substantial impact of soaring interest rates and the escalation in the Group's borrowing costs, particularly for loans that are priced on a floating basis.

The total loan portfolio decreased by 6%, from BHD 50.66 million in 2022 to BHD 47.86 million in 2023. This decline can primarily be attributed to the substantial impact of rising interest rates, which had a cascading effect on the demand for new loans. Additionally, the decrease in the loan book can also be attributed to our strategic decision to tighten lending criteria in order to mitigate potential credit risks. Despite these challenges, we focused on optimizing our existing loan record and exploring new avenues for growth in order to maintain a sustainable level of profitability. Furthermore, shareholders' equity slightly decreased by 0.1%, from BHD 16.96 million in 2022 to BHD 16.94 million in 2023. Similarly, the basic earnings per share mirrored this transition, falling to Bahraini fils 7.75, which represents a notable difference from the previous year's figure of 17.89 fils.

These financial indicators mirror the dynamic challenges faced by the Group during the past year. They underscore the importance of our strategic resilience and the need for continued adaptation in order to thrive in this ever-evolving landscape.

Based on these financial results, the Board of Directors is proposing transferring the net profit for the fiscal year 2023 to the retained earnings in order to bolster our financial resilience, strengthen our capital base, and position the Group for future growth and stability. This strategic decision reflects our commitment to prudent financial management and ensures that we have the necessary resources to navigate the challenges and opportunities that lie ahead.

In the course of this year, we had the pleasure of welcoming two distinguished individuals, Mr. Raed Abdulla Fakhri and Mr. Ahmed Adnan Al-Aseeri, to our Board of Directors. They assumed the roles of executive directors, representing Bahrain National Holding Company (BNH). Their extensive expertise in business development, investment, and portfolio management promises to bring valuable insights to our Group.

In addition, we would like to express our heartfelt appreciation to Mr. Sameer Al Wazzan, who faithfully represented BNH over the past nine years. His commitment and dedicated service to our Group, both as a board member and a valued member of the executive committee, have been instrumental in our development and growth. We extend our best wishes to him for all his future endeavors.

In accordance with the Group's commitment to uphold the highest standards of transparency and confidence with our esteemed stakeholders, we are pleased to provide the following tables, which detail the compensation of the board of directors members and the executive management for the fiscal year ending on December 31, 2023.

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
	Remunerations of the Chairman and Board	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	-	16,500	-	16,500	-	-	-	-	-	16,500	-
2- Tawfeeq Mohamed Bastaki	-	17,000	-	17,000	-	-	-	-	-	17,000	-
Second: Non-Executive Directors:											
1- Redha A. Faraj (4)	5,000	10,500	-	15,500	-	-	-	-	-	15,500	-
2- Mohammed Abdullah Alwabil	5,000	3,750	-	8,750	-	-	-	-	-	8,750	-
Third: Executive Directors:											
1- Talal Fuad Ebrahim Kanoo	7,500	5,000	-	12,500	-	-	-	-	-	12,500	-
2- Mohammed Farouk Almoayyed	7,000	6,500	-	13,500	-	-	-	-	-	13,500	-
3- Raed Abdulla Fakhri	2,500	3,750	-	6,250	-	-	-	-	-	6,250	-
4- Ahmed Adnan Al-Aseeri	2,500	4,750	-	7,250	-	-	-	-	-	7,250	-
5- Sanjay Kawatra (2)	2,500	2,750	-	5,250	-	-	-	-	-	5,250	-
6- Sameer Ebrahim Al Wazzan (3)	-	500	-	500	-	-	-	-	-	500	-
Total	**32,000**	**71,000**	**-**	**103,000**	**-**	**-**	**-**	**-**	**-**	**103,000**	**-**

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 Director no longer represents Bahrain National Holding at NFH Board as of May 4, 2023, due to his retirement.
(4) The Director no longer represents Bahrain National Holding at NFH Board but continuing as "Non-Executive Director" from May 8, 2023
(5) The Group does not have any variable remuneration payments, end of service benefits, or expense allowances paid to its directors.
(6) Board remuneration represents payments proposed for the year 2023 which are subject to the approval of the shareholders in upcoming Annual General Meeting dated March 14, 2024.

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 2023	Aggregate Amount
Top 6 remunerations for Executives, including CEO and Senior Financial Officer	269,163	14,897	-	284,059

As we embark on the year 2024, it is expected that inflation will see a moderate decline. While a growing number of central banks are expected to shift towards monetary easing to support aggregate demand in 2024, the impact will, to some extent, depend on the actions taken by the Federal Reserve. Despite a slowdown in the global economy, the outlook appears to be somewhat more favorable than originally expected. However, it is important to note that new challenges have arisen over the past year, particularly in the form of escalating geopolitical tensions in the Middle East, which are expected to persist in their escalation.

Anticipating additional challenges on the horizon, the Group will steadfastly maintain its commitment to cost control, actively investigate the possibilities presented by emerging technologies, and actively pursue opportunities that will not only drive our growth but also amplify our potential for creating value in the future years.

As Board of Directors of the Group, we are excited to share our vision for charting the future. We are deeply committed to embracing digitalization, sustainability, and strategic agility as our guiding principles. With steadfast determination, we are setting ambitious goals and cultivating a culture of constant enhancement, enabling us to navigate the dynamic business environment with unwavering confidence. Our vision rests upon proactive planning, resilient strategies, and a strong faith in the transformative capabilities of forward-thinking leadership.

With Appreciation & Gratitude

We extend our 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 their progressive leadership and encouragement.

We would like to seize this opportunity to extend our gratitude to the Central Bank of Bahrain for their continuous support of the Kingdom's financial and banking services sector. We also want to express our appreciation to our esteemed customers and shareholders for their trust and active participation throughout the years. Lastly, we extend our heartfelt thanks to our diligent management and dedicated staff for their hard work and unwavering commitment.

Talal Fuad Kanoo
Chairman of the Board

Mohammed Farouk Almoayyed
Deputy Chairman of the Board

HR Digital Transformation

The successful implementation of paperless digitization in HRMS showcased NFH's commitment to embracing technological advancements and improving operational effectiveness. It reflected the organization's dedication to enhancing employee experiences, optimizing HR processes, and staying aligned with modern digital practices. Overall, this transition was a significant milestone in NFH's journey towards a more efficient and technologically advanced HR management system.

Chief Executive Officer's **Report**

MAY A.LATIF AL-MAHMOOD
Chief Executive Officer

The year 2023 proved to be a period characterized by a heightened sense of uncertainty, primarily stemming from a confluence of factors that exerted significant influence on the performance of the Group. Among these factors were geopolitical tensions, surging inflation rates, and a noticeable rise in interest rates.

This complex environment created challenges and considerations that had far-reaching effects on the Group's operations and financial outcomes. These multifaceted challenges underscored the need for adaptability, agility, and proactive decision-making within the Group. Navigating through a landscape marked by uncertainty required a strategic approach that factored in these external pressures while seeking opportunities for growth and stability. It was a year that highlighted the importance of resilience and strategic acumen in the face of evolving economic and geopolitical conditions.

The net profit for the fiscal year ending on December 31, 2023, exhibited a decline of 57%, amounting to BHD 581 thousand, in contrast to the robust figure of BHD 1.34 million achieved in 2022. This decrease can be primarily attributed to the substantial impact of elevated interest rates and the resultant escalation in the Group's borrowing costs, particularly pertaining to borrowings priced on a floating basis. Since last summer, the federal funds target rate has remained steady within the range of 5.25% to 5.5%, following 11 consecutive increases starting in March 2022. Despite these challenges, it is noteworthy that the Group refrained from raising interest rates on the existing portfolio. This strategic decision underscores our unwavering commitment to maintaining stability and providing support to our valued customers amidst the prevailing economic challenges.

As a result, the Group's net interest income for the year 2023 witnessed a notable decline, amounting to a 26% decrease to BHD 2.15 million compared to BHD 2.92 million in 2022. This decline can be attributed primarily to the escalating cost of funding. The Group continues to grapple with the challenge posed by rising interest rates, which are anticipated to persist at elevated levels throughout the first half of 2024.

Furthermore, the accelerated interest rate has significantly influenced credit demand, as demonstrated by the Group's 6% reduction in its overall loan portfolio. This decline highlights the impact of increased borrowing costs on borrowers' willingness to seek loans, compounded by soaring inflation, thus shaping the broader dynamics of the credit market.

Throughout the year, the Group placed a strong emphasis on monitoring and enhancing the asset quality of its loan exposure. This entailed rigorous evaluation and management of various factors impacting loan quality, such as credit risk, borrower profiles, and economic conditions. Measures were implemented to proactively identify and address potential risks, including conducting thorough credit assessments, closely monitoring loan performance, and promptly addressing any emerging issues or deteriorating credit indicators. Additionally, the Group emphasized prudent lending practices and adherence to underwriting standards to mitigate the risk of loan defaults. By prioritizing asset quality, the Group aimed to safeguard its loan portfolio, preserve financial stability, and uphold the trust and confidence of stakeholders.

In 2023, the Group enacted a strategic initiative designed to fortify collection endeavors while upholding its cautious provisioning policy. With a focus on efficiency, transparency, and empathy, the Group explored various options for enhancing collection, demonstrating its commitment to diligently retrieving outstanding debts while supporting customers through challenging times. Notably, cash recoveries from outstanding debts improved in 2023 compared to the previous year. Through the reinforcement of collection practices, the Group sought to preserve the financial health of the organization and its stakeholders, thereby fostering trust and sustainability in its operations.

In response to the evolving landscape, our primary objective is to transition towards digitalization. This strategic shift entails harnessing advanced technological solutions to streamline processes, enhance efficiency, and improve customer experiences. Through digitalization, we aim to leverage automation, data analytics, and artificial intelligence to optimize operations, reduce costs, and accelerate decision-making. Moreover, digitalization enables us to adapt swiftly to changing market dynamics, innovate new products and services, and stay ahead of competitors. By embracing digital transformation comprehensively, we position ourselves to thrive in the digital age while continuing to meet the evolving needs and expectations of our stakeholders.

The effective deployment of paperless digitization within the HRMS underscored the Group's dedication to adopting technological innovations and enhancing operational efficiency.

It demonstrated the organization's commitment to improving employee experiences, streamlining HR processes, and adhering to contemporary digital standards. In sum, this transition marked a noteworthy milestone in our pursuit of a more streamlined and technologically sophisticated HR management system.

Bahrain's Gross Domestic Product (GDP) experienced a moderate increase in real terms throughout the year, primarily driven by significant expansion within the non-oil sector. It is anticipated that this growth will accelerate in 2024, supported by expectations of a gradual easing of monetary policy conditions and enhanced market liquidity. Policy rate cuts are set to commence in mid-2024 and are expected to alleviate borrowing costs and bloster the demand for credit, especially in the latter part of the year. However, notwithstanding these anticipated advancements, it is envisaged that interest rates on loans and borrowing expenses will persistently remain at elevated levels compared to those observed in 2021. These anticipated developments are poised to stimulate economic activity and sustain growth momentum in Bahrain's economy in the forthcoming year.

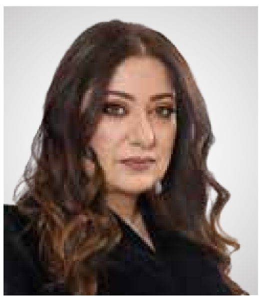
In 2024, our focus remains steadfast on achieving stable and consistent growth across all key performance indicators, underpinned by a commitment to maintaining a prudent risk appetite and diligent expense management practices. Concurrently, we are dedicated to sustaining investments in IT infrastructure and resources, reinforcing our strategic objectives aimed at digital transformation. These investments are geared towards enhancing operational efficiency and optimizing our customer experience. By leveraging cutting-edge technology and innovative solutions, we aim to streamline processes, enhance productivity, and deliver unparalleled value to our stakeholders. This steadfast dedication to growth and innovation positions us for continued success and resilience in the dynamic business landscape of 2024 and beyond.

I would like to express my sincere gratitude to the Board of Directors, the Central Bank of Bahrain, regulatory bodies, shareholders, customers, bankers, business associates, and all other stakeholders for their invaluable support and contributions towards the continued growth of the Group. Their unwavering support and trust have played a pivotal role in our success, enabling us to navigate through challenges and capitalize on opportunities in a dynamic market environment. As we move forward, we remain steadfast in our commitment to upholding the highest standards of transparency, accountability, and customer satisfaction. With the collective efforts of our stakeholders, we are confident in achieving even greater milestones and successes in the future.

Furthermore, I would like to extend my sincere gratitude to the executive management team and all dedicated employees for their outstanding performance and unwavering resilience displayed amidst a myriad of challenges. Their tireless efforts and steadfast dedication have proven to be instrumental in guiding the Group through one of the most arduous years, making substantial contributions to our collective accomplishments.

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

- **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

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

Adapting to Changing Risks

Our objective is to proactively mitigate the dynamic risk landscape, which includes macroeconomic factors such as inflation, escalating interest rates, uncertain growth prospects, and potential credit challenges, alongside regulatory shifts and cyber threats. In light of the unpredictable nature of economic fluctuations, the Group is obligated to uphold a vigilant approach to risk management.

REVIEW OF **OPERATIONS**

In 2023, a complex environment driven by factors like geopolitical tensions, rising inflation, and increased interest rates posed significant challenges and impacted the Group's overall performance.

RETAIL & MARKETING

Vehicle Financing

In recent years, the automotive industry has grappled with several notable economic and commercial challenges. The decline in sales, which commenced in 2019, has persisted due to the lingering effects of the pandemic. Despite facing issues such as inflation, geopolitical tensions, and rising interest rates, the automotive sector saw a resurgence in production and sales during 2023. This recovery coincided with the easing of the coronavirus pandemic and the resolution of semiconductor shortages.

Within the Kingdom of Bahrain, the Traffic Directorate reported a continuous uptick in the sales of new vehicles throughout 2023. However, the Group's auto loan portfolio saw a 6% reduction, primarily attributed to the surge in interest rates. The higher interest rates have posed challenges for individuals seeking auto loans, leading to a decrease in the number of loans issued by the Group. This shift in consumer behavior has impacted the overall sales of new vehicles, despite the positive market trends observed during the year.

Medical Equipment Financing

In 2023, there was a remarkable 424% increase in the financing of medical equipment. This funding program, initiated in 2022, facilitated health centers in acquiring state-of-the-art medical technology to support the expansion of their operations, upgrade their existing medical equipment, or establish new healthcare facilities.

NFH Auto Mall

Founded in May 2019, NFH Auto Mall has provided consumers with a convenient one-stop destination, allowing them to easily choose, finance, register, and insure a diverse range of top-tier automobile brands. In stark contrast to the preceding year, which saw a decrease in new vehicle sales, the Auto Mall experienced a notable upswing in vehicle sales during 2023.

In 2023, there was a significant 15% rise in the volume of vehicles sold at the Auto Mall, marking a turnaround from the previous year's decline in new vehicle sales. This surge in sales can be attributed to several contributing factors, including the increased availability of vehicles following the alleviation of semiconductor supply and a heightened demand for new vehicles.

Insurance

In its capacity as an "Appointed Representative" of Bahrain National Insurance (BNI), the Group has established a strategic alliance with BNI, enabling the Group to provide its customers with exclusive rates for motor insurance as an integral component of the Group's auto loan product. Notably, in 2023, the Group witnessed a remarkable 8% rise in its earnings derived from commissions related to motor insurance, compared to the preceding year.

Marketing

Marketing initiatives in 2023 encompassed a range of activities aimed at enhancing the Group's brand presence and customer engagement. Notably, the annual promotional campaign during the holy month of Ramadan achieved unprecedented success, marking a significant milestone. In addition to this, the Group executed ongoing direct marketing campaigns in collaboration with dealers and sub-dealers across the Kingdom of Bahrain. The Group's commitment to strengthening its online presence continued through strategic utilization of various social media channels, further solidifying its brand identity and expanding its reach.

Throughout the year, the Group actively participated in various events designed to heighten public awareness of the Group and its diverse portfolio of products and services. These efforts were geared towards fostering a deeper connection with the general public and potential customers.

Customer Service

The Group remains steadfast in its dedication to providing exceptional customer service, with a strong focus on expeditious and uncomplicated loan processing. Acknowledging that speed and simplicity are pivotal components of delivering outstanding customer service within the financial industry, the Group places a high priority on offering its customers a smooth and hassle-free experience. This commitment also extends to improving post-sale services, which are tailored to cater to customers' preferences and accessible through multiple channels.

COLLECTIONS

In 2023, the Group sustained its commitment to assisting customers in navigating the challenges stemming from the ongoing impact of COVID-19. Building on measures taken since the conclusion of the payment holiday midway through 2022, the Group extended payment deferral options to customers facing financial hardship. The Group also diligently pursued equitable and mutually acceptable solutions, including discounted settlements, loan rescheduling, and restructuring, tailored to accommodate customers' evolving economic circumstances.

Throughout 2023, the Group maintained a strong focus on enhancing cash collections while adopting a proactive stance in managing both existing and potential defaults. Notably, there was an improvement in cash collection during the year.

In the backdrop of the consistently unstable economic environment in 2023, evaluating the sufficiency of provisions for customer loan impairments presented a notable challenge. In April 2023, the Central Bank of Bahrain (CBB) introduced new regulations pertaining to the re-categorization of Non-performing Exposures as Performing. These revisions encompassed the establishment of cooling-off periods for re-categorizing non-performing exposures, shifting them from Stage 3 to either Stage 2 or Stage 1. This applied to loans extended to individuals, micro, small, and medium-sized enterprises (MSMEs), as well as large corporate loans. Furthermore, the regulations defined cooling-off periods for the re-categorization of exposures from Stage 2 to Stage 1 and for restructured loans. These changes had an impact on the staging of loans, leading to increased provisions being held throughout the year.

CREDIT ADMINISTRATION

Throughout the year 2023, the Group conducted a comprehensive review and amendment of its credit administration policy and procedures, further reinforcing its credit criteria at both transactional and portfolio levels. Despite a substantial reduction in the adverse effects of the coronavirus pandemic, the Group maintained the application of stringent lending criteria for specific customer segments. Moreover, the Group scrutinized its Know Your Customer (KYC) procedures, credit rating, and authority levels. Full compliance was upheld with the stipulations of the Credit Reference Bureau (CRB) for both individual and corporate clients, alongside alignment with the National Digital Identity framework and the electronic Know-Your-Customer (eKYC) platform requirements for individual clients. The alignment with eKYC for corporate clients is anticipated to be achieved upon its introduction by the Benefit Company in 2024.

CUSTOMER COMPLAINTS

The Group maintains a strong and independent complaints unit, which underwent thorough reviews of all pertinent policies, processes, and procedures over the course of the year. These encompass various aspects, including the reception, recording, monitoring, follow-up, and resolution of complaints, all of which are routinely reported to the Central Bank of Bahrain (CBB) on a quarterly basis.

In 2023, the Group continued to demonstrate its commitment to exceptional customer service and satisfaction. Notably, the number of significant complaints remained exceedingly low when compared to industry standards for service-oriented markets. The majority of complaints were promptly addressed and satisfactorily resolved within the CBB's prescribed five-day timeframe. This serves as a testament to the Group's unwavering dedication to continually elevate its customer service standards.

HUMAN RESOURCES

By year-end, the workforce comprised 45 employees, with Bahrainis constituting an impressive 98% of the total staff. This notable level of Bahrainisation exemplifies the Group's unwavering commitment to social responsibility, thereby bolstering the economic vigor of the Kingdom of Bahrain while nurturing a profound sense of national pride.

Throughout the fiscal year, the Group steadfastly prioritized staff training and professional advancement, earmarking substantial resources for these endeavors. Embracing a comprehensive approach, the Group provided developmental opportunities through both in-house programs and collaborations with esteemed external institutions such as the Bahrain Institute of Banking & Finance (BIBF).

Throughout the past two years, the Group has remained steadfast in its commitment to bolstering cybersecurity awareness among all staff members. This initiative entailed deploying a Human Risk Management (HRM) platform to pinpoint any gaps in individual employees' security knowledge. Following this assessment, the Group initiated automated training programs tailored to mitigate these identified risks. Additionally, the HRM platform was utilized to administer automated awareness training on pivotal subjects such as anti-money laundering and combating terrorism financing (AML/CTF), Conflict of Interest, as well as First Aid & Fire Fighting

Through a strategic partnership with Hope Talents, the Group reaffirmed its dedication to advancing national human capital. Through mentoring, networking, and workshop development, this partnership seeks to foster local talent and facilitate career prospects. The Group's involvement in the "Khebrat" Bahrain Youth Development Program serves as an additional indication of its commitment to nurturing Bahraini talent through cooperation with influential parties. This apprenticeship program positions recent graduates and job seekers for future employment by providing them with practical experience. In 2023, the Group provided a two-month training program for three candidates who were selected by BIPA with the aim of augmenting their professional competencies.

INFORMATION TECHNOLOGY

Throughout the year, we dedicated resources to bolstering the Group's IT resilience and implementing upgrades and enhancements aimed at mitigating vulnerability. The Information Technology (IT) team spearheaded various projects to enhance service delivery for both internal and external stakeholders.

In 2023, the Group accomplished a significant milestone by finalizing the integration of the Information Technology Infrastructure Library (ITIL) architecture into its IT Services Management framework. This endeavor was pursued with a clear objective: to enhance the management of IT services within the organization while simultaneously maximizing value for both our valued customers and the Group as a whole. The integration of ITIL architecture represents a strategic move aimed at streamlining various aspects of IT service delivery, including incident management, problem resolution, change management, and service request fulfillment. By aligning IT best practices with globally recognized ITIL standards, the Group aims to improve operational efficiency, enhance service quality, and ensure greater alignment between IT initiatives and business objectives.

Furthermore, our commitment to innovation extended to bolstering the Network IT infrastructure and data center, facilitating digital transformation initiatives, new system developments, and ensuring network scalability, system availability, high performance, and advanced security solutions. The delivery of the Group's Cybersecurity framework, advancing it to the next maturity level of security, was successfully completed and rigorously tested throughout 2023. This comprehensive testing process ensures that the Group's systems are fortified with the highest level of protection possible.

In an exceptional move that solidifies the Group's position in the realm of technological advancement, a remarkable milestone has been achieved, further enhancing its distinguished track record. This achievement involved reaching an unprecedented level of seamless digitization in the domain of human resource management, accomplished entirely within the span of one week. In recognition of this accomplishment, the Group was bestowed with the esteemed accolade entitled "Fastest Digital Transformation for Human Resources in 2023.

In compliance with CBB regulations, the organization carried out two business continuity planning (BCP) exercises. These exercises encompassed successful testing of both the BCP center and the disaster recovery site, with the latter involving complete online replication in a separate location. Active participation from all departments was integral to these tests. Additionally, the organization proactively conducted two successful vulnerability assessment and penetration tests (VAPT) to maintain the highest standards of information security.

RISK MANAGEMENT

In the face of persistent challenges stemming from economic volatility, inflationary pressures, geopolitical instability, and the emergence of potentially disruptive technologies like artificial intelligence, coupled with regulatory imperatives advocating for sustained tight monetary policies, the Group has undertaken significant initiatives to fortify its corporate governance framework.

Throughout the fiscal year, heightened concerns regarding the adverse effects of a global interest rate surge observed in 2022 and 2023 prompted the Group to intensify its focus on risk management. This involved reinforcing existing risk management frameworks and revising pertinent policies and procedures to ensure resilience in the face of evolving market conditions.

One key area of emphasis has been the revision of the Group's pricing matrix. This strategic initiative aims to mitigate and manage the adverse impacts of interest rate fluctuations on the Group's operational efficiency and liquidity. By recalibrating pricing strategies, the Group seeks to navigate the challenges posed by volatile interest rate environments while maintaining stability and competitiveness in its operations.

Moreover, the Group's commitment to prudent governance practices is reflected in its proactive approach to compliance with regulatory directives. By adhering to stringent regulatory guidelines, including those stipulated by regulatory bodies such as the Central Bank, the Group ensures alignment with industry standards and mitigates potential regulatory risks.

Overall, these efforts underscore the Group's steadfast dedication to upholding sound corporate governance principles and mitigating risks inherent in the ever-evolving financial landscape. Through continuous refinement of risk management strategies and policies, coupled with a forward-looking approach to addressing emerging challenges, the Group remains well-positioned to navigate uncertainties and capitalize on opportunities in the dynamic global marketplace.

COMPLIANCE

In response to the growing intricacies of the risk landscape and the changing regulatory landscape, the Board has prioritized compliance risk management as a central focus for the Group. The Board Audit Compliance & Risk Committee is tasked with overseeing these efforts, ensuring alignment with regulatory expectations and industry standards. Throughout the entirety of 2023, the Group demonstrated steadfast adherence to the rigorous regulations set forth by the Central Bank of Bahrain (CBB) and other pertinent laws and regulations governing the Kingdom of Bahrain. This unwavering commitment to compliance reflects the Group's dedication to upholding the highest standards of governance and integrity in all its operations.

BUSINESS CONTINUITY

The Group is steadfast in its commitment to ensuring uninterrupted service delivery to its esteemed customers, notwithstanding potential business continuity challenges such as natural disasters or other unforeseen events. This commitment is manifested through the diligent identification of potential threats to the Group, coupled with the establishment of a comprehensive framework for response aimed at safeguarding all stakeholders, including employees and customers. Central to this effort is the Group's meticulously crafted Business Continuity Plan, which encompasses robust data recovery and information security measures.

Throughout 2023, the Group conducted two fire drills and two business continuity exercises, along with rigorous testing of the Group's call-out tree, involving coordination with the disaster recovery site and all relevant departments. Additionally, various disaster recovery scenarios were meticulously tested to ensure preparedness for unforeseen contingencies. Furthermore, the Group enhanced its information security posture by conducting two Vulnerability Assessment & Penetration Testing (VAPT) exercises and promptly addressing identified risks. Notably, the Group has implemented a resilient Cyber Security Framework, which includes clearly defined ownership and management of cyber risks, as well as the establishment of a dedicated Cyber Security Incident Response Team tasked with detecting, monitoring, mitigating, and reporting cyber threats.

Enhancing Our Debt Collection Endeavors

Throughout 2023, our organization embarked on a strategic initiative to fortify our collection endeavors. By prioritizing efficiency, transparency, and empathy, we remained steadfast in our commitment to recovering outstanding debts while fostering support for our valued customers during periods of adversity.

RISK MANAGEMENT REVIEW

In adherence to industry best practices and with the aim of bolstering the Group's governance standards, NFH has established a robust Risk Management and Internal Control Framework. This framework serves to systematically identify, monitor, and manage risks that may impact the Group. The Risk Management Department is tasked with overseeing the comprehensive implementation of requisite policies, procedures, controls, and systems to effectively monitor, manage, and mitigate these risks. Furthermore, an annual assessment and review of all risk management policies, processes, and procedures are conducted. This ensures alignment with the guidelines set forth by the Central Bank of Bahrain, as well as with the strategic direction and risk appetite outlined by the Board. Additionally, these policies and procedures are diligently documented and regularly communicated throughout the organization, ensuring that all stakeholders are well-informed and equipped to uphold the Group's risk management standards.

KEY DEVELOPMENTS IN 2023

- All of the Group's charters, policies, processes, and procedures were reviewed and updated, including the Credit Risk and Credit Administration policies and procedures, which were revised to further tighten customer credit assessment criteria for certain impacted segments of customers.
- Examined the Group's Risk Appetite Statement thoroughly to ensure its alignment with current risk profiles and organizational objectives. Subsequently, the list of Key Risk Indicators (KRIs) along with annual Risk Control Self-Assessment (RCSA) underwent a comprehensive review, incorporating necessary amendments and expansions. This iterative process aimed to enhance the Group's ability to identify, monitor, and manage risks effectively, thereby reinforcing its risk management framework.
- In 2023, the Group conducted a thorough assessment to evaluate the effectiveness of NFH's Credit Scoring Risk Grading system, which was customized specifically for corporate customers. This proactive approach underscores the Group's commitment to maintaining robust risk management practices and adapting strategies to effectively mitigate potential risks associated with its business clientele.
- The Group conducted a thorough review of the Customer Risk Rating (CRR) methodology with the objective of refining customer risk profiling and establishing inherent risk ratings in alignment with the Risk-Based Approach (RBA) requirements. This proactive approach ensures that risk management strategies are tailored to the specific risk profile of individual customers, thereby strengthening the Group's overall risk management framework and enabling more informed decision-making processes.
- The Group prioritized the continuous education and training of its staff on Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) and of Proliferation (CPF) practices by offering refresher courses through in-house resources. These training sessions were designed to reinforce staff awareness and understanding of regulatory requirements and best practices in detecting and preventing financial crimes. Additionally, recognizing the critical nature of AML/CFT compliance, new employees underwent comprehensive internal and external training sessions upon joining the organization.
- Complied with the Agreed Upon Procedures requirements to test compliance with customer due diligence and onboarding requirements as stated under the Financial Crime Module with no material observations identified.
- In response to the issuance of the Environmental, Social, and Governance (ESG) Requirements Module by the Central Bank of Bahrain (CBB) in the fourth quarter of 2023, the Group promptly initiated an action plan to address the new regulatory mandates. This action plan encompasses a comprehensive review of current practices and policies to ensure alignment with the ESG reporting disclosure requirements applicable to listed companies and CBB licensees. Additionally, the Group is actively engaged in enhancing its internal frameworks to effectively adopt ESG principles and meet the specified criteria within the stipulated timeframe.

RISK PHILOSOPHY & APPROACH

- The Group maintains a conservative risk appetite, which has consistently yielded sound asset quality and sustainable operating performance.
- Shareholder value is cultivated through a robust risk matrix aimed at ensuring stability and liquidity.
- The Group acknowledges and accepts a reasonable level of risk commensurate with its business type and aligned with the adopted business strategy.
- Normal risk levels are determined using techniques such as Credit Provisioning and Operational Loss Assessment.
- The Risk Management Framework is designed to establish and authorize risk appetites and tolerances mandated by the Board.
- The control environment adheres to the principle of segregation of duties and independence, ensuring effective risk mitigation measures.

RISK EXPOSURE

The Group's business operations entail exposure to various categories of risks, including:

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

These risks represent fundamental aspects of the Group's operational landscape and are closely monitored and managed to safeguard its financial stability and reputation.

RESPONSIBILITIES

Board of Directors

The Board of Directors holds ultimate responsibility for establishing and overseeing the Group's risk management framework. It defines the Group's overall risk parameters and tolerance levels by approving relevant risk management policies. Furthermore, the Board has instituted the Audit, Compliance & Risk Committee to review and monitor risk metrics and ensure compliance with approved policies. This committee regularly reports to the Board on the Group's risk profiles and risk management activities.

Management

The Chief Executive Officer (CEO) bears primary responsibility for authorizing risk-taking activities and operating within the risk management policies and tolerance levels defined by the Board of Directors. The risk management process relies on a comprehensive structure of policies, procedures, and limits, supported by thorough risk measurement and Management Information Systems (MIS) for controlling, monitoring, and reporting risks. The CEO is assisted by the Head of Risk & DMLRO (Deputy Money Laundering Reporting 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

Chaired by the Chief Executive Officer, the Credit Committee serves as a forum for discussing matters related to credit risk. It establishes and reviews credit policies and procedures, supervises the credit process's operation, and approves loans within its delegated limits.

Asset & Liability Committee
The Asset & Liability Committee, also chaired by the Chief Executive Officer, oversees the management of the Group's assets and liabilities. Its responsibilities include ensuring the availability of sufficient funds to meet commitments under normal operating conditions and during crisis. Additionally, the committee manages the Group's liquidity risk, reviews loan interest rates, and addresses strategic issues related to liquidity and margin management.

RISK MANAGEMENT FUNCTION

The Risk Management function, which operates independently of business line management, holds primary accountability for establishing and maintaining the Group's risk management and internal control frameworks, along with supporting policies. Additionally, the function is tasked with providing risk oversight and independent reporting to various stakeholders, including the Audit, Compliance, and Risk Committees, Executive Management, Board-level and Management Committees, and the Board.

The roles and responsibilities of the Risk Management function encompass:

- Implementing the Risk Management Framework Group-wide and integrating climate change considerations, while identifying risk drivers and owners.
- Deploying the Internal Control Framework across the Group and identifying control gaps throughout all processes.
- Efficiently identifying, assessing, monitoring, mitigating, and reporting risks across all business units, processes, and climate-related exposures.
- Providing expert advice on risk management to management and departments.
- Independently monitoring and reporting incidents in key risk areas such as credit risk, market risk, and operational risk.
- Ensuring adherence to Board-approved risk limits and policy compliance.
- Developing appropriate Management Information Systems (MIS) and reporting systems, while furnishing decision-making authorities with reliable data, views, and recommendations.
- Overseeing operational risk incidents and loss management within the Group, including maintaining a database of operational loss events and their causes.
- Fostering a culture of risk awareness and internal control among all employees.
- Conducting risk profiling of new products and services, and proposing suitable controls.
- Ensuring the effectiveness of the internal control system for managing risk controls.
- Implementing the Anti-Money Laundering, Counter-Terrorism and Proliferation Financing policy.

ANTI-MONEY LAUNDERING

The Group has appointed a dedicated Money Laundering Reporting Officer (MLRO) along with a Deputy MLRO (DMLRO). It has implemented a comprehensive anti-money laundering (AML), counter-terrorism financing (CFT) policy and counter-proliferation financing (CPF), supplemented by annual staff training sessions aimed at enhancing awareness in identifying and reporting suspicious transactions, as well as detecting and mitigating fraud.

In light of the amendments to the Financial Crime Module during the year 2023 in respect of "Reliance to Third Parties for Customer Due Diligence, Face to Face Due Diligence and On-boarding Requirements for Non-resident customers" in relation to Module FC requirements, the Group follows prudent practices related to Customer Due Diligence and Beneficial Ownership, screening abnormal transactions and Know Your Customer (KYC) principles.

In accordance with regulatory directives, the MLRO conducts an annual review of the effectiveness of AML/CFT/CPF procedures, systems, and controls. Furthermore, the Group's anti-money laundering measures undergo an annual audit conducted by independent external auditors, aimed at providing additional assurance to the Compliance Directorate of the Central Bank of Bahrain (CBB).

CORPORATE GOVERNANCE REPORT

National Finance House (NFH) is committed to upholding and preserving the utmost levels of corporate governance, transparency, and compliance in line with industry best practices in order to ensure fairness for all stakeholders and to achieve the highest levels of organisational efficiency and effectiveness.

1. DEVELOPMENTS IN 2023

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. A balanced corporate governance strategy also helps in mitigating risks and preventing unethical practices within the organization. It establishes clear guidelines and procedures for decision-making, ensuring that all actions are aligned with the best interests of the Company and its stakeholders.

NFH consistently endeavors to enhance compliance levels across all of its operations and incorporates optimal compliance practices. The Group maintained a robust corporate governance framework throughout 2023 to ensure adherence to the regulations set forth by the Central Bank of Bahrain (CBB), other statutory bodies, and other relevant laws and regulations 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 was 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 the 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 that 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 with the skills to properly oversee and direct Management; a Code of Conduct to guide directors, managers and employees 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 nine 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 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 2023, 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 103,000 as directors' remuneration and sitting fees for their contribution to the Board and Board Committees held during 2023.

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 2023 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 Employees. 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. This policy promotes a culture of transparency and accountability within the organization, ultimately safeguarding the interests of all stakeholders involved.

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 credit 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 2023.

During 2023, 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 2023.

Material transactions

Material transactions requiring Board / Board Committees approval are typically related to lending transactions that exceed certain predefined 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. The primary routes of communication include an annual general meeting, an annual report, semi-annual and annual financial statements, a corporate website, and regular announcements in the appropriate local med

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 delivered to all shareholders, relevant regulatory bodies, main bankers and other stakeholders. The annual report includes management discussion and analysis, ensuring transparency and a fair picture of corporate 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 2023 was two. 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 2023 was five. 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.

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 2023 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.

Board & Board Committee Members as at 31 December 2023

Bahrain National Holding Company (BNH), one of our controlled shareholders, changed the directors representing them on the NFH Board in April 2023. As a result, Mr. Redha Faraj ceased representing BNH on May 8, 2023, but remained as a "Non-Executive Director" on the NFH Board until the end of the current Board term in March 2024.

On 13 June 2023, Mr. Raed Abdulla Fakhri and Mr. Ahmed Adnan Al-Aseeri were appointed as Executive Directors representing Bahrain National Holding Company.

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		
Raed Abdulla Fakhri (Joined on 13th June 2023)	Executive	Member	Member		
Ahmed Adnan Al-Aseeri (Joined on 13th June 2023)	Executive	Member	Member		
Sanjay Kawatra	Executive	Member			
Mohammed Abdullah Alwabil	Non-Executive	Member			
Redha A. Faraj	Non-Executive	Member		Chairman	
Khaled Shaheen Saqer Shaheen	Independent	Member		Member	Deputy Chairman
Tawfeeq Mohamed Bastaki	Independent	Member	Member	Member	Member
Sameer Ebrahim Al Wazzan (Retired on 16 April 2023)	Executive	Member			

Board & Board Committee Meetings and Record of Attendance during 2023

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

Board of Directors

	23 Feb	16 May	17 Aug	28 Nov	% of meetings attended
Talal Fuad Ebrahim Kanoo	☑	☑	☒	☑	75%
Mohammed Farouk Almoayyed	☑	☎	☎	☑	100%
Raed Abdulla Fakhri (Joined on 13th June 2023)	☐	☐	☑	☑	100%
Ahmed Adnan Al-Aseeri (Joined on 13th June 2023)	☐	☐	☑	☑	100%
Sanjay Kawatra	☎	☒	☑	☒	50%
Mohammed Abdullah Alwabil	☑	☑	☑	☑	100%
Redha A. Faraj	☑	☑	☑	☑	100%
Khaled Shaheen Saqer Shaheen	☑	☑	☑	☑	100%
Tawfeeq Mohamed Bastaki	☑	☑	☑	☑	100%
Sameer Ebrahim Al Wazzan (Retired on 16 April 2023)	☒	☐	☐	☐	100%

Audit, Compliance & Risk Committee

	9 Feb	21 Mar	25 May	10 Aug	16 Nov
Redha A. Faraj	☑	☑	☑	☑	☑
Khaled Shaheen Saqer Shaheen	☑	☑	☑	☑	☑
Tawfeeq Mohamed Bastaki	☑	☑	☑	☑	☑

Nomination & Remuneration Committee

	7 Feb	22 Nov
Talal Fuad Ebrahim Kanoo	☑	☑
Khaled Shaheen Saqer Shaheen	☑	☑
Tawfeeq Mohamed Bastaki	☑	☑

During the year, the Board of Directors resolved to dissolve the Executive Committee and form a Board Follow-up Committee at their meeting No. 1/2023 held on February 23, 2023. Following that, on 21 June 2023, a Board decision was issued to dismantle the Board Follow-up Committee and reinstate the Executive Committee to the Board Committees' structure. The following are the board meetings and attendance for the two committees during the year:

Executive Committee	5 Feb	12 Nov
Mohammed Farouk Y. Almoayyed	☎	☑
Raed Abdulla Fakhri (joined EXCOM on 31/06/2023)	☐	☑
Ahmed Adnan Al-Aseeri (joined EXCOM on 31/06/2023)	☐	☑
Tawfeeq Mohamed Bastaki (joined EXCOM on 31/06/2023)	☐	☑
Sanjay Kawatra	☎	☐
Khaled Shaheen Saqer Shaheen	☎	☐
Sameer Ebrahim Al Wazzan	☎	☐

Board Follow Up Committee (Dissolved)	22 May
Redha A. Faraj	☑
Mohammed Farouk Y. Almoayyed	☑
Tawfeeq Mohamed Bastaki	☑

7. Shareholders

List of the Group's Shareholders as at 31 December 2023:

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

8. Management

The Board has delegated authority for the Group's day-to-day management to the Chief Executive Officer (CEO). The CEO is supported in her duties by a qualified and experienced Management team, as well as five committees: Management Committee, Credit Committee, Risk Management Committee, Asset & Liability Committee, and IT Steering Committee. Management committees comprised of senior management personnel have ultimate responsibility for directing the Group's activity, maintaining its smooth operation, and delivering the results for which it was established.

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 adheres to a policy of fairly and responsibly compensating all approved persons and material risk-takers in a manner that is adequate to retain, motivate, and attract individuals of the caliber required to effectively operate the Group. Notwithstanding this, remuneration should not surpass what is necessary to accomplish the particular goal. 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 functions. Direct relatives are defined as spouses, brothers, sisters, sons, daughters, and direct in-laws. As part of the annual reporting, the CEO must disclose to the Board, the direct relatives of any approved persons occupying controlled functions within the Group.

For 2023, the direct relatives of approved persons occupying controlled functions within the Group have 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 2023. The external auditors charged BHD 22,300 for services rendered (BHD 10,150 for audit, and BHD 12,150 for condensed interim financial information review, PIRFM review, Public Disclosure review, Financial Crime Module review, Annual License Fee "ALF" review). During the fiscal year, the external auditors provided no additional material consultative or administrative services to the Group that would be in breach with the independence principle.

The internal audit function was outsourced to Grant Thornton Abdulaal Gulf Audit for the year ended 31 December 2023. 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 2023, 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 an Acting Money Laundering Officer, a Deputy MLRO and a Complaints Officer. The Compliance function is independent and reports directly to the Audit, Compliance & Risk Committee and administratively to the CEO. The Board 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.

11. Non-Compliance with High Level Controls Module of CBB Rulebook

For the year 2023, 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.

Board Attendance:

HC-1.3.4 states Individual board members must attend at least 75% of all Board meetings in a given financial year to enable the Board to discharge its responsibilities effectively.

One of NFH board members, Mr. Sanjay Kawatra did not attended at least 75% of NFH Board meetings during 2023. A notification letter was sent to the CBB 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 a 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 applies the arms-length principle followed by transparent tendering and approval processes.

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

Independent Directors:

HC- 1.4.12 States where an independent director has served three consecutive terms on the board, such director will lose his/her independence status and must not be classified as an independent director if reappointed.

CBB exemption was obtained on 3 February 2021 to re-appoint Mr. Khaled Shaheen for a fourth term as an independent director.

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.

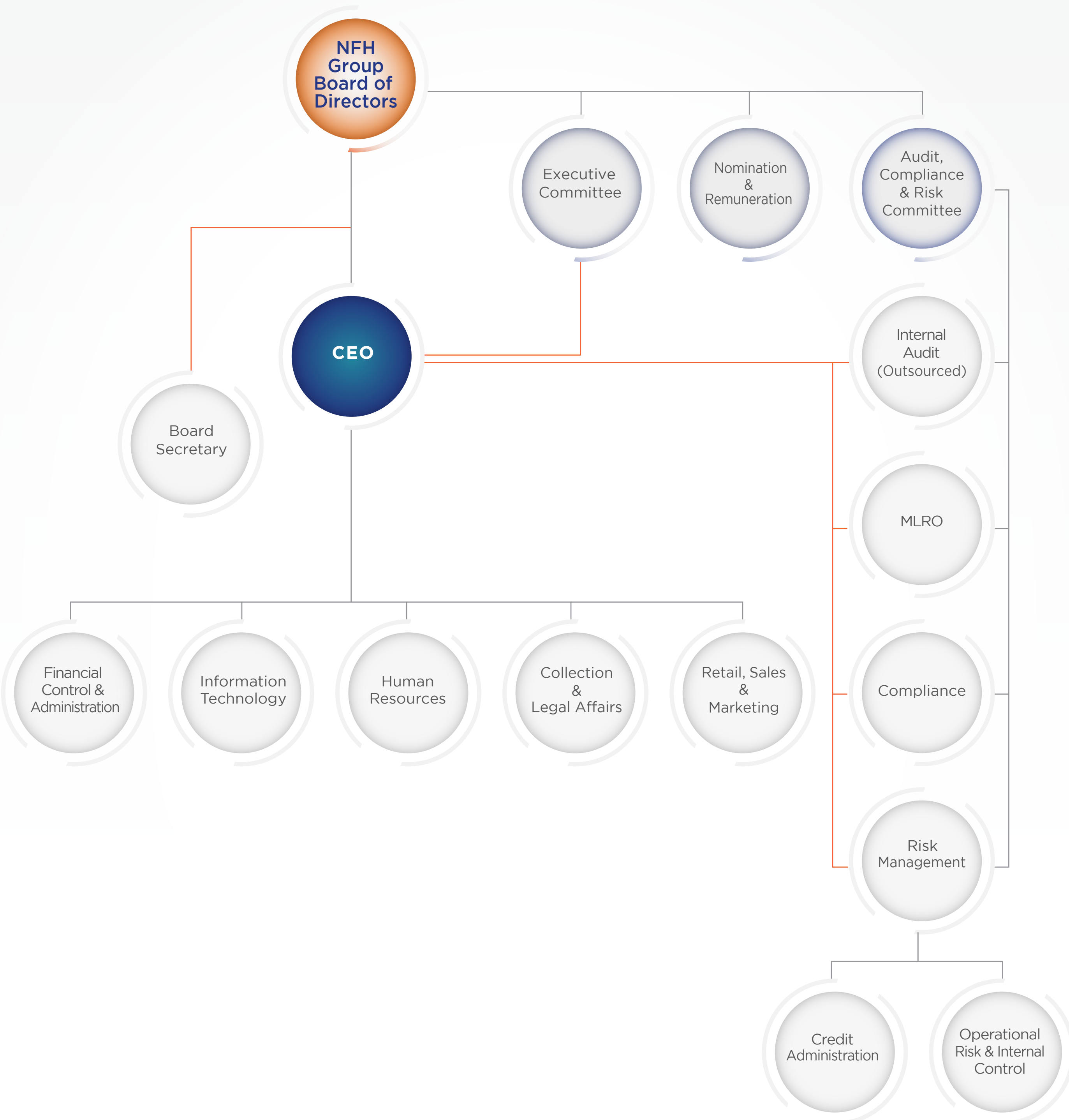
Mr. Talal Kanoo, the Chairman of the Group's Nomination & Remuneration Committee is not an independent Executive Director; however, the independence of the decision-making process is not compromised as the majority of the members are independent. Furthermore, all Board Members are required to abide by the Group's policies including the 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



EXECUTIVE MANAGEMENT

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

- More than three decades of financial industry experience, with three years of auditing sector experience.
- 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 19 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 24 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

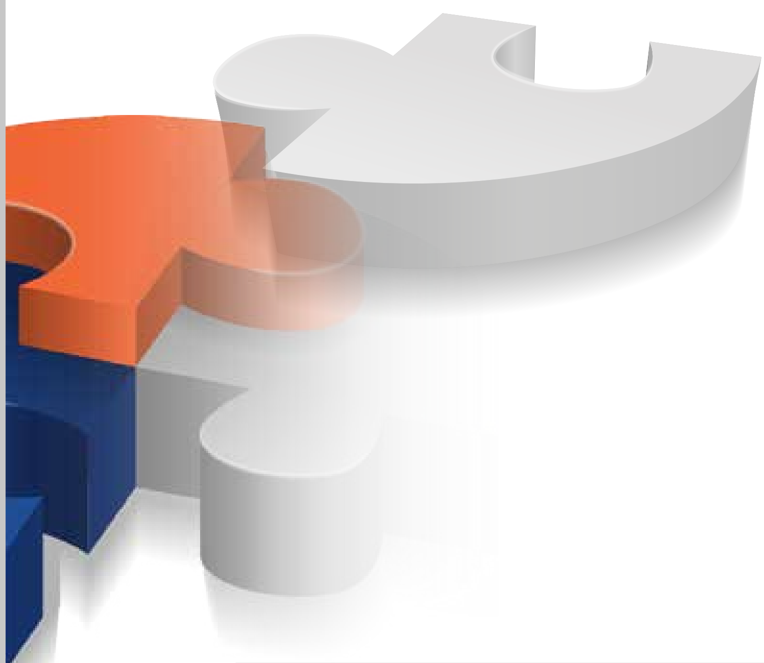
- Over 20 years' experience in credit and risk management.
- BSc in Banking & Finance, University of Bahrain.
- Certification in the Fundamentals of Financial Risk Management (FFRM) and Advance Financial Risk Management (AFRM).
- Certification in IFS-Accredited Credit Program, UK.

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

- Over 23 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)
- Certified Information Security Manager (CISM)
- 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 35 years of experience in financial and banking sectors and aviation, of which 29 have been spent in the field of human resources.



CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

Opinion

We have audited the consolidated financial statements of National Finance House B.S.C (c) (the "Company") and its subsidiary (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2023, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising material 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 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting 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 board of directors' report set out on pages 10-12.

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 Accounting 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.
- 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.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

- 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 2001 (as amended) and Volume 5 of the Rule Book issued by the Central Bank of Bahrain (CBB), 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 2001 (as amended), 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 100
27 February 2024

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2023 (Bahraini Dinars)

	Note	2023	2022
ASSETS			
Cash and bank balances	4	1,504,828	1,483,618
Loans to customers	5	47,864,166	50,662,598
Property and equipment	6	256,621	334,759
Right-of-use assets	7	305,117	209,964
Other assets		454,855	382,900
Total assets		**50,385,587**	53,073,839
LIABILITIES AND EQUITY			
Liabilities			
Bank borrowings	8	30,472,961	32,863,604
Other liabilities	9	2,973,535	3,252,485
Total liabilities		**33,446,496**	36,116,089
Equity			
Share capital	11	7,500,000	7,500,000
Share premium		112,500	112,500
Statutory reserve		1,612,545	1,554,411
Retained earnings		7,714,046	7,790,839
Total equity		**16,939,091**	16,957,750
Total equity and liabilities		**50,385,587**	53,073,839

The consolidated financial statements have been approved by the Board of Directors on 27 February 2024 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 COMPREHENSIVE INCOME

For the year ended 31 December 2023 (Bahraini Dinars)

	Note	2023	2022
Interest income	12	5,075,971	4,906,067
Interest expense		(2,928,396)	(1,985,839)
Net interest income		**2,147,575**	2,920,228
Fees and commission income		433,782	454,300
Fees and commission expense		(128,960)	(152,487)
Net fee and commission income		**304,822**	301,813
Other income	13	332,468	295,779
Total income		**2,784,865**	3,517,820
Salaries and related costs		856,331	884,220
Other operating expenses	14	691,097	646,454
Depreciation	6 & 7	176,525	162,271
Impairment losses on loans to customers	5	479,571	482,996
Total expenses		**2,203,524**	2,175,941
Profit for the year		**581,341**	1,341,879
Other comprehensive income		**-**	-
Total comprehensive income for the year		**581,341**	1,341,879
Basic and diluted earnings per share	11	**7.75 fils**	17.89 fils

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 2023 (Bahraini Dinars)

2023	**Share capital**	**Share premium**	**Statutory reserve**	**Retained earnings**	**Total equity**
Balance at 1 January 2023	7,500,000	112,500	1,554,411	7,790,839	**16,957,750**
Profit and total comprehensive income for the year	-	-	-	581,341	**581,341**
Dividends declared for 2022	-	-	-	(600,000)	**(600,000)**
Transfer to statutory reserve	-	-	58,134	(58,134)	**-**
At 31 December 2023	**7,500,000**	**112,500**	**1,612,545**	**7,714,046**	**16,939,091**

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	-	-	-	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

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 2023 (Bahraini Dinars)

	Note	2023	2022
Operating activities			
Interest, fees and commission received		5,695,976	5,527,810
Fees and commission paid		(126,860)	(157,687)
Loans disbursed		(14,518,693)	(17,180,637)
Loan repayments		16,348,808	16,549,629
Receipt from sale of vehicles		2,609,327	2,192,711
Payment for purchase of vehicles		(2,461,680)	(2,303,011)
Payments for staff salaries and related costs		(883,059)	(881,287)
Payments for other operating expenses		(565,573)	(628,179)
Net cash generated from operating activities		**6,098,246**	3,119,349
Investing activities			
Purchase of property and equipment	6	(70,667)	(29,775)
Net cash used in investing activities		**(70,667)**	(29,775)
Financing activities			
Drawdown of bank borrowings		7,146,000	10,280,000
Repayment of bank borrowings		(9,536,643)	(9,859,891)
Interest paid		(2,909,944)	(1,955,923)
Payment of lease liabilities		(92,688)	(92,688)
Dividends paid		(600,000)	(600,000)
Net cash used in financing activities		**(5,993,275)**	(2,228,502)
Net increase in cash and cash equivalents		**34,304**	861,072
Cash and cash equivalents at 1 January		1,471,501	610,429
Cash and cash equivalents as at 31 December*	4	**1,505,805**	1,471,501

* Cash and cash equivalents as at 31 December 2023 is gross of the expected credit loss of BHD 2,634 (2022: BHD 2,634); and excluding restricted cash of BHD 1,657 (2022: BHD 14,751) 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 2023 (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 has a wholly owned subsidiary, National Finance House Auto Mall W.L.L ("NFH Auto Mall"), established 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 IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards), and in conformity with the requirements of the Commercial Companies Law 2001 (as amended).

(b) Basis of measurement

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

(d) Change in material accounting policies

The Group adopted Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) from 1 January 2023. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information disclosed in the consolidated financial statements.

The amendments require the disclosure of 'material', rather than 'significant', accounting policies. The amendments also provide guidance on the application of materiality to disclosure of accounting policies, assisting entities to provide useful, entity-specific accounting policy information that users need to understand other information in the financial statements.

(e) Standards issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2023 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.

1. Classification of liabilities as current or non-current (Amendments to IAS 1).

(f) Use of judgments and estimates

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:

(i) Judgments

Note 15 (a): establishing the criteria for determining whether credit risk on financial assets has increased significantly since initial recognition, determining methodology for incorporating forward-looking information in the measurement of ECL and selection and approval of models used to measure ECL.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023 (Bahraini Dinars)

2. BASIS OF PREPARATIONS (continued)

Note 3 (d): classification of financial assets assessment of business model which the assets are held and assessment of whether the contractual terms of the financial assets are SPPI and the principal amount outstanding.

(ii) Assumptions and estimation on uncertainties

Note 3 (d) (iii) and 15 (a): impairment of financial instruments: Determination of inputs into the ECL measurement model, including key assumptions used in establishing recoverable cash flows and incorporation of forward-looking information.

3. MATERIAL ACCOUNTING POLICIES

(a) Basis of consolidation

Subsidiary is an enterprise controlled by the Group. Control is presumed to exist where more than one half of a subsidiary's voting power is controlled by the Group, or the Group is able to govern the financial and operating policies of a subsidiary so as to obtain benefit from its activities. The financial 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.

(b) 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.

(c) 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.

(d) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023 (Bahraini Dinars)

3. MATERIAL ACCOUNTING POLICIES (continued)

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 2023 and 2022 the Group did not have any financial assets measured at FVOCI or FVTPL.

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

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

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

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

Financial liabilities

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

Reclassifications

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

(iii) Identification and measurement of impairment

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023 (Bahraini Dinars)

3. MATERIAL ACCOUNTING POLICIES (continued)

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.

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.

(e) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023 (Bahraini Dinars)

3. MATERIAL ACCOUNTING POLICIES (continued)

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.

(f) 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.

(g) 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

(h) 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.

(i) 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.

(j) 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.

(k) 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

	2023	2022
Cash in hand	1,500	1,500
Balances with banks	1,504,305	1,470,001
Cash and cash equivalents	**1,505,805**	1,471,501
Restricted cash *	1,657	14,751
Less: expected credit loss **	(2,634)	(2,634)
Cash and bank balances	**1,504,828**	1,483,618

* 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 2023 (Bahraini Dinars)

5. LOANS TO CUSTOMERS

(a) Exposure

31 December 2023	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross loans to customers	44,976,812	2,059,900	3,385,701	50,422,413
Less: expected credit loss	(450,451)	(380,988)	(1,726,808)	(2,558,247)
Net loans	**44,526,361**	**1,678,912**	**1,658,893**	**47,864,166**

31 December 2022	Stage 1	Stage 2	Stage 3	Total
Gross 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

(b) Expected credit loss movement

2023	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
At 1 January 2023	497,957	368,489	1,678,690	2,545,136
Transfer to Stage 1	167,672	(58,984)	(108,688)	-
Transfer to Stage 2	(39,084)	116,292	(77,208)	-
Transfer to Stage 3	(89,379)	(94,316)	183,695	-
Net re-measurement of loss allowance	(86,715)	49,507	516,779	479,571
Write off	-	-	(466,460)	(466,460)
At 31 December 2023	**450,451**	**380,988**	**1,726,808**	**2,558,247**

2022	Stage 1	Stage 2	Stage 3	Total
At 1 January 2022	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	-	-	(480,659)	(480,659)
At 31 December 2022	497,957	368,489	1,678,690	2,545,136

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023 (Bahraini Dinars)

6. PROPERTY AND EQUIPMENT

	Furniture and equipment	Computer software	Computer hardware	Capital work in progress	2023 Total	2022 Total
Cost						
At 1 January	633,679	557,129	218,002	224,147	1,632,957	1,603,547
Additions	3,901	3,000	4,000	59,766	70,667	29,775
Disposals	(15,361)	-	(350)	-	(15,711)	(365)
Transfer from WIP	1,974	82,102	14,840	(98,916)	-	-
Reclassification and other adjustments	-	-	-	(49,020)	(49,020)	-
At 31 December	**624,193**	**642,231**	**236,492**	**135,977**	**1,638,893**	1,632,957
Depreciation						
At 1 January	571,397	524,258	202,543	-	1,298,198	1,219,299
Charge for the year	47,651	28,301	23,833	-	99,785	79,264
Disposals	(15,361)	-	(350)	-	(15,711)	(365)
At 31 December	**603,687**	**552,559**	**226,026**	**-**	**1,382,272**	1,298,198
Net book value						
At 31 December 2023	**20,506**	**89,672**	**10,466**	**135,977**	**256,621**	
At 31 December 2022	62,282	32,871	15,459	224,147		334,759

7. RIGHT-OF-USE ASSETS

	2023	2022
Balance at 1 January	209,964	85,463
Additions	171,893	207,508
Depreciation charge for the year	(76,740)	(83,007)
Balance at 31 December	**305,117**	209,964

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 2023 (Bahraini Dinars)

8. BANK BORROWINGS

	2023	2022
Repayable within one year	9,972,636	8,901,192
Repayable after one year	20,500,325	23,962,412
	30,472,961	32,863,604

These are term loans with floating interest rates, which are subject to re-pricing on a monthly, quarterly, or on half-yearly basis. The effective interest rate on borrowings was within the range of 4.01% to 9.67% p.a. (2022: of 3.75% to 9.03% p.a.). Of the total borrowings, BHD 23 million (2022: BHD 26 million) is secured by assignment of customer loans. Movement on bank borrowings is as follows:

	2023	2022
At 1 January	32,863,604	32,443,495
Proceeds from bank borrowings	7,146,000	10,280,000
Repayment of bank borrowings	(9,536,643)	(9,859,891)
At 31 December	**30,472,961**	32,863,604

9. OTHER LIABILITIES

	2023	2022
Payable to agents for vehicles financed	1,623,123	2,121,920
Payable to equipment dealers	29,311	35,700
Payable to insurance companies	594,599	500,801
Lease liability	317,133	212,369
Interest payables	151,889	133,437
Accrued expenses and other liabilities	257,480	248,258
	2,973,535	3,252,485

Maturity analysis of contractual discounted cash flows of lease liability:

	2023	2022
Within one year	69,083	45,768
More than one year	248,050	166,601
	317,133	212,369

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023 (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	2023	2022
Capital expenditure		
Furniture and equipment and capital work-in-progress (Shareholder)	11,388	3,900
Operating income		
Insurance commission - Motor vehicles (Shareholder)	46,235	42,705
Operating expenses		
Auto Mall purchases of vehicles (Shareholders)	633,621	432,196
Insurance premium charges (Shareholder)	232,823	218,550
Salaries and related costs (Shareholder) *	14,026	15,795
Other operating expenses (Shareholders)	57,001	59,483

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

Related party balances	2023	2022
Payable for vehicles financed (Shareholders)	1,296,005	1,435,001
Payable for insurance premiums (Shareholder)	17,795	29,428
Prepaid expenses (Shareholders)	15,657	19,611
Payable for operating and capital expenditure (Shareholders)	10,252	6,826
Receivable of insurance agency commission (Shareholder)	2,699	8,416

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:

	2023	2022
Key management compensation	252,474	260,914
Board of Directors remuneration (accrual)	32,000	32,500
Committee attendance allowances	71,000	67,750
Staff loans disbursed	7,080	-

Balances with key management personnel

	2023	2022
Board of Directors remuneration (accrual)	32,000	32,500
Staff loan	4,110	-

Certain transactions were approved by the Board of Directors under Article 189 (b) of the Commercial Companies Law in the financial year ended 31 December 2023 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 2023 (Bahraini Dinars)

11. SHARE CAPITAL

	2023	2022
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	**7.75 fils**	17.89 fils

The earning per share is calculated by dividing the net income of BHD 581,341 (2022: BHD 1,341,879) by the number of shares outstanding at the end of the year of 75 million shares (2022: 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 nil% of the paid-up capital. This amounts to BHD nil (2022: BHD 600,000).

In addition, Board of Directors' remuneration proposed for the year was BHD 32,000 (2022: 32,500).

12. INTEREST INCOME

	2023	2022
Interest on loans to customers	5,068,118	4,904,699
Interest on bank term deposits	7,853	1,368
	5,075,971	4,906,067

13. OTHER INCOME

	2023	2022
Recoveries from loans previously written off	184,559	166,042
Net income from automotive sales	146,245	128,336
Other miscellaneous income	1,664	1,401
	332,468	295,779

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023 (Bahraini Dinars)

14. OTHER OPERATING EXPENSES

	2023	2022
Computer maintenance and support expenses	96,653	95,078
Parking and others	10,494	10,098
Legal and professional charges	73,245	70,320
Communication expense	44,418	41,861
Advertising and publicity expense	27,454	34,703
Board committees attendance allowances	75,497	68,395
Board of directors' remuneration	32,000	32,500
Printing and stationery expense	11,675	16,675
VAT expenses	50,247	44,886
Others	269,414	231,938
	691,097	646,454

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 2023 (Bahraini Dinars)

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

a) 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 four 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:

	2023	2022
Balances with banks	1,503,328	1,482,118
Loans to customers	47,864,166	50,662,598
	49,367,494	52,144,716

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023 (Bahraini Dinars)

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

a) 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.

	2023	2022
Concentration by sector		
Corporate	11,950,946	12,855,878
Retail	35,913,220	37,806,720
Financial institutions	1,503,328	1,482,118
	49,367,494	52,144,716

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 2023 (Bahraini Dinars)

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

a) 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 3 months for individual and SMEs and a period of 6 months for corporate customers ("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.

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 2023 (Bahraini Dinars)

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

a) 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.

A. Corporate loans 2023	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Current	11,410,587	1	8,237	11,418,825
Past due loans:				
1 to 29 days	271,308	6,881	25,713	303,902
30 to 59 days	-	59,854	30,804	90,658
60 to 89 days	-	98,007	129,500	227,507
90 days to 1 year	-	-	262,508	262,508
1 year to 3 years	-	-	360,164	360,164
More than 3 years	-	-	173	173
Gross carrying value	**11,681,895**	**164,743**	**817,099**	**12,663,737**
Expected credit loss	(128,290)	(53,748)	(530,753)	(712,791)
Net carrying value	**11,553,605**	**110,995**	**286,346**	**11,950,946**

2022	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023 (Bahraini Dinars)

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

a) Credit risk (continued)

B. Retail loans 2023	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Current	31,952,509	256,888	271,674	32,481,071
Past due loans:				
1 to 29 days	1,342,408	29,229	122,267	1,493,904
30 to 59 days	-	986,665	318,223	1,304,888
60 to 89 days	-	622,375	519,275	1,141,650
90 days to 1 year	-	-	718,167	718,167
1 year to 3 years	-	-	600,578	600,578
More than 3 years	-	-	18,418	18,418
Gross carrying value	**33,294,917**	**1,895,157**	**2,568,602**	**37,758,676**
Expected credit loss	(322,161)	(327,240)	(1,196,055)	(1,845,456)
Net carrying value	**32,972,756**	**1,567,917**	**1,372,547**	**35,913,220**

2022	Stage 1	Stage 2	Stage 3	Total
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

Stage 2 includes exposures in the first two ageing buckets (i.e. Current to 1 to 29 days) which are not past due however continue to be classified as stage 2 until the completion of cooling-off period of 3 months for individuals and SMEs customers and 6 months for corporate customers (2022: no cooling-off period).

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 3 months for individuals and SMEs customers and 6 months for corporate customers (2022: cooling-off period of 6 months for all customers).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023 (Bahraini Dinars)

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

a) Credit risk (continued)

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 2023, loans past due below 90 days but not impaired amounted to BHD 3,416,727 (2022: BHD 3,322,274).

During the year, loans amounting to BHD nil (2022: BHD 10,359) were restructured and due to the minor nature of the restructuring concession, there was no significant impact on the Group's provisions on loans and advances impairment and present and future earnings. The Group renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default.

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

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

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

As at 31 December 2023, the net book value of collaterals represents 81% (2022: 81%) of the Company's credit exposure (loans to customers). As of 31 December 2023, loans include hire purchase contracts of BHD 28,311,383 (2022: BHD 26,615,255) representing 56% (2022: 50%) of the total portfolio.

As at 31 December 2023 total non-performing loans (excluding BHD 1,425,694 (2022: BHD 1,138,493) of non-performing loans in cooling-off period and those less than 90 days past due) were BHD 1,960,007 (2022: BHD 1,929,017). 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.

b) 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023 (Bahraini Dinars)

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

b) Liquidity risk (continued)

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.

31 December 2023	**Carrying amount**	**Contractual cash flows**	**6 months or less**	**6 to 12 months**	**More than 12 months**
Bank borrowings	30,472,961	35,766,214	6,209,440	6,143,559	23,413,216
Other liabilities	2,973,535	3,029,206	2,749,090	185,376	94,740
	33,446,496	**38,795,420**	**8,958,530**	**6,328,935**	**23,507,956**

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
Other liabilities	3,252,485	3,295,608	3,075,960	25,344	194,304
	36,116,089	41,519,889	8,724,043	5,457,801	27,338,045

c) 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.

d) 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 2023	**Fixed rate**	**Floating rate**	**Non-interest bearing**	**Total**
Cash and bank	-	-	1,504,828	1,504,828
Loans to customers	47,864,166	-	-	47,864,166
Other assets	-	-	219,377	219,377
	47,864,166	-	**1,724,205**	**49,588,371**
Bank borrowings	-	30,472,961	-	30,472,961
Other liabilities	-	-	2,973,535	2,973,535
	-	**30,472,961**	**2,973,535**	**33,446,496**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023 (Bahraini Dinars)

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

d) Interest rate risk (continued)

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

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 2022.

	Profit or loss		Equity	
	100 bp increase	100 bp decrease	100 bp Increase	100 bp decrease
31 December 2023				
Bank borrowings	**(369,967)**	**369,967**	**(369,967)**	**369,967**
31 December 2022				
Bank borrowings	(403,957)	403,957	(403,957)	403,957

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023 (Bahraini Dinars)

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

d) Interest rate risk (continued)

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 2023							
Cash and bank	1,504,828	-	-	-	-	-	1,504,828
Loans to customers	47,864,166	1,542,691	3,235,641	6,155,635	35,339,843	1,590,356	-
Other assets	219,377	-	-	-	-	-	219,377
	49,588,371	**1,542,691**	**3,235,641**	**6,155,635**	**35,339,843**	**1,590,356**	**1,724,205**
Bank borrowings	30,472,961	2,350,325	2,557,437	5,064,874	19,520,375	979,950	-
Other liabilities	2,973,535	16,760	17,117	35,206	248,050	-	2,656,402
	33,446,496	**2,367,085**	**2,574,554**	**5,100,080**	**19,768,425**	**979,950**	**2,656,402**
Interest rate gap	16,141,875	(824,394)	661,087	1,055,555	15,571,418	610,406	(932,197)
Cumulative interest rate gap	**16,141,875**	**(824,394)**	**(163,307)**	**892,248**	**16,463,666**	**17,074,072**	**16,141,875**

	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 2023 (Bahraini Dinars)

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

e) 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.

f) 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.

g) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023 (Bahraini Dinars)

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

h) 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.

i) 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 2023, Group's paid up share capital was BHD 7,500,000 (2022: BHD 7,500,000) and the borrowing to capital and reserves ratio was 1.79 (2022: 1.94).

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 2023 (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 2023	**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	1,504,828	-	-	-	-	1,504,828
Loans to customers	1,542,691	3,235,641	6,155,635	35,339,843	1,590,356	47,864,166
Other assets	219,377	-	-	-	-	219,377
	3,266,896	**3,235,641**	**6,155,635**	**35,339,843**	**1,590,356**	**49,588,371**
Liabilities						
Bank borrowings	2,350,325	2,557,437	5,064,874	19,520,375	979,950	30,472,961
Other liabilities	2,673,162	17,117	35,206	248,050	-	2,973,535
	5,023,487	**2,574,554**	**5,100,080**	**19,768,425**	**979,950**	**33,446,496**

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

The expected credit loss to the loans to customers of BHD 2,545,136 (2022: BHD 2,542,799) has been netted against the cash flows expected within 3 months.

17. COMPARATIVES

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

NATIONAL FINANCE HOUSE B.S.C. (Closed)
P.O. Box 21774, Manama, Kingdom of Bahrain
website: www.nfh.com.bh
email: info@nfh.com.bh
toll free: 8000 8005

nfhbahrain
nfhautomall

nfhbahrain

nfhbahrain

nfhgroup