

BAHRAIN

London Media 2014 Series

REGIONAL FINANCIAL CENTRE



INTRODUCTION

Although the smallest market in the GCC, the Kingdom of Bahrain is the most open economy in the Gulf, offering investors a favourable tax climate, sound regulatory environment and a highly educated, bilingual workforce. A long-established strategic regional naval base for the US, and soon to be home to Britain's first permanent military base in the Middle East, Bahrain's strategic location, at the heart of the Arabian Gulf, provides excellent connectivity to the region's \$1.4 trillion economy.

While oil remains the mainstay of the economy, Bahrain has long been a pioneer of economic diversification successfully developing non-oil sectors such as regional tourism, logistics, manufacturing and professional services. As the Middle East's undisputed financial centre, the Kingdom is also home to over 400 licenced financial institutions attracted by its established reputation of sound financial regulation and commitment to both maintaining and raising standards of corporate governance and transparency.

One of the smaller and younger sovereign wealth funds in the region, Bahrain's Mumtalakat has played a key role in

developing the country's economy. The implementation of strategic initiatives in 2012 and improved performance of its two main companies, Alba and Gulf Air, saw annual net profits of the state's investment arm more than double last year, ending five years of losses. The fund remains committed to creating value within its portfolio companies and increasing its contribution to the national economy.

Private sector development is being encouraged and supported through semi-governmental organisation, Tamkeen's enterprise and human capital development programs, while the success of the eGovernment Authority initiatives have resulted in a world class ICT infrastructure and valuable eGovernment services benefitting foreign investors and local businesses alike.

Despite ongoing internal political tensions, investor confidence remains high. FDI increased 11% year-on-year in 2013, to \$989 million, according to data from the United Nations Conference on Trade and Development (UNCTAD) and the Kingdom was ranked first in the Middle East and North Africa region and 13th worldwide by the Heritage Foundation and Wall Street Journal 2014 Index of Economic Freedom. ■

The Bahrain economy is growing; investors are coming here because we provide the right investment environment. If you want access to the trillion dollar GCC market, Bahrain is the place to be.



*Mahmood Al Kooheji
CEO, Mumtalakat*

We are now a \$1.3 or \$1.4 trillion economy within the six GCC countries and this is forecast to double within ten years. There are countless opportunities in the Gulf and Bahrain is the ideal platform from which to access these markets.



*Shaikh Mohammed
bin Essa Al Khalifa
Chairman, Tamkeen*

The tax free environment, global accessibility, lower cost office space and industrial land, together with supportive visa policies, an educated and skilled work force, and high standard of living have made Bahrain an international business destination of choice.



*Ahmed Ebrahim
Al Moataz
CEO, Bahrain
Financial Harbour*

For financial institutions like GIB, Bahrain's solid legal backdrop is a key reason to be headquartered here. In an era of evolving global regulation, CBB's measured approach to implementation is highly valued.



*Dr Yahya Alyahya
CEO,
Gulf International
Bank*

MAHMOOD AL-KOOHEJI, MUMTALAKAT

Mahmood Al-Kooheji is CEO of Mumtalakat, Bahrain's sovereign wealth fund established in 2006 to help diversify the economy away from hydrocarbons. It holds stakes in over 35 companies, representing a portfolio value of approximately BD 2.7 billion (US\$7.2 billion)* and spanning a variety of sectors, including aluminium production, financial services, telecommunications, real estate, tourism, transportation, and food production.

*as of 30 Dec 2013



What role does Mumtalakat play in the Bahraini economy?

As the investment arm of the Kingdom of Bahrain, we play a fundamental role in the economy. Mumtalakat was created to grow the wealth of Bahrain by pursuing value-enhancing opportunities, improving transparency and helping achieve operational excellence for its state-owned non-oil and gas assets. We are present in almost every sector of the economy through our stakes in over 35 commercial enterprises, including National Bank of Bahrain, Bahrain Telecommunications Co (Batelco), Gulf Air and Aluminium Bahrain (Alba), one of the world's largest aluminium smelters which is listed on the London Stock Exchange. We are tasked with ensuring growth and sustainable investment within our portfolio companies which employ over 11,000 people, the majority of whom are Bahrainis.

What is Mumtalakat's investment strategy?

In the near-to medium-term, we are confident the local markets will continue to offer great opportunities and growth potential to enhance our portfolio through investment and expansion but we are also open to commercially viable international opportunities as demonstrated by our 50% ownership in McLaren UK. We are a medium to long term investor, we take an equity shareholding and work closely with the boards and management of our portfolio companies to lend support and be the catalyst of change.

Which sectors of the Bahraini economy offer the best investment opportunities?

Tourism and hospitality continue to be promising. We receive a lot of visitors from Saudi Arabia and elsewhere as Bahrain is an open economy and society. The financial and industrial sectors also offer plenty of opportunities; they both require a skilled workforce which is readily available in Bahrain. If you set up a company or a bank in Bahrain, you don't need to look elsewhere for your manpower and skilled workforce. That's why in companies like Alba, which is a sophisticated industry, 90% of employees are Bahraini. Gulf Air has a similar percentage. Bahrain has flexible labour laws, there are no Bahrainisation quotas imposed on investors, no restriction of movement of people. I don't think there is anywhere around us who can offer what we offer.

Are there opportunities for international firms to partner with Mumtalakat?

The message I want to give is if you are thinking of investing in Bahrain, we should be your partner of choice. We will provide you with all the necessary local support. We would be open to co-investing with you by putting our equity share and opening the doors both in Bahrain and across the GCC. One of Bahrain's biggest appeals is its excellent access to one of the GCC's biggest markets, Saudi Arabia, with whom we have very good relations.

What importance does Mumtalakat place on transparency and corporate governance?

It is in our DNA. Listing Alba on the London Stock Exchange is something we are particularly proud of. It demonstrated our commitment to operating with the financial discipline and rigour of the private financial sector and adhering to the highest international standards of corporate governance. The process was extremely valuable and we are bringing that international best practice discipline to our companies. Our efforts have been recognised globally, with Mumtalakat achieving a rating of 9 out of 10 on the SWFI transparency index for the past three years. One of my core beliefs is that transparency and corporate governance are essential to any initiative we undertake and we will not deviate from that.

What message would you send to investors?

Look at the numbers. Let the results of the companies be the judge. Last year more than 40 new companies registered to start business in Bahrain. Mumtalakat had its AA investment grade rating in Malaysia reaffirmed. Within our portfolio companies, Alba for example, has shown record production and record sales, the Bahrain economy is growing, investors are coming here because we provide the right investment environment. Companies in Bahrain are achieving their results and expanding further, if you want access to the trillion dollar GCC market, Bahrain is the place to be. ■

FINANCE



It is still hard to compete with Bahrain which has over fifty years' experience in the banking sector. The regulatory framework is established and our experience is far ahead of the region.

*Dr Adnan Ahmed Yousef
MD Albaraka Group*



Bahrain Bourse, through its new rules, offers direct market access, giving external brokers the ability to trade on our platform directly. We are the first to offer direct market access in the Middle East.

*Shaikh Khalifa Bin Ebrahim
CEO Bahrain Bourse*



The Kingdom's banking sector remains very resilient and requirements to enhance liquidity and reserves under Basel III will further bolster it.

*HE Rasheed Mohammed Al Maraj
Governor, Central Bank of Bahrain*

One great triumph deserves another

Global Finance magazine awards GIB Capital 'Best Investment Bank in Bahrain and the Middle East' for 2014

Thank you to our esteemed customers, clients, partners, shareholders and associates.

Your support made it possible.



GULF INTERNATIONAL BANK

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GULF INTERNATIONAL BANK (UK) Ltd

Gulf International Bank B.S.C is licensed by the Central Bank of Bahrain as a conventional wholesale bank.



BAHRAIN FINANCIAL HARBOUR

The Bahrain Financial Harbour (BFH), a spectacular US\$ 3 billion waterfront development in the heart of Manama, is the preferred business address for regional and global financial institutions and multinational corporations.

Known as the Canary Wharf of the Middle East, the landmark financial city and self-contained community is being developed and maintained by the Bahrain Financial Harbour Holding Company, B.S.C (c) (BFHHCO) a Bahraini Shareholding Company and one of the largest real estate master developers in the Kingdom.

"The project is the first of its kind in the region and has elevated the Kingdom's status as an international financial centre both in the Middle East and globally," says BFH CEO Ahmed Ebrahim Al Moataz. "It spans over 380,000 square meters of prime seafront real estate, providing organisations with a purpose built high-tech and sophisticated business environment integrated with stylish retail, cultural and leisure offerings."

The development is just a 15 minute drive from Bahrain International Airport and 10 minute drive from the King Fahad causeway which connects Bahrain to Saudi Arabia. It encompasses a harbour mall, high-end residential apartments, retail outlets, and a five star hotel and maritime facilities. Its state-of-the-art infrastructure features one of the largest car parking facilities in the region accommodating up to 4000 vehicles, technologically advanced communication systems, advanced CCTV security

and full capacity power generators to ensure uninterrupted power supplies.

A pioneering model for the future, the iconic project has transformed the Kingdom's emerging skyline with its twin towers standing as the highest commercial towers in Bahrain, offering tenants and guests panoramic views of the sparkling seas of the Arabian Gulf.

The foundation stone for the BFH, which is comprised of ten projects, was laid by His Royal Highness Prince Khalifa bin Salman Al Khalifa, the Prime Minister of the Kingdom of Bahrain in December 2002. Development on the Financial Centre, which includes the Harbour Towers and the Harbour Mall, is complete and has been operational since May 2007. Project development on other parcels of land within the BFH development has been sold to individual and institutional investors and is at various stages of construction. However, several lucrative investment opportunities still remain for international companies for investment and strategic partnerships with Bahrain based individual and institutional investors.

The Financial Centre has attracted a diverse and prestigious mix of tenants since its launch in 2007 including the Bahrain

The project is the first of its kind in the region and has elevated the Kingdom's status as an international financial centre both in the Middle East and globally.

Ahmed E. Al Moataz, BFH CEO



SEVERAL LUCRATIVE INVESTMENT OPPORTUNITIES STILL REMAIN FOR INTERNATIONAL COMPANIES.

Bourse, BNP Paribas, Khaleeji Commercial Bank, Islamic Bank of Asia and Gulf Finance House, as well as reputed, international and regional law firms such as Baker & McKenzie, Norton Rose, Al Tamimi & Co. and various Ministry offices and global conglomerates. As well as providing prime office and commercial space, the BFH team supports its tenants by offering regulatory and legal guidance for the establishment of a business in Bahrain via its strategic local partnerships with internationally renowned law firms.

"Tenants are attracted by Bahrain Financial Harbour's unique fusion of business and leisure, together with the financial city's strategic location in Business Friendly Bahrain," explains Al Moataz. "We have seen an increased demand from regional and international businesses looking to take advantage of the financial city's stunning waterfront location and state-of-the-art facilities."

Bahrain has one of the region's most liberal business environments and was ranked the 13th most open economy worldwide by the Heritage Foundation and Wall Street Journal's 2014 Index of Economic Freedom. It offers zero taxation for private companies, few indirect taxes for private enterprises and individuals, free repatriation of capital and is the only country in the region offering 100% foreign ownership of business assets

and real estate in most sectors. The Kingdom is a natural centre for Middle Eastern trade, offering easy access by road, air and sea to every market in the Middle East with Saudi Arabia, the Gulf's largest economy, less than an hour's drive away, while a short flight will take you to the United Arab Emirates, Oman, Kuwait or Qatar.

"Bahrain is the gateway to a wealth of commercial opportunities in the Middle East," concludes Al Moataz. "The tax free environment, regional and global accessibility, lower cost office space and industrial land, together with supportive visa policies, an educated and skilled work force, and a high standard of living have made Bahrain an international business destination of choice - and the Bahrain Financial Harbour the preferred address." ■



DR YAHYA ALYAHYA, CEO GULF INTERNATIONAL BANK

Q&A

Established in Bahrain in 1975, Gulf International Bank (GIB) is owned by the six GCC governments, with the Public Investment Fund of Saudi Arabia holding a majority stake (97.2%). It has branches in London, New York, Riyadh and Jeddah and representative offices in Beirut and Abu Dhabi, in addition to its main subsidiaries, London-based Gulf International Bank (UK) Limited, and Riyadh-based GIB Capital LLC. In 2009, GIB embarked on a new business strategy entailing its transformation from a wholesale bank into a pan-GCC universal bank, with a business model comprising retail banking, corporate banking, investment banking and asset management. CEO Dr. Yahya Alyahya explains:



Dr Yahya Alyahya

What is the rationale behind GIB's strategy of becoming a pan-GCC universal bank and how is this being achieved?

After a thorough review of its business model, GIB is now in the process of implementing its pan-GCC universal banking strategy, the aim of which is to improve profitability, reduce income volatility, diversify revenue streams and move towards a business model that is more insulated against external shocks. The bank's strategy focuses on serving large and mid-cap corporate customers and targeting niche segments of retail customers. This will be done by leveraging on GIB's wholesale banking expertise to generate fee earning opportunities and addressing retail customer needs using advanced technology and a passion for customer service.

Our wholesale banking business has been focused on leveraging corporate relationships to cross-sell fee based products and services and enhancing relationship profitability. We have extended our industry expertise in core sectors such as power, petrochemicals and contracting to build knowledge centres and industry specific advisory capability. In relation to funding, our focus has been to diversify wholesale sources of funding and to extend the tenor of our liabilities in order to minimise the mismatch between the maturities of longer-term assets and liabilities. This has been achieved through the issuance of term finance through a diversified range of programs including a recent highly successful and competitively priced SAR 2 billion (US\$ 534 million) five year bond issue to investors in Saudi Arabia. We are also currently planning for the implementation of a transaction banking platform that will further reduce our cost of funding and increase fee-based income.

Our new retail banking business has just been introduced to Saudi Arabia and will be subsequently rolled out across the GCC. It is a customer centric e-channel led retail banking proposition that will differentiate GIB as a pan-GCC retail innovator. The retail offering focuses on niche customer segments that will offer customers simple products that are easy to understand.

How can GIB assist foreign investors looking for GCC opportunities or exposure?

GIB has strong relationships with regional governments, quasi-government organisations, financial institutions and corporates and we frequently act as book runners on capital markets issuances as well as advisers and arrangers for syndicated loan financings. Acting in these roles, GIB is one of the leading regional distributors of bond, Sukuk and loan products to regional and international investors and is constantly developing its distribution platform to widen its reach with foreign investors and enhance its distribution capabilities. In addition, many regional borrowers are more actively considering private placements and GIB is able to act as an intermediary in sourcing and connecting borrowers and international investors on such transactions.

GIB's Equity Capital Markets and Corporate Advisory team is also considered a leading player in the region with equity offerings over the last ten years of several billion. The experience of our team and our knowledge of local markets mean we are continually assisting investors and clients looking for opportunities in the region and provide the full spectrum of corporate finance activities.



What importance does GIB place on transparency and corporate governance?

Transparency is one of GIB's core values. It is a key factor in our commitment to our customers and a core element in our financial reporting to our stakeholders. We have been advised by the ratings agencies that our transparency with them contributes positively to our credit ratings.

Since its inception, sound corporate governance has been an integral part of GIB. Over the years, it has continually refined its corporate governance standards in line with best practices and, in February 2013, the Board established a dedicated Corporate Governance Committee. These efforts have formally entrenched a culture of professional corporate governance in the organisation and demonstrate GIB's commitment to financial transparency, fairness, and disclosure of financial information.

Do you believe Bahrain can maintain its position as a leading regional financial centre?

Bahrain's regulatory environment is highly respected with the CBB considered one of the best in the region which is an important advantage in the post-financial crisis era. Despite the difficult consequences of the global crisis, Bahrain's financial sector has continued to operate successfully, while the CBB has maintained a proactive initiative to manage challenges such as encouraging consolidation in the retail banking sector.

Bahrain is also a leading centre for Islamic finance and the local authorities remain committed to continually enhancing the regulatory framework and market practices in this still evolving segment of financial services. For financial institutions like GIB,

Bahrain's solid legal backdrop is a key reason to be headquartered here, particularly as we're in an era of seemingly burdensome global regulation. CBB's measured approach in implementing the, still evolving, regulations is highly valued.

In addition Bahrain also offers a highly-skilled bilingual workforce, low operating costs and excellent connectivity across the region, with particularly strong access to the region's largest economy, Saudi Arabia. All these aspects continue to give Bahrain a regional competitive advantage as an ideal location for financial firms that want to establish a sizeable long-term presence in the GCC.

How would you characterise the current investment climate in the GCC?

The business sentiment in the GCC is currently positive and, barring any major socio-political event, the outlook continues to look positive. Over the last twelve months we have seen several acquisitions and joint ventures with local partners. With the development and further opening up of the capital markets along with the development of industrial infrastructure, we expect the interest of international investors to increase further in the region. This was observed recently by the acquisition by Philips of 51% stake in the largest lighting company in the region (with GIB acting as the financial advisor).

The key message that we would like to pass to the international investment community is that the development of the capital markets has enhanced corporate governance (both listed and unlisted) along with the quality of financial reporting and disclosures. ■

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SHAIKH MOHAMMED BIN ESSA AL KHALIFA, TAMKEEN

Shaikh Mohammed Bin Essa Al Khalifa is Chairman of Tamkeen, an institution established in 2006 as part of Bahrain's national reform initiatives and Economic Vision 2030. It is tasked with supporting Bahrain's private sector and acting as a key driver of economic development.

Why was Tamkeen created and what role does it play in the Bahraini economy and labour market?

Bahrain has the most diversified in the Gulf, but we are constantly looking towards the future and how we can increase Bahrain's competitiveness. One of the initial areas we looked at was our human capital which we believe is very important as it is what will ensure sustainable development in the long run. We've therefore done a lot in training and education, improving skills and the productivity of the Bahraini workforce. The second aspect we addressed was how to strengthen the private sector. We've long had a vibrant private sector in Bahrain but, I would say in the past 30-40 years, with the increase in oil prices, the government had played a larger role, so one of our objectives is to enhance and strengthen the private sector's role in becoming the engine of growth in the future. Given these two areas of focus, the idea of Tamkeen came about. It has several objectives including helping the private sector and private sector companies to grow and develop, to enhance productivity and to improve the skills of the Bahraini workforce allowing them to compete, not only in Bahrain but on a global scale.

How successful do you consider Tamkeen to have been to date in achieving its objectives?

Tamkeen has helped the successful growth and turn-around of thousands of businesses through its programmes. Today, over \$600 million has been spent helping SMEs through providing subsidised loans and facilities. We have assisted almost 30,000 SMEs out of 70,000 companies in Bahrain which is approaching 30% of all companies but, if you look at the last few years, well over 50% of new start-ups have benefited from what Tamkeen has to offer. One of our programmes "Career Progression"

has, to date, helped 10,000 people develop their careers and achieve a minimum 5% salary increase as a result. We engage in a close consultative process with the private sector to help direct where funds are best spent. Companies are starting to feel the advantages now and know they are going to benefit in one way, shape or form.

Why is Bahrain leading the way in human capital development in the region?

I would say we are further along the development curve as we have had to look beyond oil. On the one hand oil blesses you with the means for extensive development but on the other hand it can build up a welfare dependency type mentality. If you travel throughout the region, you will notice that the level of development and infrastructure is pretty comparable; the difference is that Bahrain has achieved it with about 5% of the resources of our neighbours so we have been working with a productive and efficient approach. We have had to be innovative and learn to do more with less which is precisely where initiatives such as Tamkeen originated from.

How would you assess Bahrain's economic development over the past decade?

Firstly, development must serve a purpose. What is the point in it unless it improves quality of life?

I recall President Reagan's campaign slogan, "Are you better off today than you were four years ago?" If you ask anyone in Bahrain, has your life improved, I'd like to meet the person who says no. Political issues aside, if you go to the villages, the infrastructure has been put in place and the quality of life has markedly improved across the board. In real terms salaries and household income is up over 70%, in nominal terms it's almost tripled so we've



Shaikh Mohammed Bin Essa Al Khalifa

had a definite impact of growth over the last decade.

We maintained the lowest inflation rates in the region with over 6% growth. Again it's about doing more with less, about steady, stable growth for the long run. The economy is continuing to grow healthily. We have long maintained a steady, diversified strategy. Yes, we are an open economy linked to global markets but in 2009-10 there were very few countries in the world growing at 6% and we were one of them so we've proved the model. Bahrain has proved its resilience, its openness and will continue to do so.

What message would you send to investors?

We are now \$1.3 or \$1.4 trillion economy within the six GCC countries and this is forecast to double within ten years. We are growing countries with demand across the board from basic infrastructure such as healthcare and education to physical infrastructure such as electricity and roads to conspicuous consumption and all that comes with it. It is a growing economy, on average 60% of the regional population is under 25 so it's a growing population that is ambitious. The economy is moving, unlike places in Europe where growth is still anaemic, and there are countless opportunities in the Gulf and in Bahrain. Our skilled workforce, low operation costs and open and free lifestyle make Bahrain the ideal platform from which to access these markets. ■

NOW LEASING



Bahrain's Leading Business Address