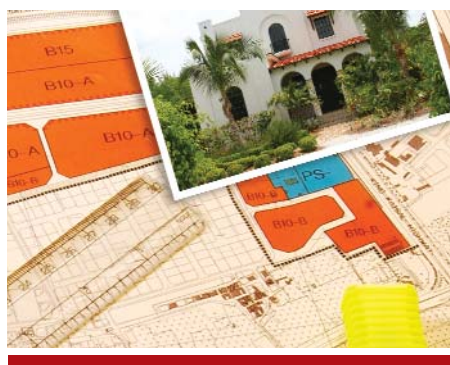




BAHRAIN COMMERCIAL FACILITIES COMPANY BSC

Annual Report 2005



Bahrain Commercial Facilities Company BSC was established on August 29, 1983 under Bahrain's Commercial Companies Law 1975 (Legislative Decree No 28 of 1975), as a closed Company with an authorized capital of BD 10,000,000 and issued capital of BD 5,000,000 with an objective to act as a specialist finance Company in Bahrain. The duration of the Company, according to its Memorandum and Articles of Association, is 50 years from its date of establishment and is extendable by a resolution of the shareholders passed at an Extraordinary General Assembly Meeting, provided the approval of the Bahrain Monetary Agency is also obtained. The Company commenced its business providing installment loan facilities to local consumers for acquisition of motor vehicles and other durable goods. Over the years, the Company has expanded its range of services and products and diversified into related activities.

Consumer Finance Bahrain Credit is the leading provider of short, medium and long term consumer finance for residents of the Kingdom of Bahrain, including car finance, personal finance and property finance.

Real Estate Tas'heelat Real Estate Services Company SPC (TRESKO) was established in 2002, and is actively involved in the sale and marketing of land and properties within the Kingdom of Bahrain.

Automotive National Motor Company WLL (NMC) is one of the leading companies in Bahrain for the sale and service of vehicles. The Company has the exclusive national franchise for Honda and General Motors (Chevrolet, Cadillac, Hummer and GMC).

Insurance Tas'heelat Insurance Services Company WLL (TISCO) was established in 1997 to arrange a wide range of insurance products and services that include motor, home, life and travel insurance.

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**His Highness Shaikh
Khalifa bin Salman
Al Khalifa**

The Prime Minister of
The Kingdom of Bahrain



**His Majesty King
Hamad bin Isa
Al Khalifa**

The King of the Kingdom
of Bahrain



**His Highness Shaikh
Salman bin Hamad
Al Khalifa**

The Crown Prince
& Commander-in-Chief of
the Bahrain Defence Force

Highlights of the Year

2005 marked the first full year of the implementation of the new BMA regulations on consumer finance and the introduction of the Credit Reference Bureau for the first time in Bahrain.

In 2005, National Motor Company WLL sold over 4000 vehicles and delivered a net profit of BD 1.54 million, an increase of some 28% over the previous year.

Bahrain Commercial Facilities Company BSC was licensed and regulated by the Ministry of Commerce and supervised by the Bahrain Monetary Agency (BMA). In June 2005, Bahrain Commercial Facilities Company BSC was granted a financing license from the BMA and the Agency now is its regulator.

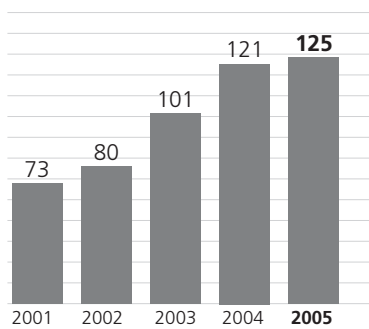
Total Group net profit of BD 8.1 million is 22% more than the previous year: this is a return of 24.6% on shareholders' equity, up from 23.0% in 2004.

Tasheelat Real Estate Services Company SPC generated outstanding results with gross profits surpassing BD 3 million.

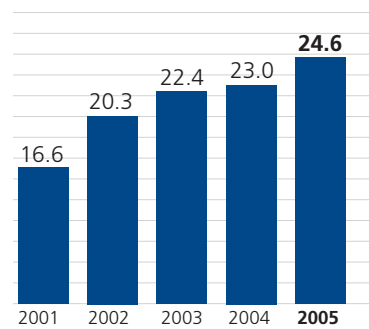
In 2005, National Motor Company WLL completed the renovation and refurbishment of its important Sehla facility.

Financial Highlights

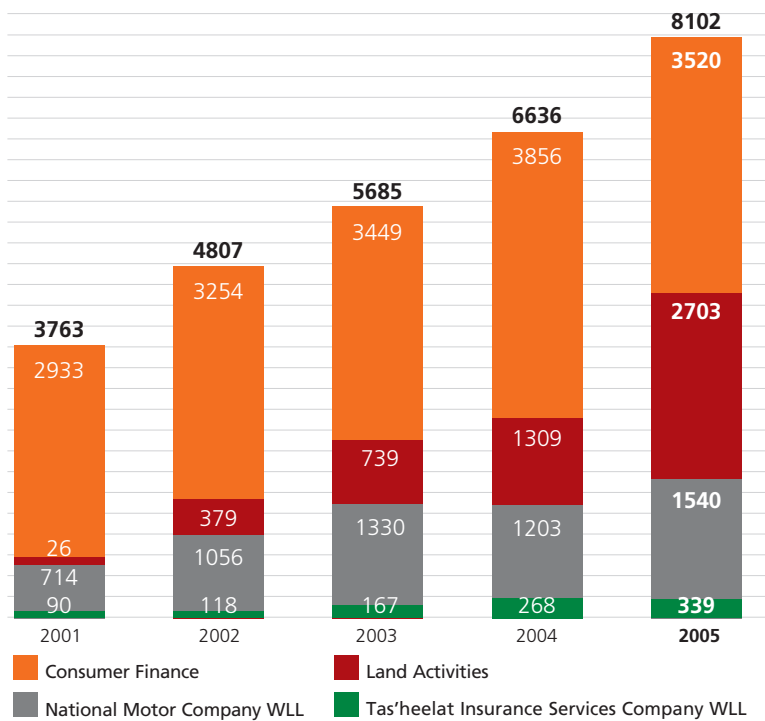
Total Assets (BD Million)



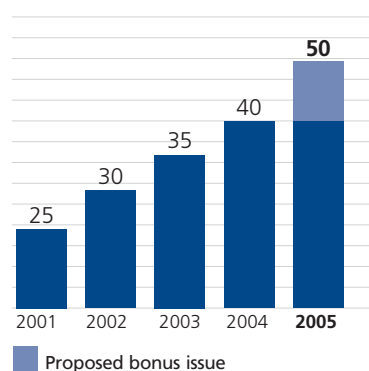
Return on equity (%)



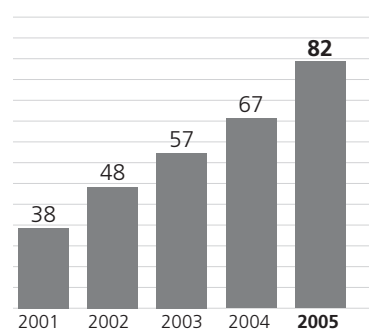
BCFC net profit (BD '000)

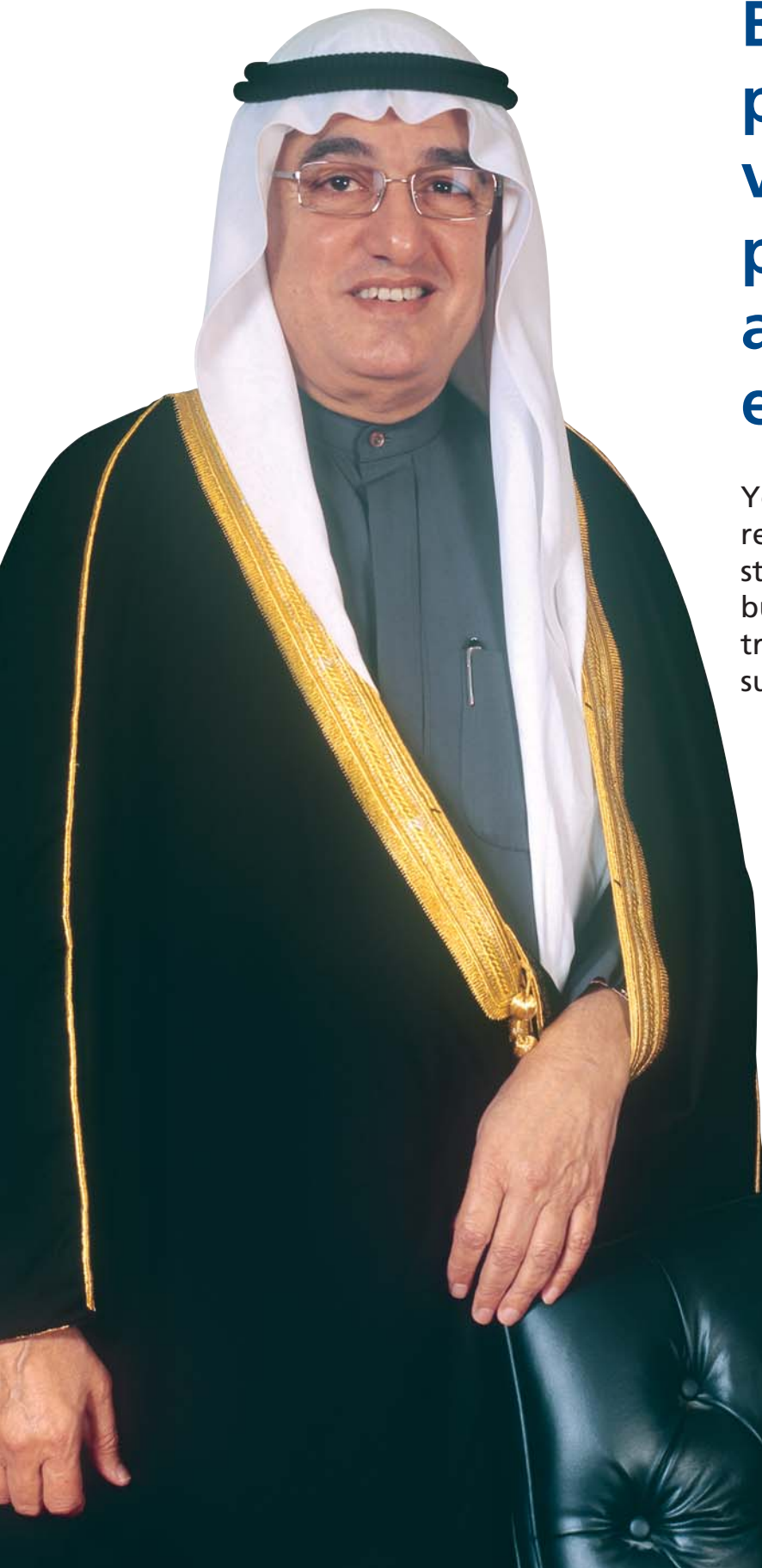


Dividend per share (fils)



Earnings per share (fils)





**Bahrain Credit
produced a
very satisfactory
performance in
a challenging
environment.**

Your Company has achieved record results in 2005 thanks to strong performances from all businesses and an exceptional transaction of the real estate subsidiary.

**Dear Shareholders,
On behalf of the Board
of Directors, it gives me
great pleasure to present
to you the Annual
Report of Bahrain
Commercial Facilities
Company BSC, for the
financial year ended 31
December 2005.**

The annual report includes the consolidated financial results of Bahrain Credit and the company's subsidiaries National Motor Company WLL, Tas'heelat Real Estate Services Company SPC and Tas'heelat Insurance Services Company WLL.

Your Company has achieved record results in 2005 thanks to strong performances from all businesses and an exceptional transaction of the real estate subsidiary. Total group net profit of BD 8.1 million is 22% more than the previous year: this is a return over 24% on shareholders equity, up from 23% in 2004. Per share earnings are 82.0 fils, increased from 67.1 fils in the prior year. Your Board recommends payment of cash dividend to shareholders at the rate of 40 fils per share (40%) and a bonus share issue in the ratio of 1:10 (1 equity share fully paid for every 10 shares held).

2005 has marked some important milestones in the history of your company.

Effective 26 June 2005, Bahrain Commercial Facilities Company BSC is licensed and regulated by the Bahrain Monetary Agency. Earlier your Company was licensed and regulated by the Ministry of Industry and Commerce and supervised by the Bahrain Monetary Agency. 2005 also marked the first full year of implementation of the new BMA regulations on consumer finance and the introduction of the Credit Reference Bureau for the first time in Bahrain.

Bahrain Credit produced a very satisfactory performance in a challenging environment. The finance business successfully managed to counter the high levels of competition and higher interest rates by maintaining excellent relationships with all customers and business providers and continuously providing high quality, quick and friendly service.

National Motor Company WLL posted another year of strong growth, building on the positive momentum witnessed since the opening of its state-of-the art Sales, Service and Parts facility at Sitra. The Company continued to grow its market presence, with a clear objective of further increasing its market share of both Honda and General Motors brands. In 2005 National Motor Company WLL delivered a net profit of BD 1.54 Million, an increase of 28% over the previous year. Our new facility at Sitra is now extremely well established and management is well positioned to maximize market opportunities as we move forward into what is expected to be an extremely challenging year ahead.

In 2005 the Company completed renovations and refurbishment of our important Sehla facility which will help generate additional revenues during 2006.

Tas'heelat Real Estate Services Company SPC delivered outstanding results with gross profits surpassing BD 3 Million, thanks largely to the successful sale of one large parcel of land. The Company has been opportunistic in benefiting from the recent rapid escalation in local land prices; recognizing that such gains are unlikely to recur. your Company is now focusing on building sustainable and regular income streams for the future.

As a result of his resignation from the Pension Fund Commission, whom he represented as a nominee, Saleh Faqeeh left the Board on 1st August 2005. We thank Mr. Faqeeh

for his contribution over the last nine years from July 1996 which included service on the Executive Committee and the Board Audit Committee. In accordance with Bahrain's Commercial Company Law 2001, the successor of Mr. Faqeeh will be nominated in due course.

In accordance with the requirement of Bahrain's Commercial Company Law 2001, we report the aggregate amount paid to directors during 2005 was BD 211K (BD 195K in 2004) in respect of fees and subsidiary Board and Executive Committee attendance allowances. The total shareholding of the directors in the Company is 59.33 million shares (59.33% of paid up capital).

We wish to express our appreciation to the efforts of employees at all levels and to our customers and shareholders for their continuing loyal support and confidence. A special mention should go to Mohamad Al Jaber who resigned from his position as General Manager of Bahrain Credit in October. In his twenty years of service, Mohamad contributed greatly to the development of the company: we thank him for these accomplishments and wish him well in his future endeavours.

Finally, we also gratefully acknowledge the guidance of our nation's wise leadership and the continuing support and co-operation received from the government ministries and organizations of Bahrain, most particularly the Bahrain Monetary Agency and the Ministry of Industry and Commerce.



Abdulrahman Yusif Fakhro
Chairman
February 2006

Board of Directors



1

**1. Abdulrahman Yusif Fakhro
Chairman**

Chairman - Yusif Bin Yusif Fakhro WLL
Director - Bahrain Flour Mills BSC
Director - Seef Properties BSC (c)

**2. Abdulrahman Abdulla Mohamed
Vice-Chairman**

Nominee of National Bank of
Bahrain BSC
Deputy General Manager
Banking Group,
National Bank of Bahrain BSC
Chairman, National Motor
Company WLL



2

**3. Khalid Mohammed Ali Mattar
Director**

Managing Director - Awal Contracting
and Trading Company WLL
Managing Director - Awal Marine
Services WLL
Director - Awal Gulf Manufacturing
Company BSC (c)

**4. Murad Ali Murad
Director**

Chairman - BBK BSC
Director - Bahrain Telecommunications
Company BSC
Director - Bahrain Kuwait Insurance
Company
Vice Chairman - Bahrain Housing Bank
Chairman - Board of Trustees Human
Resources Development Fund for
Banking and Finance Sector
Member - Council of Bahrain Institute
of Banking and Finance
Vice Chairman - Banader Hotels
Company



3

**5. Sh. Mohammed Bin Isa Al-Khalifa
Director**

Nominee of General Organization for
Social Insurance, Bahrain
Acting Director General – General
Organization for Social Insurance,
Bahrain
Chairman - Securities & Investment
Company BSC (c)
Director - BBK BSC
Director - Bahrain International Golf
Course Company
Director - Bahrain Telecommunication Co.
Vice Chairman - National Motor
Company WLL



4



5

Board of Directors



6



7



8



9



6. Dr. Farid Ahmed Al-Mulla
Director
Nominee of BBK BSC
Chairman - Credimax BSC (c)
Chairman - Bankers' Society of Bahrain
Chairman - Injaz Al Bahrain (Affiliate with JV Worldwide)
Chief Executive Officer - BBK BSC
Director - Specific Council for Vocational Training in Industry

7. Khalid R. Al-Zayani
Director
Chairman - Al Zayani Investments WLL
Chairman - Zayani Motors WLL
Chairman - First Motors WLL
Chairman - Intersteel WLL
Chairman - Midal Cables WLL
Chairman - Metalform WLL
Chairman - Aluwheel WLL
Chairman - Euro Motors WLL
Chairman - Gulf Closures WLL
Chairman - Zayani Properties WLL
Chairman - Zayani Hotels Corp. WLL
Chairman - Zayani Leasing WLL
Vice Chairman - Bahrain Islamic Bank
Vice Chairman - Al Rashed Holdings
Vice Chairman - Al Rashed Motors, Iraq
Director - Investcorp Bank EC
Director - Takaful International
Board Member - Economic Development Board

8. Ali Abdulla Ahmadi
Director

Managing Director - Ahmadi Industries WLL

9. Jamal Mohamed Jassim Hejres
Director
Nominee of BBK BSC
Chairman - Sakana BSC (c)
Director - Credimax BSC (c)
Director - National Motor Company WLL

10. Saleh Mohammed Faqeeh*
Director

Nominee of the Pension Fund Commission (Not pictured)

Ian Levack
Chief Executive Officer

Executive Committee

Khalid Mohamed Ali Mattar
Chairman
Sh. Mohammed Bin Isa Al-Khalifa
Vice Chairman
Abdulrahman Abdulla Mohamed
Member
Dr. Farid Ahmed Al-Mulla
Member
Ian Levack
Member
Saleh Mohammed Faqeeh*
Vice Chairman

*Resigned 1 August 2005

Audit Committee

Murad Ali Murad
Chairman
Ali Abdulla Ahmadi
Member
Saleh Mohammed Faqeeh*
Member

Remuneration and Nomination Committee

Abdulrahman Yusif Fakhro
Chairman
Murad Ali Murad
Vice Chairman
Khalid R. Al-Zayani
Member

Corporate Governance

Bahrain Commercial Facilities Company BSC was licensed and regulated by the Ministry of Commerce but supervised by the Bahrain Monetary Agency . In June 2005, Bahrain Commercial Facilities Company BSC was granted a financing license by the Agency. In accordance with this license, Bahrain Commercial Facilities Company BSC is fully regulated and supervised by the BMA.

Board of Directors

Constituted of ten non-executive members, the Board of Directors of Bahrain Commercial Facilities Company BSC exercise their individual and collective business judgment objectively, transparently and in a good faith in what they reasonably believe to be in the best interest of the Company, its shareholders and stakeholders.

The Board of Directors oversees the process of disclosure and communications to internal and external stakeholders. The Board of Directors ensures that disclosure is fair, transparent, and comprehensive; and reflects the character of the Company and the nature and complexity of risks inherent in the business activities of the Company.

In compliance with the local statutory requirements, the Board of Directors oversees the exercise of corporate powers and ensures that the Company's business and affairs are well managed to meet its stated goals and objectives. Maintenance of the high standards of corporate conduct, including compliance with applicable laws, regulations, business and ethical standards, receives considerable attention by the Board of Directors.

To fulfill its responsibilities, the Board has in place an Executive Committee, an Audit Committee and a Remuneration and Nomination Committee.

In 2005, the Board of Directors convened six meetings.

Executive Committee

In accordance with Article 23 of the Company's Articles of Association, the Executive Committee is delegated with defined scope of duties and

authorities in relation to Bahrain Credit, TRESKO and TISCO.

The Committee is comprised of four non-executive members appointed by the Board of Directors on an annual basis . The Executive Committee has the role of reviewing reports and activities, taking decisions on issues within its defined authorities and recommending to the Board of Directors on other issues that are above its authorities. These responsibilities and authorities cover a wide area ranging from credit approvals, write-offs, strategy, business plans and budget to human resources and personnel policies and practices, donations and signing authorities.

To fulfill its assigned responsibilities, the Executive Committee held seven meetings in 2005.

Board Audit Committee

The Board Audit Committee assists the Board of Directors in overseeing the responsibilities for the financial reporting process, the system of internal control, the audit process, monitoring financial risks and the process for monitoring compliance with laws and regulations and the Company's code of conduct. Consistent with this function, the Committee encourages continuous improvement of, and fosters adherence to, the company's policies, procedures and practices at all levels.

The Board Audit Committee consists of three members of the Board of Directors. All the three members are non-executive directors who are financially literate and independent of the management and free of any business or other relationships (including, without limitations, day to day involvement in the management of the business) which could interfere with the exercise of their independent judgment.

The Board Audit Committee has the authority to conduct or authorize investigations into any matters within its scope of responsibility and has full access to all information required to discharge its functions.

During 2005, the Board Audit Committee met four times. On each occasion the Board Audit Committee meets on a quarterly basis with the External Auditor.

Remuneration and Nomination Committee

Comprised of four non-executive directors appointed by the Board on an annual basis, the Remuneration & Nomination Committee provides advice to the Board on matters related to the remuneration and appointment of Directors and senior executives.

The Committee makes recommendations to the Board on the appointment of Directors, the Chief Executive Officer and the General Managers; the Secretary to the Boards; Directors to the Boards of the Company's subsidiaries; and members to all Committees of the Board.

The Committee reviews and makes recommendations to the Board on all matters of remuneration and compensation of Directors and the remuneration of senior executives, the bonus, share option, redundancy and termination payment policies of the Company. The Committee assesses the roles of the Chief Executive Officer, General Managers and Secretary to the Board.

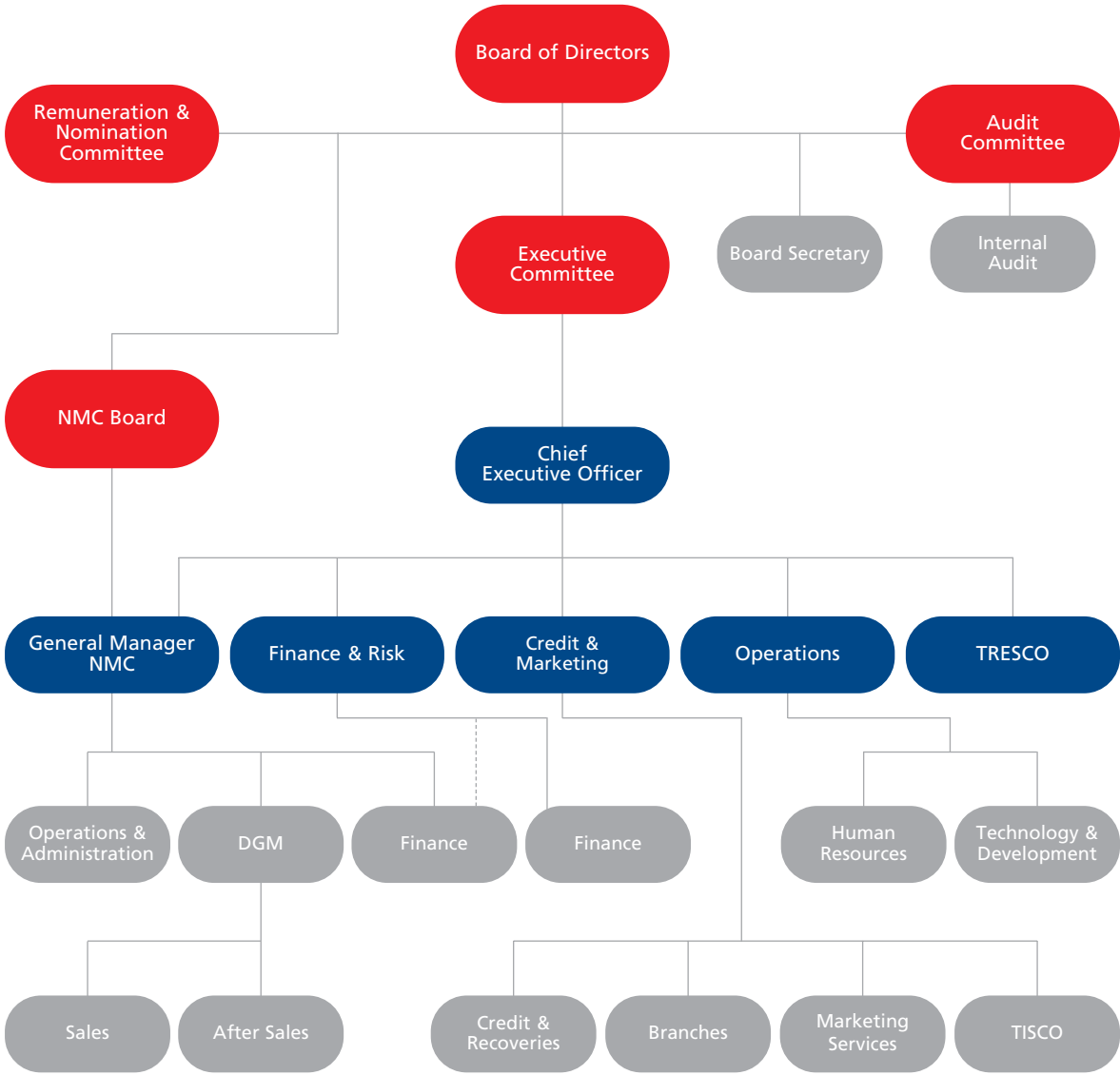
The Committee also ensures that failure is not rewarded and that the duty to mitigate loss is fully recognized. Additionally, the Committee determines the policy for the disclosure of Directors and Executive Management's remuneration.

The Remuneration and Nomination Committee convened six meetings during 2005.

Compliance Officer and Anti-Money Laundering Officer:

Besides fulfilling the other licensing requirements, Bahrain Commercial Facilities Company BSC also has a compliance officer and anti-money laundering officer.

Organisation Chart



Management's Review of Operations

The successful implementation of the Group's diversification strategy has resulted in subsidiaries involved with non-credit businesses contributing 57% of the BD 8.102 million profits for the year.

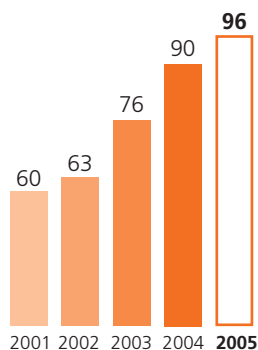
Parent Company

2005 marked a new era in the consumer credit business with the introduction of the BMA regulations governing consumer finance and a Credit Reference Bureau. Bahrain Credit achieved a commendable BD 53.1 million in new business, broadly in line with the previous year, with good growth in new vehicle loans and overall industry market share. Despite initial concerns at the start of the year, the impact of the Agency's regulations has not been significant.

Consumer Finance

Bahrain Credit is the leading provider of short, medium and long-term consumer finance for residents of the Kingdom of Bahrain.

Portfolio (BD Million)



The introduction of the Credit Reference Bureau has been smooth and can only lead to a healthier environment: it is not anticipated that this will adversely affect Bahrain Credit's business volumes.

The quality of the portfolio continues to benefit from sound underwriting standards and an efficient collections and recovery function. As a proportion of the portfolio, non-performing loans are 3% and are more than adequately covered by impairment allowances, since most of the Company's lending is made on a partially or fully secured basis.

The company's portfolio now stands at BD 96.555 million (6% over 2004). The company's policy is to finance its consistent balance sheet growth via diverse funding sources whose maturities are well spread out to mitigate the impact of liquidity risk. The year 2001 BD 7 million bond issue will mature in May 2006 and the Company intends to offer a new BD 10 million issue during the year.

BD53 million new advances



استمارة طلب

- تمويل عقاري
- تمويل شخصي
- تمويل لشراء سيارة

أنا  البحرين

المستندات المطلوبة

- شهادة أو إيصال الراتب
- صورة من البطاقة السكنية
- نسخة من الوثيقة
- نسخة من ملكية السيارة
- تهيئة الاستثمار
- صورة من جواز السفر
- نسخة من خصص البناء
- التسهيلات الرسمية من الآخر

Bahrain Credit achieved a commendable BD 53.1 million in new business, broadly in line with the previous year, with good growth in new vehicle loans and overall industry market share.

Interest and Charges: 3,100,000

Principal: 0.000

Charges: 567,000

Instalments: 9.155

Department of BD

Customer Signature

Bahrain Credit

Bahrain Commercial Facilities Co. BSC

Signature

Date

E-mail: bcredit@bahraincredit.com.bh - 17 786010 - فاكس: 17 786010 - ص.ب: 1175 - المنامة - 13111

Bahrain Commercial Facilities Company BSC, P.O. Box 1175, Manama, Tel.: 17 786010, Fax: 17786010, E-mail: bcredit@bahraincredit.com.bh, C.R. 140

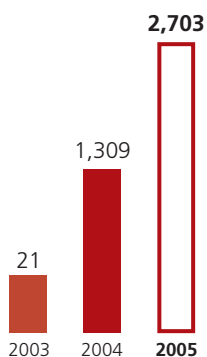
Tas'heelat Real Estate Services Company SPC (TRESKO) has registered a net profit of BD 2.7 million (33% of Group profit). This is due mainly to gains from land projects with one large land deal contributing substantially.

Over the past three years the prices of properties in Bahrain have rapidly escalated to unprecedented levels, hence TRESKO whilst making every effort to identify and profitably sell large blocks of land, realizes that the era of exceptional profits from land subdivision and sale is nearing the end of its life cycle and cannot be considered as a long term reliable and regular revenue stream. Entering 2006, TRESKO will continue to identify possible property projects for medium and long term investment purposes but will now focus more strongly on introducing the TRESKO brand as a provider of housing solutions, brokerage and property valuation.

Real Estate

Tas'heelat Real Estate Services Company SPC is actively involved in the sale and marketing of land and properties in various areas of Bahrain.

Net Profit (BD'000)



Company's Business Activities

Tas'heelat Real Estate Services Company SPC is actively involved in the sale and marketing of land and properties in various areas of Bahrain.

The principal business of the Company includes the following:

- 1. Property Investments:** The Company buys large land areas of different kinds and divides them into smaller parcels to sell them to persons who wish to own and invest in land.
- 2. Brokerage:** The Company undertakes the marketing of land and parcels of land owned by other individuals and industrial and financial companies to sell them later to investors at the best prices available in the market. The Company has been very dynamic in this sector thanks to the experience, expertise and good reputation enjoyed by its team.
- 3- Property Valuation Services:** With the growth of the Company and expansion of its services, it has introduced property valuation services to its customers. Owing to its experience and the high level of confidence it enjoys, demand for such service has grown to include leading merchants, banks, local companies and audit firms.

106% Net Profit growth



TRESCO will continue to identify property projects for medium and long term investment purposes.



National Motor Company's (NMC) net profit of BD 1.54 million constitutes 19% of the Group's net profit.

Management focused on the further increase in market share of both Honda and General Motors vehicles and the continued profitable development of the extremely important after-sales activities. With annual sales of over four thousand vehicles, NMC is now firmly established as one of Bahrain's largest distributors.

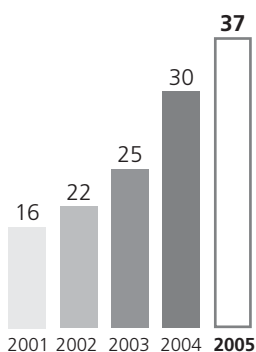
The automotive market in Bahrain tracked 2% growth during 2005 with the Japanese segment continuing to encounter intense competition, especially with a strong Yen prevailing for most of the year. Given this difficult environment we succeeded in maintaining our market share for Honda vehicles. The new Honda Civic launched at the end of November 2005 has been extremely well received and is set to emerge as a market leader within its segment, while the Honda Accord continues to grow in strength. Both these models represent a strong opportunity for the growth of the Honda business in 2006.

Sales of General Motors have grown substantially in recent years, with 2005 being no exception and returning a substantial growth of 44% in a highly competitive market environment. Cadillac and Hummer vehicles in particular returned strong growth well in excess of 100%.

Automotive

National Motor Company WLL is one of the leading companies in Bahrain for the sale of vehicles and after sales services.

Sales (BD Million)



The Chevrolet and GMC range of passenger car and sports utility vehicles continue to enjoy strong customer acceptability in the market with the Chevrolet Trailblazer once again proving the most popular vehicle in the General Motors range.

Within the after-sales operation, Parts Service and Body shop divisions continued to show substantial growth and exceeded their planned objectives for the year. Renovations of the Sehla facility were completed during 2005 and in September we officially opened our second AC Delco Service centre at this location. This operation is already returning results well ahead of expectations.

In September we also officially launched our Advantage Certified Used Car Operations, again at Sehla, which offers a comprehensive range of certified used vehicles, all prepared to the highest standards and quality.

The Management objective at all levels of Company operations remains to ensure that our customers receive a quality of service that is second to none and will exceed their highest expectations and enhance their ownership experience of our vehicles. Whether they are transacting business with our New or Used car showrooms, Parts, Service or Body-shop operations – our customers are and will remain the most important asset to our business.

Over **4000** vehicles sold

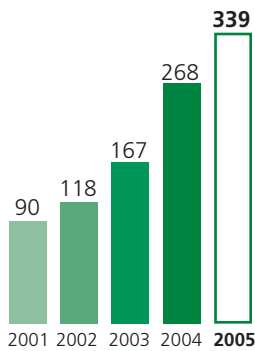


The Management objective at all levels of Company operations remains to ensure that our customers receive a quality of service that is second to none and will exceed their highest expectations and enhance their ownership experience of our vehicles.



Management's Review of Operations

Net Profit (BD'000)



Tas'heelat Insurance Services Company WLL (TISCO) has had another successful year with an 11% increase in gross and a 13% increase in net commissions. Net income of this subsidiary was BD 339 thousand, a 26% growth on the prior year.

Tas'heelat Insurance Services Company WLL was launched in 1997 as an intermediary Insurance provider. It has the capability to issue insurance policies tailored to meet different requirements, that include motor insurance, home insurance, household content insurance, life insurance and travel insurance.

The distinguishing feature offered by Tas'heelat Insurance Services is its ability to offer various insurance services under one roof in addition to ensuring excellent customer service.

Insurance

Tas'heelat Insurance Services Company WLL offers a wide range of insurance policies that include motor insurance, home insurance, household content insurance, life insurance and travel insurance.

2006 OUTLOOK

2006 will be a year of consolidation – the new BMA regulations, higher interest rates, newer competitors now trying to imitate our value chain model and fewer opportunities of land subdivision and sale are some of the issues already addressed by management.

Bahrain Credit and Tas'heelat Insurance Services Company WLL can be expected to deliver solid earnings and National Motor Company WLL targets a further growth in market share and contribution. Whilst the real estate activities will grow, earnings will moderate as we focus on building a reliable and consistent income stream from this source.

In summary, 2006 net income is unlikely to meet the exceptional level achieved in 2005, although BCFC intends to deliver solid earnings, an attractive return on equity and a continuation of reliable dividend returns to shareholders.



The distinguishing feature offered by Tas'heelat Insurance Services Company WLL (TISCO) is its ability to offer various insurance services under one roof in addition to ensuring excellent customer service.



Corporate Social Responsibility

The Company has been involved in various charitable activities and has been lending support to these fine social and governmental institutions.

Bahrain Commercial Facilities BSC believes that the Company's strategic objectives are not accomplished without all its stakeholders. Our stakeholders are not confined to our shareholders customers and employees. A comprehensive perspective is adopted in understanding the stakeholders of BCFC. Besides our shareholders and customers, Governmental institutions, charitable institutions and the Bahraini society at large are also key stakeholders.

Bahrain Commercial Facilities Company BSC recognizes its ethical and social responsibility towards the institutions of Bahraini society. Therefore, Bahrain Commercial Facilities Company BSC seeks to engage in philanthropic activities.



The Company donated BD 420,000 to the University of Bahrain to construct the first and only academic media center in the Kingdom of Bahrain.



“We take this opportunity to express our appreciation to the continuous support of Bahrain Commercial Facilities Company BSC. Development of this media center could not have been achieved without the help of the Company”.

Dr. Ebrahim A. Ghuloom
Dean of College of Arts
University of Bahrain

General Information

The company and the Group

Bahrain Commercial Facilities Company BSC is a Bahraini Public Shareholding Company. Initially the Company was registered on 29 August 1983 as a BSC (closed). In April 1993, the company was registered as a Public Shareholding Company following the public offering of its shares.

The Company wholly owns National Motor Company WLL, which was established in March 1988, Tasheelat Insurance Services Company WLL, which was established in 1997, and Tasheelat Real Estate Service Company SPC, which was established in May 2002.

CR Number

13444

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Fax

+973 17 786010 / 17 311344 / 17 467010 / 17 737144

Board of Directors:

Abdulrahman Yusif Fakhro - Chairman
Abdulrahman A.Mohamed - Vice Chairman
Murad Ali Murad
Dr. Farid Al Mulla
Khalid R. Al-Zayani
Khalid Mohammed Ali Mattar
Ali Abdulla Ahmadi
Sh. Mohammed Bin Isa Al-Khalifa
Jamal Mohamed Jassim Hijres

Chief Executive Officer Ian Levack

Credit and Marketing Jassim Khalaf

Finance and Risk Rajiv Mittal

Operations Adel Hubail

General Manager - NMC Geoff Thomas

General Manager - TRESKO Ali Al-Daylami

E-Mail

bcredit@bahraincredit.com.bh

Website

www.bahraincredit.com.bh

Offices

Bahrain Credit Building,
Building 264, Road 111, Toobli 701

Branches

Isa Town, GOSI Mall, Muharraq and Sitra

Banks

BBK BSC
National Bank of Bahrain
Standard Chartered Bank
BNP Paribas
Arab Bank
Bank Muscat
Ahli United Bank
Gulf International Bank
The Arab Investment Company
The Housing Bank for Trade and Finance
The Commercial Bank of Qatar QSC
Emirates Bank International
The National Bank of Kuwait

Auditors KPMG

Financial Statements

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Report of the Auditors to the Shareholders



We have audited the consolidated financial statements of Bahrain Commercial Facilities Company BSC and its subsidiaries (the "Group") as at, and for the year ended, 31 December 2005 as set out on pages 23 to 38.

Respective responsibilities of directors and auditors

These consolidated financial statements are the responsibility of the directors of the Company. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the

accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2005, the results of its operations, the changes in its equity and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Other regulatory matters

In addition, in our opinion, the Company has maintained proper accounting records and the consolidated financial statements are in agreement therewith. We have reviewed the accompanying report of the Chairman and confirm that the information contained therein is consistent with the consolidated financial statements. We are not aware of any violations of the

Bahrain Commercial Companies Law 2001 or the Bahrain Monetary Agency Law 1973 (as amended) or the terms of the Company's licence or its memorandum and articles of association having occurred during the year which might have had a material effect on the business of the Company or on its financial position as at 31 December 2005. Satisfactory explanations and information have been provided to us by the management in response to all our requests.

A handwritten signature in black ink, appearing to be 'KPMG' with a stylized flourish.

13 February 2006
Manama, Kingdom of Bahrain

Consolidated Balance Sheet

as at 31 December 2005

BD thousands

	Note	2005	2004
Assets			
Cash and cash equivalents		347	311
Loans	1	96,555	90,727
Trade and other receivables		3,450	2,517
Inventories	3	14,544	19,370
Property and equipment	4	10,323	9,014
Other assets		158	38
Total assets		125,377	121,977
LIABILITIES			
Bank overdrafts		4,730	3,274
Trade and other payables		11,764	12,665
Term loans	5	56,674	60,363
Bonds	6	16,920	14,982
Total liabilities		90,088	91,284
EQUITY			
Share capital	7	9,829	9,829
Reserves		25,460	20,864
Total Equity (page 25)		35,289	30,693
Total Liabilities and Equity		125,377	121,977



Abdulrahman Yusif Fakhro
Chairman



Abdulrahman A. Mohamed
Vice Chairman



Ian Levack
Chief Executive Officer

The Board of Directors approved the consolidated financial statements consisting of pages 23 to 38 on 13 February 2006.

Consolidated Income Statement

for the year ended 31 December 2005

BD thousands

	Note	2005	2004
Interest income		9,662	8,987
Interest expense		(3,235)	(2,779)
NET INTEREST INCOME		6,427	6,208
Automotive sales		37,478	30,946
Cost of sales		(33,545)	(27,679)
GROSS PROFIT ON AUTOMOTIVE SALES		3,933	3,267
INSURANCE COMMISSION INCOME		494	436
GROSS PROFIT ON LAND ACTIVITIES	8	3,050	1,645
OPERATING INCOME OF THE GROUP		13,904	11,556
Salaries and related costs		(2,266)	(1,814)
General and administrative costs		(1,190)	(1,193)
Selling and promotion costs		(738)	(624)
Depreciation		(779)	(823)
Foreign exchange gain		141	240
Provision for bad and doubtful loans	1	(843)	(888)
Recoveries of loans previously written off		286	353
Provisions for slow-moving inventories		(149)	(107)
Other financing costs		(264)	(64)
		(5,802)	(4,920)
NET PROFIT FOR THE YEAR		8,102	6,636
Earnings per 100 fils share	16	82.0 fils	67.1 fils
Proposed cash dividend per 100 fils share		40.0 fils*	40.0 fils

*Refer note 7 (Proposed issue of bonus shares)



Abdulrahman Yusif Fakhro
Chairman



Abdulrahman A. Mohamed
Vice Chairman



Ian Levack
Chief Executive Officer

The consolidated financial statements consist of pages 23 to 38.

Consolidated Statement of Changes in Equity

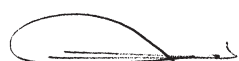
for the year ended 31 December 2005

BD thousands

	Share capital	Retained earnings	Proposed appropriations	Donations Reserve	Cash flow hedge revaluation reserve	Statutory reserve	General reserve	Total
2004								
Balance at 1 January 2004	9,829	2,092	3,600	583	(1,516)	8,300	4,000	26,888
Dividend declared for 2003	-	-	(3,460)	-	-	-	-	(3,460)
Directors' fees paid	-	-	(140)	-	-	-	-	(140)
Donations paid	-	-	-	(153)	-	-	-	(153)
Revaluation of cash flow hedges	-	-	-	-	922	-	-	922
Net profit for 2004	-	6,636	-	-	-	-	-	6,636
Proposed transfer to reserves	-	(1,982)	-	-	-	982	1,000	-
Proposed dividend, donations and directors' fees (2004)	-	(4,374)	4,094	280	-	-	-	-
At 31 December 2004	9,829	2,372	4,094	710	(594)	9,282	5,000	30,693
2005								
Dividend declared for 2004	-	-	(3,954)	-	-	-	-	(3,954)
Directors' fees paid	-	-	(140)	-	-	-	-	(140)
Donations paid	-	-	-	(149)	-	-	-	(149)
Revaluation of cash flow hedges	-	-	-	-	737	-	-	737
Net profit for 2005	-	8,102	-	-	-	-	-	8,102
Proposed transfer to reserves	-	(2,000)	-	-	-	-	2,000	-
Proposed dividend, donations and directors' fees (2005)	-	(4,414)	4,134	280	-	-	-	-
At 31 December 2005	9,829	4,060*	4,134	841	143	9,282	7,000	35,289

The share capital is disclosed net of BD 171(2004: BD 171) which is the repurchase amount of 1,153,000 (2004: 1,153,000) treasury shares.

*Refer note 7 (Proposed issue of bonus shares)



Abdulrahman Yusif Fakhro
Chairman



Abdulrahman A. Mohamed
Vice Chairman



Ian Levack
Chief Executive Officer

The consolidated financial statements consist of pages 23 to 38.

Consolidated Cash Flows

for the year ended 31 December 2005

BD thousands

	Note	2005	2004
Operating activities			
Loan repayments, interest and commission receipts		57,652	50,349
Automotive sales receipts		36,545	29,919
Net receipts from sale of land under inventories	8	3,050	1,645
Cash expended on operations			
Loans disbursed		(53,144)	(54,426)
Payments to automotive suppliers		(29,628)	(24,942)
Purchase of land for resale		-	(6,683)
Payments of staff salaries and related costs		(2,266)	(1,814)
Payments of other operating expenses		209	(1,751)
Interest paid		(3,499)	(2,843)
CASH FLOWS FROM OPERATIONS		8,919	(10,546)
Investing activities			
Capital expenditure on property and equipment	4	(2,556)	(1,700)
Proceeds from sale of furniture and equipment	4	174	281
CASH FLOWS FROM INVESTING ACTIVITIES		(2,382)	(1,419)
Financing activities			
Term loans received, net		(5,714)	13,080
Bonds issued, net		2,000	-
Dividends paid		(3,954)	(3,460)
Directors' fees paid		(140)	(140)
Donations paid		(149)	(153)
CASH FLOWS FROM FINANCING ACTIVITIES		(7,957)	9,327
TOTAL CASH FLOWS IN THE YEAR		(1,420)	(2,638)
Cash and cash equivalents		(2,963)	(325)
Cash and cash equivalents at 31 December		(4,383)	(2,963)
Cash and cash equivalents comprise:			
Cash and balances with banks		347	311
Bank overdrafts		(4,730)	(3,274)
		(4,383)	(2,963)



Abdulrahman Yusif Fakhro
Chairman



Abdulrahman A. Mohamed
Vice Chairman



Ian Levack
Chief Executive Officer

The consolidated financial statements consist of pages 23 to 38.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2005

Incorporation and activities

Bahrain Commercial Facilities Company BSC "the Company" is a public shareholding company incorporated and registered in the Kingdom of Bahrain. It provides short-term, medium-term and long-term loans. Effective 26th June 2005, the Company obtained a licence from the Bahrain Monetary Agency (BMA) to operate as a financial institution and is now licensed and regulated by BMA. Prior to this, the Company was licensed and regulated by the Ministry of Commerce and was supervised by the BMA.

The following are the wholly owned subsidiaries of the Company which are incorporated in Bahrain:

National Motor Company WLL which trades in motor vehicles and spare parts and provides after-sales services. It is the agent for General Motors and Honda.

Tasheelat Insurance Services Company WLL (provides insurance agency services).

Tasheelat Real Estate Services Company SPC (provides real estate related services).

The consolidated financial statements of the Company and its subsidiaries ("the Group") were authorised for issue by the directors on 13 February 2006.

Significant accounting policies

a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and in conformity with Bahrain Commercial Companies Law 2001 and the Bahrain Monetary Agency law.

The following is a summary of significant accounting policies used in preparing these consolidated financial statements:

b) Basis of preparation

The consolidated financial statements are prepared on the historical cost basis, except for derivative financial instruments which are carried at fair value.

The accounting policies have been consistently applied by the Group and are consistent with those used in the previous year, except for changes resulting from revisions to International Accounting Standard 39, Financial Instruments: Recognition and Measurement (IAS 39), which became effective on 1 January 2005.

c) Basis of consolidation

These consolidated financial statements include the financial statements of the company and its subsidiaries, National Motor Company WLL, Tasheelat Insurance Services Company WLL and Tasheelat Real Estate Services Company SPC. All inter company balances and transactions have been eliminated.

d) Interest income

Interest income is recognised as it accrues, taking into account the effective yield of the original settlement amount. In compliance with Bahrain Monetary Agency circulars, interest income is placed on a non-accrual status when the principal or interest are 90 days or more past due. Interest on non-accrual facilities is included in income only when received.

e) Income from sales and commission

Income from sales of land, motor vehicles and spare parts is recognised when an invoice is raised and the customer becomes entitled to take possession of the goods. Revenue from warranty claims is recognised when these are approved by the principals and services have been rendered to the customers under warranty obligations.

Insurance commission income is recognised when the insurance cover note is prepared and the customer becomes entitled to the insurance policy.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2005

Significant accounting policies continued

f) Loans and impairment allowance for losses

Classification

Loans are created by the Group by providing money directly to the borrowers and are initially recognised at cost and subsequently stated at amortised cost, less provision for impairment.

Recognition

Loans are recognised when cash is advanced to the borrower.

Impairment

All loan balances are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, the recoverable amount of the loan balance is estimated.

The recoverable amount of loans is calculated as the present value of the expected future cash flows, discounted at the effective interest rate of the loan.

The Group measures impairment allowances on portfolios of homogenous loans with similar risk profiles such as consumer mortgages, personal and vehicle loans. The estimated cash flows for portfolios of similar assets are estimated based on portfolio indicators such as previous credit loss experience, trends in credit quality and late payments of interest or penalties.

Increases and decreases in the loan impairment allowances for losses are recognised in the income statement.

When there is no longer a realistic prospect of recovery the loan is written off.

g) Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment. Specific impairment allowance for losses is made based on a review of individual balances.

h) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on a weighted average basis for spare parts and on a specific identification basis for motor vehicles. Cost includes purchase price, freight, customs duty and other incidental expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

Land held for resale is carried at the lower of cost and net realisable value determined annually by professional external valuers.

i) Property and equipment

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, if any. The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its residual amount if the carrying amount of the asset is greater than its estimated recoverable amount.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2005

Significant accounting policies continued

j) Depreciation

No provision for depreciation is made on land. Depreciation on property and equipment is provided on cost by the straight line method over their estimated useful lives as follows:

Buildings	15 to 20 years from occupation
Furniture, fixture and equipment	3 to 6 years
Vehicles	4 years

k) Borrowing costs

Interest incurred on bank borrowings related to construction of property and equipment is capitalized until these assets are ready for intended use.

l) Foreign currencies

Foreign currency transactions are translated into Bahraini dinars at the rate of exchange prevailing on the transaction date. Monetary assets and liabilities in foreign currencies are translated into Bahraini dinars at the rate of exchange prevailing at the balance sheet date. Gains and losses arising on translation are taken to the income statement.

m) Dividends and directors' fees

Dividends and directors' fees payable are recognised as a liability in the period in which they are declared.

n) Statutory reserve and share premium

In accordance with the parent company's Articles of Association and in compliance with the Bahrain Commercial Companies Law 2001, a minimum of 10% of the net profit is appropriated to a statutory reserve, until it reaches 50% of the paid-up share capital. This reserve is not normally distributable except in certain circumstances.

In accordance with the Bahrain Commercial Companies Law 2001 the share premium of BD 4,282,000 collected as part of the public flotation in 1993, has been merged with the statutory reserve.

o) General reserve

In accordance with the parent company's Articles of Association and the recommendations of the Board of Directors, specific amounts are transferred to the general reserve.

p) Treasury shares

When share capital is repurchased, the amount of the consideration paid is recognised as a change in equity. Repurchased shares are classified as treasury shares and presented as a deduction from total equity. When such shares are subsequently sold or reissued, any consideration received is treated as an increase in equity.

q) Derivative financial instruments and hedging

The Group uses interest rate caps, swaps and foreign currency option contracts to hedge its exposures to the variability of future cash flows.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2005

Significant accounting policies continued

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and subsequently remeasured at their fair values. Changes in the fair values of derivative financial instruments that are designated, and qualify, as cash flow hedges are recognised in a separate component of equity. Unrealised gains or losses recognised in equity are transferred to the income statement at the same time that the income or expense of the corresponding hedged item is recognised in the income statement. Unrealised gains or losses on any ineffective portion of cash flow hedging transactions are recognised in the income statement.

The Group does not trade in financial derivatives. Where a derivative financial instrument is used to economically hedge the foreign exchange exposure of a recognised monetary asset or liability, no hedge accounting is applied and any gain or loss on the hedging instrument is recognised in the income statement.

r) Impairment

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

s) Retirement benefits cost

Pensions and other social benefits for Bahraini employees are covered by the General Organization for Social Insurance scheme to which employees and the company contribute monthly on a fixed-percentage-of salaries basis. The Group's contribution to this scheme, which represents a defined contribution scheme under International Accounting Standard 19 – Employee Benefits, is expensed as incurred.

Expatriate employees on limited-term contracts are entitled to leaving indemnities payable under the Bahrain Labour Law for the Private Sector 1976, based on length of service and final remuneration. Provision for this unfunded commitment which represents a defined benefit plan under International Accounting Standard 19 – Employee Benefits, has been made by calculating the notional liability had all employees left at the balance sheet date.

t) Term loans and bonds

Interest bearing loans and bonds are recognised initially at cost, net of any transaction costs incurred.

u) Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances. For the purpose of the consolidated statement of cash flows, cash and cash equivalents are presented net of bank overdrafts.

v) Income tax liability

Companies are not liable to income tax in Bahrain.

w) Use of estimates and management judgement

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of financial assets and liabilities at the date of financial statements and the reported charge to or movements in the provisions for impairment of financial assets for the year.

The use of considerable judgement and estimates is principally required in the estimation of the amount and timing of future cash flows when determining the level of provisions required for individually significant non-performing loans, estimating incurred losses inherent within the loans portfolio and impairment losses for trade receivables and inventories.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2005

BD thousands

1 Loans

	2005	2004
At 31 December	96,555	90,727

The effective interest rates (APR) on loans ranges between 9.5% to 11.7% (2004: 8.5% - 12.5% p.a.)

	2005	2004
Impairment allowances		
At 1 January	2,748	2,151
Net charge to income statement	843	888
Loans written-off	(638)	(291)
At 31 December	2,953	2,748

The amendments to IAS 39, which became effective on 1 January 2005, resulted in modification of the methodology for determining the provisions for impairment to loans. Prior to the adoption of the revised version of IAS 39, provisions for impairment that were measured and recognized on a portfolio basis were collectively evaluated for impairment based on an expected loss model. Under the revised IAS 39, these credit exposures are collectively evaluated for impairment based on an incurred loss model. There was no significant impact of this change on current year results, previous years' results or previous years' equity.

2 Non-performing loans

	2005	2004
At 31 December	3,046	2,250

Non-performing loans are defined as those loans on which payments of interest or principal are 90 days or more past due. In compliance with Bahrain Monetary Agency requirements, interest on non performing loans is placed on a non-accrual status and interest on such loans is reversed from income and is accounted on a cash received basis. This policy had no material impact on the net income of the Group for the year.

3 Inventories

	2005	2004
Automotive stock		
Vehicles, net of provisions	11,679	9,994
Spare parts, net of provisions	2,086	1,862
	13,765	11,856
Land held for resale	779	7,514
At 31 December	14,544	19,370

The real estate operations of the Group are handled by Tas'heelat Real Estate Services Company SPC which classifies land held for resale as inventories.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2005

BD thousands

4 Property and equipment

	Land and buildings	Furniture fixtures & equipment	Vehicles	2005 Total	2004 Total
Cost					
At 1 January	8,401	1,932	1,515	11,848	10,529
Additions	410	260	1886	2,556	1,700
Disposals and retirements	-	(320)	(318)	(638)	(381)
At 31 December	8,811	1,872	3,083	13,766	11,848
Depreciation					
At 1 January	1,397	983	454	2,834	2,111
Charge for the year	310	300	169	779	823
Disposals and retirements	-	(151)	(19)	(170)	(100)
At 31 December	1,707	1,132	604	3,443	2,834
Net book value					
At 31 December 2005	7,104	7,40	2,479	10,323	-
At 31 December 2004	7,004	949	1,061	-	9,014

The cost of fully depreciated assets still in use at 31 December 2005 was BD 1,130 (2004: BD 1,416).

The Group's capital commitments outstanding as at 31 December 2005 was Nil (2004: BD Nil).

The amendment to IAS 16, which became effective on 1 January 2005, resulted in modification of the methodology for determining the periodic depreciation charge. There was no significant impact of this change on current period results, previous periods' results or previous years' equity.

5 Term loans

	2005	2004
Repayable within one year	26,665	29,449
Repayable after one year	30,009	30,914
	56,674	60,363

Term loans have floating interest rates, which are subject to repricing on a quarterly or half-yearly basis. The effective interest rate on term loans inclusive of the effect of the interest rate swaps (Note 9) was 4.95 % p.a. (2004: 4.17% p.a.).

6 Bonds

	2005	2004
	16,920	14,982

On 24 May 2001, the Company issued 70,000 bonds with a face value of BD 100 each. The principal terms of the bonds issued are as follows:

Notes to the Consolidated Financial Statements

for the year ended 31 December 2005

BD thousands

6 Bonds (continued)

Period:	Five years
Interest rate:	1.125% over BIBOR for 6 months deposit in Bahraini dinars, subject to a minimum of 5% p.a. Interest is payable six monthly in arrears from the date of issue.
Security:	Unsecured
Redemption:	24 May 2006

On 15 June 2005, the Company issued 100,000 bonds with a face value of BD 100 each. The principal terms of the bonds issued are as follows:

Period:	Five years
Interest rate:	0.85% over BIBOR for 6 months deposit in Bahrain dinars, subject to a minimum of 2.5% p.a. Interest is payable six monthly in arrears from the date of issue.
Security:	Unsecured
Redemption:	15 June 2010

7 Share capital

	2005		2004	
	No of shares	BD'000	No. of shares	BD'000
Authorised share capital of 100 fils each	500,000,000	50,000	500,000,000	50,000
Issued and fully paid capital	100,000,000	10,000	100,000,000	10,000
Shares at 1 January and 31 December	98,847,000	9,829	98,847,000	9,829

Treasury shares

The Company's memorandum of association allows it to hold up to 10% of its own issued shares as treasury shares. The number of treasury shares held by the Company at balance sheet date is 1,153,000 shares (2004: 1,153,000 shares) amounting to BD 171 (2004: BD 171).

Proposed issue of bonus shares

The Board of Directors has proposed a bonus share issue of one equity share for every ten shares held subject to the approval of the shareholders at both the Annual General Meeting and an Extraordinary General Meeting. The proposed bonus share issue will increase the issued and fully paid share capital by 10,000,000 ordinary shares of 100 fils each. These proposed bonus issue shares will rank pari passu with all other issued shares for future dividends. This proposed bonus share issue will be made by a transfer of BD 1,000 from retained earnings.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2005

BD thousands

7 Share capital (continued)

Additional information on shareholding pattern

- i. Names and nationalities of the major shareholders and the number of equity shares held in which they have an interest of 5% or more of issued and fully paid shares.

	Nationality	No. of shares	% holding
BBK BSC	Bahrain	20,250,000	20.25%
Pension Fund Commission	Bahrain	15,035,704	15.04%
General Organisation for Social Insurance	Bahrain	12,804,551	12.80%
National Bank of Bahrain	Bahrain	10,391,995	10.39%

- ii. The company has only one class of equity shares and the holders of these shares have equal voting rights.

- iii. Distribution schedule of equity shares, setting out the number of holders and percentage in the following categories:

Categories*	Number of Shares	Number shareholders	% total issued shares
Less than 1%	26,824,905	1,311	26.82%
1% up to less than 5%	14,692,845	9	14.70%
5% up to less than 10%	Nil	Nil	Nil
10% up to less than 20%	38,232,250	3	38.23%
20% up to less than 50%	20,250,000	1	20.25%
	100,000,000	1,324	100.00%

* Expressed as a percentage of total issued and fully paid shares of the company

8 Gross profit on land activities

	2005	2004
Sales of land	9,760	3,840
Cost of sales	(6,710)	(2,195)
Gross profit	3,050	1,645

9 Financial instruments and risk management

Financial instruments

The financial instruments of the Group consist primarily of loans and receivables (balances with banks, loans, trade and other receivables), derivative financial instruments, bank overdrafts, trade and other payables, bonds issued and term loans.

Foreign currency risk

The Group incurs foreign currency risk on purchases and borrowings that are denominated in Japanese Yen.

The Group uses foreign exchange options to hedge its foreign exchange risk on its short-term liabilities denominated in Japanese Yen. The notional amount of the option as at 31 December 2005 was BD 919 (2004: BD Nil).

Notes to the Consolidated Financial Statements

for the year ended 31 December 2005

BD thousands

9 Financial instruments and risk management (continued)

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. balances with banks, loans, bank overdrafts, bonds and term loans.

The distribution of financial instruments between interest rate categories is summarized below:

	Fixed rate		Floating rate		Non-interestearning		Total	
	2005	2004	2005	2004	2005	2004	2005	2004
At 31 December								
ASSETS								
Cash and bank	-	-	-	-	347	311	347	311
Loans	61,839	60,238	34,716	30,489	-	-	96,555	90,727
Trade and other receivables	-	-	-	-	3,450	2,517	3,450	2,517
	61,839	60,238	34,716	30,489	3,797	2,828	100,352	93,555
LIABILITIES								
Bank overdrafts	-	-	4,730	3,274	-	-	4,730	3,274
Trade and other payables	-	-	-	-	11,764	12,665	11,764	12,665
Term loans	-	-	56,674	60,363	-	-	56,674	60,363
Bonds	-	-	16,920	14,982	-	-	16,920	14,982
	-	-	78,324	78,619	11,764	12,665	90,088	91,284

The Group's instalment loans receivables are predominantly of a fixed rate nature (the company has, however, reserved the right under the terms of the agreement with customers to vary the rate at its discretion after giving the customer one month's notice) while its bank borrowings and bonds payable are of a floating rate nature. To hedge this risk, the group uses interest rate swaps and caps to reduce exposure to fluctuations of interest rates. The group does not enter into derivative financial instruments other than for economic hedging purposes.

Interest rate swaps are used to hedge cash flow exposures primarily on floating rate term loans by changing interest paid to fixed rates. At 31 December 2005 interest rate risk attributable to the term loans of USD 70 million (BD: 26.5 million) (2004: USD 79 million, BD 30 million) has been hedged. The fair value of the interest rate swaps is recognised in equity (page 25).

Credit risk

Credit risk is the risk that a counterparty to a transaction will fail to discharge an obligation and cause the Group to incur a financial loss. The Group is exposed to credit risk primarily on the loans receivable.

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

Notes to the Consolidated Financial Statements

for the year ended 31 December 2005

BD thousands

9 Financial instruments and risk management (continued)

The Group is not exposed to any significant concentration of credit risk arising from exposures to a single debtor or to Groups 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 receivable is the carrying value amount net of the deferred income and net of impairment allowance.

10 Fair values

The Group's consolidated financial statements are compiled under the historical cost method except for derivative financial instruments, which are carried at fair value. Fair values represent the amount at which an asset could be exchanged, or a liability settled, in a transaction between knowledgeable, willing parties in an arm's length transaction.

Underlying the definition of fair value is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

The Company's loans are within the normal range of market rates prevailing at the balance sheet date and therefore, their fair values are considered to approximate their carrying values. The fair value of the derivatives, which are not exchange traded, is estimated at the amount the Group would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current credit worthiness of the counterparties. The fair values of all other financial instruments approximated their respective book values due to their short-term nature or because they are at floating rates of interest.

11 Distribution of assets and liabilities

The geographic distribution of predominantly all assets and liabilities of the Group is in Bahrain. The assets and liabilities of the Group are not concentrated in any particular industry sector.

12 Maturity profile of financial assets and liabilities

	Within 1 Year		1 year to 5 years		Over 5 years		Total	
	2005	2004	2005	2004	2005	2004	2005	2004
At 31 December								
ASSETS								
Cash and bank	347	311	-	-	-	-	347	311
Loans	38,715	32,936	50,790	51,425	7,050	6,366	96,555	90,727
Trade and other receivables	3,450	2,517	-	-	-	-	3,450	2,517
	42,512	35,764	50,790	51,425	7,050	6,366	100,352	93,555
LIABILITIES								
Bank overdrafts	4,730	3,274	-	-	-	-	4,730	3,274
Trade and other payable	11,764	12,665	-	-	-	-	11,764	12,665
Term loans	26,665	29,449	30,009	30,914	-	-	56,674	60,363
Bonds	6,960	7,989	9,960	6,993	-	-	16,920	14,982
	50,119	53,377	39,969	37,907	-	-	90,088	91,284

The maturity profile is based on contractual repayment arrangements, which do not take account of the Group's practice of "rolling over" the term loans at maturity, depending on the available liquidity.

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for the year ended 31 December 2005

BD thousands

13 Segmental information

	Parent Company		National Motors		Tasheelat Real Estate		Tasheelat Insurance		Total	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
At 31 December										
Operating income	6,427	6,208	3,933	3,267	3,050	1,645	494	436	13,904	11,556
Operating costs	(2,907)	(2,352)	(2,393)	(2,064)	(347)	(336)	(155)	(168)	(5,802)	(4,920)
Net profit for the year	3,520	3,856	1,540	1,203	2,703	1,309	339	268	8,102	6,636
Assets (Liabilities)										
Cash and bank	-	14	259	257	7	6	81	34	347	311
Loans	96,555	90,727	-	-	-	-	-	-	96,555	90,727
Trade and other receivables	-	-	3,450	2,517	-	-	-	-	3,450	2,517
Inter company balances	(6,593)	3,543	1,290	884	4,248	(5,190)	1,055	763	-	-
Inventories	-	-	13,765	11,856	779	7,514	-	-	14,544	19,370
Property & equipment	457	515	9,866	8,499	-	-	-	-	10,323	9,014
Other assets	158	38	-	-	-	-	-	-	158	38
Bank overdrafts	(973)	(721)	(3,757)	(2,553)	-	-	-	-	(4,730)	(3,274)
Trade and other payables	(3,919)	(4,147)	(7,844)	(8,518)	-	-	-	-	(11,764)	(12,665)
Term loans	(49,833)	(56,069)	(6,841)	(4,294)	-	-	-	-	(56,674)	(60,363)
Bonds	(16,920)	(14,982)	-	-	-	-	-	-	(16,920)	(14,982)
Equity	(18,932)	(18,918)	(10,188)	(8,648)	(5,034)	(2,330)	(1,136)	(797)	(35,289)	(30,693)
Capital expenditure	35	57	2,521	1,643	-	-	-	-	2,556	1,700
Depreciation charge	90	102	689	721	-	-	-	-	779	823

14 Transactions with related and associated parties

Trading transactions, where the customer or supplier is controlled or significantly influenced by a director of the company, are conducted on an arms-length basis on normal commercial term. The company is an associate of BBK BSC, owner of 20.25% of the share capital. The balances due to the BBK BSC at 31 December 2005 are BD 4,194 (2004: BD 8,048) for term loans and BD 586 (2004: BD 891) for overdrafts. The interest expense paid to BBK BSC during the year by Bahrain Commercial Facilities Company BSC and National Motor Company WLL amounts to BD 220 (2004: BD 168).

The balances due to the National Bank of Bahrain at 31 December 2005 are BD 6,100 (2004: 6,099) for term loans and BD 763 (2004: 295) for overdrafts. The interest expense paid to National Bank of Bahrain during the year by Bahrain Commercial Facilities Company BSC and National Motor Company WLL amounts to BD 209 (2004: BD 106) and BD 103 (2004: BD 65) respectively.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2005

BD thousands

14 Transactions with related and associated parties (continued)

Transactions with key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. The key management personnel comprise members of the Board of Directors, the Chief Executive Officer, the Head of Finance and Risk and the General Managers and their short term compensation is BD 788 (2004: 668) and their termination benefit is BD 20(2004: BD 20)

Loans include BD 35 (2004: BD 18) due from directors. In accordance with the requirement of the Bahrain Commercial Companies Law 2001, details of amount paid to directors during 2005 are Directors' fees BD 180 (2004: BD 140) and executive committee attendance fees BD 71 (2004: BD 55).

15 Retirement benefits cost

The Group's contributions in respect of Bahraini employees for 2005 amounted to BD 162 (2004: BD 149).

The Group's provision for expatriate employees' leaving indemnities at 31 December 2005 was BD 401 (2004: BD 322). The Group employed 447 staff at 31 December 2005 (2004: 375).

16 Earnings per share

The calculation of basic earnings per share is based on the net profit for the year attributable to ordinary shareholders of BD 8,102 (2004: BD 6,636) and on the weighted average number of ordinary shares outstanding during the year of 98.8 million (2004: 98.8 million) shares.

Diluted earnings per share has not been presented as the Company has no instruments convertible into ordinary shares that would dilute earnings per share.

17 Contingent liabilities and commitments

The parent company has provided guarantees of BD 31,557 (2004: BD 17,650) to various banks for banking facilities or other financial accommodation to its subsidiary, National Motor Company WLL.

National Motor Company WLL had letters of credit outstanding at 31 December 2005 amounting to BD 18,700 (2004: BD 6,073).

18 Proposed appropriations

The Board of Directors has proposed the following appropriations for 2005. These appropriations are subject to approval by the shareholders at the Annual General Meeting.

	2005	2004
Proposed dividends	3,954	3,954
Directors' fees	180	140
Donations	280	280
General reserve	2,000	1,000
Statutory reserve	-	982
	6,414	6,356

19 Comparative figures

Comparative figures have been reclassified to conform with the current year's presentation. Such reclassification has not affected the reported net profit, net assets or equity.