MUMTALAKAT AND BAHRAIN'S NATIONAL ECONOMIC STRATEGY:

STRADDLING PERFORMANCE AND LIQUIDITY

THE FLETCHER SCHOOL
TUFTS UNIVERSITY

DEDICATION

To my mother whose silent determination, grace, patience, and perseverance I hope I inherited, at least in part. Her cheerful smile and composure, that have never once waned in her continued fight against cancer, will forever inspire me to keep calm and carry on in the face of the greatest of uncertainties and obstacles.

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Mumtalakat and Bahrain's National Economic Strategy:

Straddling Performance and Liquidity

Introduction

It was 1am on Sunday, the 15th August 2010. The Chief Investment Officer (CIO) and his team at The Bahrain Mumtalakat Holding Company spent the entire weekend working through a strategic review of the options available to Mumtalakat to raise $600 million to fund the proposed new investments, restructurings, and the upcoming interest obligations due at the end of the year on the $750 million senior unsecured notes, due 2015, floated on the London Stock Exchange a few weeks ago, on the 30th June 2010.

Unable to sleep, the CIO stared out of the living room window of his penthouse apartment at the rapidly transforming skyline of the city-state, that wore a particularly festive look on its 39th independence day, and down below at the streets that were glittering with iftar celebrations of the holy month of Ramadan that started a week ago. Clearly, there was an awful lot of progress in the country that was worthy of celebration. He couldn't, however, help but smile at the irony of being sleepless in Manama, which in Arabic means "sleeping place".

In seven hours, he has to brief Talal Al Zain, the CEO, on what he and his team believe is the most optimal financing option that is in line both with the investment philosophy of Mumtalakat and the economic vision 2030 mandate. Having issued US$ 750 million in senior unsecured notes only a month and a half ago, going back to the debt markets was not an option. Selling part of the equity in one of the subsidiaries, associate companies, or investment holdings was the only viable means to raising capital. Should Mumtalakat consider a part equity sale of either Batelco, the telecom business, or National Bank of Bahrain - the two publicly traded entities in of which Mumtalakat was a majority shareholder? Should it take Aluminum Bahrain (Alba) public or sell a part of it to a Joint Venture partner? What are the relative merits and demerits of each of the options? The CIO decided to give the proposed recommendations another detailed read.

At first look, a Sovereign Wealth Fund (SWF)[i] having a liquidity imperative may seem counter intuitive but Mumtalakat, although clubbed under the wider umbrella definition of an SWF, is quite unlike most conventional SWFs. In that respect, Mumtalakat, both in its origins and functioning, has more in common with Temasek Holdings of Singapore **(refer Appendix A)** than it does with other GCC[ii] based SWFs such as the Abu Dhabi Investment Authority or the Qatar Investment Authority.

Bahrain – Historical, Political, and Legal Context

A Brief History

The Kingdom of Bahrain (meaning "the two seas" in Arabic[1]) is a low-lying archipelago of 33 islands[2]. At 712 square kilometers, it is only slightly larger than Singapore in terms of size and is located in the Arabian Gulf between the east coast of Saudi Arabia and the Qatar Peninsula (**see Exhibit 1**). Unlike the nomadic Bedouin background of its immediate neighbors, Bahrain has a long history of continuous inhabitation and settled urban culture dating back to at least 5,000 years. As a part of Dilmun, it was the center of a trading empire and an entrepôt. It was under the control of various empires such as Babylon and eventually Persia, which maintained control until it was expelled by the the Al Khalifa, the current ruling family that hailed from the Qatar Peninsula, whose descendants have ruled the area since 1782. Bahrain was granted formal independence by the British on August 15th 1971, bringing an end to 110 years of its status as a British protectorate and political headquarters in the Gulf. King Hamad bin Isa al-Khalifa became head of state in March 1999, upon the death of his father, Sheikh Isa bin Salman al-Khalifa, who had ruled since independence.[3] The U.S. Navy's Fifth Fleet had been stationed in Bahrain since 1948. As of 2010, the US announced its plans to double the size of its naval base over a period of five years[4].

The shifting sands of political control over the centuries brought with them their own set of demographic complexities. Although the official religion of the tiny island kingdom is Islam, a predominant part i.e., 70%[5] of the Bahraini citizens today are Shi'ites (i.e., followers of Shia Islam), whereas the ruling family and much of the

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[i] *Brookfield, Chaturvedi, and Schena define Sovereign Wealth Funds broadly as Government owned investment funds that are distinct from both official reserves and the capital available to State Owned Enterprises (SOEs) and Government Linked Companies (GLCs). Refer to the Technical Note on Transformational Funds for a detailed description*

[ii] *Gulf Cooperation Council, also known as the Cooperation Council for the Arab States of the Gulf, is a political and economic union of the Arab states bordering the Persian Gulf and located on or near the Arabian Peninsula, namely Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. http://www.gcc-sg.org/eng/indexc64c.html?action=GCC*

political and business elite are Sunni, a situation that contributes to political and social tensions, and occasional sectarian skirmishes. Bahrain's small size, geographical location and Sunni-Shia divide make the government acutely sensitive to developments in neighboring Saudi Arabia and Iran.[6]

Constitution and Government

In February 2002, the King introduced a new constitution, upgrading the country from an emirate to a hereditary constitutional monarchy and establishing an elected lower house of parliament and local councils. Under the Constitution, the King is entitled to appoint the prime minister and other ministers. The King is the supreme commander of the Bahrain Defense Force and chairs the Higher Judicial Council (which oversees the judiciary). Any amendments to the Constitution require the approval of the King.

The Constitution provides for a National Assembly comprising two chambers, the Consultative Council and the Chamber of Deputies. Each chamber has 40 members. The members of the Chamber of Deputies are elected in national elections, whereas the King appoints the members of the Consultative Council. Members of the Chamber of Deputies and Consultative Council each sit for four-year terms. The first elections to the Chamber of Deputies were held in late October 2002, a second election was held in 2006. New parliamentary elections are due to be held in October 2010. Legislation is initiated in the Chamber of Deputies and the Consultative Council, which has the power to comment and suggest alterations to the proposed legislation, considers draft laws. New laws may only be passed when approved by both chambers and ratified by the King.[7]

The Economist Intelligence Unit[8] opined that King Hamad remains the predominant political player and members of the Al Khalifa hold most of the key cabinet posts, and that much power also resides with the king's uncle, Sheikh Khalifa bin Salman Al-Khalifa, who has been prime minister since 1971; but the king's son, and crown prince, Sheikh Salman bin Hamad al-Khalifa, is increasingly influential.

Legal System

The Judiciary, as enshrined under the Constitution, is an independent and separate branch of the Government. A constitutional court, independent of both the executive and legislative branches, upholds the Constitution.

Bahrain has a dual court system, consisting of civil courts and Shari'a courts. The Shari'a courts do not have jurisdiction over commercial matters; they deal only with matters of personal law, pertaining to Muslims, such as marriage, divorce and inheritance. The civil court system deals with all civil, commercial and criminal matters.[9]

The Bahraini legal system is generally perceived as a sound, investor friendly system for dispute settlement. In an attempt to promote itself as a commercial hub for the region, Bahrain unveiled 'The Bahrain Chamber of Dispute Resolution', a new independent arbitration center in collaboration with the New York-based American Arbitration Association, in early January 2010.

Demographics, Expatriates, and Bahrainization

As of 2007, the Central Informatics Organization, the statistics office of the Kingdom, reported that the population stood at 1.04 million, growing at a steady clip of 8% year on year – expatriates contributed a significant part of that growth. While 51% of the population was Bahraini, 49% were expatriates, predominantly from South and South East Asia, and the Levant, and a smaller number from North Africa, Europe and the United States.

Revised Government Population Data

	2003	2004	2005	2006	2007
Population	764,519	823,744	888,824	960,425	1,039,297
Bahraini	445,632	464,808	484,811	505,673	527,433
Non-Bahraini	318,887	358,936	404,013	454,752	511,864
Population (% Change)	7.6	7.8	7.9	8.1	8.2

Source: Central Informatics Organization, Bahrain

The GCC region has always been home to a large expatriate community, and compared to its neighbors such as Qatar (population: 1.6m in 2008; 86% expatriate[10]) and the UAE (population: 5.2 m in 2007; 83% expatriate[11]), Bahrain had a relatively lower percentage of expatriates. Whereas other GCC states have ample oil revenues that enable them to lavish generous welfare on their citizens, Bahrain's limited oil and gas revenues have made it the only GCC state with an indigenous working class and a trade union movement. A study by McKinsey & Co., which recommended significant changes to labor market laws, put unemployment in Bahrain at 13-16% in 2002 and forecast that some 100,000 Bahrainis will enter the job market over the next decade.[12]

Although education for all Bahrainis is free, and adult literacy in 2006 stood at 88.3% according to the UNDP[13], unemployment levels among nationals continued to persist in the high teens despite the large-scale implementation of Bahrainization – an affirmative action program by the government that mandated compulsory quotas for employing Bahraini citizens. This is partly owing to a skills gap for jobs that required a high technical or managerial skill, and partly to unwillingness to accept blue collared jobs – both of which expatriate employees continue to rush in to fill.

Taxation

Bahrain, as of 2010, had no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax.[14] The state also imposes no withholding taxes on any funds repatriated. However, in June 2007, the authorities began to deduct a monthly 1% payroll tax to finance the benefit schemes[15] for unemployed Bahrainis. A new tax on property purchases was being actively discussed but no bill had been passed as yet.

The Bahraini Economy

Oil wells that end not so well

A natural trading hub throughout its long history given its strategic geographical position, Bahrain was also an important pearl fishing center for much of the 18th and 19th century. The collapse of the world pearl market coincided with the discovery of oil in 1932, enabling Bahrain to become the first state on the Arab side of the Gulf to exploit its hydrocarbons resources, but the island's reserves proved to be small by comparison with its resource-rich Gulf neighbors.[16] The Kingdom produces approximately 42,000 barrels[17] of oil per day, a mere 0.5% of the daily production of that of its neighbor Saudi Arabia. Bahrain's production has been in decline over the years and its reserves are expected to run out in 10-15 years.

Revenues from oil and natural gas currently account for approximately 25% of GDP and provide about 76% of government income. The state-owned Bahrain Petroleum Company (BAPCO) refinery built in 1935, the first in the Gulf, has a capacity of about 260,000 b/d. Saudi Arabia provides most of the crude for refinery operation via pipeline. Through an agreement with Saudi Arabia, Bahrain also receives half of the net output and revenues from Saudi Arabia's Abu Saafa offshore oilfield. The Bahrain National Gas Company operates a gas liquefaction plant that utilizes gas piped directly from Bahrain's oilfields. Gas reserves should last about 50 years at present rates of consumption. However, rising domestic demand spurred by a recent development boom has highlighted the need to increase gas supplies.[18]

Dwindling petrochemical reserves forced Bahrain down the path of economic diversification, building on its trading traditions to establish itself as a business and services center. The island has emerged as the region's principal offshore banking hub and also as an important center for insurance and Islamic banking. The relatively liberal social climate - for example, alcohol is available in restaurants and hotels - has stimulated tourism, attracting, particularly, residents of the nearby Eastern Province of Saudi Arabia. These activities have been complemented by the development of a significant industrial base.[19] Bahrain is highly dependent on regional demand, especially from Saudi Arabia, for its services and goods exports. As a consequence, its GDP growth tends to be roughly correlated with conditions in Saudi Arabia. **(**See **Exhibit 2** for a comparison of the regional economic indicators**)**

Real Gross Domestic Product By Sector (% share of GDP)

	2003	**2004**	**2005**	**2006**	**2007**
Agriculture	0.6	0.5	0.4	0.5	0.5
Industry	41.5	38.7	42.9	62.2	63.2
Services	57.9	60.8	56.7	37.4	36.3

Source: Central Informatics Organization, Bahrain

A Regional Financial Services Oasis

Its development as a major financial center has been the most widely heralded aspect of Bahrain's diversification effort. Under the expert guidance of the Central Bank of Bahrain (CBB), a highly respected regulator in the region, the Kingdom has evolved into a bustling financial services oasis where both onshore and offshore financial services institutions operate without impediments. The financial sector is currently the largest contributor to GDP at 23% in 2010. Between 2002 and 2010, the industry tripled in size to $224 billion. With over 13,000 people employed in this sector, financial services remain a pillar of Bahrain's economy.[20] As of 2006, 371 banks and financial institutions operated in the Kingdom; 41% of which were insurance firms, 40% were banking institutions, and 19% were capital market brokers and others.[21]

Bahrain has also made a concerted effort to become the leading Islamic finance center in the Arab world, standardizing regulations of the Islamic banking industry. It currently has 26 Islamic commercial, investment, and leasing banks as well as Islamic insurance (takaful) companies - the largest concentration of Islamic financial institutions in the Middle East.[22] Lately, there has been an intense competition from neighboring Qatar and Dubai, which have been vying aggressively to establish themselves as financial centers for the region.

The Banking System

Banks are at the nerve center of financial intermediation both in Bahrain and in the region. During the period 2003 – 2006, the banking system grew at a CAGR of 22.9%. The total assets of the banking system (Retail and Wholesale) at the end of 2006 stood at BD 70.43bn (US$ 187.35bn), with Wholesale banks contributing 87.7% of the total assets. During the same period, the assets of Islamic banks operating in Bahrain registered a CAGR of 43.2%. At the end of 2006, the total assets of Islamic banks in the Kingdom stood at BD 4.59bn (US$ 12.21bn). [23]

The banking system is a linchpin for the circulation of credit in the country. The total loans and advances of the banking system grew at a CAGR of 19.0% from BD 1.79bn (US$ 4.79bn) in 2003 to BD 3.03bn (US$ 8.07bn) in 2006. The lending to business sector, the main source of growth for banks, accounted for 53.4% of the total credit in 2006, while personal and government sector loans accounted for 41.3% and 5.3% respectively. Trade, manufacturing, construction, and real estate sectors mainly drive the growth in business segment lending – they collectively account for almost 83% of the total business sector-lending portfolio for the banking system.[24]

The Development of Capital Markets

For a country that has a highly sophisticated financial services industry, and enjoys the pre-eminent status of being the offshore financial services hub of the region, the capital markets are surprisingly thin and their development has not been in lockstep with that of the banking industry. The McKinsey Global Institute identifies the absence of corporate bond and securitization markets as the cause for lower financial depth (defined as total regional debt and equity outstanding divided by regional GDP)[25]. (See **Exhibit 2B** for a comparative view of financial depth across major regions of the world). This lack of financial depth in Bahrain, despite the existence of a fledgling stock exchange, has been limiting the financing choices of Bahraini corporations to the local banking system; the more financially savvy and reputable corporations in the region tend to tap the capital markets in Europe and North America for their capital requirements.

Established in 1989 with the cooperation of the International Finance Corporation, The Bahrain Stock Exchange (officially renamed Bahrain Bourse B.S.C in 2010) is home to 47 companies, 11 bonds (both conventional and Islamic) and 35 mutual funds.[26] Despite being exceptionally well regulated, the Bourse has not been able to establish Bahrain as the regional hub for equity financing as the banking and offshore financial services in the country have. Non-Bahraini firms are a mere 11% of the total companies listed. In contrast, Nasdaq Dubai (formerly the Dubai International Financial Exchange) that commenced operations in September 2005 has stolen a march over Bahrain Bourse in less than five years of operation on all three counts: market capitalization, the volume of shares traded and the value of shares traded.

	Bahrain Bourse (as of Dec 2009)	**Nasdaq Dubai (as of Sep 2009)**
Value of Shares Traded (US$ billion)	0.473	1.08
Volume of Shares Traded (billion)	0.852	3.1
Market Capitalization (US$ billion)	16.25	28.14

Source: Bahrain Bourse and Nasdaq Dubai 2009 Reports

Other Major Industries and Services: An Overview

Aluminum

Bahrain's location, given its relative proximity to Australia, where bauxite was mined, and to the aluminum markets in the Middle East, Asia, and Europe, was deemed to be ideal for primary aluminum production. The majority state-owned Aluminum Bahrain (Alba), which began operations in 1971, was the first aluminum smelter in the Middle East and is the largest in the world outside Eastern Europe with an annual production of about 870,000 metric tons (mt) after the completion of a recent expansion program.

Alba accounted for 13% of Bahrain's goods exports in 2006[27]. Alba and related factories, such as the Aluminum Extrusion Company and the Gulf Aluminum Rolling Mill, play a cornerstone role in the industrial base of the country; their growth has been a major factor behind the rising share of industry in GDP over the past five years.

Telecommunications

The Bahraini government deployed its oil revenues to build an advanced infrastructure in transportation and telecommunications. By the end of 2009, according to the Telecoms Regulatory Authority (TRA), mobile phone penetration stood at 120%[28]. According to the TRA, Bahrain is the first country in the region to liberalize all aspects of telecoms. The Bahraini market was opened up to competition in 2003 when the TRA awarded a group led by Kuwait's MTC (now renamed Zain) the 15-year license for a second Global System for Mobile Communications (GSM) network and the right to offer 3G (third-generation) services. In January 2009 the TRA awarded a third license to Saudi Telecom Company, owned by the Saudi government, which was the sole bidder. The former telecoms monopoly, majority state owned Bahrain Telecommunications Company B.S.C (Batelco), continues to dominate the mobile phone market, with some 600,000 subscribers.[29]

While Bahrain leads the GCC in liberalizing its telecoms industry, it remains as restrictive as its neighbors on aspects such as internet freedom and permitting the use of technologies such as internet telephony. As of 2010, VOIP services such as Skype continue to remain banned in the region.

Travel, Transport and Logistics

The Bahrain International Airport is one of the busiest in the Gulf. In 2008, 8.7 million passengers transited Bahrain's airport, up by 20% from 2007[30] The Mina Salman Port and the New Khalifa Bin Salman Port offer direct and frequent cargo shipping connections to the U.S., Europe, and the Far East. To boost its competitiveness as a regional center for transport and logistics, Bahrain has privatized port operations, and has put in place plans to expand its airport operations.

Tourism and Real Estate

Regional tourism is also a significant source of income, and it benefits from the government's active support for large-scale tourism projects. It opened Bahrain International Circuit (BIC), the only Formula One racetrack in the Middle East, in 2004 and has awarded tenders for several tourist complexes. New hotel and spa projects are progressing within the context of broader real estate development, much of which is geared toward attracting increased tourism[31]

The opening of the causeway to Saudi Arabia, coupled with Bahrain's relatively open atmosphere and liberal attitude towards alcohol and entertainment, has led to a surge in local and expatriate visitors from the neighboring kingdom. However, Bahrain's role as a regional tourism destination has been overshadowed in recent years by the growing prominence of Dubai, which is also much more successful in attracting visitors from outside the Gulf.[32] The global financial crisis in 2008 had impacted tourism revenues significantly.

Visitor Arrivals By Mode Of Transport

	2003	2004	2005	2006	2007
Total Arrivals	4,844,497	5,667,331	8,350,703	7,288,711	7,378,656
By Air	974,159	1,176,460	1,790,878	1,544,011	1,508,041
By Sea	8,369	6,526	8,376	11,913	50,999
By Causeway	3,861,969	4,484,345	6,551,449	5,732,787	5,819,616

Source: Central Informatics Organization, Bahrain

Utilities

The government of Bahrain moved toward privatizing the production of electricity and water by licensing the construction of an independent power plant at a cost of $500 million. The company commenced operations in

2006. That same year, the government announced the sale of the Al Hidd Power Plant, the supplier of electricity for the island, for $738 million to Hidd Power Company, a consortium of British, Japanese, and Belgian companies.[33]

The Economic Development Board (EDB) and Vision 2030

Given its relatively limited oil and gas reserves, the government sector in Bahrain is not as large as in the rest of GCC, where all the oil and natural gas companies are under state control. However, the government still remains the main motor of growth in the country.[34] To facilitate private sector investment, and to provide strategic direction to the economy, the kingdom set up the EDB in 2000. The EDB's stated mission is to "grow and diversify Bahrain's economy by developing a strategy that supports the advancement of a modern and liberalized business environment, encourages inward investment and enables the nation to compete in the global marketplace."[35] Chaired by the crown prince Sheikh Salman bin Hamad al-Khalifa, and overseen by fourteen members of the board of directors, seven government ministers and seven private sector executives, the EDB has overarching control over economic policy, and a mandate to steer the nation's economy towards realizing Vision 2030, launched in October 2008, which outlines goals for the economy, government and society, based on the guiding principles of sustainability, competitiveness, and fairness. (See **Exhibit 3** for a summary of Vision 2030 and the milestone achievements of the EDB to date)

The EDB was, in effect, the custodian of national competitiveness of Bahrain. In addition to setting the reform agenda and overseeing its implementation, the key role of the EDB was to promote Bahrain as a 'business friendly' investment destination. The EDB relied extensively on the annual country rankings of reports such as the World Bank's 'Doing Business Report', the 'Heritage Foundation Index of Economic Freedom', and the World Economic Forum's 'Global Competitiveness Report' to measure its own progress.

As a result of the reforms over a seven-year period, Bahrain ranked among the top 20 nations in the World Bank's Doing Business Report, and the Heritage Foundation Index of Economic Freedom, and 38th out of a list of 133 countries in the World Economic Forum's Global Competitiveness Report. (See **Exhibit 4** for the key highlights of the 2009 WEF report).

Benchmarking against the best

Greatly impressed by the economic miracle and the growth trajectory of Singapore over the last five decades, King Hamad bin Isa al-Khalifa was determined to fashion Bahrain's economic development along the lines of Lee Kuan Yew's city-state. In his mind, the similarities between the two nations, in terms of size, multi-ethnic make up, strategic location etc. made a strong case for benchmarking his kingdom against Singapore. That Singapore achieved economic prosperity despite the lack of natural endowments was even a bigger source of inspiration, considering the dwindling oil and gas reserves in his own land. Bahrain EDB, in many ways, was modeled along the lines of Singapore's Economic Development Board, which was started in 1961.

Of equal interest to the EDB was Singapore's approach to facilitating private sector investment in the economy. After closely studying the Temasek strategy **(**see **Appendix A)** the Chairman and the Board set about to explore the feasibility of creating an entity like Temasek in Bahrain and so was born the idea of Mumtalakat.

The Bahrain Mumtalakat Holding Company

Background and Origins

Mumtalakat (meaning "Assets" in Arabic) was "established in June 2006, by Royal Decree, as an independent holding company for the government of Bahrain's strategic non-oil and gas related assets"[36]. Like Temasek, Mumtalakat aimed to improve the transparency, performance, and governance of SOEs and GLCs.

In addition to driving sustainability, competitiveness, and transparency through its active management of the portfolio companies, and through the implementation of organizational, operational and financial restructuring wherever necessary, Mumtalakat's mandate, as the Government's investment arm, is to make strategic investments on behalf of the state to turn Vision 2030 into a reality by transforming Bahrain's economy from being oil-driven into a private sector-led vibrant, diversified, and globally competitive economy.[37]

Organization and Governance

Chaired by the Minister of Finance (Sheikh Ahmed bin Mohammed Al Khalifa), Mumtalakat's nine-member board is composed of leaders from the public sector, the private sector, and the government, appointed to four-year terms. To ensure complete alignment at the top between the EDB and Mumtalakat, the CEO of EDB and the CEO of Mumtalakat occupy key positions on each other's boards. (See **Exhibit 5A** for the Governance model of Mumtalakat**)**

Mumtalakat is subject to oversight by the National Audit Court of Bahrain, which, in turn, submits its review reports to the King and the Prime Minister. It is also subject to oversight by the Tender Board of Bahrain, that oversees procurement practices and policies of government entities, and by the Ministry of Finance. Mumtalakat, since its inception, has consistently received a rating of 8/10 for its transparency from The Linaburg-Maduell Transparency Index[iii].

Although created by royal decree and despite being wholly owned by the Government, Mumtalakat is incorporated as a commercial entity and is therefore subject to the commercial laws of Bahrain, including those laws and processes relating to insolvency. Mumtalakat is regulated by the Ministry of Industry and Commerce the same way as any other private commercial company in Bahrain. Further, the Government provides no guarantees for Mumtalakat's financial obligations, and is under no obligation to extend financial support to

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[iii] *The Linaburg-Maduell Transparency Index, developed at the Sovereign Wealth Fund Institute, is a method of rating transparency in respect to sovereign wealth funds. Pertaining to government-owned investment vehicles, where there have been concerns of unethical agendas, calls have been made to the larger "opaque" or non-transparent funds to show their intentions. This index is based off ten essential principles that depict sovereign wealth fund transparency to the public. The Sovereign Wealth Fund Institute recommends a minimum rating of 8 in order to claim adequate transparency. For further details see* *http://www.swfinstitute.org/statistics-research/linaburg-maduell-transparency-index/*

Mumtalakat or any of its affiliates. In effect, Mumtalakat's ability to meet its financial obligations is solely dependent on its ability to fund such amounts from its operating revenues, cash flows and profits[38].

Mumtalakat's Asset Portfolio

As of December 2009, Mumtalakat held minority and majority stakes in over 35 commercial enterprises. (See **Exhibit 5B** for information on principal associates and **Exhibit 5C** for the portfolio holding structure**)** Portfolio value represents the value of investments in subsidiary companies (greater than 50% shareholding), associate companies (20-50% shareholding) and other investment companies (less than 20% shareholding). Barring its equity holdings in National Bank of Bahrain (NBB) and Batelco, both associate companies, and its majority shareholding in the highly profitable Alba, a subsidiary company, almost all of Mumtalakat's portfolio is illiquid, and requires substantial infusion of long-term capital to facilitate the required restructuring.

The value of investments in subsidiary companies and associate companies is calculated based on equity accounting.[iv] The value of other investment companies is based on their fair market value as of the end of the financial year. Mumtalakat's portfolio value as of December 31, 2009, as determined by the above-mentioned approach, was BD 3.4 billion (US$ 9.0 billion)[39].

Mumtalakat's Strategy

In order to address the key objectives of the Economic Vision 2030, Mumtalakat's stated intent is to seek to increase the value of its portfolio through a four-pronged strategy[40]:

Identification and implementation of value enhancing activities at its strategic portfolio companies: A core element of Mumtalakat's strategy is to enhance value of its existing portfolio companies through operational, organizational and financial restructuring. A comprehensive restructuring of Alba was initiated in late 2009 to reduce costs and increase revenues. The plan is expected to deliver net operating benefits of approximately $250 million per annum from 2012. A strategic review of the beleaguered state carrier Gulf Air is currently underway. Mumtalakat is actively engaged in identifying and exploiting pockets of value across the portfolio.

[iv] *Under the equity accounting methodology, the value of an investment is calculated at the original cost of the investment plus further investments, share of profit and other comprehensive income of the subsidiary/associate company less share of loss, dividends received, and share of other comprehensive loss of the subsidiary/associate company.*

Carefully planned portfolio adjustments, including partial or complete disposal of assets: One of the stated objectives of Mumtalakat is disposal, either partial or complete, of select assets. Mumtalakat eventually seeks to maintain a significant minority interest, typically between 20% - 50% in its portfolio firms - a level of ownership that is consistent with Mumtalakat's desire to maintain a meaningful influence over the corporate governance of the portfolio company.

Further investments for growth in select existing assets and investment in new assets: Through extensive diligence and analysis of its assets and the marketplace, Mumtalakat seeks to invest selectively in existing portfolio companies particularly to exploit geographic expansion and complementary business opportunities by providing portfolio companies with the necessary expertise to identify, analyze and implement profitable expansion and growth strategies.

Diversification of the portfolio over time: Mumtalakat seeks to diversify its portfolio through a combination of disposals of existing assets and investment in new assets. As of December 31, 2009, 91% of Mumtalakat's portfolio value was derived from companies based in Bahrain, with a significant exposure to five sectors in particular: aluminum, real estate, financial services, telecoms, and airline. A fundamental element of Mumtalakat's core strategy is to diversify its exposure across geographies, asset classes, and sectors. Geographically, the stated goal is to build a portfolio consisting of approximately 50% of international assets, and the remaining 50% spread across Bahrain and the wider MENA[v] region. From an asset class perspective, the stated ambition is to expand into other asset classes, particularly more liquid assets, to complement its existing portfolio of longer-term equity investments.

Financial Performance and Capitalization[41]

Performance Overview

The group derives substantially all of its consolidated revenues from a small number of its portfolio companies. In FY2009, Gulf Air, and Alba represented in the aggregate approximately 98% of the group's consolidated revenues of US$ 2,752.8 million. Falling prices of Aluminum in the London Metal Exchange, and a steep drop in global travel triggered by the global financial services caused revenues and gross margins to decline by 28% and 84% respectively. As a result, the group registered an operating loss of BD 167.06 million in FY2009. (See **Exhibit 6** for consolidated financial statements)

As a result of the holding company structure, Mumtalakat is greatly dependent on the dividends and distributions it receives from its associate and investment companies in the portfolio to meet its operating and capital expenditure requirements, and to service its debt. Dividends from Alba, NBB and Batelco represented in the aggregate approximately 98.7% of Mumtalakat's total dividends received in 2009, which were

[v] *Middle East and North Africa*

US$ 152.7 million. In the years 2007 and 2008, its total dividends were US$ 412.2 million and US$ 159.6 million respectively. (See **Exhibit 6 A**)

Major Portfolio Holdings

Alba

In operation since Bahrain's independence, Alba was owned "77% by Mumtalakat and 20% by Saudi Industrial Investments Company (SIIC), a wholly owned subsidiary of Saudi Basics Industries Corporation (SABIC). In April 2010, Alba purchased the shares representing the remaining 3% stake from a third shareholder, and currently holds these shares in treasury, pending proportionate distribution thereof to Mumtalakat and SIIC. Mumtalakat is represented by six directors on Alba's nine-member board of directors."[42]

A major employer of Bahrainis and a big export earner, Alba is one of the key consumers of Bahrain's natural gas – a key source of its competitive advantage. Aluminum smelting is a highly energy intensive business, with energy costs accounting for 34.7% of the global average cash costs, compared to a significantly lower 20.2% cost contribution for Alba due to its access to cheap power sourced through its captive plants, amounting to a cost advantage of approximately US$ 250/tonne[43] BAPCO's long term supply contract at US$ 1.4/mmbtu[vi] is scheduled to increase to US$1.5/mmbtu in 2011, and will remain at those levels until 2013 after which all gas price assurances are set to expire.[44] Analysts estimate that every $0.1/mmbtu increase in gas price will adversely impact the company's cost by approximately BD 4.5 million. An increase of gas prices by $1/mmbtu is expected to bring Alba's margins down from 21% to 9%, which is on par with the global averages of 8%[45].

Alba's core customer base is comprised of downstream manufacturers primarily located in the MENA region where competitive activity in Aluminum smelting is heating up. Alba's regional competitors include Sohar Aluminium in Oman, Qatalum in Qatar, Emirates Aluminium in the UAE and proposed new smelters in Saudi Arabia – all of whom seek to exploit the competitive advantage of cheap, abundantly available energy.[46] Bahrain based Gulf Aluminium Rolling Mill Co. B.S.C.(c) (GARMCO), a Mumtalakat associate company (37%), and Midal Cables Ltd. are two of Alba's largest customers, collectively accounting for 30% of the annual offtake in 2009.

While the drop in global aluminum prices impacted revenues in 2009 adversely, the Mumtalakat initiated restructuring enabled Alba to reduce operating costs by 16% from previous year while keeping production constant at 97% of capacity through the years. (See **Exhibit 7** for select financial statements of Alba and other relevant information)

Batelco

[vi] *Million British thermal units, a unit of energy.*

Established in 1981, and listed on the Bahrain Bourse since 1989, Batelco is the kingdom's predominant integrated telecommunications provider, with a market share in excess of 45%,[47] and a significant employer of Bahrainis. "Mumtalakat directly owns 36.7% of Batelco's shares and 6.7% of shares through its associate Hawar Holding. The Bahraini Government, directly or indirectly, including through Mumtalakat, owns 78% of Batelco's shares."[48] Various citizens of Bahrain and the rest of the GCC, and institutional investors hold the remaining shares. "Mumtalakat is represented by five directors on Batelco's ten-member board of directors"[49]

After financial services, telecommunications is perhaps one of the most liberalized sectors of the economy. The opening up of the telecom sector brought in 17 other players that offered some or most of the integrated telecom services[vii] as of 2010[50], making Batelco's home market one of the most fiercely competitive telecom markets in the GCC. In search of growth, Batelco expanded outside Bahrain through a combination of subsidiaries and joint ventures in Kuwait, Yemen, Saudi Arabia, Jordan, India, and Egypt. Batelco's overseas operations contributed 31% of gross revenues in 2009[51].

Mobile, with three players, and Internet services, with twelve players, registered the highest CAGRs in the industry, at 16% and 58% respectively between 2005 and Q2 2009[52]. As of 2009, 83% of the mobile market in Bahrain comprised pre-paid subscribers who were responsible both for the highest levels of churn in the market, and for bringing the ARPUs[viii] down. Whereas post-paid subscribers contributed a monthly ARPU of BD 34.3, pre-paid users billed a mere BD 7.2[53]. Internet penetration stood at 10% as of 2008, and was deemed a high growth area. Batelco's revenues faced price competition and customer churn challenges – both indicative of a fast maturing home market

In 2009, Batelco increased its dividend contribution to Mumtalakat by 36%, and its investments in long term fixed assets by 26% over 2008. (See **Exhibit 8** for select financial statements of Batelco[ix], and **Appendix B** for a technical note on the determination of Batelco's cost of capital**)**.

NBB

Established in 1957 as Bahrain's first locally owned bank, NBB has steadily grown to become one of the country's leading providers of retail and commercial banking services.[54] Publicly listed on the Bahrain Bourse, the bank is owned 51% by the public, mainly Bahrainis, and 49% by Mumtalakat, which is represented by four

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[vii] *The TRA classifies service offerings into six categories, namely: National Fixed, International Calls, Mobile, Internet, Leased Lines, and Other Data Services (such as National frame relay service, International managed leased line services and International MPLS/IPVPN service). Batelco, being an integrated player, offers all these services.*

[viii] *Average Revenue Per Mobile User, an industry standard for measuring mobile telecom revenues.*

[ix] *Batelco had no ratings issued to it at the time of the case. S&P subsequently issued a BBB- long term rating in November 2011*

directors on NBB's ten-member board of directors[55]

Principally engaged in providing retail and wholesale commercial banking services, treasury and investment activities, and investment advisory services, NBB enjoys a dominant domestic presence in Bahrain, and a selective presence in the wider GCC region.

Regulated by the Central Bank of Bahrain, one of the highly respected regulators in the region, NBB is well capitalized; its capital adequacy ratio (CAR) as of December 31, 2009 was 22.3%, with Tier 1 ratio at 20.4%. NBB's CAR, encompassing credit, operational and market risk, is well above the Basel 2 requirement of 8% and also comfortably above the minimum level of 12% set by the CBB. The main factors that contribute to NBB's strong capital adequacy ratio are a relatively high capital base, relatively low levels of non-performing assets that are fully provided for, and the relatively low risk profile of NBB's on-balance sheet and off-balance sheet exposures, which includes lower risk weighted assets, namely loans to governments, public sector undertakings, banks and financial institutions.[56] However, the performance of the bank continues to be influenced by the intense competition in the local market and the waves of bank consolidation in the GCC.

Despite having a strong asset base of US$ 5.63bn in 2009, the bank witnessed a drop of 2.6% in customer deposits and a sharp rise in borrowings under repurchase agreements from 2008, indicative of the effects of the global financial crisis on its balance sheet. (See **Exhibit 9** for select financial statements of NBB).

Gulf Air

Established in 1950 as the GCC carrier jointly owned by the governments of Bahrain, Qatar, Abu Dhabi[x], and Oman, Gulf Air, in May 2007, became 100% Bahraini state owned after the Omani government transferred its stake to Bahrain; two of the other original shareholders, Qatar and Abu Dhabi, had already pulled out, in 2002 and 2005 respectively[57].

Saddled by huge debts despite multiple restructuring and refinancing efforts, and plagued by a discordant relationship between the management and the employee union[58], Gulf Air's already turbulent business was faced by headwinds of intense competition from lavishly resourced regional rivals, notably Emirates, Etihad Airways and Qatar Airways, which have all vastly expanded their route networks; Emirates and Qatar Airways are also benefiting from the expansion of their base airports, Dubai and Doha, which are both now major hubs for transit traffic.[59]

The airline is one of the largest employers in Bahrain, and the Government viewed Gulf Air's business turnaround as being a central and an integral element of its economic diversification from oil based economy to a

[x] *One of the seven emirates in the United Arab Emirates (UAE), and the administrative capital of the UAE.*

diversified manufacturing and services based economy. In November 2007, Mumtalakat became the sole shareholder of Gulf Air[xi], and has since pumped in material liquidity assistance to help the airline offset its operating losses, fund the acquisition of new aircraft, refinance facilities on existing aircraft and assist funding of various other corporate needs. Mumtalakat has provided BD 169.0 million (US$ 449.5 million) in 2008 and BD 197.0 million (US$ 523.9 million) in 2009 directly to Gulf Air in the form of cash equity contributions and loans. In addition, as of December 31, 2009, Mumtalakat has guaranteed outstanding obligations of Gulf Air in an aggregate amount of BD 60.0 million (US$ 159.6 million).[60]

Edamah

Edamah, a wholly owned subsidiary of Mumtalakat, was incorporated in 2006 as an investment property company with an extensive portfolio in Bahrain; it has been endowed with one of the largest land banks, approximately 3.5 million square meters, by the Bahraini Government. It is principally involved in leasing out property under operating leases and in the development and management of property.

The Bahraini Government transferred substantial land and properties to Edamah as part of its overall strategy to effect the development of real estate opportunities and their commercial management. The total property value on Edamah's balance sheet as of December 31, 2009 stood at BD 732.9 million (US$ 1,949.2 million). Edamah, as of 2010, did not generate material revenues or profits. Many of its leased properties were under long-term lease contracts with very favorable terms to the lessees. The subsidiary represented 21.7% of Mumtalakat's total portfolio value as of December 31, 2009[61]

The McLaren Group

Based in the United Kingdom, the McLaren Group consists of a group companies engaged in activities related to the sport and technology of Formula 1. The McLaren Group originated as a partnership in 1981 between Techniques d'Avant Garde (TAG) and Bruce McLaren. In December 2009, McLaren Automotive Limited (McLaren Automotive) was spun off from the McLaren Group. Founded in 1989, McLaren Automotive is a worldwide brand, producing two highly iconic vehicles—the McLaren F1 supercar and the Mercedes-Benz SLR McLaren.

Mumtalakat originally acquired a 30% stake in McLaren Group in February 2007. By year-end 2009, Mumtalakat increased its ownership stake in McLaren Group to 42%, with TAG, Daimler AG, and others owning the remaining 58%. Mumtalakat also had a 50% stake in McLaren Automotive, along with TAG and others as the owners of the remaining 50%. Mumtalakat is represented by two directors on McLaren Group's seven-member

[xi] *Gulf Air's financial statements are not publicly available.*

board of directors and two directors on McLaren Automotive's seven-member board of directors. The McLaren Group had net losses of GBP 31.4 million (US$ 50.0 million) and GBP 44.1 million (US$ 70.2 million) in 2007 and 2008, respectively, and a net income of GBP 94.3 million (US$ 150.2 million) in 2009.

Mumtalakat's stake in these automotive enterprises complements its goals to promote BIC and further develop opportunities related to the racetrack, the surrounding land, and infrastructure. While BIC and McLaren Group do not directly contribute materially to Mumtalakat's revenues and profits, the annual Formula 1 grand prix race generates approximately US$400 million to US$500 million for Bahrain in the way of increased commerce at local hotels, restaurants, retail stores and related businesses during race week.[62] The Government sees its investments in McLaren as strategic assets, which are expected to continue to enhance tourism and business prospects of Bahrain.

The Liquidity Imperative

Greenfield projects such as Edamah and the BIC were deemed to be central to the transformation of Bahrain into a services-based economy. These projects, together with a profitable world-class flag carrier, were expected to play a crucial role in raising the profile of the island state as a tourism destination. Resuscitating Gulf Air, therefore, was both a strategic and an operational priority for the management team at Mumtalakat. Arresting Gulf Air's bleed would free up Mumtalakat's cash and resources to invest in furthering the economic diversification agenda.

Investing in the long-term economic agenda while continuing to deliver an optimal return on the investment holdings was the dual mandate that made Mumtalakat quite different from any conglomerate or a private equity firm. Jumpstarting economic diversification meant achieving the tough balancing act of keeping one eye on the future while fixing one firmly on the present - a challenge that the investment team deeply relished but managing the ensuing liquidity related constraints consumed all of the team's energies at the present moment.

With competing strategic and operational priorities across its diversified portfolio holdings, liquidity was the Holy Grail for Mumtalakat and having an asset portfolio that is heavily concentrated in real estate, whose value is not marked to market but is determined using the equity accounting method, in a region where the real estate markets were at best fledgling and shallow made liquidity at Mumtalakat as scarce and elusive as an oasis in the desert. Alba's ongoing restructuring and Gulf Air's relentless cash burn exacerbated Mumtalakat's liquidity needs in 2010.

Mumtalakat was stuck in an unenviable position of having to go back to the markets to seek liquidity for the second time in the same year. Leverage has its allure, especially for funding operational turnarounds in a private equity setting where interest obligations that accompany the debt force a discipline on the firm in question, but in Mumtalakat's case the covenants that come along with debt issuance severely constrained its strategic options as was the case with the recent US$750 million notes issue.

A strategic asset sale was very much in line with Mumtalakat's objectives (see **Exhibit 3A**) – of selectively monetizing and privatizing publicly held stakes. Clearly, the assets closest to liquidity in its portfolio were its equity stakes in the only two publicly traded firms in its portfolio: NBB and Batelco. With the successful completion of Alba's restructuring, an IPO or a part sale to a JV partner were also viable options.

The US$ 750 Million Senior Unsecured Notes Issue

On 30th June 2010, Mumtalakat issued US$ 750 million senior unsecured 5% notes due 2015 on the London Stock Exchange, bearing interest from the date of issue, payable semi-annually in arrear on the 30th of June and 30th of December each year, commencing December 2010[63] (see **Exhibit 10A** for the issue information). Rated "Single A" by Standard & Poors Ratings, and "A" by Fitch Ratings, the terms of the issue were as follows: price: 99.077%; yield: 5.212%; spread: 300 basis points more than mid-swaps[xii].[64]

Covenant Constraints, Upcoming Obligations, and Options Ahead

The first interest payment of US$ 18.75 million on the bonds falls due on the 30th December 2010. Keeping Gulf Air afloat, and related restructuring that is still underway is projected to cost Mumtalakat US$ 575 million[xiii] in 2010. The non-continuation of business either in entirety or in substantial part, bankruptcy or liquidation of any of the subsidiaries or associate firms would trigger the material event clause in the debt agreement (for a detailed description of the salient features of the agreement, see **Exhibit 10C**) which leaves Mumtalakat with no other option but to keep Gulf Air flying.

The debt covenant on restrictions on asset sales limits Mumtalakat's options for raising the required US$600 million to listed asset sales[xiv] unless the consideration received is at least equal to the Fair Market Value of the ownership interest held by Mumtalakat in the assets sold or disposed of.

Working with the constraints imposed in the debt agreement, the investment team came up with three possible options: The first option was to sell US$ 600 million worth shares in Batelco in the open market. The second option was to sell part of its share holding in NBB. The third option, involving Alba had two sub options a) enter in to a joint venture agreement with a global player who can bring in the technology and capital to keep Alba's facilities ahead of its regional competitors, in which case the JV partner will have to pay Mumtalakat at least fair market value for the part transfer of ownership interest; b) conduct an initial public offering of Alba.

[xii] *Mid-swaps are a reference point used by the market to determine the premium paid by the buyer at the time of issue. "Mid-swap is the price calculated as the midpoint between the bid and offer prices (buy and sell prices) on currency or interest rate transactions (swaps)". (http://www.financetalking.com/pages/glossary.php?term=mid%20swap&id=612).*

[xiii] *Casewriter's extrapolation, based on the financials provided in the debt prospectus.*

[xiv] *Listed Asset Sale, as detailed in the debt prospectus, means an Asset Sale where the assets to be sold, transferred or otherwise disposed of are securities listed or traded on any public securities exchange or public trading facility (or in the case of an initial public offering, securities to be so listed or traded)*

The investment team laid out its estimates of the extent to which Mumtalakat would need to divest in order to raise the required amount under each of the option. They also listed the merits and demerits of each option, as seen through the lens of the Vision 2030 mandate.

The CIO continued parsing through the document. He looked at his watch; it was 3am. In about a couple of hours, the muezzin's call to prayer will wake the kingdom up to a brand new day.

Exhibit 1A

Map of Bahrain

Source: EIU Country Report, Bahrain, June 2010

Exhibit 1B

Select Country Data

Official Name	Kingdom of Bahrain
Form of state	Constitutional Monarchy
Land Area	712 sq. km
Climate	Hot and very humid summer (April to September) Temperate (December to March)
Language	Official language is Arabic. English is widely used.
Currency	Bahraini Dinar (BD) = 1,000 fils. The Dinar is pegged to the US dollar at a rate of BD 0.376: US$ 1
Time	3 hours ahead of GMT
Fiscal year	January 1st-December 31st

Source: EIU Country Report, Bahrain, June 2010

Economic performance

Main economic indicators

	2003	2004	2005	2006	2007
Real GDP growth (%)	7.2	5.6	7.9	6.7	8.1
Consumer price inflation (av; %)	1.6	2.3	2.6	2.0	3.3
Current-account balance (US$ m)	200	472	1,474	2,188	2,907
Exchange rate (av; BD:US$)	0.376	0.376	0.376	0.376	0.376
Population (m)	0.76	0.82	0.89	0.92	1.04
External debt (year-end; US$ m)	4,751	5,708	6,498	7,772	8,617

Source: Economist Intelligence Unit, CountryData.

Main composition of trade
(US$ m)

	2002	2003	2004	2005	2006
Exports fob					
Petroleum	3,956.4	4,680.1	5,551.3	7,783.5	9,217.6
Aluminium & aluminium products	803.5	912.5	979.3	1,273.0	1,508.5
Total exports incl others	**5,785.6**	**6,600.5**	**7,684.8**	**10,242.0**	**12,200.0**
Imports cif					
Crude oil	1,672.3	2,066.8	2,765.2	4,169.7	4,898.9
Total imports incl others	**4,985.4**	**5,657.2**	**7,384.6**	**9,393.1**	**10,512.5**

Source: Central Bank of Bahrain, *Quarterly Statistical Bulletin*.

Exhibit 1B (continued)

Select Country Data

Interest rates
(%)

	2003	2004	2005	2006	2007
Lending interest rate	8.4	8.0	7.9	8.1	8.4
Deposit interest rate	1.5	1.5	3.1	4.4	4.5
Money-market interest rate	1.2	1.7	3.6	5.3	4.9

Sources: IMF, *International Financial Statistics*.

Sovereign Credit Ratings[xv]

Rating Agency	Effective Date	Rating
S&P Long Term Foreign Currency Debt	07/15/2002	A-
S&P Long Term Foreign Currency Debt	04/05/2006	A
S&P Short Term Foreign Currency Debt	07/15/2006	A2
S&P Short Term Foreign Currency Debt	04/05/2006	A1

[xv] *"Bahrain in March 2010 sold $1.25 billion bonds maturing in 2020 to yield 200 basis points more than similar maturity U.S. Treasuries." (http://www.bloomberg.com/news/2010-06-22/bahrain-mumtalakat-bonds-said-to-yield-300-points-above-benchmark-midswaps.html) "The price tightened from an initial guidance of 210 bps over mid-swaps to 200bps over mid-swaps. The bonds pay a semi-annual coupon of 5.5% (http://www.cbonds.info/emissions/emission.phtml/params/id/12282).*

Rating Agency	Effective Date	Rating
Moody's Country Ceiling Long Term Foreign Currency Debt	08/15/2002	Baa3
	12/11/2003	Baa1
	05/24/2006	A2
	09/07/2006	A2
	10/04/2006	A1
	07/24/2007	Aa3

Source: Bloomberg

Exhibit 2A

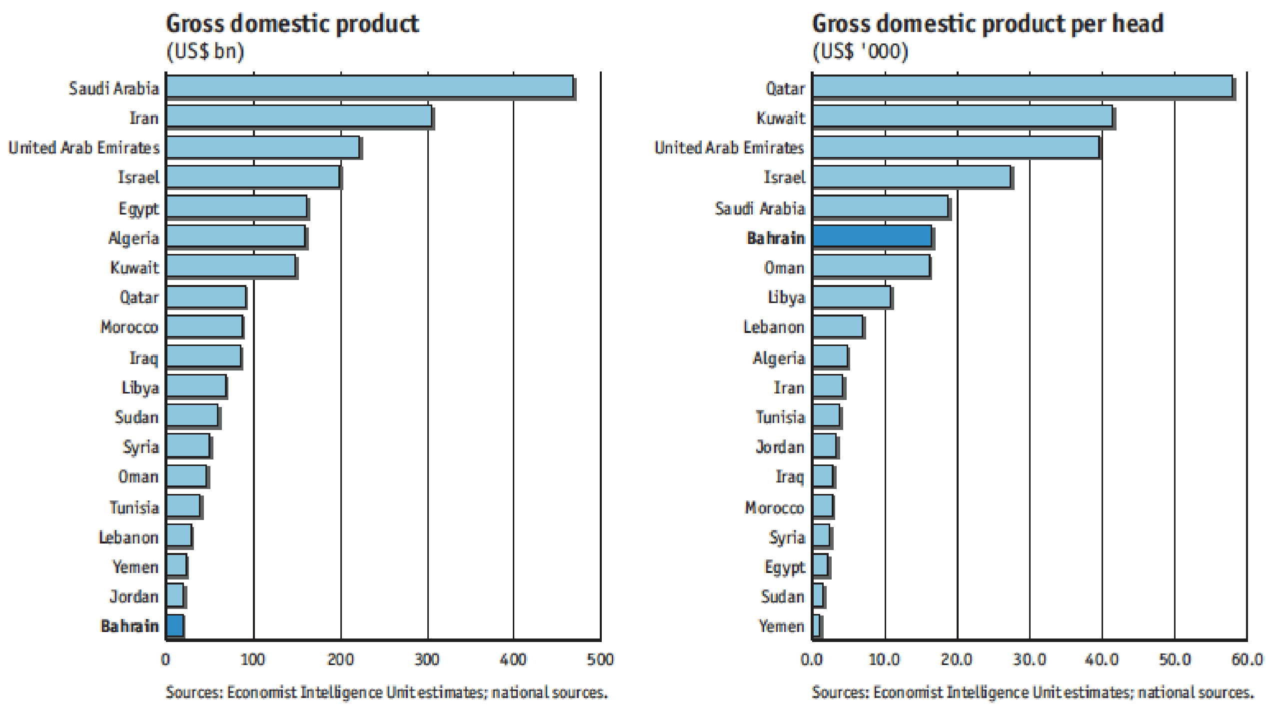
GCC Comparative Economic Indicators, 2007

	Bahrain[a]	Qatar[b]	Kuwait[b]	UAE[b]	Oman[a]	Saudi Arabia[b]
GDP (US$bn)	17.4	71.0	112.1	198.7	37.1	382.0
GDP per head (US$)	16,699	53,122	32,976	37,687[a]	13,561	15,708
GDP per head (US$ at PPP)	23,934	56,147	38,338	27,837[a]	22,556	22,806
Consumer price inflation (av;%)	3.3	13.7	5.5	13.3[a]	5.9[b]	4.1[a]
Current-account balance (US$ bn)	2.9	11.4[a]	47.5	36.4	1.9[b]	86.6
Current-account balance (% of GDP)	16.7	16.0[a]	42.3	18.3	5.2	22.7
Exports of goods fob (US$ bn)	13.8	42.0	63.7	180.9	24.7[b]	226.7
Import of goods fob (US$ bn)	-10.9	-19.6	-20.6	-116.6	-14.3[b]	-82.6
External debt (US$ bn)	8.6	39.9[a]	33.6[a]	66.5[a]	6.0	58.6
Debt-service ratio, paid %	3.7	6.7[a]	3.3[a]	2.6[a]	2.2	2.3

[a] Economist Intelligence Unit estimates. [b] Actual

Source: Economist Intelligence Unit, Country Data

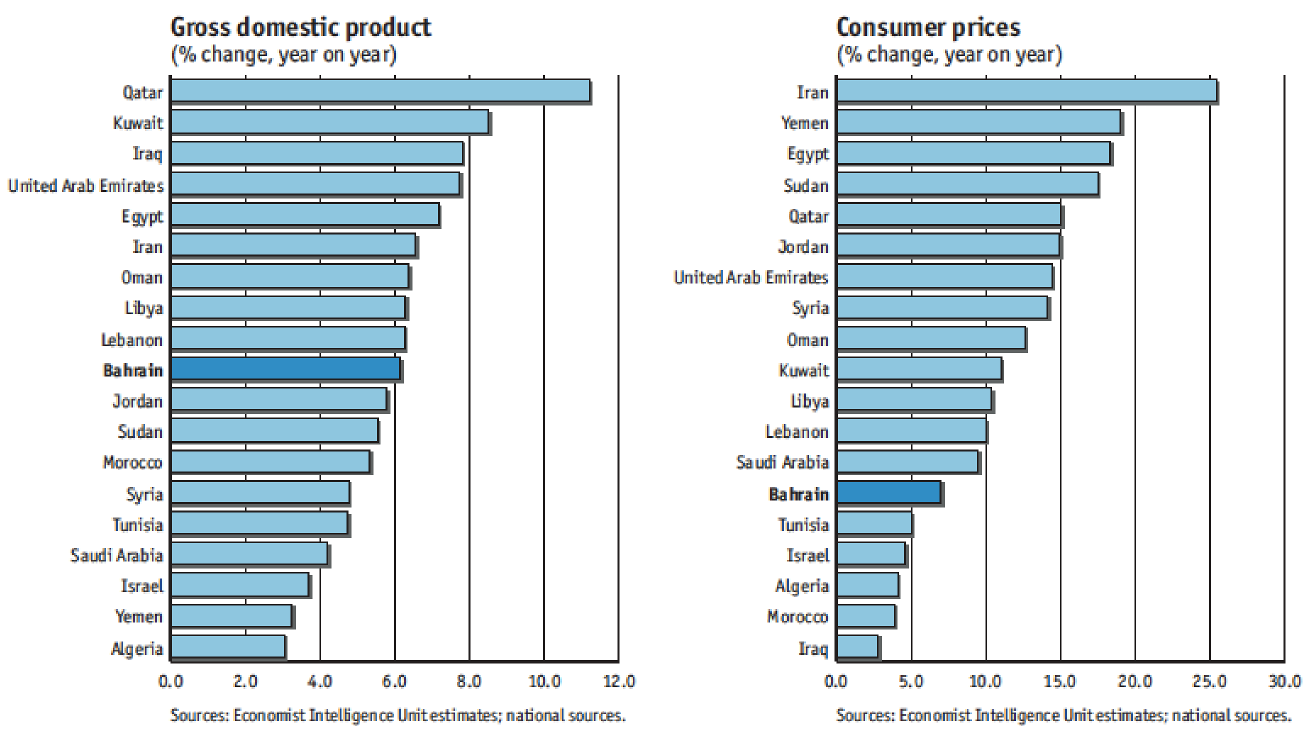
Comparative economic indicators, 2008



Source: EIU Country Report, Bahrain 2009

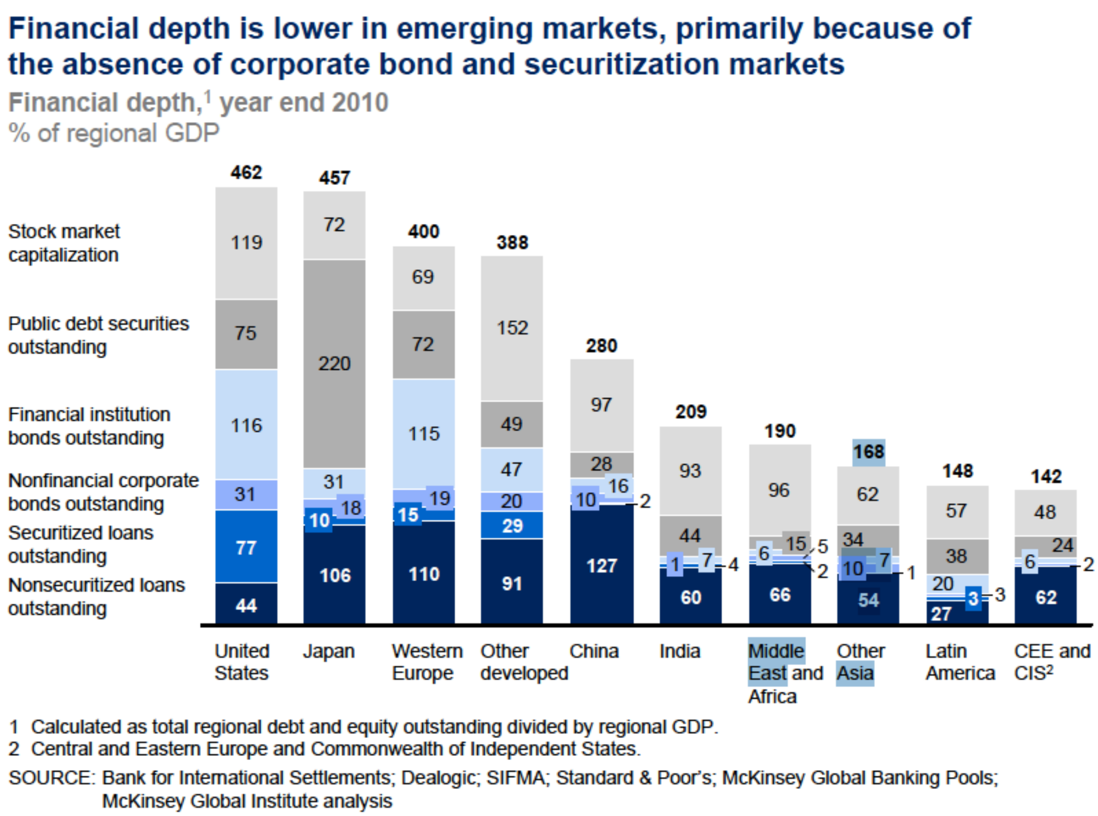
Exhibit 2A (continued)

Comparative Economic Indicators, 2008



Source: EIU Country Report, Bahrain 2009

Exhibit 2B


Financial depth is lower in emerging markets, primarily because of the absence of corporate bond and securitization markets
Financial depth,1 year end 2010
% of regional GDP
Stock market capitalization
Public debt securities outstanding
Financial institution bonds outstanding
Nonfinancial corporate bonds outstanding
Securitized loans outstanding
Nonsecuritized loans outstanding
462
119
75
116
31
77
44
457
72
220
31
18
10
106
400
69
72
115
19
15
110
388
152
49
47
20
29
91
280
97
28
16
10
2
127
209
93
44
1
7
4
60
190
96
15
5
6
2
66
168
62
34
7
10
1
54
148
57
38
20
3
3
27
142
48
24
6
2
62
United States
Japan
Western Europe
Other developed
China
India
Middle East and Africa
Other Asia
Latin America
CEE and CIS2
1 Calculated as total regional debt and equity outstanding divided by regional GDP.
2 Central and Eastern Europe and Commonwealth of Independent States.
SOURCE: Bank for International Settlements; Dealogic; SIFMA; Standard & Poor's; McKinsey Global Banking Pools; McKinsey Global Institute analysis

Source: McKinsey Global Institute, Mapping Capital Markets Update 2011

Exhibit 3A

The Bahrain Economic Development Board and Vision 2030[65]

EDB – A Profile:

The Bahrain Economic Development Board is a public agency with an overall responsibility for formulating and overseeing the economic development strategy of Bahrain, and for creating the right climate to attract direct investments into the Kingdom. The role of the EDB is to provide leadership by uniting all of the Kingdom's Stakeholders through a unified vision, and to develop key strategies for sustainable growth. The EDB also acts as a facilitator, helping all of Bahrain's stakeholders to understand and adopt the changes necessary for progress. In addition, the EDB provides sound project management to ensure that all agreed reform initiatives are implemented in an effective and timely manner. The EDB is also responsible for attracting inward investment into Bahrain, and is focusing on six target economic sectors in which the Kingdom offers significant strengths. These are financial services, downstream industries, tourism, business services, logistics and health, education and training.

Economic Vision 2030 Defined

"We aspire to shift from an economy built on oil wealth to a productive, globally competitive economy, shaped by the government and driven by a pioneering private sector – an economy that raises a broad middle class of Bahrainis who enjoy good living standards through increased productivity and high-wage jobs. Our society and government will embrace the principles of sustainability, competitiveness and fairness to ensure that every Bahraini has the means to live a secure and fulfilling life and reach their full potential".

Realizing the Vision

With the ultimate aim of ensuring that every Bahraini household has at least twice as much disposable income as it currently has, in real terms, by 2030, the Economic Vision 2030's objective is to shift Bahrain's economy from being oil-driven to a becoming a global, competitive economy driven by the private sector across a variety of sectors and industries.

The EDB is responsible for developing and implementing, in coordination with Government ministries and other Government institutions, including Mumtalakat, the strategies and initiatives that will lead to successful fulfillment of the objectives under Economic Vision 2030.

Economic Vision 2030 sets out the aspirations for Bahrain's economy, government and society in accordance with three interrelated guiding principles of **sustainability, competitiveness and fairness**. Mumtalakat's role in helping Bahrain fulfill its objectives as defined by Economic Vision 2030 is integrated across each of these three principles.

Sustainability

A considerable share of Bahrain's growth over the last two decades has been driven by the public sector. The objective under Economic Vision 2030 is for the private sector to be able to drive economic growth in Bahrain independently. Supporting this objective, the Government has placed its strategic and other non-oil and gas related assets into Mumtalakat with the expectation that these key commercial enterprises will be managed in a manner that will expand Bahrain's non-oil and gas related wealth and increasingly contribute to private sector growth in Bahrain. Mumtalakat will fulfil this objective by fostering value creation in strategic assets; selectively monetizing and privatizing publicly held stakes, and prudently using resources to diversify sources of revenues and invest for the future.

Competitiveness

The objective under Economic Vision 2030 is for Bahrain to attain a high level of competitiveness in the global economy, which supports an increased focus on productivity and drives economic growth, profitability and wages. Mumtalakat serves as the Government's key vehicle through which Bahrain's strategic non-oil and gas assets are managed to perform on a globally competitive basis, while adhering to commercially viable and sustainable operating principles. This approach helps to attract and retain talented and motivated professionals who can lead and position Bahraini companies to best in class performance while supporting the development of a highly skilled local workforce.

Fairness

Economic Vision 2030 commits Bahrain to ensuring that free and fair competition prevails and both public and private sectors are transparent in their activities and transactions. One of the primary objectives that led to the creation of Mumtalakat was the goal to bring strong corporate governance to Government-owned companies. Mumtalakat has adopted for itself, and its portfolio companies, the Bahrain Corporate Governance Code. Mumtalakat is focused on continued education and strengthening of skills of the executives and board members of Mumtalakat as well as its portfolio companies. Mumtalakat seeks to foster a corporate culture characterized by strong accountability and ownership of responsibilities and performance.

Exhibit 3B
A List of EDB's Key Achievements[66]

2002 • Establishment of the Economic Development Board EDB under the chairmanship of HRH Prince Salman bin Hamad Al Khalifa, the Crown Prince • Liberalization of the Telecom Market and the establishment of the Telecommunications Regulatory Authority • Bahrain Monetary Agency (now the Central Bank of Bahrain) became single, unified regulator for financial sector **2003**	**2005** • Decree issued entrusting EDB with the mandate of strategic economic planning • Industrial Policy for the Kingdom of Bahrain completed • Launch of Bahrain's Economic Reform Program • Started the first privatized Independent Power Producer (IPP) in Bahrain with the establishment of AlEzzel Power Station **2006** • Establishment of Bahrain Mumtalakat Holding Company

- The Establishment of Bahrain Tender Board

2004

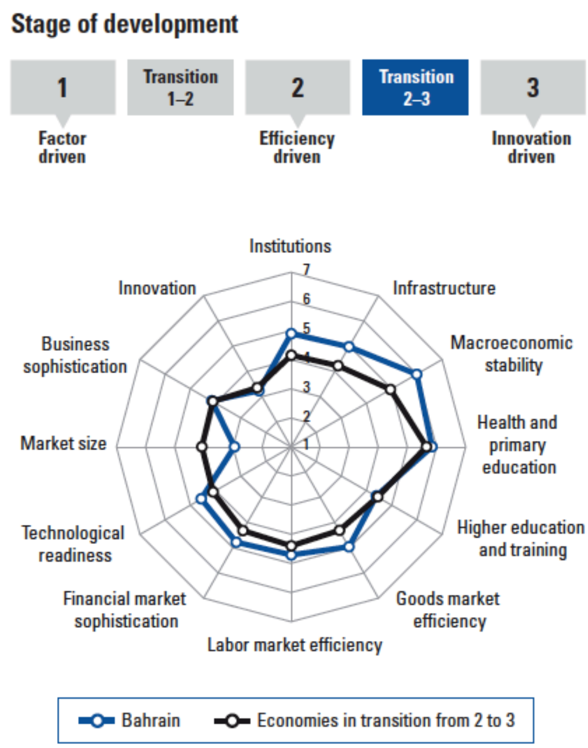
- Free Trade Agreement signed with the USA
- Organizing and hosting the first Formula 1 Grand Prix in the Middle East
- Launch of Labor Market Reform
- Establishment of Labour Market Regulatory Authority (LMRA) and Tamkeen
- National Education Reform initiative created and board established
- Launch of the first annual Spring of Culture
- Bahrain Development Bank increases its capital to BD 50million to offer more services and loans to SMEs
- Development of Land Master Plan
- Key reforms implemented to simplify the process of starting a business

Exhibit 4

The World Economic Forum – Bahrain's Global Competitiveness Index Rankings 2009[67]

Global Competitiveness Index

	Rank (out of 133)	Score (1–7)
GCI 2009–2010	**38**	**4.5**
GCI 2008–2009 (out of 134)	37	4.6
GCI 2007–2008 (out of 131)	43	4.4
Basic requirements	**22**	**5.4**
1st pillar: Institutions	30	4.9
2nd pillar: Infrastructure	27	5.0
3rd pillar: Macroeconomic stability	5	6.0
4th pillar: Health and primary education	37	5.8
Efficiency enhancers	**44**	**4.4**
5th pillar: Higher education and training	48	4.4
6th pillar: Goods market efficiency	22	5.0
7th pillar: Labor market efficiency	35	4.7
8th pillar: Financial market sophistication	30	4.8
9th pillar: Technological readiness	35	4.6
10th pillar: Market size	97	2.9
Innovation and sophistication factors	**60**	**3.7**
11th pillar: Business sophistication	61	4.2
12th pillar: Innovation	60	3.2



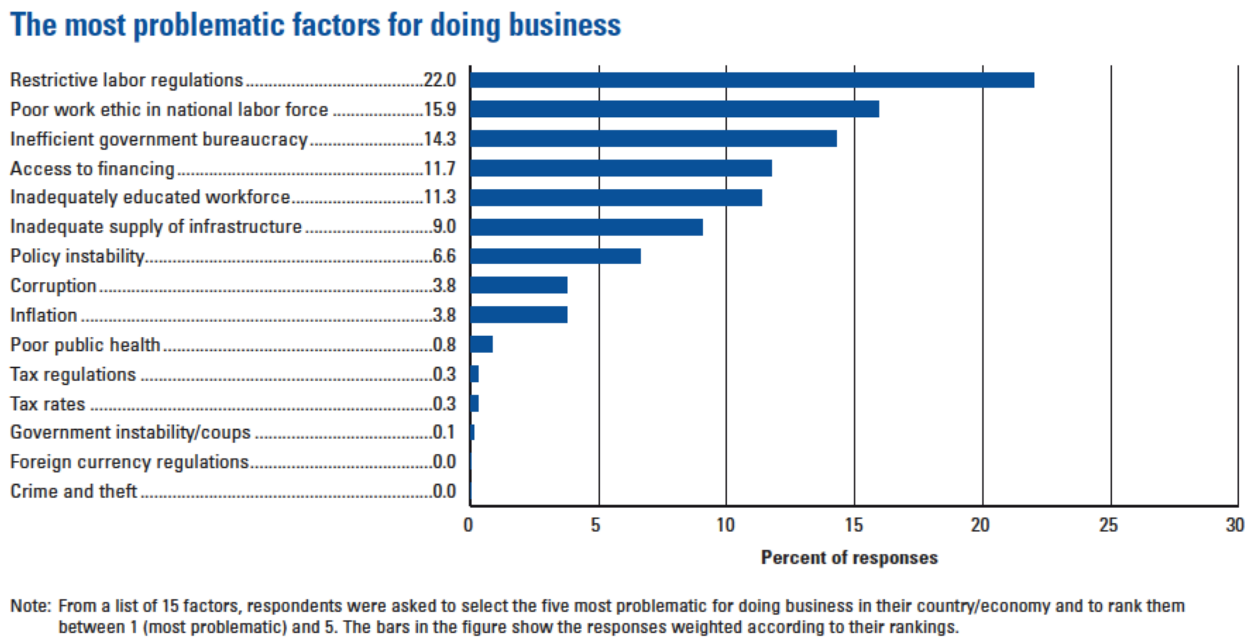


Exhibit 5A

Mumtalakat – Governance Model[68]

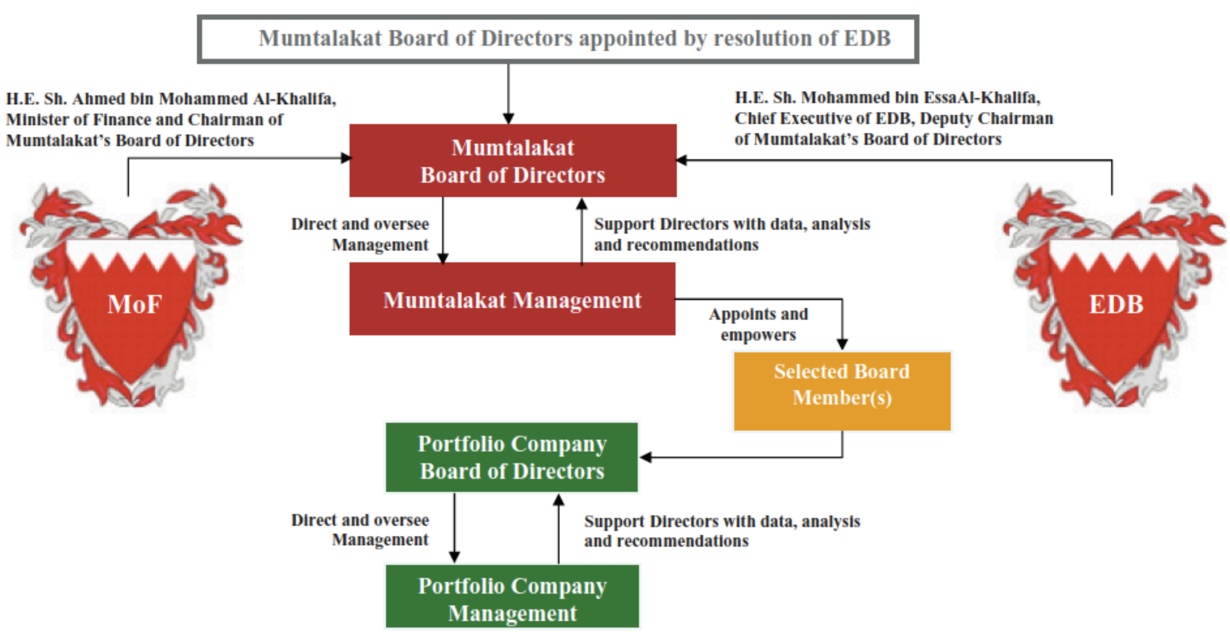


Exhibit 5B

Mumtalakat – Principal Associates at 31 December 2009[69]

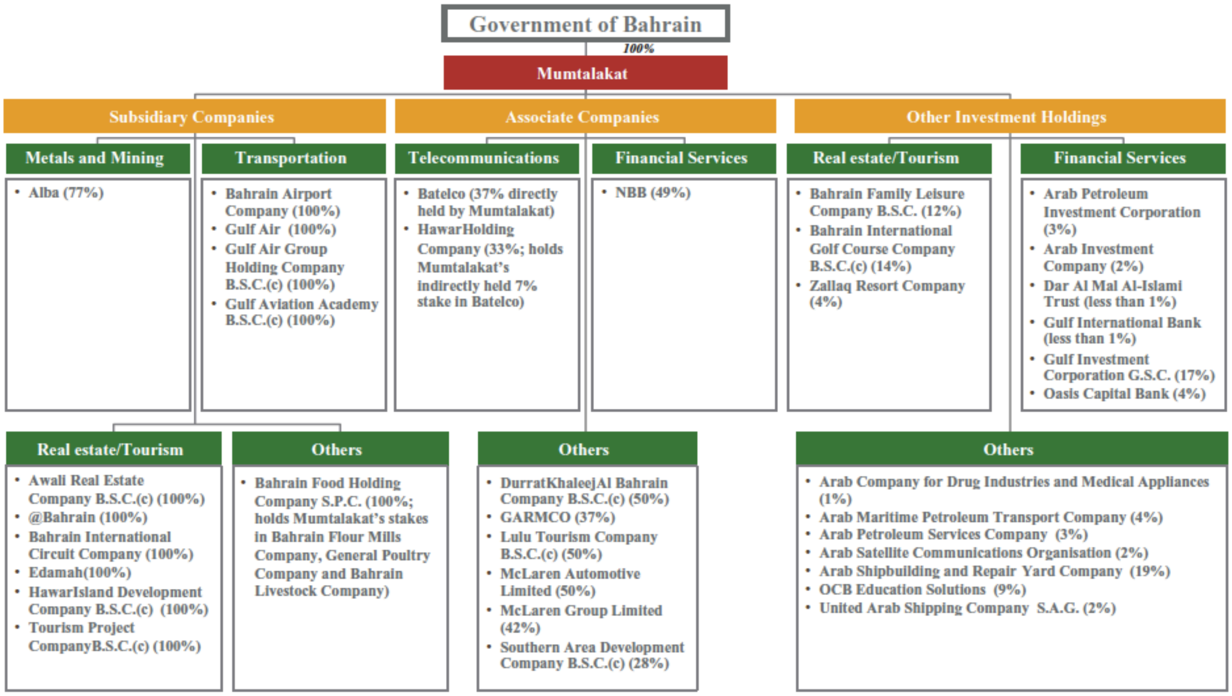
	Country of Incorporation	Ownership %
Bahrain Telecommunications Company B.S.C	Kingdom of Bahrain	36.67%
Durrat Al Khaleej Al Bahrain B.S.C. (c)	Kingdom of Bahrain	50%
Gulf Aluminum Rolling Mill Company B.S.C. (c)	Kingdom of Bahrain	37%
Hawar Holding Company[xvi]	Cayman Islands	33.33%
Lulu Tourism Company B.S.C. (c)	Kingdom of Bahrain	50%
McLaren Group Limited	United Kingdom	42%
McLaren Automotive Limited	United Kingdom	50%
National Bank of Bahrain B.S.C	Kingdom of Bahrain	49%

Source: Mumtalakat Debt Prospectus

Exhibit 5C

Mumtalakat – Portfolio Holding Structure[70]

[xvi] *As per Ernst & Young, the auditors, this associate owns 20% of the issued share capital of Bahrain Telecommunications Company B.S.C. The 20% shares of Bahrain Telecommunications Company B.S.C. owned by the associate is pledged to financial institutions as security for loans obtained by the associate for the purpose of financing the acquisition of the said shares.*



Source: Mumtalakat Debt Prospectus

Exhibit 6 Bahrain Mumtalakat Holding Company BSC Consolidated Income Statements FY 2007 - FY 2009 (in US$ millions)

	Fiscal Year ended December 31,		
	2009	**2008**	**2007**
Revenues	2752.8	3842.0	4681.8
- Cost of Revenue	2620.9	3043.6	3001.5
Gross Profit	131.9	798.4	1680.3
- Selling, General & Admin Expense	658.9	696.5	402.5
Operating Income	-444.3	272.9	1339.1
- Interest Expense	102.6	113.0	216.0
- Foreign Exchange Losses (Gains)	-		
- Net Non-Operating Losses (Gains)	-60.9	343.9	470.7
Pretax Income	-		
- Income Tax Expense	-		
Income Before XO Items	-486.1	-184.0	652.4
- Extraordinary Loss Net of Tax	0.0	-	0.0
- Minority Interests	-44.3	174.3	88.3
Net Income	**-441.8**	**-358.3**	**564.0**
Net Inc Avail to Common Shareholders	-441.8	-358.3	564.0
Abnormal Loss	0.3	837.4	296.1
Tax Effect on Abnormal Items	-		
Normalized Income	**-441.5**	**479.1**	**860.2**
EBITDA	-121.1	592.9	1723.9

Source: Bloomberg

Exhibit 6
(Continued) Bahrain Mumtalakat Holding Company BSC Consolidated Balance Sheets FY 2007 - FY 2009 (in US$ millions)

	Fiscal Year ended December 31,		
	2009	**2008**	**2007**
Assets			
+ Cash & Near Cash Items	312.1	425.0	318.3
+ Short-Term Investments	6.3	7.0	9.7
+ Accounts & Notes Receivable	-		
+ Inventories	459.2	631.0	413.7
+ Other Current Assets	483.4	606.4	802.7
Total Current Assets	1261.0	1669.4	1544.3
+ Long-Term Investments	2742.2	2601.8	3524.1
+ Gross Fixed Assets	-		
- Accumulated Depreciation	-		
+ Net Fixed Assets	3655.4	3696.8	3684.5
+ Other Long-Term Assets	5236.2	4985.6	5313.9
Total Long-Term Assets	11633.8	11284.2	12522.5
Total Assets	**12894.7**	**12953.6**	**14066.8**
Liabilities & Shareholders' Equity			
+ Accounts Payable	-		
+ Short-Term Borrowings	3044.3	2532.1	2382.4
+ Other Short-Term Liabilities	1601.2	1555.2	2001.2
Total Current Liabilities	4645.5	4087.3	4383.5
+ Long-Term Borrowings	557.6	1261.7	1552.0
+ Other Long-Term Liabilities	35.9	36.9	35.5
Total Long-Term Liabilities	593.4	1298.6	1587.5
Total Liabilities	5238.9	5385.9	5971.1
+ Total Preferred Equity	0.0	0.0	0.0
+ Minority Interest	400.3	409.1	288.2
+ Share Capital & APIC	4895.7	4896.2	4908.6
+ Retained Earnings & Other Equity	2359.8	2262.3	2899.0
Total Shareholders' Equity	7655.8	7567.6	8095.8
Total Liabilities & Equity	**12894.7**	**12953.6**	**14066.8**

Source: Bloomberg

Exhibit 6
(Continued) Bahrain Mumtalakat Holding Company BSC Consolidated Statement of Cash Flows FY 2007 - FY 2009 (in US$ millions)

	Fiscal Year ended December 31,		
	2009	**2008**	**2007**
+ Net Income	-441.8	-358.3	564.0
+ Depreciation & Amortization	323.2	320.0	384.9
+ Other Non-Cash Adjustments	79.3	165.5	-40.5
+ Changes in Non-Cash Capital	220.8	86.7	143.3
Cash From Operating Activities	181.5	214.0	1051.7
+ Disposal of Fixed Assets	263.2	4.0	23.1
+ Capital Expenditures	-468.4	-318.8	-144.4
+ Increase in Investments	-194.0	-34.4	-587.5
+ Decrease in Investments	10.2	3.2	1.2
+ Other Investing Activities	-29.6	356.5	24.6
Cash From Investing Activities	-418.6	10.4	-682.9
+ Dividends Paid	-		
+ Change in Short-Term Borrowings	-		
+ Increase in Long-Term Borrowings	588.9	1063.6	911.8
+ Decrease in Long-term Borrowings	-502.7	-887.4	-1138.0
+ Increase in Capital Stocks	34.6	-	53.8
+ Decrease in Capital Stocks	-		
+ Other Financing Activities	-300.4	-205.8	-294.1
Cash from Financing Activities	-179.7	-29.6	-466.6
Net Changes in Cash	**-416.7**	**194.7**	**-97.8**

Source: Bloomberg

Source: Bloomberg

Exhibit 6
(Continued) Bahrain Mumtalakat Holding Company BSC Key Reference Items FY 2007 - FY 2009 (in US$ millions)

	Fiscal Year ended December 31,		
	2009	**2008**	**2007**
Reference Items			
Pension Obligations	35.9	36.9	35.5
Capital Leases - Short Term	-		
Capital Leases - Long Term	557.6	1261.7	1552.0
Capital Leases - Total	557.6	1261.7	1552.0
Total Debt to Total Assets	27.9	29.3	28.0
Net Debt	3283.5	3361.8	3606.4
Net Debt to Equity	42.9	44.4	44.5
Tangible Common Equity Ratio	47.8	46.7	47.1

Exhibit 6A

Dividends from Associate Companies (in US$ m)	2009	2008	2007
Alba	50	-	270.7
Batelco	70.2	51.6	56.1
NBB	30.3	33.8	28.2

Source: Mumtalakat Debt Prospectus

Exhibit 7 Aluminum Bahrain BSC Consolidated Income Statements FY 2007 - FY 2009 (in US$ millions)

	Fiscal Year ended December 31,		
	2009	**2008**	**2007**
Revenues	1545.3	2402.0	1665.9
- Cost of Revenue	1427.5	1699.4	1477.0
Gross Profit	117.8	702.5	188.9
- Selling, General & Admin Expense	114.3	115.1	49.5
Operating Income	3.6	587.5	139.5
- Interest Expense	62.0	69.4	110.1
- Foreign Exchange Losses (Gains)	-3.6	12.7	1.5
- Net Non-Operating Losses (Gains)	164.4	-273.7	199.0
Pretax Income	-219.3	779.0	-171.1
- Income Tax Expense			
Income Before XO Items	-219.3	779.0	-171.1
Net Income	**-219.3**	**779.0**	**-171.1**
Net Inc Avail to Common Shareholders	-219.3	779.0	-171.1
Abnormal Loss	194.1	-261.1	207.7
Tax Effect on Abnormal Items			
Normalized Income	**-25.2**	**517.9**	**36.6**
EBITDA	201.1	780.6	323.9

Source: Bloomberg

Exhibit 7 (Continued) **Aluminum Bahrain BSC Consolidated Balance Sheets FY 2007 - FY 2009 (in US$ millions)**

	Fiscal Year ended December 31,		
	2009	2008	2007
Assets			
+ Cash & Near Cash Items	123.0	123.2	92.8
+ Short-Term Investments			
+ Accounts & Notes Receivable	237.9	315.1	8.7
+ Inventories	445.9	602.2	335.4
+ Other Current Assets	61.3	30.3	13.7
Total Current Assets	868.1	1070.9	450.7
+ Long-Term Investments	54.7	63.8	-
+ Gross Fixed Assets	4849.6	4817.4	4773.0
- Accumulated Depreciation	2082.9	1926.5	1770.4
+ Net Fixed Assets	2766.7	2890.9	3002.7
+ Other Long-Term Assets	-	-	2.0
Total Long-Term Assets	2821.4	2954.7	3004.6
Total Assets	**3689.5**	**4025.6**	**3455.3**
Liabilities & Shareholders' Equity			
+ Accounts Payable	144.7	240.6	134.8
+ Short-Term Borrowings	449.6	447.6	455.5
+ Other Short-Term Liabilities	230.4	380.5	201.3
Total Current Liabilities	824.6	1068.8	791.7
+ Long-Term Borrowings	785.0	981.9	1212.3
+ Other Long-Term Liabilities	346.0	223.0	475.7
Total Long-Term Liabilities	1130.9	1204.9	1688.0
Total Liabilities	1955.6	2273.6	2479.7
+ Total Preferred Equity	0.0	0.0	0.0
+ Minority Interest	-	-	-
+ Share Capital & APIC	376.7	376.7	377.7
+ Retained Earnings & Other Equity	1357.3	1375.3	598.0
Total Shareholders' Equity	1734.0	1752.0	975.6
Total Liabilities & Equity	**3689.5**	**4025.6**	**3455.3**

Source: Bloomberg

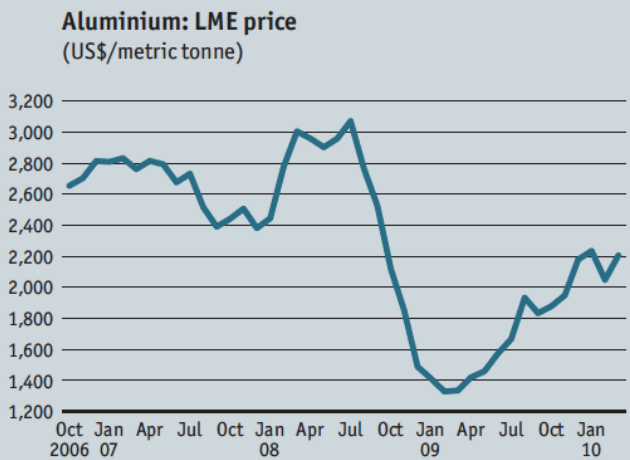
Exhibit 7 (Continued) **Aluminum Bahrain BSC Consolidated Statement of Cash Flows FY 2007 - FY 2009 (in US$ millions)**

	Fiscal Year ended December 31,		
	2009	2008	2007
+ Net Income	-219.3	779.0	-171.1
+ Depreciation & Amortization	197.6	193.2	184.4
+ Other Non-Cash Adjustments	239.4	-235.7	319.9
+ Changes in Non-Cash Capital	178.8	24.1	86.9
Cash From Operating Activities	396.4	760.6	420.1
+ Disposal of Fixed Assets	0.4	2.2	11.5
+ Capital Expenditures	-93.8	-102.8	-70.3
+ Increase in Investments	-	-	-
+ Decrease in Investments	-	-	-
+ Other Investing Activities	3.0	7.0	2.8
Cash From Investing Activities	-90.3	-93.6	-56.0
+ Dividends Paid	-	-	-
+ Change in Short-Term Borrowings	-7.9	11.1	0.0
+ Increase in Long-Term Borrowings	-	490.0	640.6
+ Decrease in Long-term Borrowings	-186.8	-755.6	-842.8
+ Increase in Capital Stocks	-	-	-
+ Decrease in Capital Stocks	0.0	0.0	0.0
+ Other Financing Activities	-111.6	-317.8	-146.6
Cash from Financing Activities	-306.4	-572.2	-348.8
Net Changes in Cash	**-0.3**	**94.7**	**15.3**

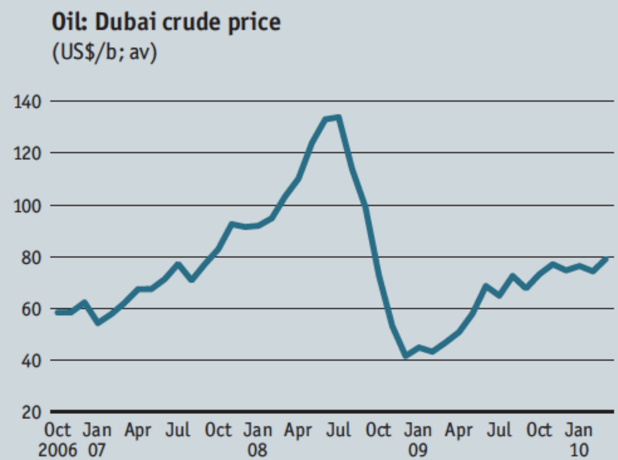
Source: Bloomberg

Exhibit 7A

Aluminum and Oil Global Prices



Source: Economist Intelligence Unit.



Source: Economist Intelligence Unit.

Source: EIU Country Report, Bahrain, June 2010

Exhibit 7B

GCC Smelter Capacity 2009 – 2013, ‘000 tons

GCC Smelters	Country	Production Since	Capacity 2009	Production 2009	Capacity 2013
Aluminum Bahrain (Alba)	Bahrain	1971	870	846	870
Sohar Aluminum	Oman	2008	360	351	367
Qatalum (Qatar Petroleum & Hydro)	Qatar	2009	9	-	597
Emirates Aluminum Company (EMAL)	UAE (Abu Dhabi)	2009	10	1	780
Dubai Aluminum Company (Dubal)	UAE (Dubai)	1979	975	952	1026

Source: CRU Strategies Report, Alba Documents 2010

Exhibit 7C

Comparison of Business Costs by Component in 2009 (nominal US$/ ton)

	Alba	World Average
Alumina	522	534

Carbon[xvii]	188	169
Labor	139	139
Power	256	505
Other Site Costs	223	227
Site Cost	**1,328**	**1,573**
Net Realization Costs	(59)	(121)
Business Costs	**1,268**	**1,453**

Source: CRU Strategies Report, Alba Documents 2010

xvii *Alba's smelter has lower alumina costs to the world average, but carbon products are higher. Alumina and carbon products are key raw materials for producing aluminum.*

Exhibit 8 Bahrain Telecommunications Company BSC Consolidated Income Statements FY 2007 - FY 2009 (in US$ millions)

	Fiscal Year ended December 31,		
	2009	**2008**	**2007**
Revenues	920.3	846.7	777.8
- Operating Expenses	631.2	584.6	528.3
Operating Income	289.1	262.1	249.5
- Interest Expense	3.7	16.0	17.1
- Foreign Exchange Losses (Gains)			
- Net Non-Operating Losses (Gains)	-11.0	-46.1	-47.1
Pretax Income	296.4	292.2	279.6
- Income Tax Expense	7.8	5.9	3.3
Income Before XO Items	288.7	286.3	276.3
- Minority Interests	10.0	9.8	6.9
Net Income	**278.6**	**276.5**	**269.4**
EBITDA	398.8	379.6	350.1

Source: Bloomberg

Exhibit 8 (Continued) **Bahrain Telecommunications Company BSC Consolidated Balance Sheet FY 2007 - FY 2009 (in US$ millions)**

	Fiscal Year ended December 31,		
	2009	2008	2007
Assets			
+ Cash & Near Cash Items	202.7	407.3	568.2
+ Short-Term Investments	13.6	7.1	12.0
+ Accounts & Notes Receivable	100.9	98.0	92.8
+ Inventories	6.7	8.3	11.9
+ Other Current Assets	53.2	87.9	51.8
Total Current Assets	377.0	608.5	736.8
+ Long-Term Investments	78.5	85.9	59.2
+ Gross Fixed Assets	-	1465.9	1386.9
- Accumulated Depreciation	-	905.1	816.1
+ Net Fixed Assets	520.0	560.8	570.8
+ Other Long-Term Assets	809.9	641.1	586.7
Total Long-Term Assets	1408.4	1287.8	1216.7
Total Assets	**1785.4**	**1896.2**	**1953.5**
Liabilities & Shareholders' Equity			
+ Accounts Payable	74.3	102.2	63.8
+ Short-Term Borrowings	97.0	198.3	205.9
+ Other Short-Term Liabilities	251.0	233.3	228.6
Total Current Liabilities	422.2	533.9	498.3
+ Long-Term Borrowings	0.0	102.6	302.4
+ Other Long-Term Liabilities	26.1	31.7	44.2
Total Long-Term Liabilities	26.1	134.3	346.7
Total Liabilities	448.3	668.2	845.0
+ Total Preferred Equity	0.0	0.0	0.0
+ Minority Interest	28.5	28.2	27.3
+ Share Capital & APIC	382.0	382.0	319.1
+ Retained Earnings & Other Equity	926.6	817.8	762.0
Total Shareholders' Equity	1337.0	1228.0	1108.5
Total Liabilities & Equity	**1785.4**	**1896.2**	**1953.5**

Source: Bloomberg

Exhibit 8 (Continued) **Bahrain Telecommunications Company BSC Consolidated Statement of Cash Flows FY 2007 - FY 2009 (in US$ millions)**

	Fiscal Year ended December 31,		
	2009	**2008**	**2007**
+ Net Income	278.6	276.5	269.4
+ Depreciation & Amortization	109.7	117.5	100.5
+ Other Non-Cash Adjustments	42.0	-6.5	24.5
Cash From Operating Activities	430.3	387.5	394.4
+ Disposal of Fixed Assets	-	19.9	0.0
+ Capital Expenditures	-91.5	-121.8	-113.5
+ Increase in Investments	-176.3	-97.6	-160.7
+ Decrease in Investments	18.3	10.8	7.0
+ Other Investing Activities	32.8	21.4	19.9
Cash From Investing Activities	-216.7	-167.3	-247.3
+ Dividends Paid	-198.8	-148.6	-155.7
+ Change in Short-Term Borrowings	0.0	-	-9.8
+ Increase in Long-Term Borrowings	0.0	-	489.5
+ Decrease in Long-term Borrowings	-204.0	-205.0	0.0
+ Increase in Capital Stocks	0.0	-	0.0
+ Decrease in Capital Stocks	0.0	-	0.0
+ Other Financing Activities	-15.4	-26.2	-25.6
Cash from Financing Activities	-418.2	-379.8	298.5
Net Changes in Cash	**-204.6**	**-159.5**	**445.6**

Source: Bloomberg

Exhibit 9 National Bank of Bahrain Consolidated Income Statements FY 2007 - FY 2009 (in US$ millions)

	Fiscal Year ended December 31,		
	2009	**2008**	**2007**
Interest Income	176.1	224.5	263.9
- Interest Expense	45.7	102.0	151.8
Net Interest Income	130.4	122.5	112.2
Other Income	61.9	44.2	60.8
Operating Income	192.2	166.7	173.0
- Staff Expenses	50.5	47.5	46.9
- Other Expenses	18.1	16.4	15.5
Net Income Before Provisions	**123.7**	**102.8**	**110.5**
- Impairment Provisions for Loans and Advances	9.3	-3.5	0.0
- Impairment Provisions for Investments	0.5	13.9	0.0
Net Income	**113.9**	**92.4**	**110.5**

Source: NBB Annual Reports

Exhibit 9
(Continued) National Bank of Bahrain Consolidated Balance Sheets FY 2007 - FY 2009 (in US$ millions)

	Fiscal Year ended December 31,		
	2009	**2008**	**2007**
Assets			
+ Cash Balances at Central Banks	216.0	219.1	142.4
+ Treasury Bills	332.3	44.1	44.9
+ Placement with Banks and other Financial Institutions	654.5	1091.7	1330.2
+ Trading Securities	4.4	1.0	0.0
+ Loans and Advances	3062.3	2914.1	2515.9
+ Investment Securities	1284.9	1061.6	925.4
+ Accrued Interest Receivable and Other Assets	33.2	33.3	59.0
+ Property and Equipment	44.8	44.8	45.4
Total Assets	**5632.3**	**5409.8**	**5063.1**
Liabilities & Shareholders' Equity			
+ Due to Banks and Other Financial Institutions	691.0	675.4	804.7
+ Borrowings under Repurchase Agreements	334.0	84.6	48.2
+ Customers' Deposits	3937.2	4040.6	3510.5
+ Accrued Interest Payable and Other Liabilities	28.2	31.1	36.7
Total Liabilities	4990.4	4831.7	4399.5
+ Share Capital	206.8	206.8	172.3
+ Statutory Reserve	103.4	103.4	86.2
+General Reserve	86.2	86.2	86.2
+ Reserves and Retained Earnings	245.6	181.8	318.9
Total Equity	641.9	578.2	663.5
Total Liabilities & Equity	**5632.3**	**5409.8**	**5063.1**

Source: NBB Annual Reports

Exhibit 9 (Continued) National Bank of Bahrain Consolidated Statement of Cash Flows FY 2007 - FY 2009 (in US$ millions)

	Fiscal Year ended December 31,		
	2009	2008	2007
+ Net Income	113.9	92.4	110.3
+ Depreciation & Amortization	5.5	4.8	4.1
+ Impairment Provisions for Loans and Advances	9.3	-3.5	0.0
+ Impairment Provisions for Investments	0.5	13.9	0.0
Adjusted Net Income	129.1	107.6	114.4
+ Balances with Central Banks (mandatory cash reserves)	22.9	-64.6	0.0
+ Treasury Bills	-8.4	-15.5	96.2
+ Placement with Banks and other Fis	-102.8	383.4	-67.2
+ Trading Securities	-3.4	-1.0	0.0
+Loans and Advances	-157.5	-394.8	-429.9
+ Investments at Fair Value Through Profit or Loss	48.4	25.3	-7.7
+ Available for sale securities	-257.7	-280.5	135.8
+Accrued interest receivable and other Assets	1.4	25.7	-4.4
+ Due to Banks and other Fis	15.6	-128.7	310.6
+ Borrowings under Repurchase Agreements	249.4	36.4	-60.5
+ Customers' Deposits	-103.4	530.1	319.6
+ Accrued Interest Payable and Other Liabilities	-2.9	-5.6	-25.5
Net Cash From Operating Activities	-169.3	217.8	381.7
+ Purchase of Property and Equipment, Net	-5.5	-4.5	-4.0
Net Cash Used in Investing Activities	-5.5	-4.5	-4.0
+ Dividends Paid	-62.1	-68.9	-57.3
+ Directors' Remuneration	-0.9	-0.9	0.8
+ Donations and Charities paid out	-3.8	-2.8	-1.7
Net Cash Used for Financing Activities	-66.8	-72.7	-60.0
Net Changes in Cash	**-241.5**	**140.6**	**317.7**
Cash and Cash Equivalents at 1 January	1098.2	957.4	742.8
Cash and Cash Equivalents at 31 December	856.8	1098.2	957.4

Source: NBB Annual Reports

Exhibit 9A

NBB Credit Ratings

Rating Agency	Effective Date	Rating
Fitch Long Term Issuer Default Rating	11/27/2001	BBB
	01/20/2003	A-
	11/15/2006	A-

	08/24/2007	A

Source: Bloomberg

Exhibit 10A
Mumtalakat Bond Issue Information

Issuer Name:	Bahrain Mumtalakat Holding Company
Type of Debt Instrument:	Eurobonds
Type of Bonds:	Coupon Bonds
Par, minimum denomination:	US$ 100,000
Par, Integral Multiple:	US$ 1,000
Amount:	US$ 750,000,000
End of Placement:	23 June 2010
Coupon:	5%
Coupon Frequency:	2 times per year
Settlement Date:	30 June 2010
Maturity Date:	30 June 2015
Issue Price:	99.077%
Rating on Issue Date: (S&P/ Fitch)	A/A
Spread over mid-swaps (bps):	300
Issue Managers:	Deutsche Bank, HSBC, JP Morgan, and Standard Chartered
Listing:	London Stock Exchange Berlin Stock Exchange
Geography Breakdown:	Middle East - 37%, Europe - 36%, Asia - 20%, US offshore - 7%
Type of Investors:	Fund managers - 44%, Banks - 22%, Retail - 20%, Insurance/Pension Funds - 5%, Central Banks - 9%
Investment Banks:	Bookrunners:

Source: Financial C Bonds Information http://www.cbonds.info/em/eng/emissions/emission.phtml/params/id/12830

Deutsche Bank, HSBC, JP Morgan, and Standard Chartered

Exhibit 10B
Mumtalakat Bond Ratings

Rating Agency	Effective Date	Rating
S&P Long Term Foreign Issuer Credit	06/01/2010	A
Fitch Long Term Foreign Issuer Default	06/01/2010	A
Fitch Senior Unsecured Debt	06/01/2010	A

Source: Bloomberg

Exhibit 10C

Salient Features and Key Covenants of the Debt Agreement[71]

Structural Subordination

The notes are structurally subordinated to the claims of Mumtalakat's portfolio companies. Mumtalakat's subsidiary companies rely significantly on third party borrowings to finance their operations. As of 31 December 2009, approximately 55% of the Group's consolidated borrowings of US$ 3,052 million were third party borrowings by its subsidiaries. In the event of bankruptcy or insolvency of any of its subsidiaries, the secured and unsecured claims of such entity will take precedence with respect to the assets of such entity over the claims of Mumtalakat or Mumtalakat's creditors. Accordingly, if Mumtalakat were to become insolvent at any time, the claims of note-holders against Mumtalakat will be structurally subordinated to the claims of all such creditors of Mumtalakat's subsidiary companies[xviii].

Negative Pledge

The term of the Notes contains a negative pledge provision i.e., for as long as any note remains outstanding, the Issuer will not, subject to certain exceptions, create any Security Interest upon any of its present or future assets or revenues to secure any Relevant Indebtedness[xix] or Relevant Sukuk Obligation[xx], unless the Issuer ensures that all amounts payable under the Notes are secured by such Security Interest equally and rateably, i.e., rank pari passu, with the Relevant Indebtedness or the Relevant Sukuk Obligation

Restrictions on Asset Sales

[xviii] *"In a corporate family comprised of a parent holding company and one or more operating subsidiaries, creditors of a subsidiary effectively rank ahead of creditors of the parent, in that the former have a prior claim on (i.e., stand closer to) the assets and cash flows of the subsidiary. Structural subordination is counterintuitive in that the parent sits at the very top of the corporate organization chart, yet its creditors stand behind subsidiary creditors. For a detailed discussion on structural subordination in bankruptcies and restructurings, refer to "Creating Value through Corporate Restructuring – Case Studies in Bankruptcies, Buyouts, and Breakups by Stuart C. Gilson"*

[xix] *Relevant indebtedness pertains to any present or future indebtedness (whether being principal, premium, interest or other amounts) for or in respect of any notes, bonds, debentures or other securities (but excluding, for the avoidance of doubt, any indebtedness under any bilateral, "club deal" or syndicated credit facility, commercial bank or similar indebtedness, capital lease obligations, repurchase agreements (repo) with respect to any financial asset or any other indebtedness not in the form of notes, bonds, debentures or other securities) which for the time being are, or are intended to be, or are capable of being quoted, listed or ordinarily dealt in or traded on any stock exchange, over-the-counter or other securities market and (ii) any guarantee or indemnity of any such indebtedness;*

[xx] *An Islamic Bond*

For as long as the Notes remain outstanding, the Issuer will not enter into an Asset Sale unless the consideration received by the issuer is at least equal to the Fair Market Value of the ownership interest held by the issuer in the assets sold or disposed thereof. All such asset sales are subject to a stringent Corporate Governance oversight.

Optional Redemption by Note-holders

The terms of the Notes contain a provision for optional redemption by the Note-holders upon the occurrence of a Change of Control or a Specified Put Event. A Specified Put Event occurs when a Material Event (defined below) occurs relating to: (a) the disposal by the Issuer of its interest in a Material Subsidiary (whose assets and/ or revenues exceed the consolidated assets/ revenues of the Issuer) or a Material Associate[xxi] to a Person who is not a member of the Group, (b) a payment default by a Material Subsidiary or Material Associate under its outstanding indebtedness that amounts to at least US$ 30,000,000, or (c) the bankruptcy or insolvency (or similar events) of a Material Subsidiary or Material Associate, as a result, in whole or in part, of which a rating agency withdraws the rating assigned to the Notes or downgrades such rating to one below an Investment Grade Rating[xxii] during a specified period.

Material Event

A Material Event means the occurrence of any of the following events:

a) Any sale, transfer or other disposition, in whole or in part, by the Issuer of its interest in any Material Subsidiary or Material Associate to any Person who is not a member of the Group; or

b) Any Material Subsidiary or Material Associate fails to make any payment in respect of any of its Indebtedness or Sukuk Obligation on the due date for payment or within any originally applicable grace periods, as the case may be; or

c) If any Material Subsidiary or Material Associate ceases to carry on the whole or a substantial part of its business

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[xxi] *Any Associate of the Issuer whose contribution to the Issuer's investment in associates exceeds 10% of the consolidated total assets of the Issuer, the Issuer's total "investment in associates" being the corresponding line item contained in the Issuer's consolidated statement of financial position; or whose contribution to the Issuer's share of profit of associates exceeds 10% of the Issuer's share of profit of associates, the Issuer's total "share of profit of associates" being the corresponding line item contained in the Issuer's consolidated statement of income.*

[xxii] *Investment Grade Rating means a rating of at least investment grade (being, in the case of Fitch Ratings Ltd. and Standard & Poor's Ratings Services a division of The McGraw-Hill Companies Inc., a rating of at least BBB- and, in the case of Moody's Investors Service, Inc., a rating of at least Baa3 or, in each case, the equivalent for the time being) from a Rating Agency.*

or any Material Subsidiary or Material Associate admits in writing its inability to pay generally its debts as they fall due or is adjudicated or found bankrupt or insolvent by a competent court and such decree or order shall not have been discharged or stayed within 60 days; or

d) If any order is made by any competent court for relief in respect of such Material Subsidiary or Material Associate in an involuntary case or proceeding under any applicable bankruptcy, insolvency, liquidation, composition or reorganisation law or for the winding up, liquidation or dissolution of any Material Subsidiary or Material Associate and in each case such court order shall not have been discharged or stayed within 60 days; or

(f) If any event occurs which, under the laws of the Kingdom of Bahrain or any other jurisdiction in which the Issuer has operations has an analogous effect to any of the events referred to in paragraphs (c), (d) or (e);

Appendix A

The Temasek Story

The Singaporean Government originally became involved in business enterprise in order to eliminate widespread unemployment, which was nudging upwards of 13.5%[72] in 1959. The raison d'être of the Economic Development Board (EDB), created in 1961, was to support job creation by attracting investment, and to diversify the economy away from its dependence on its biggest and only customer, the British military, which had begun winding down its troop presence on the island.

In the late '60s and early '70s[73], the EDB opened foreign offices in Hong Kong, New York, and San Francisco to take advantage of the global trade and investing boom by persuading multinational companies to set up shop in Singapore.

Having inherited through independence a clutch of entities such as shipyards, a bank, an iron and steel mill, a hotel etc., that were originally set up by the British to support their military presence, the Government set out to play the role of "state entrepreneur" and made investments in related companies and infrastructure to help build the domestic economy - a role its nascent private sector was unable to undertake[74].

A key concern of Singaporean policy makers was that these state owned enterprises (SOEs) might become inefficient and act as a drag on national development than provide the expected impetus which inspired the government to assume the role of state entrepreneur in the first place. That SOEs might receive privileged treatment from the Government has always been a matter of concern to private enterprise[75]. Determined to allay any such concerns that multinational entities EDB was trying to covet may have, and to "separate the regulatory and policy making function of the Government from its role as a shareholder in commercial entities,"[xxiii] the Government created Temasek Holdings Pte. Ltd on 25 June 1974[76] to which it transferred all the shares and investments it owned in various SOEs and GLCs, a total of 35 in all, valued at S$ 354 million[77].

In line with the key philosophy that guided the Singaporean Government, "that the companies they owned or had substantial shares in were subject to market discipline,"[78] Temasek Holdings, and its portfolio companies, operated and grew on commercial principles and received no special protections, subsidies or any other form of favoritism from the Government.

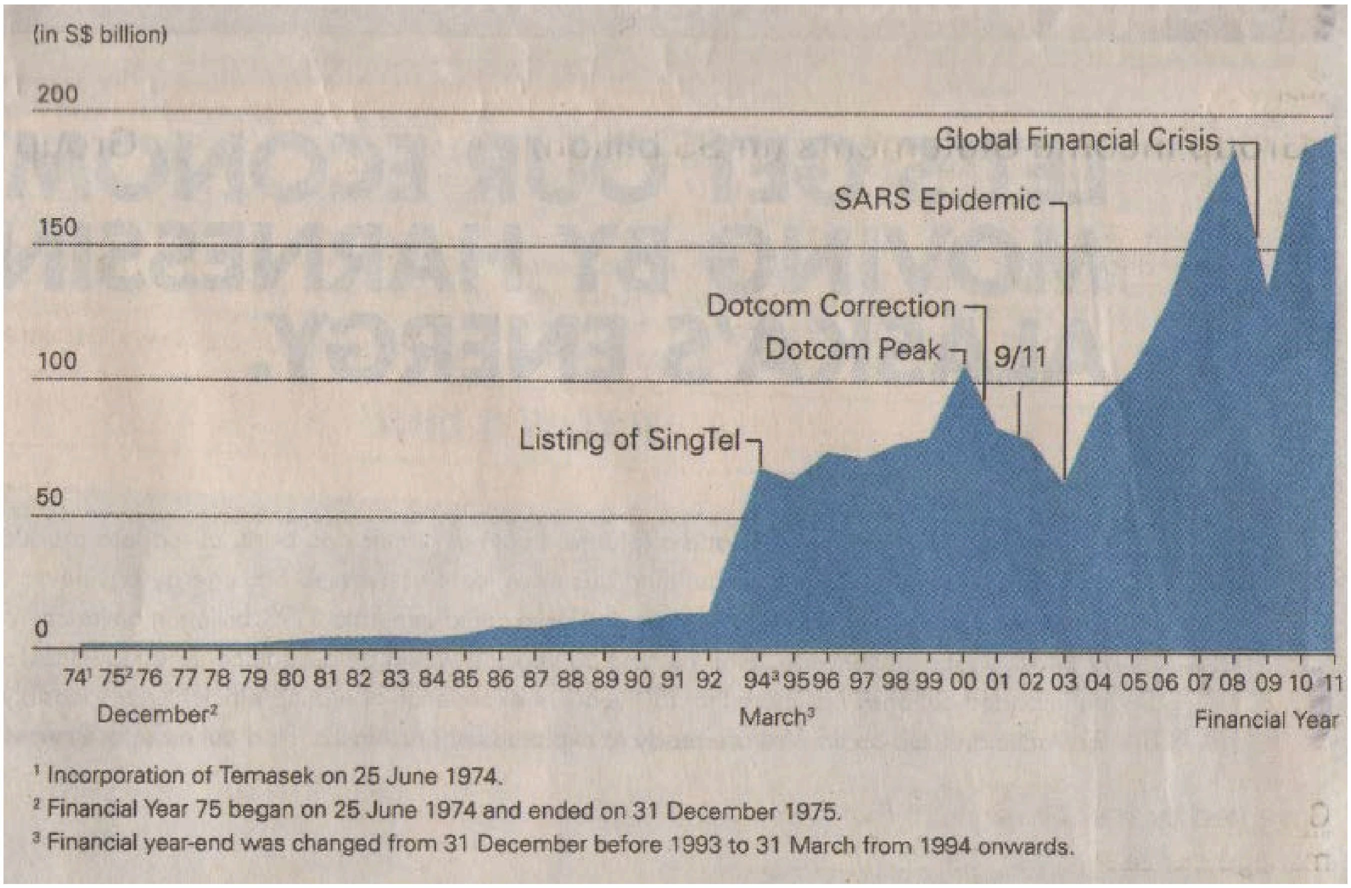
In less than four decades of its existence, Temasek transformed itself from a holding company of Singaporean SOEs and GLCs into an investment house and an active investor in enterprises across the globe with an estimated portfolio value of S$ 193 billion[xxiv] as of 31st March 2011[79]. Today, Temasek Linked Companies such as Singapore Airlines, Singtel, and Port Singapore Authority are household names the world over.

[xxiii] *Temasek Director, US House of Representatives, 5th March 2008.*

[xxiv] As of 31st March 2010, 1 S$ = US$ 0.7147

Appendix A (continued)

The Temasek Story



Source: The Wall Street Journal, 11 July 2011

Appendix B

Determining The Cost of Capital for Bahraini Firms

This section has been excerpted and adapted from a determination issued by the Telecommunications Regulatory Authority (TRA) in Bahrain in November 2005 on Batelco's cost of capital. The methodology is, however, relevant and applicable to all publicly traded firms in Bahrain.

While the method employed to derive the cost of capital is based on the WACC, there are some country specific modifications made by the TRA to the equation that are worth noting:

$$WACC = g \times rd + (1-g) \times re$$

Where:

r_d is the cost of debt

r_e is the cost of equity

g is the proportion of finance that is accounted for by debt, i.e., g equals (net debt/[net debt + equity]).

Determining the Cost of Debt

The cost of debt r_d is expressed as the sum of three parts:

$$r_d = \textit{risk-free rate} + \textit{country risk premium} + \textit{company debt premium}$$

Where:

- The risk-free rate is calculated based on the yields on developed country government bonds;
- The country risk premium is the additional return, over the risk-free rate, demanded by debt investors for investing in the particular country; and

- The company debt premium is the additional premium (on top of the country risk premium) required to invest in the company.

The Risk-free Rate

The risk free rate is estimated from the yield on government debt from a developed economy with well-established liquid capital markets. Bahrain has chosen to peg its risk free rate to a weighted average of US and UK treasury yields. (Please refer to the attached yield curve schematic for the yields on 10 year US treasuries.)

The Country Risk Premium

The country risk premium or the default spread can be determined by examining the credit rating of the country. Bahrain, as of June 2010 enjoys a long-term rating of 'Aa3' by Moody's and 'A' by S&P. Please refer to the default spread curve in the attached schematic for an estimate of the country risk premium as on the date of issue of the Mumtalakat notes.

The Company Debt Premium

Here again, the individual credit ratings[xxv] of the firms form the basis for the approximation for company debt premium.

Gearing

Depicted as g in the equation above, gearing indicates the relative share of debt in the financing of the firm. I.e., gearing = debt/(debt + equity). The consensus amongst businesses and the regulators in Bahrain is that since there are no corporate taxes in Bahrain, the WACC would not be affected significantly by the level of gearing.

[xxv] *Batelco received its first credit rating by S&P in 2011, and was rated a 'BBB-' for the long-term. Moody's rated NBB an A3 for the long term on its foreign deposits*

Determining the Cost of Equity

$$r_e = \textit{risk-free rate} + \beta_{\textit{firm adjusted}} * \textit{equity risk premium}$$

The equity risk premium for Bahraini firms is estimated[xxvi] as follows:

$$\textit{Equity Risk Premium}_{\textit{Bahrain}} = \textit{US Equity Risk Premium}*(\boldsymbol{\sigma\ Bahrain\ Bourse / \sigma\ US\ S\&P\ index})$$

where σ measures the volatility of the returns[xxvii]. The Table below provides the 360-day price volatility for S&P 500 and the Bahrain Bourse, and the US Equity Risk Premium 2005 – 2009.

Year	S&P 360 Day Price Volatility	Bahrain Bourse 360 Day Price Volatility	US Equity Risk Premium[80]
2005	10.59	11.28	3.0%
2006	10.15	10.95	2.5%
2007	14.24	8.71	3.2%
2008	36.68	12.71	3.6%
2009	39.67	13.85	3.9%

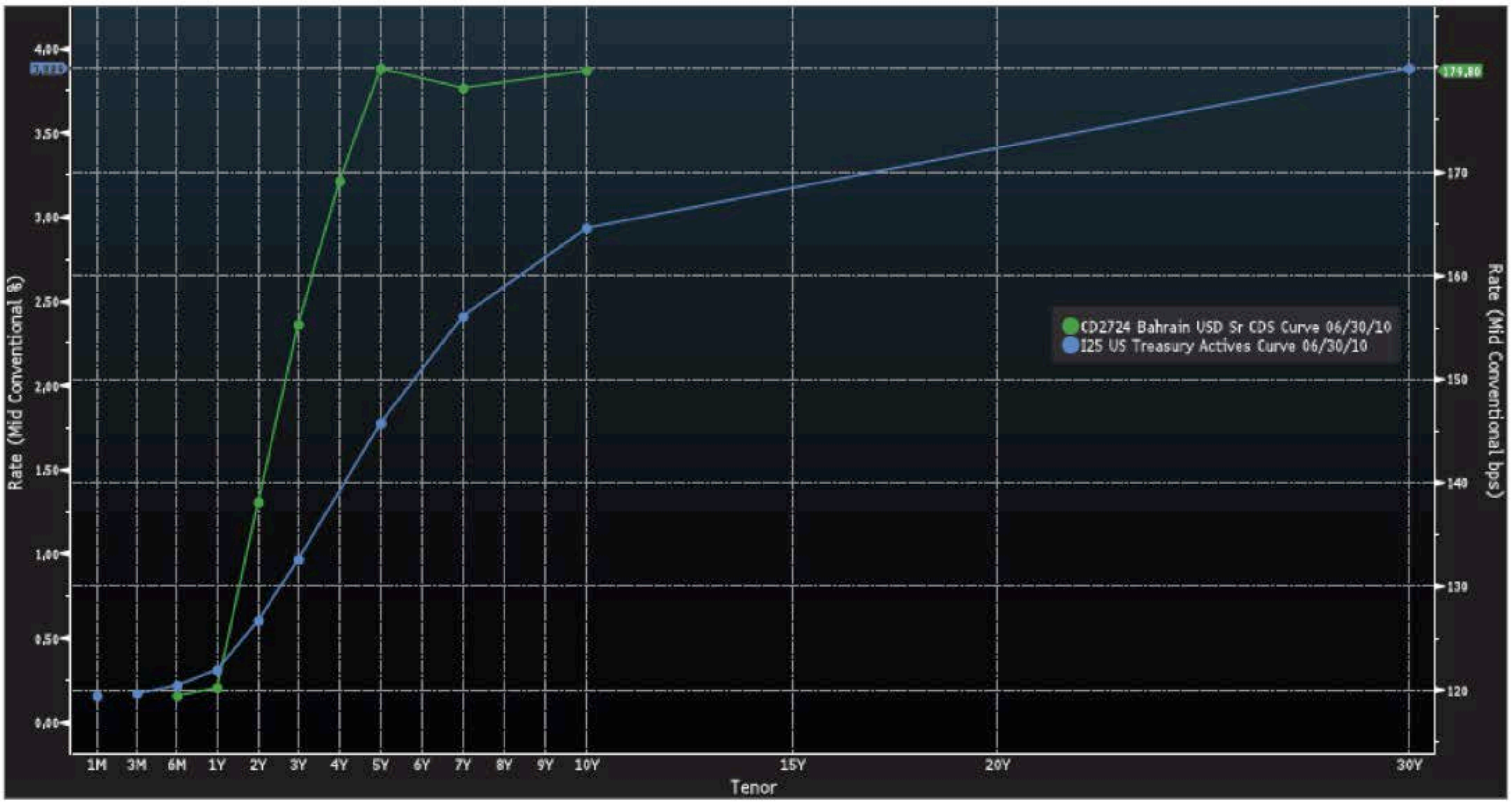
Source: Bloomberg

[xxvi] *The TRA assumptions do not detail the calculations for estimating equity risk premium. This section is reproduced from Prof. Laurent Jacque's presentation on cross border valuation: The Renault Mahindra JV © L.Jacque 2007.*

[xxvii] A *proxy for this is the 360-day price volatility, which according to Bloomberg is "a measure of the risk of price moves for a security calculated from the standard deviation of day to day logarithmic historical price changes. The 360-day price volatility equals the annualized standard deviation of the relative price changes for the 360 most recent trading days closing price, expressed as a percentage."*

Appendix B

Bloomberg



(Continued)

Source: Bloomberg

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[1] (HBS Case Stdy - Aluminium Bahrain (Alba): The Pot Line 5 Expansion Project 2005)

[2] (Economist Intelligence Unit 2009)

[3] ibid

[4] Adapted and excerpted from (HBS Case Stdy - Aluminium Bahrain (Alba): The Pot Line 5 Expansion Project 2005) and (Economist Intelligence Unit 2010)

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[7] (Prospectus - RNS London Stock Exchange 2010)

[8] (Economist Intelligence Unit 2009)

[9] (Prospectus - RNS London Stock Exchange 2010)

[10] (Country Profile Qatar 2009)

[11] (Country Profiles UAE 2008)

[12] (Economist Intelligence Unit 2009)

[13] ibid

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[15] (Economist Intelligence Unit 2009)

[16] (Economist Intelligence Unit 2009)

[17] (Bureau of Near Eastern Affairs, US Department of State 2012)

[18] ibid

[19] (Economist Intelligence Unit 2009)

[20] (Bureau of Near Eastern Affairs, US Department of State 2012)

[21] (Global Investment House 2007)

[22] (Bureau of Near Eastern Affairs, US Department of State 2012)

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[38] ibid

[39] This section adapted and excerpted from pages 6 and 50 of (Prospectus - RNS London Stock Exchange 2010)

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[45] Adapted and excerpted from pages 1 and 7 of (SICO Research Bahrain 2010)

[46] Adapted and excerpted from (Prospectus - RNS London Stock Exchange 2010)

[47] Case writer estimates

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[49] ibid

[50] (Telecommunications Regulatory Authority , Bahrain 2010)

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[53] ibid

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[57] (Economist Intelligence Unit 2009)

[58] (Reuters 2009)

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[60] Excerpted from page 60 of (Bahrain Mumtalakat Holding Company B.S.C.(c) 2010)

[61] Adapted an excerpted from page 61 of (Bahrain Mumtalakat Holding Company B.S.C.(c) 2010)

[62] Adapted and excerpted from (Bahrain Mumtalakat Holding Company B.S.C.(c) 2010)

[63] ibid

[64] (The Wall Street Journal 2010)

[65] This section adapted and excerpted from the following sources: (Bahrain EDB 2009), (Prospectus - RNS London Stock Exchange 2010), and (Economic Vision 2030 2008)

[66] (Bahrain EDB n.d.)

[67] (The World Economic Forum 2009)

[68] (Prospectus - RNS London Stock Exchange 2010)

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[70] ibid

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