



National Finance House BSC (c)

Half Yearly Quantitative Public Disclosures

As at 30 June 2024

Executive Summary

The half yearly quantitative public disclosures of **National Finance House B.S.C. (c) (NFH)** and its subsidiary National Finance House Auto Mall W.L.L., (together referred to as the “Group”) have been prepared in accordance with the Public Disclosure Module (“PD”), Section PD-2.1.6 Semi-annual Disclosures, CBB Rule Book-Volume 5 (Type 3: Financing Companies). These disclosures should be read in conjunction with the detailed disclosures made in the annual report for the year ended 31 December 2023, and the condensed consolidated interim financial information for the six months ended 30 June 2024.

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Bahraini dinar

Financial Highlights:

The Group has realized a net profit of BHD 443 thousand for the six months period ended on 30 June 2024 compared to a net profit of BHD 405 thousand for the same period last year. NFH recorded a net profit of BHD 213 thousand for the three months ended 30 June 2024 compared to net profit of BHD 182 thousand for the same period of last year.

Total revenues has increased by 10% for the first half of 2024 to reach BHD 1.524 million compared to BHD 1.392 million for the same period last year. Total expenses excluding impairment on loans to customers increased by 6% compared to the same period last year. The Group recognized ECL of BHD 229 thousand compared to BHD 182 thousand for the same period last year.

For indicators of financial performance for past 5 years refer to the “Key Highlights” section on www.nfh.com.bh.

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1. CORE CAPITAL

	30 June 2024
Issued and fully paid ordinary shares	7,500,000
Share premium	112,500
Statutory reserve	1,612,545
Retained earnings	8,157,417
Core Capital	17,382,462

The Group's issued and paid up capital consists only of ordinary shares, which have proportionate voting rights. The Group does not have any other type of capital instruments.

The Group's authorized capital consists of 500,000,000 ordinary shares of 100 fils each.

2. RISK MANAGEMENT FRAMEWORK

The Group is exposed to the following types of risks:

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

Risk management framework and overview

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 financial assets and financial liabilities. Financial assets of the Group consist of cash and cash equivalents, loans to customers and other assets. Financial liabilities of the Group consist of bank borrowings and other liabilities.

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

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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.

CREDIT RISK

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

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

The Credit Committee is responsible for oversight of the Group's credit risk, including:

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

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

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All loans are with local individuals (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:

	30 June 2024	2024 Six Months Average
Cash and cash equivalents	894,169	904,555
Loans to customers	47,167,882	47,591,539
	48,062,051	48,496,094

Distribution of exposure by sector / counterparty:

	30 June 2024
Corporate (excluding financial institutions)	11,602,999
Retail	35,564,883
Financial institutions	894,169
	48,062,051

Geographic distribution of exposure:

	30 June 2024 Bahrain
Cash and cash equivalents	894,169
Loans to customers	47,167,882
	48,062,051

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Past due exposure:

In accordance with the Group's policy and Central Bank of Bahrain guidelines, loans on which payment of interest or repayment of principal are 90 days past due, are defined as non-performing.

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

Loans that are "past due below 90 days but not impaired" are those for which contractual interest and principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security or collateral available and / or the stage of collection of amounts owed to the Group. As at 30 June 2024, loans past due below 90 days but not impaired amounted to BHD 3,080,207.

Geographic Distribution & Aging analysis of all loans including impaired and past due loans by sector / counterparty:

All loans are domestic and are granted to borrowers within the Kingdom of Bahrain. Following is the ageing analysis of impaired and past due loans as at 30 June 2024:

Corporate Loans	Stage 1	Stage 2	Stage 3	Total
Current	10,946,640	211,277	8,896	11,166,813
Past Due Loans:				
1-29 days	136,104	36,098	28,935	201,137
30-59 days	-	93,714	14,636	108,350
60-89 days	-	133,951	97,769	231,720
90 days - 1 year	-	-	286,665	286,665
1 year - 3 years	-	-	361,614	361,614
More than 3 years	-	-	17,246	17,246
Gross carrying value	11,082,744	475,040	815,761	12,373,545
Expected credit loss	126,451	109,418	534,677	770,546
Net carrying value	10,956,293	365,622	281,084	11,602,999

Retail Loans	Stage 1	Stage 2	Stage 3	Total
Current	31,245,061	844,080	255,446	32,344,587
Past Due Loans:				
1-29 days	1,149,703	158,859	23,607	1,332,169
30-59 days	-	975,961	196,789	1,172,750
60-89 days	-	395,817	570,635	966,452
90 days - 1 year	-	-	911,700	911,700
1 year - 3 years	-	-	685,125	685,125
More than 3 years	-	-	19,388	19,388
Gross carrying value	32,394,764	2,374,717	2,662,690	37,432,171
Expected credit loss	300,255	335,918	1,231,115	1,867,288
Net carrying value	32,094,509	2,038,799	1,431,575	35,564,883

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Impairment movement**Expected Credit loss movement:**

	Stage 1	Stage 2	Stage 3	Total
At 1 January 2024	450,451	380,988	1,726,808	2,558,247
Transfer to Stage 1	98,059	(43,996)	(54,063)	-
Transfer to Stage 2	(27,951)	187,629	(159,678)	-
Transfer to Stage 3	(10,044)	(157,725)	167,769	-
Net remeasurement of loss allowance	(83,809)	78,440	233,919	228,550
Amounts written off during the period	-	-	(148,963)	(148,963)
Expected credit loss	426,706	445,336	1,765,792	2,637,834

Stage 2 includes exposures in the first two ageing buckets (i.e. Current to 1-29 days) which are not past due however continue to be classified as stage 2 until the completion of cooling off period.

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

Management carries out specific impairment assessment of its non-performing loans at each reporting period on a case by case basis and creates impairment provisions accordingly in stage 3. During the six month period ended 30 June 2024 a specific provision of BHD 134,647 (30 June 2023: BHD 109,521) was provided.

Loans written-off during the period amounted to BHD 148,964 in which BHD 60,850 pertains to Corporate and BHD 88,114 pertains to individuals. During the six months ended 30 June 2024, the Group recovered BHD 44,193 (30 June 2023: BHD 116,761) from loans written off in the previous years.

Write-off policy:

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's 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. Moreover, the Group adopted a policy to write-off all loans that have been non-performing for more than 3 years by taking full provision. Those loans will be marked in the system as "Write-off Open" and followed up for recovery by the Collection team as per current procedures. The final write-off of those loans shall be done only after taking necessary approvals from the appropriate approving authority and the accounts treated as "Write-off Close".

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Restructuring:

Loans restructured during the period
Impact of restructured facilities and loans on provisions

30 June 2024

-
-

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 above restructuring did not have any significant impact on present and future earnings and were primarily extensions of the loan tenor, revisions in interest rate, and additional collateral received.

Collateral:

The Group holds collateral against loans to customers in the form of mortgage interests over vehicles financed. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. As at 30 June 2024, the market value of collaterals represents 82% of the Group's credit exposure (loans to customers).

Related Party:

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, Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group. Balances at the reporting date in regard to related parties and transactions during the six months with related parties comprised the following:

30-Jun-23

Related party transactions:

Operating Income

Insurance Commission - Motor Vehicles

16,409

-

-

Operating Expenses

Auto Mall purchases of vehicles

661,298

-

-

Insurance premium charges

115,142

-

-

Salaries and related costs (Shareholder)*

7,658

-

-

Other operating expenses

31,477

-

-

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30-Jun-23	Shareholders	Board of Directors	Senior Management
Related Part Balances:			
Payables for vehicles financed	1,395,599	-	-
Payable for Insurance premiums	13,811	-	-
Prepaid expenses	43,315	-	-
Payable for operating and capital expenditures	15,452	-	-
Receivable of insurance agency commission	2,446	-	-
Expenses:			
Board of directors attendance allowance	-	48,750	-
Key management compensation	-	-	140,824
Staff loan disbursed	-	-	-
Balances with key management personnel			
Board of directors attendance allowance	-	4,500	-
Staff loans	-	-	1,150

No impairment losses have been recorded during the period against balances outstanding with related parties and no specific allowance has been made for impairment losses on balances with related parties at 30 June 2024.

Controlling relations with regards to 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 on the basis of authorities delegated by the Board of Directors to the Chief Executive Officer. If the loans exceed these authorities, then further approval from the Board is requested.

All loans to management members and staff of the Group, are governed by the policies applicable to staff. These policies are reviewed by the Board regularly.

LIQUIDITY RISK

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

Management of liquidity risk

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

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

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

Management of the Group has enhanced its monitoring of the liquidity and funding requirements. Board meetings and senior management meetings are convened more frequently in order to carryout granular assessment of funding requirements with the objective to explore available lines of funding and to drawdown the existing funding lines as and when necessary to maintain enough liquidity at a reasonable cost of funding.

The Group continues to calibrate stress testing scenarios to current market conditions in order to assess the impact on the Group in current extreme stress. As at the reporting date, the liquidity and funding position of the Group remains strong and is well placed to absorb and manage the impacts of this disruption.

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

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Liquidity Risk (continued)

30 June 2024	Carrying amount	Contractual cash flows	6 months or less	6 - 12 months	More than 12 months
Bank borrowings	28,575,754	33,470,531	6,256,950	5,094,976	22,118,604
Accounts payable	1,882,827	1,882,827	1,882,827	-	-
Lease Liability	283,256	326,460	46,344	46,344	233,772
	30,741,837	35,679,818	8,186,121	5,141,320	22,352,376

MARKET RISK

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

INTEREST 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:

30 June 2024:	Fixed rate	Floating rate	Non-interest bearing	Total
Cash and cash equivalents	100,000	-	795,669	895,669
Loans to customers	47,167,882	-	-	47,167,882
Other assets	-	-	187,001	187,001
	47,267,882	-	982,670	48,250,552
Bank borrowings	-	28,575,754	-	28,575,754
Other liabilities	283,256	-	2,893,725	3,176,981
	283,256	28,575,754	2,893,725	31,752,735

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.

OPERATIONAL RISK

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

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

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

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

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

Legal Contingencies risk

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

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

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3. 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.

30 June 2024:	Up to 3 months	3-6 months	6 months to 1 year	1-5 years	5-10 years	Total
Cash and cash equivalents	895,669	-	-	-	-	895,669
Loans to customers	1,637,030	3,177,774	6,092,616	34,797,602	1,462,860	47,167,882
Other assets	187,001	-	-	-	-	187,001
	2,719,700	3,177,774	6,092,616	34,797,602	1,462,860	48,250,552
Bank loans	2,528,495	2,547,938	4,145,876	18,610,453	742,992	28,575,754
Other liabilities	2,911,140	17,791	36,900	211,150	-	3,176,981
	5,439,635	2,565,729	4,182,776	18,821,603	742,992	31,752,735

The expected credit loss of BHD 2,637,834 has been netted against the cash-flows expected within 3 months.

4. CAPITAL MANAGEMENT

The CBB sets and monitors capital requirements for the Group. According to the conventional financing Company license granted by the CBB, the Group should 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) of the Group. As on 30 June 2024 Group's paid-up share capital is BHD 7,500,000, the borrowing to capital and reserves ratio is 1.64 and the gearing ratio is 54.7%.

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