



***Gulf One***  
*Investment Bank*

**SEMI-ANNUAL REPORT  
2011**

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## INTRODUCTION

Gulf One Investment Bank BSC (c) (the “Bank” or “Gulf One”) was founded by two distinguished Saudi bankers, Dr. Nahed Taher, Chief Executive Officer and Mr. Ziyad Omar, Chief Investment Officer, as a leading GCC infrastructure investment bank. Gulf One is based in Manama, Kingdom of Bahrain, with a representative office in the State of Kuwait and is guided by Islamic principles.

The Bank was granted a Wholesale Banking license by the Central Bank of Bahrain (the “CBB”), with an authorised capital of USD 1 billion, of which USD 113.88 million is issued and paid up. Gulf One’s share capital is widely held, largely among key GCC institutional and individual investors.

Gulf One’s vision stems from its commitment to the belief that the region must focus on its natural strengths and direct its wealth to developing domestic capacity infrastructure that will deliver the foundation for future sustainable economic prosperity by releasing the GCC’s vast potential. With direct investments including transportation, clean energy generation, water treatment, aerospace, technology development and social infrastructure, Gulf One seeks to address the region’s critical needs by being a key catalytic facilitator in the development of domestic capacity infrastructure.

Gulf One’s lines of business comprises of Structured Finance, Private Equity, and Asset Management.

### **Incorporation and Principal Activity**

Gulf One is a Bahraini Bank with limited liability and is incorporated in the Kingdom of Bahrain as a closed company. The Bank is licensed by the Central Bank of Bahrain. The registered office of the Bank is:

Bahrain Financial Harbour, 15th Floor, West Tower  
PO Box 11172, Manama, Kingdom of Bahrain.  
Telephone: +973 17102555  
Fax: +973 17100063

The Bank along with its wholly owned subsidiaries comprises “the Group” as follows:

- Gulf One Investment Holdings Limited, Cayman Islands;
- Gulf One DACH Investments Limited, Cayman Islands;
- Manjam Mining Holding SPC, Bahrain;
- Jao Investment Fund, Bahrain; and
- Gulf One Employee Stockholding Company SPC, Bahrain

Commercial Registration No. :	62199
Website:	<a href="http://www.gulf1bank.com">www.gulf1bank.com</a>
Bankers:	Ahli United Bank
External Auditors:	KPMG Fakhro
Internal Auditors:	BDO Jawad Habib
Registrar:	KPMG Fakhro

## BOARD OF DIRECTORS AND BOARD COMMITTEES

### Board of Directors

Mr. Ali Husein Alireza	Chairman, Non-Executive Director
Mr. Zaki M. A. Farsi	Vice Chairman, Non-Executive Director
Mr. Abdullah Abdulaziz Ohaly	Member, Non-Executive Director
Dr. Ali H. Al Bahar	Member, Non-Executive Director
Mr. Fahad A. Al-Hoshan	Member, Non-Executive Director
Mr. Khalid A. Al-Duhaim	Member, Non-Executive Director
Mr. Mohamed H. Harasani	Member, Non-Executive Director
Mr. Mutlaq H. Almorished	Member, Non-Executive Director
Dr. Nahed M. Taher	Member, Executive Director
Mr. Ziyad F. Omar	Member, Executive Director

### Executive Directors

Dr. Nahed M. Taher	Founder and Chief Executive Officer
Mr. Ziyad F. Omar	Founder and Chief Investment Officer

### Board Committees

Finance and Investment Committee  
 Risk, Audit and Compliance Committee  
 Nomination, Remuneration and Governance Committee

### Board Committee Composition

#### Finance and Investment Committee (FIC)

Mr. Ali Husein Alireza	Chairman of the Committee
Mr. Fahad A. Al-Hoshan	Committee Member
Mr. Mutlaq H. Almorished	Committee Member
Dr. Nahed M. Taher	Committee Member
Mr. Ziyad F. Omar	Non-voting Committee Member

#### Risk, Audit and Compliance Committee (RACC)

Dr. Ali H. Al Bahar	Chairman of the Committee
Mr. Abdullah Abdulaziz Ohaly	Committee Member
Mr. Abdullah Salem Bakhashab	Committee Member

#### Nomination, Remuneration and Governance Committee (NRGC)

Mr. Mohamed H. Harasani	Chairman of the Committee
Mr. Zaki M. A. Farsi	Committee Member

**SUMMARY OF FINANCIAL PERFORMANCE 2007 - 2011**

The key financial ratios from 31 December 2007 - 30 June 2011 are summarised as follows:

USD '000

Particulars	Half year ended		Year ended			
	Jun 2011	Jun 2010	Dec 2010	Dec 2009	Dec 2008	Dec 2007
<b>Earnings</b>						
Net Income	3,200	1,216	10,120	6,501	3,243	1,654
<b>Financial Position</b>						
Total Assets	147,636	125,105	143,307	124,958	111,240	116,212
Total Liabilities	19,535	10,262	6,336	11,331	5,928	14,143
Shareholder Equity	128,101	114,843	127,678	113,627	105,312	102,069
<b>Financial Ratio's</b>						
Return on Average Equity (ROAE)	2.50%	1.08%	8.08%	6.20%	3.06%	1.65%
Return on Average Assets (ROAA)	2.20%	1.00%	7.54%	5.66%	2.27%	1.54%
Net Interest Margin (NIM)	1.63%	1.34%	3.12%	2.68%	3.24%	6.01%
Cost to Income	68.98%	82.20%	61.39%	66.47%	72.18%	78.91%
<b>Capital</b>						
Shareholder Equity to Total Assets	86.77%	91.80%	95.58%	90.93%	94.67%	87.83%
Total Liabilities to Shareholder's Equity	15.25%	8.94%	4.63%	9.97%	5.63%	13.86%
<b>Capital Adequacy Ratio (CAR)</b>	<b>51.71%</b>	<b>50.02%</b>	<b>58.50%</b>	<b>56.17%</b>	<b>87.18%</b>	<b>88.04%</b>

Note:

(\* ) The calculation for June 2011 and June 2010 are for the six-month period of January to June.

## INTERIM FINANCIAL INFORMATION

**30 June 2011**

## **Independent auditors' report on review of interim financial information**

The Board of Directors  
Gulf One Investment Bank BSC (c)  
Manama, Kingdom of Bahrain

14 August 2011

### **Introduction**

We have reviewed the accompanying condensed consolidated statement of financial position of Gulf One Investment Bank BSC (c) (the "Bank") and its subsidiaries (together the "Group") as at 30 June 2011, and the related condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended (the "interim financial information"). The Board of Directors of the Bank is responsible for the preparation and presentation of this interim financial information in accordance with International Financial Reporting Standard IAS 34 - Interim Financial Reporting. Our responsibility is to express a conclusion on this interim financial information based on our review.

### **Scope of Review**

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34 - *Interim Financial Reporting*.

KPMG Fakhro

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
as at 30 June 2011

USD

	Note	30 June 2011 (reviewed)	31 December 2010 (audited)
<b>Assets</b>			
Cash and cash equivalents		38,257,562	34,882,810
Loans and receivables		11,963,862	11,709,151
Investments designated at fair value through profit or loss	5	78,214,863	74,359,869
Investment in associates	6	4,214,310	3,348,605
Other assets		14,985,138	19,007,034
<b>Total assets</b>		<b>147,635,735</b>	<b>143,307,469</b>
<b>Liabilities</b>			
Investors' funds		4,486,442	306,304
Payables and accrued expenses		15,048,454	6,029,734
<b>Total liabilities</b>		<b>19,534,896</b>	<b>6,336,038</b>
<b>Equity</b>			
Share capital		113,888,889	111,111,111
Unvested shares of employees incentive scheme		(6,312,694)	(6,312,694)
Share premium		863,715	863,715
Statutory reserve		2,201,628	2,201,628
Retained earnings		17,459,301	19,814,638
<b>Total equity attributable to shareholders of the Bank</b>		<b>128,100,839</b>	<b>127,678,398</b>
Non-controlling interest	7	-	9,293,033
<b>Total equity (page 10)</b>		<b>128,100,839</b>	<b>136,971,431</b>
<b>Total liabilities and equity</b>		<b>147,635,735</b>	<b>143,307,469</b>

The interim financial information, which consists of pages 8 to 14 were approved by the Board of Directors on 14 August 2011 and signed on its behalf by:

Dr. Ali Al Bahar  
Chairman of the Audit Committee

Dr. Nahed Taher  
Director and Chief Executive Officer



**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
for the six months ended 30 June 2011

USD

	Six months ended		Three months ended	
	30 June 2011 (reviewed)	30 June 2010 (reviewed)	30 June 2011 (reviewed)	30 June 2010 (reviewed)
Income from investment banking activities	1,968,852	2,798,569	1,299,647	2,112,615
Net interest income	816,985	602,844	408,617	325,268
Profit on sale of investments designated at fair value through profit or loss	221,597	-	221,597	-
Fair value gain on investments designated at fair value through profit or loss	6,744,987	3,179,174	6,744,987	3,179,174
Dividend income	181,320	213,013	181,320	213,013
Share of loss of associates	(334,895)	(2,419)	(226,141)	(2,419)
Other income	718,617	40,000	279,441	40,000
<b>Total income</b>	<b>10,317,463</b>	<b>6,831,181</b>	<b>8,909,468</b>	<b>5,867,651</b>
Staff expenses	4,270,236	3,711,396	2,463,625	1,867,746
Premises expenses	343,886	440,306	169,865	219,988
Other expenses	2,503,122	1,463,499	1,823,439	688,785
<b>Total expenses</b>	<b>7,117,244</b>	<b>5,615,201</b>	<b>4,456,929</b>	<b>2,776,519</b>
<b>Profit for the period</b>	<b>3,200,219</b>	<b>1,215,980</b>	<b>4,452,539</b>	<b>3,091,132</b>
<b>Other comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total comprehensive income for the period</b>	<b>3,200,219</b>	<b>1,215,980</b>	<b>4,452,539</b>	<b>3,091,132</b>

Dr. Ali Al Bahar  
*Chairman of the Audit Committee*

Dr. Nahed Taher  
*Director and Chief Executive Officer*

The interim financial information consists of pages 8 to 14.

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
for the six months ended 30 June 2011

USD

	Equity attributable to shareholders of the Bank						Non-controlling interest	Total equity
	Share capital	Unvested shares of employees incentive scheme	Share premium	Statutory reserve	Retained earnings	Total		
<b>30 June 2011</b> (reviewed)								
At 1 January 2011	111,111,111	(6,312,694)	863,715	2,201,628	19,814,638	127,678,398	9,293,033	136,971,431
Total comprehensive income for the period	-	-	-	-	3,200,219	3,200,219	-	3,200,219
Dividend declared for 2010	-	-	-	-	(2,777,778)	(2,777,778)	-	(2,777,778)
Issue of bonus shares	2,777,778	-	-	-	(2,777,778)	-	-	-
Acquisition of non-controlling interest (note 7)	-	-	-	-	-	-	(9,293,033)	(9,293,033)
<b>At 30 June 2011</b>	<b>113,888,889</b>	<b>(6,312,694)</b>	<b>863,715</b>	<b>2,201,628</b>	<b>17,459,301</b>	<b>128,100,839</b>	-	<b>128,100,839</b>

30 June 2010 (reviewed)	Share capital	Unvested shares of employees incentive scheme	Share premium	Statutory reserve	Retained earnings	Total
	At 1 January 2010	111,111,111	(9,574,136)	276,655	1,181,294	10,631,633
Total comprehensive income for the period	-	-	-	-	1,215,980	1,215,980
At 30 June 2010	111,111,111	(9,574,136)	276,655	1,181,294	11,847,613	114,842,537

The interim financial information consists of pages 8 to 14.

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
for the six months ended 30 June 2011

USD

	<b>30 June 2011 (reviewed)</b>	30 June 2010 (reviewed)
<b>OPERATING ACTIVITIES</b>		
Receipt from investment banking services	869,897	1,143,223
Net interest received	716,250	343,709
Receipt of dividend and other income	43,739	-
Project costs recovered	-	154,855
Payment for staff expenses	(3,292,574)	(3,496,266)
Payment for premises expenses	(343,886)	(440,306)
Payment for other expenses	(348,731)	(1,085,285)
Advance paid for projects, net	-	(1,866,667)
Investors funds received / (repaid/utilized), net	4,485,788	(805,500)
Loans disbursed, net	(153,698)	(6,670,721)
<b>Cash generated from / (used in) operating activities</b>	<b>1,976,785</b>	<b>(12,722,958)</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of equipment	(351,921)	(99,933)
Proceeds from sale of investments designated at fair value through profit or loss	3,280,908	-
Purchases of investments designated at fair value through profit or loss	(330,420)	(1,394,359)
Purchase of investment in associates	(1,200,600)	(6,113,603)
<b>Cash generated from / (used in) investing activities</b>	<b>1,397,967</b>	<b>(7,607,895)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>3,374,752</b>	<b>(20,330,853)</b>
Cash and cash equivalents at beginning of the period	34,882,810	49,386,472
<b>Cash and cash equivalents at end of the period</b>	<b>38,257,562</b>	<b>29,055,619</b>

The interim financial information consists of pages 8 to 14.

**NOTES TO THE INTERIM FINANCIAL INFORMATION**  
**for the six months ended 30 June 2011**

USD

**1. Reporting entity**

The interim financial information for the six months ended 30 June 2011 comprises the financial information of Gulf One Investment Bank BSC (c) (the "Bank") and its subsidiaries (together referred to as "the Group").

**2. Basis of preparation**

The interim financial information has been prepared in condensed form in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting. The interim financial information does not include all of the information required for full annual financial statements and should be read in conjunction with the audited consolidated financial statements of the Group for the year ended 31 December 2010.

The accounting policies and methods of computation applied by the Group in the preparation of the interim financial information are consistent with those used in the preparation of the audited consolidated financial statements for the year ended 31 December 2010.

The Group's financial risk management objectives and policies are consistent with that disclosed in the audited consolidated financial statements for the year ended 31 December 2010.

The preparation of interim financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. In preparing this interim financial information, the significant judgments made by management in applying the Bank's accounting policies and the key sources of estimation uncertainty was the same as those applied to the audited consolidated financial statements for the year ended 31 December 2010.

3. The interim financial information is not audited but has been reviewed by KPMG. The corresponding figures for the condensed consolidated statement of financial position have been extracted from the audited consolidated financial statements for the year ended 31 December 2010. The corresponding figures for the condensed consolidated statements of comprehensive income, changes in equity and cash flows have been extracted from the reviewed interim financial information for the six months ended 30 June 2010.

4. Due to the nature of the Group's business, the six months results reported in this interim financial information may not represent a proportionate share of the overall annual results.

**5. Investments designated at fair value through profit or loss**

	At 31 December 2010	Additions during the period	Disposals during the period	Fair value changes	At 30 June 2011
<i>Unquoted</i>					
Investment in associates	47,825,206	3,434,460	(6,652,069)	2,969,371	47,576,968
Other equity investments	26,534,663	465,712	(138,096)	3,775,616	30,637,895
	74,359,869	3,900,172	(6,790,165)	6,744,987	<b>78,214,863</b>

**NOTES TO THE INTERIM FINANCIAL INFORMATION**  
**for the six months ended 30 June 2011**

USD

**6. Investment in associates – equity accounted**

	<b>30 June 2011</b>	31 December 2010
At beginning of the period	3,348,605	1,825,266
Acquisitions during the period	1,200,600	1,113,603
Reclassified from assets held for sale	-	790,173
Share of loss of associate for the period	(334,895)	(380,437)
<b>At end of the period</b>	<b>4,214,310</b>	<b>3,348,605</b>

7. The Group owns 61.54% equity stake in Jao Investment Fund (the “Fund”). During the period, the Group acquired additional 38.46%, which has resulted in the Fund, being a fully owned subsidiary of the Group.

**8. Contingent liability**

The Group has issued financial guarantee of USD 2,800,000 (31 December 2010: USD 2,800,000) to one of the investee companies to secure credit facility arrangements for projects managed by the Group. In the opinion of the management, based on their assessment of expected cash flows from the underlying projects, the financial guarantee is not expected to be drawn.

**9. Assets under management**

The Group provides corporate administration, investment management and advisory services to its project companies/investors, which involve the Group making decisions on behalf of such entities. Assets that are held in such capacity are not included in these interim financial information. At the reporting date, the Group had assets under management of USD 147,192,886 (31 December 2010: USD 124,123,308).

**10. Related party transactions**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include transactions with companies in which promoters / directors hold significant interests, associates of the Bank, directors and key management personnel of the Bank.

The significant related party balances and transactions included in this interim financial information are as follows:

<b>As at 30 June 2011</b>	<b>Associates</b>	<b>Key management personnel</b>	<b>Significant shareholders / entities in which directors are interested</b>	<b>Total</b>
<b>Assets</b>				
Loans and receivables	9,195,089	-	-	<b>9,195,089</b>
Investments designated at fair value through profit or loss	47,576,968	-	-	<b>47,576,968</b>
Investment in associates	4,214,310	-	-	<b>4,214,310</b>
Other assets	5,269,696	2,101,538	-	<b>7,371,234</b>
<b>Contingent liabilities</b>				
Financial guarantee	2,800,000	-	-	<b>2,800,000</b>

**NOTES TO THE INTERIM FINANCIAL INFORMATION**  
for the six months ended 30 June 2011

USD

10. Related party transactions (continued)

	Associates	Key management personnel	Significant shareholders / entities in which directors are interested	Total
<b>Six months ended 30 June 2011</b>				
<b>Income</b>				
Income from investment banking services	647,726	-	-	<b>647,726</b>
Net interest income	412,858	-	-	<b>412,858</b>
<b>Expenses</b>				
Staff expenses	-	1,248,127	-	<b>1,248,127</b>
Premises expenses	-	-	7,958	<b>7,958</b>
Other expenses	-	-	65,122	<b>65,122</b>

	Associates	Key management personnel	Significant shareholders / entities in which directors are interested	Total
<b>As at 31 December 2010</b>				
<b>Assets</b>				
Loans and receivables	10,248,246	-	-	10,248,246
Investments designated at fair value through profit or loss	47,825,206	-	-	47,825,206
Investment in associates	3,348,605	-	-	3,348,605
Other assets	9,442,565	3,259,967	-	12,702,532
<b>Contingent liabilities</b>				
Financial guarantee	2,800,000	-	-	2,800,000
<b>Six months ended 30 June 2010</b>				
<b>Income</b>				
Income from investment banking services	2,188,342	-	-	2,188,342
Net interest income	358,542	-	-	358,542
<b>Expenses</b>				
Staff expenses	-	1,215,612	-	1,215,612
Premises expenses	-	-	103,958	103,958
Other expenses	-	-	78,092	78,092

11. Certain prior period amounts have been regrouped to confirm to the current period's presentation. Such regrouping did not affect previously reported profit, comprehensive income or equity.

12. Appropriations, if any, will be made only at the year end.

## PILLAR III DISCLOSURES

This section is to be read in conjunction with the narrative explanation in the Risk Management Section of the Annual Report for 2010.

## CAPITAL STRUCTURE

The capital structure of the bank is as follows:

	USD '000		
	Tier 1	Tier 2	Tier 3
Issued and fully paid ordinary shares and perpetual non-cumulative preference shares	113,889		
Less: Employee stock incentive program funded by the bank (outstanding)	10,102		
Innovative capital instruments	-		
Disclosed reserves	<b>2,202</b>		
General reserves	-		
Legal / statutory reserves	2,202		
Share premium	-		
Capital redemption reserve	-		
Others	-		
Retained profit brought forward	(9,492)		
Unrealized gains arising from fair valuing equities (45% only)	10,688		
Minority interest in consolidated subsidiaries	-		
Less:			
Goodwill	-		
Current interim cumulative net losses	-		
Unrealized gross losses arising from fair valuing equity securities	-		
Reciprocal cross-holdings of bank capital (amount originally existed in Tier 1)	-		
<b>Tier 1 Capital before PCD deductions</b>	<b>107,185</b>		
Current interim profits (reviewed by external auditors)		(3,545)	
Asset revaluation reserve - Property, plant, and equipment (45% only)		-	
Unrealized gains arising from fair valuing equities (45% only)		3,035	
Excess of total eligible provisions over total expected loss		-	
Hybrid instruments		-	
Subordinated term debt		-	
Less: Reciprocal cross-holdings of bank capital (amount originally existed in Tier 2)		-	
<b>Tier 2 Capital before PCD deductions</b>		<b>(510)</b>	
Short-term subordinated debt			
<b>Tier 3 Capital (up to 250% of Tier 1 allocated to market risk)</b>			
<b>Total Available Capital</b>			<b>106,675</b>
Deduction of unconsolidated financial subsidiaries where ownership is > 50%	-		
Investment in insurance entities equal to or greater than 20%	-		
Excess amount over maximum permitted large exposure limit	-		
Excess of expected loss over total eligible provisions	-		
Securitization exposures subject to deduction	-		
Additional deduction from Tier 1 to absorb deficiency in Tier 2	510		
Other deductions	-		
<b>Total Deductions</b>	<b>510</b>		
<b>Net Available Capital</b>	<b>106,675</b>	-	-
<b>Total Eligible Capital</b>			<b>106,675</b>



## CAPITAL ADEQUACY

The Bank is well capitalised and in excess of the Central Bank of Bahrain's requirements.

Gulf One Investment Bank (Consolidated)

Total Capital Ratio	Tier 1 Capital Ratio
51.71%	51.71%

## CAPITAL POSITION

The Group's regulatory capital position at 30 June 2011 was as follows:

	USD '000	
	Jun-11	Jun-10
Tier 1 capital	107,185	100,895
Current Interim profit (reviewed by external auditors)	(3,545)	(1,963)
Unrealized gains arising from fair valuing equities (45% only)	3,035	3,453
Tier 2 capital	(510)	1,490
Tier 3 capital	-	-
<b>Total Regulatory Capital</b>	<b>106,675</b>	<b>102,385</b>
Credit risk weighted exposures	132,096	135,816
Market risk weighted exposures	45,246	45,635
Operational risk weighted exposures	28,971	23,252
<b>Total risk weighted exposures</b>	<b>206,313</b>	<b>204,703</b>
<b>Total regulatory capital expressed as a percentage of total risk weighted exposures</b>	<b>51.71%</b>	<b>50.02%</b>

## CAPITAL COMPONENTS

The components of this capital structure are as follows:

### Credit and Investment Risk

The capital requirement for credit risk using the Standardised Approach as at 30 June 2011 is as follows:

Standardised Approach		USD '000		
Type of Claims	Exposure Amounts	Risk Weighted Assets	Capital Required	
1 Claims on Banks	38,256	7,651	918	
2 Claims on Corporates	14,764	14,764	1,772	
3 Equities	65,657	98,485	11,818	
4 Other assets	11,196	11,196	1,344	
<b>Total</b>	<b>129,873</b>	<b>132,096</b>	<b>15,852</b>	

## Market Risk

The capital requirement for market risk using the Standardised Approach as at 30 June 2011 is as follows:

Type of Claims	USD '000		
	Exposure Amount	Risk Weighted Assets	Capital Required
1 Foreign exchange position risk	3,620	45,246	5,430
<b>Total</b>	<b>3,620</b>	<b>45,246</b>	<b>5,430</b>

The period end values of foreign exchange position risk are representative of exchange risk through out the period.

## Operational Risk

The capital requirement for operational risk using the Basic Indicator Approach as at 30 June 2011 is as follows:

	USD '000		
	Exposure Amount	Risk Weighted Assets	Capital Required
Basic Indicator Approach	2,318	28,971	3,477

## CREDIT AND INVESTMENT RISK

### Credit Standards

The Bank has adopted the CBB's Basel II capital adequacy framework for the standardised approach of credit risk which divides the counterparty exposure into classes as defined by the CBB. An overview of the counterparty exposure classes and the risk weights used to derive the Risk Weighted Assets is provided below:

### Sovereigns Portfolio

The sovereign portfolio comprises exposures to governments and their respective central banks. The risk weights are zero percent for exposures in the relevant domestic currency of the sovereign, or for any exposures to GCC governments. Foreign currency claims on other sovereigns are risk weighted based on their external credit ratings.

Certain multilateral development banks as determined by the CBB may be included in the sovereign portfolio and treated as exposures with a zero percent risk weighting.

### PSE Portfolio

Public Sector Entities (PSE's) are risk weighted according to their external ratings with the exception that Bahrain PSE's, and domestic currency claims on other PSE's that are assigned a zero percent risk weight by their respective country regulator (provided the sovereign carries rating BBB- or above), are consequentially allowed a zero percent risk weight by CBB for computation purposes.

### Banks Portfolio

Claims on banks are risk weighted based on their external credit ratings. A preferential risk weight treatment is available for qualifying short-term exposures to banks in their country of incorporation. Short-term exposures are defined as exposures with an original tenor of three months or less and denominated and funded in the respective domestic currency. The preferential risk weight for short-term claims is allowed on exposures in Bahraini Dinar/US Dollar in the case of Bahraini incorporated banks.

### Corporate Portfolio

Claims on corporate entities are risk weighted based on their external credit ratings. A 100 percent risk weight is assigned to exposures to unrated corporate entities. A preferential risk weight treatment is available for certain entities owned by the Government of Bahrain, as determined by the CBB, which are assigned a zero percent risk weight.

### Equities Portfolio

The equities portfolio comprises equity investments in the banking book, i.e. portfolio of investments designated at fair value through profit or loss and investments in associates.

A 100 percent risk weight is assigned to listed equities and funds. Unlisted equities and funds are risk weighted at 150 percent. Investments in rated funds are risk weighted according to the external credit ratings.

### Other Assets

A 100% risk weight is assigned to all "other assets" on the balance sheet.

### Past due exposures

All past due loan exposures, irrespective of the categorization of the exposure are classified separately under the past due exposures asset class. A risk weighting of either 100 percent or 150 percent is applied depending on the level of specific provision maintained against the exposure.

## EXTERNAL CREDIT ASSESSMENT INSTITUTIONS (ECAI)

The Bank uses ratings issued by Standard & Poor's, Moody's and Fitch to derive the risk weightings under the CBB's Basel II capital adequacy framework. Where ratings vary between rating agencies, the highest rating from the lowest two ratings is used to represent the rating for regulatory capital adequacy purposes. The Bank uses ECAI for its placements with a financial institution.

The following are gross credit risk exposures considered for Capital Adequacy Ratio (CAR) calculations.

### Credit and Investment Risk Disclosures

The Group's credit portfolio as on 30 June 2011 is:

		USD '000	
	Exposure amount	Average Exposure amount *	
1	Placements	38,258	36,961
2	Investment securities	82,429	78,921
3	Short-term financing	11,964	11,516
4	Other assets	14,985	17,171
	<b>Total</b>	<b>147,636</b>	<b>144,569</b>

\*The average gross exposure amount has been arrived at based on the credit exposures outstanding at the end of each month.

### Geographic Distribution of Exposures

The Group's geographic distribution of exposures at 30 June 2011 is as follows:

		USD '000				
	GCC	UK	Europe	Others	Total	
1	Placements	38,258	-	-	-	38,258
2	Investment securities	31,848	10,690	25,841	14,050	82,429
3	Short-term financing	11,418	-	546	-	11,964
4	Other assets	7,889	-	7,093	3	14,985
	<b>Total</b>	<b>89,413</b>	<b>10,690</b>	<b>33,480</b>	<b>14,053</b>	<b>147,636</b>

\* The Group classifies geographic distribution of exposures in the regions where the amounts have been invested.

### Industry Distribution of Exposures

The industry wise distribution of exposures as on 30 June 2011 is as follows:

		USD '000			
		Placements	Investment securities	Short-term financing	Other assets
1	Financial	38,258	-	-	-
2	Pharmaceutical	-	7,940	6,866	-
3	Transport	-	918	1,784	-
4	Clean energy	-	11,000	-	-
5	Power and water	-	12,756	2,767	-
6	Oil and gas	-	14,050	-	-
7	Other sectors	-	35,765	547	14,985
	<b>Total</b>	<b>38,258</b>	<b>82,429</b>	<b>11,964</b>	<b>14,985</b>

The Bank's unfunded exposure is to a financial guarantee of gross and average amount of USD 2.80 million to pharmaceutical sector in the GCC region.

### Related Party Transactions

The related party transactions were at arm's length and are as follows:

		USD'000			
	Associates	Key management personnel	Significant shareholders / entities in which directors are interested	Total	
<b>As at 30 June 2011</b>					
<b>Assets</b>					
Loans and receivables	9,195,089	-	-	<b>9,195,089</b>	
Investments designated at fair value through profit or loss	47,576,968	-	-	<b>47,576,968</b>	
Investment in associates	4,214,310	-	-	<b>4,214,310</b>	
Other assets	5,269,696	2,101,538	-	<b>7,371,234</b>	
<b>Contingent liabilities</b>					
Financial guarantee	2,800,000	-	-	<b>2,800,000</b>	
<b>Six months ended 30 June 2011</b>					
<b>Income</b>					
Income from investment banking services	647,726	-	-	<b>647,726</b>	
Net interest income	412,858	-	-	<b>412,858</b>	
<b>Expenses</b>					
Staff expenses	-	1,248,127	-	<b>1,248,127</b>	
Premises expenses	-	-	7,958	<b>7,958</b>	
Other expenses	-	-	65,122	<b>65,122</b>	

### Highly Leveraged and Other High Risk Counterparties

There are no highly leveraged and other high risk counterparty claims.

### Large Exposures - Consolidated

The consolidated risks of large exposures as at 30 June 2011 are as follows:

	Counterparties		
	Banks	Corporate	Other
1. Total large exposure	-	73,190	-
2. Total exempted large exposures	25,381	-	-
<b>Total large exposures</b>	<b>25,381</b>	<b>73,190</b>	-
3. Exposures to the directors and their associates	-	-	1,541
4. Exposures to the Bank's associates	-	66,256	-
<b>Total exposures to related parties</b>	-	<b>66,256</b>	<b>1,541</b>

### Maturity Profile of Credit Portfolio

The maturity profile of the credit portfolio as at 30 June 2011 is:

Maturity Band	Placements	Investment Securities	Short-term financing	Other Assets
1. Less than 1 month	38,258	-	-	-
2. 1 month but less than 3 months	-	-	6,399	768
3. 3 months but less than 6 months	-	-	3,235	12
4. 6 months but less than 12 months	-	-	2,330	17
5. Over 12 months	-	82,429	-	14,188
<b>Net position</b>	<b>38,258</b>	<b>82,429</b>	<b>11,964</b>	<b>14,985</b>

### Past Due And Impaired Loans

Past due and impaired loans are assets for which there is objective evidence that the Group will not collect all amounts due, including both principal and interest, in accordance with the contractual terms of the obligation.

As at 30 June 2011 none of the financial assets were past due and there were no related party claims which were provided for. The Bank has one impaired loan of USD 190,690 to a corporate in the GCC region which was fully provided for in 2010.

### Equity Position In The Banking Book

The Bank uses the Standardised Approach under the Basel framework for measuring and managing its private equity risk, which is considered a part of its "banking book".

Equity securities are held as either part of the Bank's strategic holdings or held with the objective of capital appreciation and realizing gains on sale thereof. All equity positions in the Banking book are classified as either investments designated at fair value through profit or loss or investment in associates.

Accounting policies for equity instruments are described in detail in the Financial Statements for the year 2010 under "Significant Accounting Policies" section.

## DETAILS OF EQUITY INVESTMENTS

USD '000

	Gross Exposure	Risk weighted exposure	Capital Requirement
Quoted Equities	-	-	-
Unquoted Equities	82,429	98,485	11,818
<b>Total</b>	<b>82,429</b>	<b>98,485</b>	<b>11,818</b>

Unrelaised gains recorded in consolidated retained earnings of the Bank  
45% of unrealised gains recognised under Tier 1 Capital

23,751	-	-
10,688	-	-

### Interest Rate Risk in the Banking Book

The Bank uses interest rate gap analysis to measure the interest rate sensitivity of its annual earnings due to re-pricing mismatches between rate sensitive assets, liabilities and derivatives' positions. As at 30 June 2011, the Bank does not have any rate sensitive liabilities and derivatives positions.

The interest rate risk management process is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to interest fluctuations. Normally the Bank would subject these positions to an interest rate shock of 200bps increase / decrease, however, given the small nature of the Bank's exposure such a stress testing is not a meaningful risk management tool.

The assets re-pricing profile of various asset categories is set out below:

	Effective Interest	Upto 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Rate insensitive	Total
<b>On-balance sheet financial Instruments</b>								
<b>Assets</b>								
Placements	-	38,258	-	-	-	-	-	38,258
Investment Securities	-	-	-	-	-	-	82,429	82,429
Short term bridge financing	-	6,399	3,235	2,330	-	-	-	11,964
Other Assets	-	-	-	-	-	-	14,985	14,985
<b>Total Assets</b>	-	<b>44,657</b>	<b>3,235</b>	<b>2,330</b>	-	-	<b>97,414</b>	<b>147,636</b>

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The contents of these Pillar 3 disclosures and other disclosure requirements (as appropriately disclosed in the semi-annual report) of Chapter 1.3 of the Public Disclosure Module (PD Module) of the Central Bank of Bahrain's Rule Book have been reviewed by the Bank's external auditors, KPMG Fakhro based upon agreed upon procedures as required under Para PD-A.2.4 of the PD Module.