More than financing

BAHRAIN COMMERCIAL FACILITIES COMPANY BSC

Annual Report 2007

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 authorised 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 Central Bank of Bahrain (CBB) is also obtained.

Effective 26th June 2005, the Company became licensed and regulated by the CBB to operate as a financial institution. Prior to this, the Company was licensed and regulated by the Ministry of Industry & Commerce and was supervised by the CBB.

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 (TRESCO) 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.

Contents

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
& Deputy Supreme
Commander of the
Kingdom of Bahrain

Operational Highlights

- Group net profit of BD 9.18 million is 51% ahead of last year. Strong performances were recorded by all businesses.

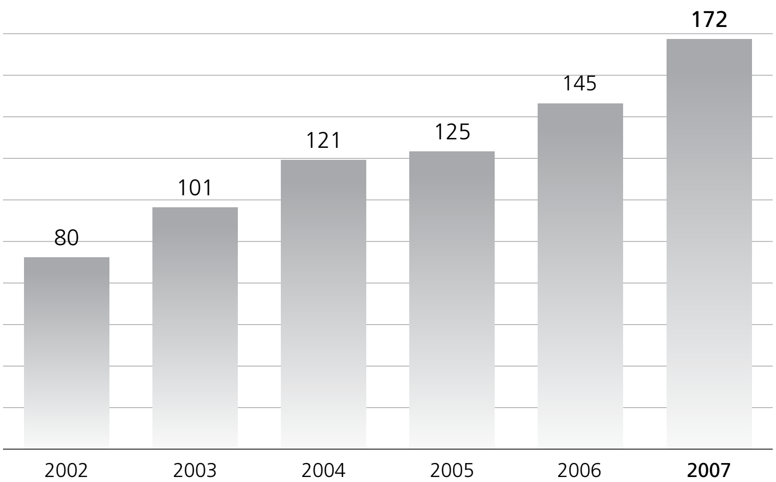
- Credit: Following a restructuring as part of the current 3 year strategic plan, new lending accelerated to BD 80 million (31% higher than the previous year). Portfolio quality has further improved. Margins have been protected by additional hedging against interest rate risk in a low interest rate environment.

- Automotive: National Motor Company with annual sales in excess of 6,000 vehicles is now ranked second among the Kingdom's top automotive distributors. Net profits were BD 3.3 Million (79% up on 2006) and constituting 36% of Group earnings.

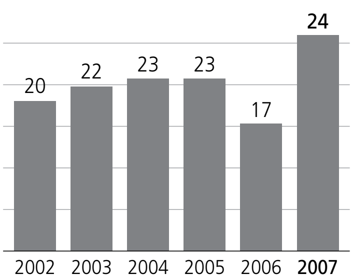
- Real Estate: The Company has disposed off all land holdings contributing about BD 1 million in the current year.

- Insurance: Tas'heelat Insurance Services Company had another successful year placing over twelve thousand policies and delivering a 36% increase in net profits.

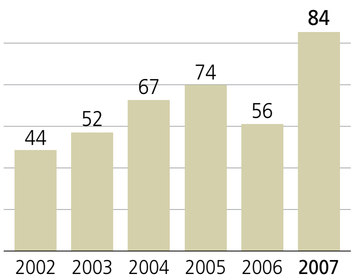
Total Assets (BD Million)



Return on equity (%)

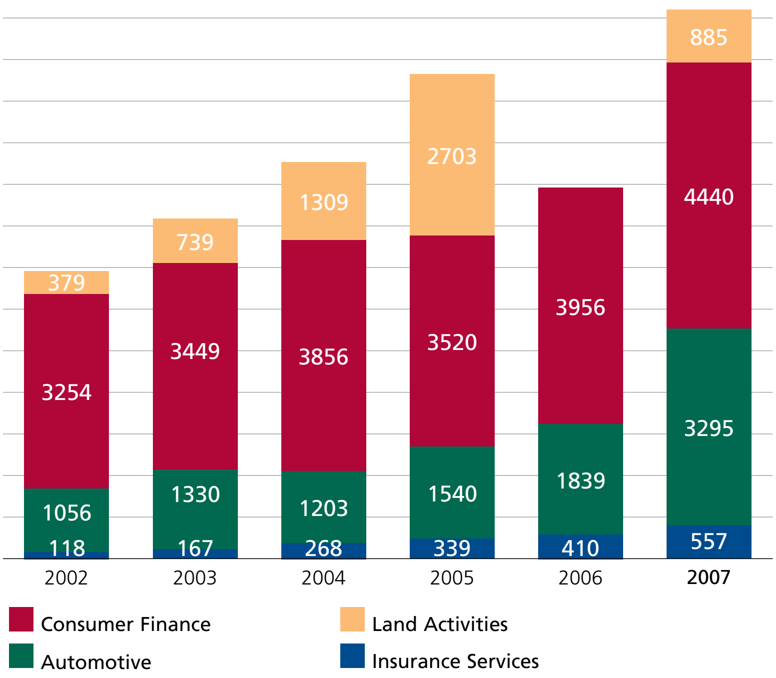


Earnings per share (fils)*



* EPS adjusted for bonus shares

BCFC net profit (BD '000)



Chairman's Statement

Net profit 51%
ahead of the previous year

Abdulrahman Yusif Fakhro
Chairman

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 2007. The annual report includes the consolidated financial results of Bahrain Credit and the company's subsidiaries National Motor Company, Tas'heelat Real Estate Services Company and Tas'heelat Insurance Services Company.

Your company has achieved exceptional results in 2007 with all businesses registering strong gains. Total group net profit of BD 9.18 million is 51% ahead of the previous year. Current year results include some BD 1 million land gains: excluding these, sustainable earnings are 35% ahead of the previous year. Per share earnings are 84 fils versus 56 fils in 2006. Your Board recommends payment of cash dividend to shareholders at the rate of 40 fils per share (40%) (2006: 40 fils per share) and a bonus share issue in the ratio of 1:10 (1 equity share fully paid for every 10 shares held).

2007 witnessed the continuation of some key trends: the overall economy remained robust, the real estate sector continued to be very buoyant and what was also noteworthy was the sustained strength of the automotive sector: it is pleasing to note your Company capitalised on the opportunities these presented. 2007 was also the first year of the current 3 year strategic plan: the key initiatives for the year included an organisation restructure along with identification of key business areas for profitable growth and also currently perceived higher risk segments where caution will continue to be exercised.

Bahrain Credit produced a strong performance: New loans at BD 80 million were 31% higher than the previous year. What is pleasing is that this growth was spread across all products – auto loans, unsecured loans and mortgage lending. Your Company has noted the recent concern expressed by the Central Bank of Bahrain on lending practices of commercial banks in the retail lending sector particularly their high exposure to real estate. You will recall that in my 2006 report to you, your Company had expressed the view that the real estate sector seemed fully valued: in 2007 your Company therefore was extremely selective in its mortgage lending with further tightening of already prudent underwriting standards (in all products). Non performing loans declined both in absolute terms and as a percentage of the total portfolio from the already low levels at the start of the year.

2007 was a good year for National Motor Company: it generated net profits of BD 3.295 Million, a 79% increase over the 2006 results and increased its market share. A weaker Yen, a strong product line up and emphasis on improving the quality of after sales service has helped the company post some very strong numbers. Significant and timely investments have been made in the company which is now recording steady growth and generating consistent returns.

Tas'heelat Real Estate Services Company has, as anticipated, profitably sold the modest stock of

"We wish to express our appreciation to our customers and shareholders for their continuing loyal support and confidence and to all our employees for their commitment and hard work that has resulted in this excellent performance"

land held for resale at the start of the year. As I have stated above, your Company reiterates the view held in 2006 that the real estate sector seems very buoyant: The group will therefore commit further investments in this sector only after very careful consideration and due diligence with an eye to avoiding higher than normal costs due to current unfavorable market forces.

The following are the changes in the composition of the Board during the year: Mr. Murad Ali Murad resigned in February 2007 having served on the Board from March 2002. Murad was also a member of the Audit Committee and the Remuneration and Nomination Committee. The Board welcomed Mr. Ebrahim Abdulla Buhindi as a member from 17th March 2007. Ebrahim brings with him specialised technical expertise and had earlier served on the Board from 1988 to 2004 as a nominee of BBK. Ebrahim is also serving as a member of the Board Audit Committee and the Remuneration and Nomination Committee from such date. Dr. Farid Ahmed Al-Mulla ceased being a Board member from October 2007 following his resignation from BBK, the nominating shareholder bank. Farid served on the board from December 2000 and was a member of the Executive Committee at the time of his departure. The Board places on record its thanks and appreciation to both Murad and Farid for their valuable contributions over the years.

In accordance with the requirement of Bahrain's Commercial Company Law 2001, we report the aggregate amount paid to directors during 2007 was BD 246K (2006: BD 245K) in respect of fees and subsidiary Board and Executive Committee attendance allowances. The total shareholding of the directors in the company is 64.46 million shares (58.6 % of paid up capital).

We wish to express our appreciation to our customers and shareholders for their continuing loyal support and confidence and to all our employees for their commitment and hard work that has resulted in this excellent performance. I am also pleased to advise you that your company was recognised for its investment in human capital and commended on its level of Bahrainisation by the Ministry of Labour in a recent ceremony patronised by His Majesty, King Hamad bin Isa Al Khalifa.

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 organisations of Bahrain, most particularly the Central Bank of Bahrain and the Ministry of Industry and Commerce.

Abdulrahman Yusif Fakhro
Chairman
February 2008

Board of Directors

1 2 3 4 5

1. **Abdulrahman Yusuf Fakhro** Chairman

   Chairman – Yusif Bin Yusif Fakhro BSC (c)
   Chairman – Seef Properties BSC
   Director – General Organisation for Social Insurance
   Director – Bahrain Real Estate Company BSC (c) (Edamah)
   Director – Bahrain Flour Mills Company BSC

2. **Abdulrahman Abdulla Mohamed** Vice Chairman
   Nominee of National Bank of Bahrain

   Deputy General Manager Banking Group – National Bank of Bahrain
   Chairman – National Motor Company WLL

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. **Sh. Mohammed Bin Isa Al-Khalifa** Director
   Nominee of General Organisation for Social Insurance, Bahrain

   Director General – General Organisation for Social Insurance, Bahrain
   Chairman – Securities & Investment Company BSC (c)
   Vice-Chairman – National Motor Company WLL
   Director – BBK
   Director – Bahrain International Golf Course Company
   First Deputy Chairman – Bahrain Telecommunications Company BSC

5. **Ebrahim Abdulla Buhindi** Director

   Director - Bahrain Middle East Bank

Executive Committee

Khalid Mohamed Ali Mattar Chairman, **Sh. Mohammed Bin Isa Al-Khalifa** Vice Chairman, **Abdulrahman Abdulla Mohamed** Member, **Dr. Farid Ahmed Al-Mulla** (Resigned October 2007)

6 7 8 9 10 11

6. Khalid R. Al-Zayani Director

Chairman – Al Zayani Investments WLL
Chairman – Zayani Motors WLL
Chairman – Euro Motors WLL
Chairman – First Motors WLL
Chairman – Midal Cables Ltd.
Chairman – Aluwheel WLL
Chairman – Intersteel WLL
Chairman – Metal Form WLL
Chairman – Gulf Closures WLL
Chairman – Zayani Properties WLL
Chairman – Zayani Hotels Corporation
Chairman – Zayani Leasing WLL
Board Member – Investcorp Bank E.C.
Board Member – International Chamber of Commerce (Bahrain National Committee)
Board Member – American Bahraini Friendship Society
Founding Member & President – American Chamber of Commerce in Bahrain
Founder member with Arab-British Chamber of Commerce – Bahrain British Business Council
Board Member – US-Bahrain Business Council
Board Member – Bahrain-Moroccan Business Council
President – Bahrain Technology Transfer Society

7. Abdulaziz Saleh Al-Saie Director
Nominee of Pension Fund Commission

Director of Finance - Pension Fund Commission
Director – Bahrain International Golf Course Company
Director – Al Essal Power Company

8. Ali Abdulla Ahmadi Director

Managing Director – Ahmadi Industries WLL

9. Jamal Mohamed Jassim Hejres Director
Nominee of BBK

Chairman – Sakana BSC (c)
Director – Credimax BSC (c)
Director – National Motor Company WLL
Co-ordinator – Al Khaleej Islamic Investment Bank (AKIIB)

NOTE:

* Murad Ali Murad Director
(Resigned February 2007)

* Dr. Farid Ahmed Al-Mulla Director
(Resigned October 2007)

10. Ian Levack Chief Executive Officer

11. Jalal Al Mousawi Secretary to the Board

Board Audit Committee

Ebrahim Abdulla Buhindi Chairman, **Abdulaziz Al Saie** Vice Chairman, **Ali Abdulla Ahmadi** Member

Remuneration and Nomination Committee

Abdulrahman Yusif Fakhro Chairman, **Ebrahim Abdulla Buhindi** Vice Chairman, **Khalid R. Al-Zayani** Member

Corporate Governance

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 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 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, a Board Audit Committee and a Remuneration and Nomination Committee.

In 2007, the Board of Directors convened eight meetings. Additionally, in order to avoid conflicts of interest, a Board Sub-Committee meeting was held to consider Syndicated Loan proposals in 2007.

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, TRESCO 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 planning, human resources policies and practices, donations and signing authorities.
To fulfill its assigned responsibilities, the Executive Committee held eight meetings in 2007.

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 compliance with the group's risk management policies and procedures 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 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 Committee directs the role and assesses the performance of the Internal Audit Department.

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

During 2007, the Board Audit Committee met four times. On each occasion, the Board Audit Committee met on a quarterly basis with the External Auditor.

Remuneration and Nomination Committee

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

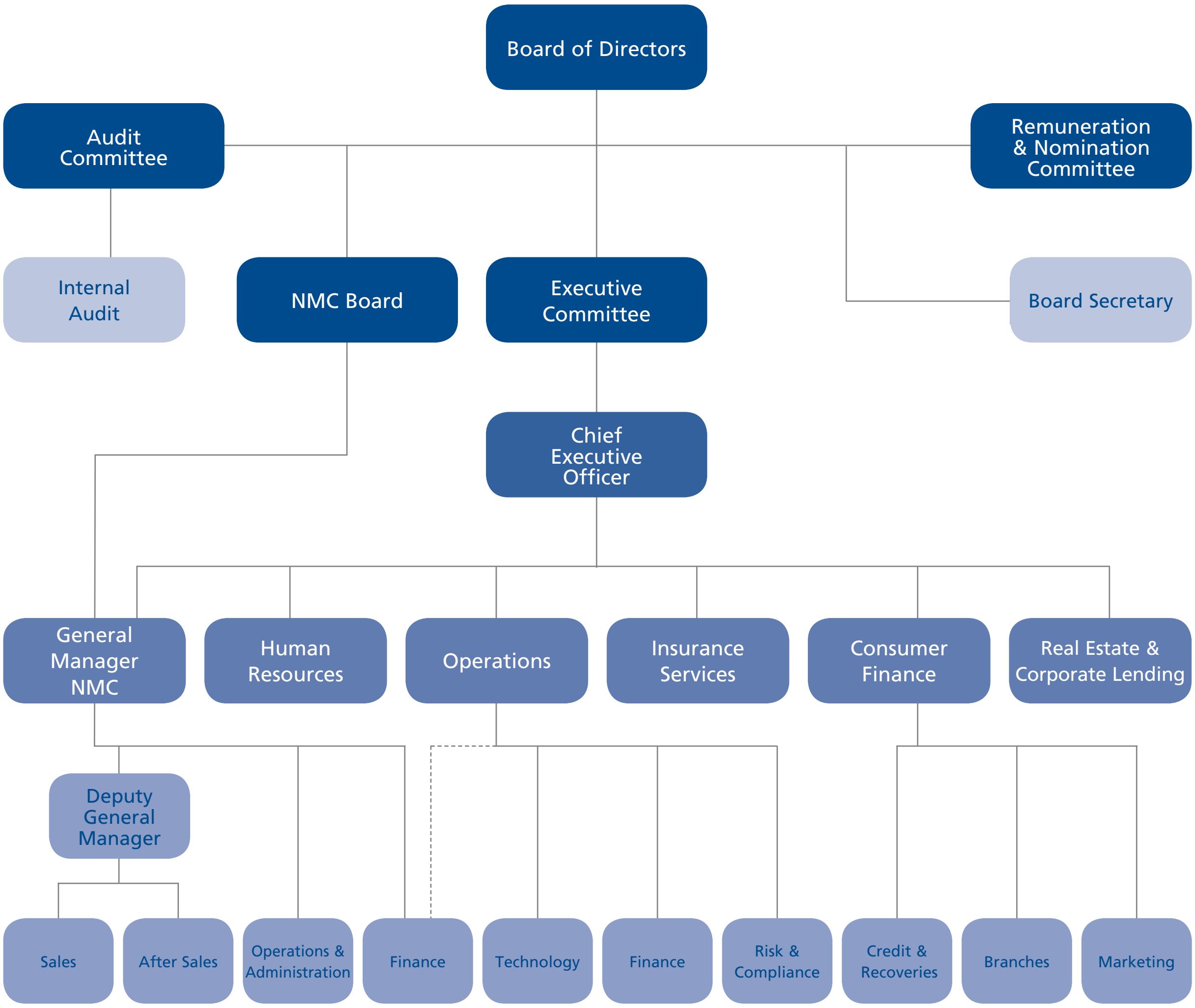
The Committee makes recommendations to the Board on the appointment of Directors, the Chief Executive Officer and the General Manager of National Motor Company WLL; the Secretary to the Boards; Directors to the Boards of the Company's subsidiaries; and membership to all Committees of the Board.

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 Manager of National Motor Company WLL 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 one meeting during 2007.

Risk Manager, Compliance Officer and Anti-Money Laundering Officer

Bahrain Commercial Facilities Company BSC has a Risk Manager, Compliance Officer, and an Anti-Money Laundering Officer. These functions are independent of business lines and the day-to-day running of the various business areas. In addition, these functions are separate from the Internal Audit function.


Board of Directors
Audit Committee
Remuneration & Nomination Committee
Internal Audit
NMC Board
Executive Committee
Board Secretary
Chief Executive Officer
General Manager NMC
Human Resources
Operations
Insurance Services
Consumer Finance
Real Estate & Corporate Lending
Deputy General Manager
Sales
After Sales
Operations & Administration
Finance
Technology
Finance
Risk & Compliance
Credit & Recoveries
Branches
Marketing

Management team

1. **Ian Levack**
   Chief Executive Officer
   BCFC

2. **Geoff Thomas**
   General Manager
   National Motor Company

3. **Adel Hubail**
   Senior Vice President
   Head of Consumer Finance
   Bahrain Credit

4. **Rajiv Mittal**
   Senior Vice President
   Head of Operations
   BCFC

5. **Taleb Al-Shaikh**
   General Manager
   Tas'heelat Real Estate Services Company

6. **Jason Stubbings**
   Deputy General Manager
   National Motor Company

7. **Ali Al-Daylami**
   General Manager
   Tas'heelat Insurance Services Company

8. **Fadhel Al Mahoozi**
   Vice President
   Head of Legal Credit Recoveries & Collection
   Bahrain Credit

9. **Abdulla Al Wedaei**
   Senior Manager
   Head of Sales Operations
   National Motor Company

10. **Nader Ebrahim**
Senior Finance Manager
National Motor Company

11. **Ali Al-Jabal**
Vice President
Head of Technology & Development
Bahrain Credit

12. **Bala Krishnan**
Marketing Manager
National Motor Company

13. **Mohamed Fadhel Mahmandar**
Senior Manager Operations & Administration
National Motor Company

14. **Mahmood Shubber Al Alawi**
Business Development Manager
National Motor Company

15. **Ali Aburwais**
Risk & Compliance Manager
Bahrain Credit

16. **Xavier Stephens**
Senior Manager Head of Aftersales
National Motor Company

17. **Mohandas Unni**
Senior Manager Head of IT
National Motor Company

18. **Shehab Ahmed**
Vice President
Internal Audit
BCFC

Management's Review of Operations

The positive economic conditions during 2007 were favorable for all our businesses and in this environment the Group delivered its highest ever earnings: Net profits at BD 9.18 million are 51% higher than 2006 reported earnings of BD 6.09 million.

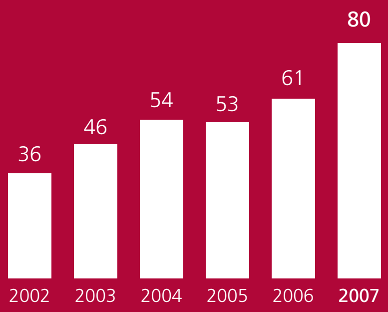
PARENT COMPANY

Bahrain Credit achieved another record level of new loans: the BD 80 million of new advances was 31% higher than the previous year. The consumer credit market was buoyant over the year and Bahrain Credit has increased its market share in all products. 2007 marked the first year of the current 3 year strategic plan; during the year the company restructured its business into consumer finance and corporate lending to provide better focus on the different customer needs and different risks specific to each product. The impact of this product differentiation was immediately felt: new business in the last six months of the year was 35% ahead of the BD 34 million written in the first half. The quality of the portfolio also further improved: non-performing loans which stood at 3.4% of outstandings in December 2006 fell to 2.9% at June 2007 and further declined to 2.4% at December 2007. The portfolio at the year end reached BD 130 million, some 20% higher than a year previously.

The company closely monitors its interest rate risk: most of the lending is at a fixed rate while borrowings are floating rate. During 2007, the interest rate environment turned bearish and the company utilised this opportunity to enter into additional interest rate swaps: over 80% of borrowings are currently hedged.

The company has been unaffected by the sub prime crisis and its fallout which has negatively impacted global capital markets: A USD 40 million syndicated loan facility matured in December 2007 and was replaced with a USD75 million syndicated loan on similar terms and with the active participation of new institutions including a major European bank. The company will be approaching the capital markets again in mid 2008 to replace the USD 35 million syndicated loan facility maturing at that time.

New Loans (BD Million)



Group net profits at:

BD 9.18 Million

FINANCE

We offer different loan products to meet individuals and businesses financing needs:

• Car Loan • Mortgage Loan • Personal Loan • Corporate Loan • Student Loan

TAS'HEELAT REAL ESTATE SERVICES COMPANY

Tas'heelat Real Estate Services Company has registered a net profit of BD 885 thousand for the year. A major portion of the revenue has arisen from disposal of land held for resale and investment property.

In 2007, as planned (and advised in the 2006 annual report), the company reviewed its land holdings :land held for resale in Salmabad and an investment property in Qurayya.

The company had intended to develop the Qurayya plot and build its investment property portfolio but in light of market conditions – high land prices coupled with ever increasing construction and raw materials cost – decided to profitably sell all its holdings in what we now consider a fully valued real estate market.

Going forward, the company will be extremely selective in further capital investments and realign its business model to primarily constitute evaluation and brokerage services.

A net profit of:

BD 885 Thousand

REAL ESTATE

We offer a range of real estate services to individuals and investors:

- Brokerage Services
- Valuations
- Property Management
- Investment

Management's Review of Operations

NATIONAL MOTOR COMPANY

National Motor Company's net profit of BD 3.295 Million constitutes 36% of the Group's earnings.

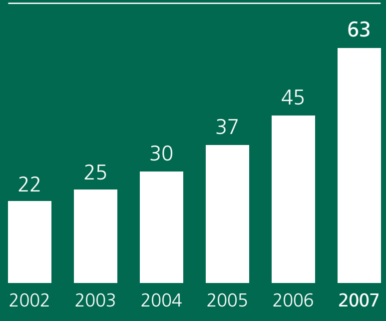
The automotive sector was very strong in 2007. National Motor Company recorded growth rates ahead of the overall market: with annual sales in excess of six thousand vehicles, the company now ranks second among the major automotive distributors in Bahrain.

Honda market share increased substantially due to strong demand across all models, further fuelled by a relatively weak Japanese Yen. The new Civic and CRV introduced in 2006 and 2007 respectively and the all new 2008 Accord have met with an extremely positive customer response to the new styling and technologies brought to market.

General Motors sales were assisted by the introduction of several models in new market segments, in particular the Chevrolet Epica as a compact 4 door sedan and the Chevrolet Captiva in the popular small sport utility vehicle segment. In the premium brands, introduction of the all-new highly acclaimed 2008 Cadillac CTS will spearhead further growth within the luxury segment for the Company during the coming year.

Our after-sales operation, parts, service and body shop divisions all returned excellent results, exceeding their planned objectives for the year. The continued profitable development of the extremely important after-sales activities remains a key priority.

Sales (BD Million)



A net profit of:

BD 3.295 Million

AUTOMOTIVE

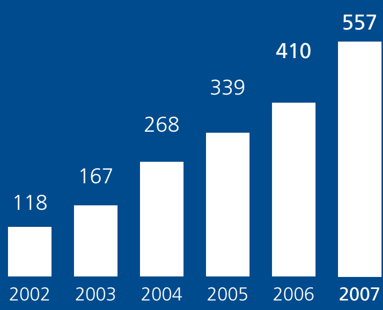
National Motor Company is one of Bahrain's leading automotive distributors:

• HONDA • CHEVROLET • GMC • HUMMER • CADILLAC

TAS'HEELAT INSURANCE SERVICES COMPANY

has had another successful year with a 32% increase in gross commission and a 36% increase in net earnings. The past few years have seen tremendous changes in the insurance industry. The number of insurance brokers and insurance companies has increased and several banks and cars dealers have announced direct strategic alliances with insurance companies. The Company however is well positioned to face such challenges through its strong market reputation, trust built up with its customers over the years and the in house business it generates from Bahrain Credit and National Motor Company.

Insurance Net Profit (BD'000)



36% Increase in net earnings

RISK MANAGEMENT

The company constantly monitors its exposures to risk and the effectiveness of its risk management. Additional hedging through interest rate swaps, increased medium term borrowing, more frequent review of impairment provisions and their adequacy, strengthening of the compliance division, fine tuning of company policies and procedures and establishment of an Assets and Liabilities Committee (ALCO) were specific measures taken in 2007 within the overall framework.

In terms of reporting requirements, international accounting bodies in an effort to increase transparency through additional reporting have in 2007 focused on financial instruments disclosures by the adoption of IFRS 7 and amendments to IAS 1: the more detailed notes to our attached consolidated financial statements fully comply with these new requirements.

HUMAN RESOURCES

The company has always strongly believed in investing in its most important asset: its employees. We were delighted to receive further recognition of this in 2007: we were rated in the highest category for achievements in Bahrainisation and commended for our training and development of Bahraini staff in the awards granted by The Ministry of Labour under the patronage of His Majesty, King Hamad bin Isa Al Khalifa.

2008 OUTLOOK

Whilst issues such as the impact of the sub prime lending crisis on international capital markets and a weak dollar could adversely affect market sentiment, the Group expects the local economy to remain buoyant and our core businesses to further build on their market position.

INSURANCE

We offer a variety of insurance products
to individuals and businesses:

- Car Insurance
- Home Insurance
- Travel Insurance
- Life Insurance

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 Company 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. Beside our shareholders and customers, Governmental institutions, charitable institutions and the Bahraini society at large are also key stakeholders.

We recognise our ethical and social responsibility towards the institutions of Bahrain society. Therefore, we seek to engage in philanthropic activities. In 2007, the Company has extended its list of donations to cover 23 governmental and charitable institutions.

معهد البحرين للتدريب
Bahrain Training Institute

قوة دفاع البحرين – الخدمات الطبية
مركز محمد بن خليفة بن سلمان الخليفة التخصصي للقلب
Bahrain Defence Force - Medical Services
Mohammed Bin Khalifa Bin Salman Al Khalifa Cardiac Centre

جمعية الهلال الأحمر البحريني
BAHRAIN RED CRESCENT SOCIETY

جمعية الصداقة للمكفوفين
The Friendship Society for the blind

مركز البحرين للدراسات والبحوث
BAHRAIN CENTRE FOR STUDIES & RESEARCH

داريوكو لرعاية الوالدين
UCO PARENTS CARE CENTRE

جمعية البحرين لمكافحة السرطان
BAHRAIN CANCER SOCIETY

جامعة البحرين
UNIVERSITY OF BAHRAIN

دار رعاية الطفولة
Child Care Home

الجمعية البحرينية لمتلازمة داون
Bahrain Down Syndrome Society

معهد الأمل للأطفال المعوقين
HOPE INSTITUTE FOR HANDICAPPED CHILDREN

جمعية البحرين للأطفال
ذوي الصعوبة في السلوك والتواصل
Bahrain Society for Children with
Behavioral and Communication Difficulties

مركز المحرق للرعاية الإجتماعية
Muharraq Social Welfare Centre

مركز الرحمة

صندوق الزكاة

الجمعية البحرينية للتخلف العقلي

مركز الطفل للرعاية النهارية
Child Day Care Center

روضة أزهار الحراك
Azhar Al Herak Nursery

مركز تنمية السمع والنطق
Centre for Hearing &
Speech Development

مركز الشيخ إبراهيم – متحف البحرين
Sh. Ebrahim Center - Bahrain Museum

أسرة الأدباء والكتاب
Writers' Society

روضة براعم الحراك
Baram Al Herak Nurs ery

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 B.S.C. (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, Tas'heelat Insurance Services Company WLL, which was established in 1997, and Tas'heelat Real Estate Service Company SPC, which was established in May 2002.

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13444

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Building 264, Road 111, Toobli 701

Branches
Isa Town, GOSI Mall, Muharraq and Sitra

Board of Directors

Abdulrahman Yusif Fakhro
Chairman

Abdulrahman A. Mohamed
Vice Chairman

Khalid Mohammed Ali Mattar

Sh. Mohammed Bin Isa Al-Khalifa

Abdulaziz Al Saie

Ebrahim Abdulla Buhindi

Jamal Mohamed Jassim Hejres

Ali Abdulla Ahmadi

Khalid Rashid Al-Zayani

Chief Executive Officer
Ian Levack

SVP-Head of Consumer Finance
Adel Hubail

SVP-Head of Operations
Rajiv Mittal

General Manager - NMC
Geoff Thomas

General Manager - TRESCO
Taleb Al-Shaikh

General Manager - TISCO
Ali Al-Daylami

Banks
BBK
National Bank of Bahrain
Ahli United Bank
Standard Chartered Bank
Gulf International Bank
Raiffeisen Zentralbank Oesterreich AG
BNP Paribas
Arab Bank
Bank Muscat
The Arab Investment Company
Banque BIA
The Arab Investment Bank S.A.A.
National Bank of Kuwait
First Gulf Bank
Housing Bank for Trade and Finance

Auditors
KPMG

Financial Statements

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Independent Auditors' Report to the Shareholders

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Bahrain Commercial Facilities Company BSC ("the Company") and its subsidiaries (together the "Group"), which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Responsibility of the directors for the consolidated financial statements

The Directors of the Company are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2007, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

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, the Central Bank of Bahrain and Financial Institutions Law 2006, terms of the Company's license or it's memorandum and articles of association having occurred during the year ended 31 December 2007 that might have had a material effect on the business of the Company or on its financial position. Satisfactory explanations and information have been provided to us by the management in response to all our requests.

KPMG.

12 February 2008
Manama, Kingdom of Bahrain

Consolidated Balance Sheet

As at 31 December 2007

BD thousands

	Notes	2007	2006
ASSETS			
Cash and cash equivalents		2,379	1,484
Loans	7	129,955	108,027
Trade and other receivables		5,580	4,756
Inventories	9	23,010	18,338
Property and equipment	10	11,490	10,789
Investment property		-	1,416
Other assets		28	69
Total assets		172,442	144,879
LIABILITIES			
Bank overdrafts		3,330	3,619
Trade and other payables		25,188	15,596
Term loans	11	84,927	69,131
Bonds	12	19,890	19,857
Total liabilities		133,335	108,203
EQUITY			
Share capital	13	11,000	11,000
Treasury shares		(171)	(171)
Reserves and retained earnings		28,278	25,847
Total equity (page 27)		39,107	36,676
Total liabilities and equity		172,442	144,879

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 25 to 43 on 12 February 2008

Consolidated Income Statement

For the year ended 31 December 2007

BD thousands

	Notes	2007	2006
Interest income		13,291	11,165
Interest expense		(5,384)	(4,638)
Net interest income		7,907	6,527
Automotive sales		62,952	45,492
Cost of sales		(56,160)	(40,763)
Gross profit on automotive sales		6,792	4,729
Insurance commission income		712	539
Gross profit on land activities	14	1,062	59
OPERATING INCOME OF THE GROUP		16,473	11,854
Salaries and related costs		(2,607)	(2,025)
General and administrative costs		(1,885)	(1,535)
Selling and promotion costs		(972)	(737)
Depreciation		(1,028)	(899)
Provision for bad and doubtful loans	7	(1,204)	(729)
Recoveries of loans previously written off		381	342
Other financing income / (costs), net	15	19	(185)
		(7,296)	(5,768)
NET PROFIT FOR THE YEAR		9,177	6,086
Earnings per 100 fils share	20	84 fils	56 fils
Proposed cash dividend per 100 fils share		40 fils	40 fils

Abdulrahman Yusif Fakhro
Chairman

Abdulrahman A. Mohamed
Vice Chairman

Ian Levack
Chief Executive Officer

The consolidated financial statements consist of pages 25 to 43

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

BD thousands

2007	Notes	Share capital	Treasury shares	Statutory reserve	Cash flow hedge revaluation reserve	Donations reserve	General reserve	Retained earnings	Total
At 1 January 2007		11,000	(171)	9,282	61	546	7,000	8,958	**36,676**
Retained earnings adjustment of subsidiary		-	-	-	-	-	-	(55)	**(55)**
Net change in fair value		-	-	-	(2,046)	-	-	-	**(2,046)**
Total recognised income and expense directly in equity		-	-	-	**(2,046)**	-	-	-	**(2,046)**
Net income for the year		-	-	-	-	-	-	9,177	**9,177**
Total recognised income and expense for the year		-	-	-	**(2,046)**	-	-	**9,177**	**7,131**
Directors' fees for 2006		-	-	-	-	-	-	(180)	**(180)**
Dividend for 2006		-	-	-	-	-	-	(4,349)	**(4,349)**
Donations paid		-	-	-	-	(116)	-	-	**(116)**
Transferred to donation reserve (2006)		-	-	-	-	280	-	(280)	-
Transferred to general reserve (2006)		-	-	-	-	-	500	(500)	-
Transferred to statutory reserve (2006)		-	-	500	-	-	-	(500)	-
At 31 December 2007		**11,000**	**(171)**	**9,782**	**(1,985)**	**710**	**7,500**	**12,271**	**39,107**

2006	Notes	Share capital	Treasury shares	Statutory reserve	Cash flow hedge revaluation reserve	Donations reserve	General reserve	Retained earnings	Total
At 1 January 2006 (restated)		10,000	(171)	9,282	143	561	5,000	10,286	35,101
Net change in fair value		-	-	-	(82)	-	-	-	(82)
Total recognised income and expense directly in equity		-	-	-	(82)	-	-	-	(82)
Net income for the year		-	-	-	-	-	-	6,086	6,086
Total recognised income and expense for the year		-	-	-	(82)	-	-	6,086	6,004
Bonus shares issued	13	1,000	-	-	-	-	-	(1,000)	-
Directors' fees for 2005		-	-	-	-	-	-	(180)	(180)
Dividend for 2005		-	-	-	-	-	-	(3,954)	(3,954)
Donations paid		-	-	-	-	(295)	-	-	(295)
Transferred to donation reserve (2005)		-	-	-	-	280	-	(280)	-
Transferred to general reserve (2005)		-	-	-	-	-	2,000	(2,000)	-
At 31 December 2006		**11,000**	**(171)**	**9,282**	**61**	**546**	**7,000**	**8,958**	**36,676**

The consolidated financial statements consist of pages 25 to 43

Consolidated Statement of Cash Flows

For the year ended 31 December 2007

BD thousands

	Notes	2007	2006
Operating activities			
Loan repayments, interest and commission receipts		**70,667**	60,816
Automotive sales receipts		**62,128**	44,186
Cash expended on operations			
Loans disbursed		**(80,399)**	(60,994)
Payments to automotive suppliers		**(53,298)**	(40,762)
Sale / (purchase) of land		**3,241**	(1,416)
Payments of staff salaries and related costs		**(2,607)**	(2,025)
Payments of other operating expenses		**(1,803)**	(1,560)
Interest paid		**(5,619)**	(5,164)
CASH FLOWS FROM OPERATIONS		**(7,690)**	(6,919)
Investing activities			
Capital expenditure on property and equipment	10	**(3,034)**	(2,871)
Proceeds from sale of property and equipment	10	**757**	1,073
CASH FLOWS FROM INVESTING ACTIVITIES		**(2,277)**	(1,798)
Financing activities			
Term loans received, net	11	**15,796**	12,457
Bonds issued, net	12	**-**	2,937
Dividends paid		**(4,349)**	(3,954)
Directors' fees paid		**(180)**	(180)
Donations paid		**(116)**	(295)
CASH FLOWS FROM FINANCING ACTIVITIES		**11,151**	10,965
TOTAL CASH FLOWS IN THE YEAR		**1,184**	2,248
Cash and cash equivalents at beginning of the year		**(2,135)**	(4,383)
Cash and cash equivalents at 31 December		**(951)**	(2,135)
Cash and cash equivalents comprise:			
Cash and balances with banks		**2,379**	1,484
Bank overdrafts		**(3,330)**	(3,619)
		(951)	(2,135)

The consolidated financial statements consist of pages 25 to 43

1. Reporting entity

Bahrain Commercial Facilities Company BSC ("the Company") is a public shareholding company incorporated and registered in Bahrain. It provides short-term, medium-term and long-term loans. Effective 26th June 2005, the Company became licensed and regulated by the Central Bank of Bahrain (CBB). The consolidated financial statements of the Company as at and for the year ended 31 December 2007 comprise the Company and its subsidiaries (together referred to as "the Group").

2. Basis of preparation

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 Central Bank of Bahrain and Financial Institutions Law 2006.

In preparing these consolidated financial statements, the Company has adopted IFRS 7 Financial Instruments: Disclosures and IAS 1 Presentation of Financial Statements-Capital Disclosures. The adoption of IFRS 7 and the amendment to IAS 1 impacted the type and amount of disclosures made in these consolidated financial statements, but had no impact on the reported profits or financial position of the Company. In accordance with the transition requirement of the standards, the Company has provided for full comparative information.

The consolidated financial statements of the Group were authorised for issue by the directors on 12 February 2008.

b) Basis of measurement

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

c) Functional and presentation currency

These consolidated financial statements are presented in Bahrain Dinars, which is the Group functional currency. Excepted as indicated, financial information presented in Bahrain Dinars has been rounded off to nearest thousands.

d) Use of estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the consolidated financial statements are described in notes 4 and notes 5.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

a) Basis of consolidation

Subsidiaries:

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the financial statements from the date that control commences until the date that control ceases.

The consolidated financial statements of the Group comprise the Company and its fully owned subsidiaries which are incorporated in Kingdom of Bahrain as listed below:

- National Motor Company WLL ("NMC"): trades in motor vehicles and spare parts and provides after-sales services. NMC is the agent in Bahrain for General Motors and Honda vehicles.
- Tas'heelat Insurance Services Company WLL: provides insurance agency services.
- Tas'heelat Real Estate Services Company SPC: provides real estate related services.

Transactions eliminated on consolidation:

The carrying value of the Company's investment in each subsidiary and the equity of each subsidiary are eliminated on consolidation. All significant intra-group balances, and unrealised income and expenses arising from intra-group transactions, are eliminated on consolidation.

3. Significant accounting policies (continued)

b) Interest income

Interest income is recognised as it accrues, taking into account the effective yield of the original settlement amount. In compliance with circulars issued by Central Bank of Bahrain, 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. The suspension of interest income relating to such past due loans is not significant to the Group's net income.

c) 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.

d) Financial assets and liabilities

Recognition:
The financial instruments of the Group consist primarily of loans (balances with banks, loans, trade and other receivables), derivative financial instruments, bank overdrafts, trade and other payables, bonds issued and term loans. The Group initially recognises loans and advances on the date that they are originated. All other financial assets and liabilities are initially recognised on the balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Derecognition:
The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

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

Offsetting:
Financial assets and liabilities are set off and the net amount reported in the balance sheet when the Group has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Amortised cost measurement:
The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method.

Identification and measurement of impairment:
At each balance sheet date and periodically during the year the Group assesses whether there is any objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

The Group considers evidence of impairment at both a specific asset and collective level. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar credit risk characteristics.

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

e) **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.

f) **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.

g) **Inventories**

Inventories are stated at the lower of cost and net realisable 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.

h) **Property and equipment**

Recognition:
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.

Depreciation:
Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property and equipment. No depreciation is charged on freehold land. The estimated useful lives are as follows:

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

Impairment:
The carrying amounts are reviewed at each balance sheet date for indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognised in the income statement to the extent that carrying values exceed the recoverable amounts.

3. **Significant accounting policies** (continued)

i) Borrowing costs
Interest incurred on bank borrowings related to construction of property and equipment is capitalised until these assets are ready for intended use.

j) Investment properties
Investment properties are stated at cost less accumulated depreciation and impairment losses, if any. No depreciation is charged on freehold land.

k) Foreign currency transactions
Transactions in foreign currencies are translated to Bahrain Dinars, which is the Group's measurement currency, at the foreign exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Bahrain Dinars at the foreign exchange rate at that date.

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

m) 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 (excluding share premium). 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.

n) 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.

o) Treasury shares
Where the Company purchases its own equity share capital, the consideration paid, including any attributable transaction costs, are deducted from total equity and recorded as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any gain or loss is included in equity.

p) Income tax liability
Companies are not liable to income tax in Bahrain.

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.

Derivative financial instruments are 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 on other assets
The carrying amounts 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.

3. Significant accounting policies (continued)

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 Group 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 such 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) Earnings per share

The Group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the parent company by the weighted average number of ordinary shares outstanding during the year.

w) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group's primary format for segment reporting is based on business segments.

4. Financial risk management

a) Introduction and overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk

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

Risk management framework

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly, on an ongoing basis, to reflect changes in market conditions, products and services offered.

The Group Audit Committee is responsible for monitoring compliance with the Group's risk management policies and procedures, and for reviewing the adequacy of the risk management framework. The Group audit committee is assisted in these functions by the Internal Audit.

b) 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.

4. **Financial risk management** (continued)

b) **Credit risk** (continued)

Management of credit risk

The Group's credit risk management framework includes:

- Establishment of authorization structure and limits for the approval and renewal of credit facilities;
- Reviewing and assessing credit exposures in accordance with authorisation structure and limits, prior to facilities being committed to customers. Renewals and reviews of facilities are subject to the same review process;
- Diversification of lending activities;
- Reviewing compliance, on an ongoing basis, with agreed exposure limits relating to counterparties and reviewing limits in accordance with risk management strategy and market trends.

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 lending and with a comprehensive review of information which includes the Credit Bureau report. The Group is also subject to single obligor limits as specified by the Central Bank. Credit review procedures are in place 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.

Exposure to credit risk

The Group is not exposed to any significant concentration of credit risk arising from exposures to a single debtor or 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.

Regular audits of business units and Group credit processes are undertaken by Internal Audit and Compliance Division.

The Group measures its exposure to credit risk by reference to the gross carrying amount of financial assets less amounts offset, interest suspended and impairment losses, if any. The maximum credit risk exposure of the loans is the carrying value amount net of the deferred income and net of impairment allowance.

Loans	2007	2006
Carrying amount	129,955	108,027
Individually impaired		
Gross amount	3,747	3,949
Interest suspended	(270)	(256)
Specific allowance for impairment	(1,845)	(2,055)
Carrying amount	1,632	1,638
Past due but not impaired		
Watch list – overdue by less than 90 days	3,081	3,069
Collective allowance for impairment	(530)	(494)
Carrying amount	2,551	2,575
Neither past due nor impaired		
Gross amount	126,665	104,173
Collective allowance for impairment	(893)	(359)
Carrying amount	125,772	103,814
Carrying amount	129,955	108,027

Impaired loans

Impaired loans are financial assets for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the agreements.

4. **Financial risk management** (continued)

b) **Credit risk** (continued)

Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Write-off policy

The Group writes off any loans (and any related allowances for impairment) when the loans are deemed to be uncollectible.

Collateral

The Group generally holds collateral against loans which may be in the form of mortgage interests over property with custody of title deeds, joint registration of vehicles and/or additionally post dated cheques/promissory notes and personal guarantees.

Management estimates the fair value of collaterals and other security enhancements held against individually impaired loans are reasonably sufficient to cover the value of such loans at the reporting date. The Group monitors concentrations of credit risk by product.

Credit risk concentration

All loans are made to borrowers resident in Bahrain. Credit risk concentration of loans at the reporting date is 100% consumer loans, over 95% of which are to individual Bahraini citizens.

Settlement risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a counter party to honour its obligations to deliver cash, securities or other assets as contractually agreed.

Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive market value of instruments that are favourable to the Group which are included in other assets. The positive market value is also referred to as the "replacement cost" since it is an estimate of what it would cost to replace transactions at prevailing market rates if a counterparty defaults. The Group's derivative contracts are entered into with other financial institutions.

Credit risk related to trade receivables

Credit risk related to trade receivables arises from the potential for a counterparty to default from repayment of their dues. The Group has established an appropriate authorisation structure with limits for the approval and renewal of credit limits.

c) **Liquidity risk**

Liquidity or funding risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately.

Management of liquidity risk

The Group's approach to managing liquidity risk is to ensure that management has diverse funding sources and closely monitors liquidity to ensure adequate funding.

Exposure to liquidity risk

One of the measures used by the Group for measuring liquidity risk is the ratio of net liquid assets, i.e., total assets by maturity against total liabilities by maturity.

Details of the Group's net liquid assets is summarised in the table below by the maturity profile of the Group's assets and liabilities based on the contractual repayment arrangements. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date. The maturity profile is monitored by management to ensure adequate liquidity is maintained.

4. **Financial risk management** (continued)

c) **Liquidity risk** (continued)
The maturity profile of the financial assets and liabilities at 31 December 2007 was as follows:

At 31 December	Within 1 Year		1 year to 5 years		Over 5 years		Total	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
ASSETS								
Cash and bank	**2,379**	1,484	**-**	-	**-**	-	**2,379**	1,484
Loans	**47,791**	43,376	**77,723**	59,988	**4,441**	4,663	**129,955**	108,027
Trade and other receivables	**5,580**	4,756	**-**	-	**-**	-	**5,580**	4,756
	55,750	49,616	**77,723**	59,988	**4,441**	4,663	**137,914**	114,267
LIABILITIES								
Bank overdrafts	**3,330**	3,619	**-**	-	**-**	-	**3,330**	3,619
Trade and other payable	**25,188**	15,596	**-**	-	**-**	-	**25,188**	15,596
Term loans	**78,576**	22,666	**6,351**	46,465	**-**	-	**84,927**	69,131
Bonds	**-**	-	**19,890**	19,857	**-**	-	**19,890**	19,857
	107,094	41,881	**26,241**	66,322	**-**	-	**133,335**	108,203

Interest payable as per contractual maturities of the term loans and bonds is approximately BD 1,428 payable within one year. 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. As at 31 December 2007, the Company had a fully underwritten 5 year USD 75 million (BD 28.28 million) Syndicated loan facility that was drawn down in January 2008.

d) **Market risks**
Market risk is the risk that the Group's income and / or value of a financial instrument will fluctuate because of changes in market prices such as interest rates.

Management of market risks
Market risks are closely monitored by the risk management division and reported to the Assets and Liabilities Committee (ALCO) and the Board.

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

At 31 December	Fixed Rate		Floating rate		Non-interest Earning		Total	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
ASSETS								
Cash and bank	**-**	-	**-**	-	**2,379**	1,484	**2,379**	1,484
Loans	**129,803**	107,893	**-**	-	**152**	134	**129,955**	108,027
Trade and other receivables	**-**	-	**-**	-	**5,580**	4,756	**5,580**	4,756
	129,803	107,893	**-**	-	**8,111**	6,374	**137,914**	114,267
LIABILITIES								
Bank overdrafts	**-**	-	**3,330**	3,619	**-**	-	**3,330**	3,619
Trade and other payables	**-**	-	**-**	-	**25,188**	15,596	**25,188**	15,596
Term loans	**-**	-	**84,927**	69,131	**-**	-	**84,927**	69,131
Bonds	**-**	-	**19,890**	19,857	**-**	-	**19,890**	19,857
	-	-	**108,147**	92,607	**25,188**	15,596	**133,335**	108,203

4. Financial risk management (continued)

d) Market risks (continued)

The Group's instalment loans receivables are predominantly of a fixed rate nature (the Group 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. At 31 December 2007 interest rate risk attributable to the term loans of USD 220 million (BD: 82.94 million) (2006: USD 30 million, BD 11.31 million) has been hedged. The fair value changes of the interest rate swaps are recognised in equity (page 27). The group does not enter into derivative financial instruments other than for economic hedging purposes.

The unhedged portion of the floating rate borrowing is sensitive to changes in the interest rates. As at 31 December 2007 a change in variable rate financial instruments by 100 basis points will increase/ (decrease) net profits by BD 220.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency.

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 2007 was BD 673 (2006: BD 2,390).

e) Operational risks

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

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 Group has established a framework of policies and procedures to identify, assess, control, manage and report risks. The Group's risk management division employs clear internal policies and procedures to reduce the likelihood of any operational losses. Where appropriate, risk is mitigated by way of insurance.

f) Capital management

The Group's policy is to maintain a strong capital base. The Central Bank of Bahrain sets and monitors capital requirements for the Group. The conventional financing company license granted by the Central Bank of Bahrain limits borrowings to five times the capital and reserves (shareholders equity) of the Company. Such rate as at 31 December 2007 for the Company was 3.4 (2006:3.0).

5. Use of estimates and judgements

In the process of applying the Group's accounting policies management has made the following estimates and judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements.

Key sources of estimation uncertainty:

(i) Impairment charge on loans

Impairment losses are evaluated as described in accounting policy 3(d). The Group evaluates impairment on loans on an ongoing basis and a comprehensive review on a monthly basis to assess whether an impairment charge should be recognised in the income statement. In particular, considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of impairment charge required. In estimating these cash flows, management makes judgements about counterparties financial situation and other means of settlement and the net realizable value of any underlying collateral. Such estimates are based on assumptions about several factors involving varying degrees of judgement and uncertainty, and actual results may differ resulting in future changes to such impairment charges.

5. Use of estimates and judgements (continued)

(ii) Collective impairment charge on loans
In addition to specific impairment charge against individually impaired assets, the Group also maintains a collective impairment allowance against portfolios of loans with similar economic characteristics which have not been specifically identified as impaired. In assessing the need for collective impairment charge, management considers concentrations, credit quality, portfolio size and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical and current economic conditions.

(iii) Contingent liability arising from litigations
Due to the nature of its operations, the Group may be involved in litigation arising in the ordinary course of business. Provision for contingent liabilities arising from litigation 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.

6. Fair value of financial instruments

The Group's consolidated financial statements are measured at amortised cost 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.

7. Loans

	2007	2006
At 31 December	129,955	108,027

The effective interest rates (APR) on loans ranges between 9.25% to 11.9% p.a. (2006: 9.75% to 11.9% p.a.)

Impairment allowances		
At 1 January	2,908	2,953
Net charge to income statement	1,204	729
Loans written-off	(844)	(774)
At 31 December	3,268	2,908

8. Non-performing loans

	2007	2006
	3,219	3,786

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 Central Bank of Bahrain 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.

9. Inventories

	2007	2006
Automotive stock		
Vehicles, net of provisions	21,123	15,501
Spare parts, net of provisions	1,887	2,058
	23,010	17,559
Land held for resale (note 14)	-	779
At 31 December	23,010	18,338

10. Property and equipment

	Land and buildings	Furniture fixtures & equipment	Vehicles	2007 Total	2006 Total
Cost					
At 1 January	9,899	2,192	3,102	15,193	13,767
Additions	759	446	1,829	3,034	2,871
Disposals and retirements	-	(324)	(1,363)	(1,687)	(1,602)
At 31 December	10,658	2,314	3,568	16,540	15,036
Depreciation					
1 January	2,050	1,423	931	4,404	3,443
Charge for the year	350	353	873	1,576	1,333
Disposals and retirements		(323)	(607)	(930)	(529)
At 31 December	2,400	1,453	1,197	5,050	4,247
Net book value					
At 31 December 2007	**8,258**	**861**	**2,371**	**11,490**	
At 31 December 2006	7,849	769	2,171		10,789

The cost of fully depreciated assets still in use at 31 December 2007 was BD 1,667 (2006: BD 1,189).

11. Term loans

	2007	2006
Repayable within one year	78,576	22,666
Repayable after one year	6,351	46,465
	84,927	69,131

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 4) was 5.20% p.a. (2006: 5.89% p.a.).

12. Bonds

	2007	2006
Face value	**20,000**	20,000
Less: Unamortised cost of issue	**(110)**	(143)
	19,890	19,857

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

On 19 June 2006, 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: 0.95% over BIBOR for 6 months deposit in Bahrain Dinars, subject to a minimum of 3.0% p.a. Interest is payable six monthly in arrears from the date of issue.

Security: Unsecured

Redemption: 19 June 2011

13. Share capital

	2007	2006
Authorised share capital 500,000,000 (2006: 500,000,000) shares of 100 fils each	**50,000**	50,000
Issued and fully paid At 1 January: 110,000,000 (2006: 100,000,000) shares of 100 fils each	11,000	10,000
Bonus issue during the year Nil shares (2006:10,000,000 shares)	-	1,000
At 31 December: 110,000,000 (2006: 110,000,000) shares of 100 fils each	**11,000**	11,000
Treasury shares 1,268,300 shares (2006: 1,268,300 shares)	**171**	171

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	Bahrain	22,275,000	20.25%
Pension Fund Commission	Bahrain	15,837,175	14.40%
General Organisation for Social Insurance	Bahrain	13,033,620	11.85%
National Bank of Bahrain	Bahrain	11,531,194	10.48%

iii. The Company has only one class of equity shares and the holders of these shares have equal voting rights.

13. Share capital (continued)

Additional information on shareholding pattern (continued)

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

Categories*	Number of Shares	Number of shareholders	% of total issued shares
Less than 1%	28,869,789	1,265	26.24%
1% up to less than 5%**	**18,453,222	8	16.78%
5% up to less than 10%	-	-	-
10% up to less than 20%	40,401,989	3	36.73%
20% up to less than 50%	22,275,000	1	20.25%
Total	**110,000,000**	**1,277**	**100.00%**

* Expressed as a percentage of total issued and fully paid shares of the Company
** Includes 1,268,300 treasury shares

14. Gross profit on land activities

Gross profit on land activities represents gain on sale of land held as inventory and another land held as investment property.

15. Other financing income / (costs)

	2007	2006
Other finance charges	(246)	(349)
Foreign exchange gains	254	153
Interest income	11	11
	19	(185)

16. 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.

17. Segmental information

At 31 December	Consumer finance		Automotive		Real Estate		Insurance		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Operating income	7,907	6,527	6,792	4,729	1,062	59	712	539	16,473	11,854
Operating costs	(3,467)	(2,571)	(3,497)	(2,890)	(177)	(178)	(155)	(129)	(7,296)	(5,768)
Net profit for the year	4,440	3,956	3,295	1,839	885	(119)	557	410	9,177	6,086
Assets (Liabilities)										
Cash and bank	142	46	2,090	1,394	5	13	142	31	2,379	1,484
Loans	129,955	108,027	-	-	-	-	-	-	129,955	108,027
Trade and other receivables	-	-	5,580	4,756	-	-	-	-	5,580	4,756
Inter company balances	(3,552)	(6,247)	1,685	599	1,795	4,123	72	1,525	-	-
Inventories	-	-	23,010	17,559	-	779	-	-	23,010	18,338
Investment properties	-	-	-	-	-	1,416	-	-	-	1,416
Property & equipment	1,448	1,428	10,042	9,361	-	-	-	-	11,490	10,789
Other assets	28	69	-	-	-	-	-	-	28	69
Bank overdrafts	(650)	(356)	(2,680)	(3,263)	-	-	-	-	(3,330)	(3,619)
Trade and other payables	(7,922)	(4,861)	(17,266)	(10,735)	-	-	-	-	(25,188)	(15,596)
Term loans	(77,738)	(61,513)	(7,189)	(7,618)	-	-	-	-	(84,927)	(69,131)
Bonds	(19,890)	(19,857)	-	-	-	-	-	-	(19,890)	(19,857)
Equity	(21,821)	(16,736)	(15,272)	(12,053)	(1,800)	(6,331)	(214)	(1,556)	(39,107)	(36,676)
Capital expenditure	130	1,075	2,904	1,796	-	-	-	-	3,034	2,871
Depreciation charge	95	92	1,481	1,241	-	-	-	-	1,576	1,333

18. 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 terms. The Company is an associate of BBK, which owns 20.25% of its share capital. The balances due to the BBK at 31 December 2007 are BD 11,640 (2006: BD 4,194) for term loans and BD 652 (2006: BD 356) for overdrafts. The interest expense paid to BBK during the year by the Group amounts to BD184 (2006: BD 256).

The balances due to the National Bank of Bahrain at 31 December 2007 are BD 5,584 (2006: BD 5,048) for term loans and BD 46 (2006: BD 24) for overdrafts. The interest expense paid to National Bank of Bahrain during the year by the Group amounts to BD 210 (2006: BD 348).

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, the Senior Vice Presidents and the General Managers and their short term compensation and termination benefit charge for the year was BD 829 (2006: BD 672) and BD 69(2006: BD 64) respectively. The short term compensation includes directors fees of BD180 (2006: BD180) as approved by shareholders and board committee attendance fees BD 66 (2006: BD 65). Loans include BD 52 (2006: BD 47) due from directors.

19. Retirement benefits cost

The Group's contributions in respect of Bahraini employees for the year amounted to BD378 (2006: BD 230).

The Group's provision for expatriate employees' leaving indemnities at 31 December 2007 was BD 613 (2006: BD 477). The Group employed 587 staff at 31 December 2007 (2006: 511).

20. Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares outstanding during the year, excluding the average number of ordinary shares purchased by the Company and held as treasury shares, as follows:

	2007	2006
Net profit attributable to shareholders	9,177	6,086
Qualifying ordinary shares in issue attributable to ordinary shareholders (excluding treasury shares) at 1 January	108,731,700	98,847,000
Effect of bonus shares issued during 2006	-	9,884,700
Number of shares at 31 December	108,731,700	108,731,700
Basic earnings per share	84 fils	56 fils

Diluted earnings per share is same as the basic earning per share as the Company has no instruments convertible into ordinary shares that would dilute earnings per share.

21. Contingent liabilities

The Group has contingent liabilities for standby letters of credit issued in the normal course of business, the unutilised limits of which are BD 5,092 (2006: BD 2,771).

22. New international financial reporting standards and interpretations not yet adopted

During the year following new/amended IFRS's and interpretations have been issued which will be applicable with effect from January 2008:

- IAS 1 "Presentation of Financial Instruments": effective for financial periods beginning on or after 1 January 2009.
- IAS 23 "Borrowing Costs": effective for financial periods beginning on or after 1 January 2009.
- IFRS 8 "Operating Segments": effective for financial periods beginning on or after 1 January 2009.
- IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions": effective for financial periods beginning on or after 1 March 2008.

The adoption of these standards and interpretations are not expected to have any material impact on the consolidated balance sheet and income statement.

23. Proposed appropriations

The Board of Directors has proposed the following appropriations for 2007. These appropriations are subject to approval by the shareholders at the Annual General Meeting.

	2007	2006
Proposed dividends	4,349	4,349
Bonus shares (1 share for every 10 shares held)	1,100	-
Directors' fees	220	180
Donations	280	280
General reserve	2,500	500
Statutory reserve	-	500
	8,449	5,809

24. Comparatives

Certain comparatives have been reclassified to conform with the current year's presentation. Such reclassification did not affect the previously reported net profit, net assets or equity.