

RISK AND CAPITAL MANAGEMENT

30 JUNE 2009

**SEMI-ANNUAL BASEL II
PILLAR III DISCLOSURES**



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1- Executive summary

Gulf Finance House BSC (“GFH/ the Bank”) operates as an Islamic Wholesale Investment Bank under a license granted by the Central Bank of Bahrain (“CBB”). The Bank’s activities are regulated by the CBB and supervised by a Shari’a Supervisory Board. The principal activities of the Bank include investment advisory services and investment transactions which comply with Islamic rules and principles.

The CBB Basel II guidelines outlining the capital adequacy framework for banks incorporated in the Kingdom of Bahrain became effective from 1 January 2008. These semi-annual disclosures have been prepared in accordance with the CBB requirements outlined in the Public Disclosure Module (“PD”), Section PD-3.1.6: Additional Requirements for Semi Annual Disclosures, CBB Rule Book, Volume II for Islamic Banks. These semi-annual quantitative disclosure requirements follow the requirements of Basel II - Pillar 3 and the Islamic Financial Services Board’s (IFSB) recommended disclosures for Islamic banks. These disclosures should be read in conjunction with the detailed Risk and Capital Management Disclosures made in Bank’s Annual Report for the year ended 31 December 2008.

The disclosures in this report are in addition to or in some cases, serve to clarify the disclosures set out in the interim financial information for the six months ended 30 June 2009. The interim financial information of the Bank comprise of the financial statements of the Bank and its subsidiaries (together referred to as “the Group”) as at 30 June 2009.

2- Group structure

The principal subsidiaries and associates as at 30 June 2009 and their treatment for capital adequacy purposes are as follows:

Entity name and accounting classification	Domicile	Investment classification as per PCD	Regulatory treatment as per PCD
Subsidiaries			
The "Lost Paradise of Dilmun - Water Park" BSC (c)	Bahrain	Commercial entity	Risk weighting of net investment
GFH Sukuk Limited	Cayman Islands	Financial entity	Fully consolidated
Legends Development Company Limited ("Legends")	UAE	Significant commercial entity	Risk weighting of net investment
Hawafiz BSC (c)	Bahrain	Commercial entity	Risk weighting of net investment
Injazat Capital Limited	UAE	Financial entity	Fully consolidated
Associates			
Khaleeji Commercial Bank BSC	Bahrain	Significant financial entity	Pro-rata consolidated
Bahrain Financial Harbor Limited	Bahrain	Commercial entity	Risk weighting of net investment
Balexco BSC (c)	Bahrain	Commercial entity	Risk weighting of net investment
Injazat Technology Fund BSC (c)	Bahrain	Commercial entity	Risk weighting of net investment
QInvest LLC	Qatar	Non-significant financial entity	Risk weighting at 150% (as Bank's holding is less than 20%)
Al Barakah Takaful	Jordan	Significant insurance entity	Deduction

Generally, there are no restrictions on the transfer of funds or regulatory capital within the Group.

3- Capital structure and capital adequacy ratio

The PD Module requires disclosure of the Bank's exposure to risks on its banking and trading book. As the Bank does not have a trading book, all its disclosures are limited to the risks faced on its banking book. The Bank has adopted the Standardised Approach for Credit Risk and Market Risk and follows the Basic Indicator Approach for Operational Risk to determine its capital requirements.

As at 30 June 2009, the Bank's total risk weighted assets amounted to US\$ 3,701,553 thousand and Tier 1 and total regulatory capital amounted to US\$ 489,551 thousand. Accordingly, Tier 1 and Total Capital Adequacy Ratio was 13.23%. These ratios exceed the minimum capital requirements under the CBB's Basel 2 framework.

The Bank's regulatory capital position at 30 June 2009 was as follows:

	US\$ 000's		
	Tier 1	Tier 2	Total
Share capital	315,375	-	315,375
Treasury shares	(17,364)	-	(17,364)
Share premium	180,382	-	180,382
Statutory reserve	106,700	-	106,700
Share grants reserve	30,920	-	30,920
Retained earnings	298,577	-	298,577
Current Interim Profits / (losses)	-	(92,138)	(92,138)
Investments fair value reserve	621	-	621
Profit Equalization Reserve	-	3	3
Investment Risk Reserve	-	2	2
Capital before regulatory deductions	915,211	(92,133)	823,078
Goodwill	(15,135)	-	(15,135)
Capital before general deductions	900,076	(92,133)	807,943
Excess amount over materiality thresholds in case of investment in commercial entities	(311,369)	-	(311,369)
Investment in insurance entity greater than 20%	(7,023)	-	(7,023)
Absorbing deficiency in Tier 2	(92,133)	92,133	-
Total eligible capital base	489,551	-	489,551

	US\$ 000's	
Risk weighted exposure	Risk weighted exposure	Capital requirement @ 12%
Credit Risk	2,727,392	327,287
Market risk	81,563	9,787
Operational	892,598	107,112
Tier 1 and Tier 2 capital base	3,701,553	444,186

Tier 1 and Total Capital Adequacy ratio	13.23%
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4- Credit risk

4.1- Capital requirements for credit risk

To assess its capital adequacy requirements for credit risk in accordance with the CBB capital adequacy module for Islamic Banks, the Bank adopts the standardized approach. According to the standardized approach, on and off balance sheet credit exposures are assigned to various defined categories based on the type of counterparty or underlying exposure. The main relevant categories are claims on banks, claims on investment firms, investment in equities, holdings in real estate, claims on corporates and other assets. Risk Weighted Assets (RWAs) are calculated based on prescribed risk weights by CBB relevant to the standard categories and counterparty's external credit ratings.

Rating of exposures and risk weighting

As the Bank is not engaged in granting credit facilities in its normal course of business, it does not use a detailed internal credit "grading" models. The use of external rating agencies is limited to assigning of risk weights for placements with financial institutions. The Bank uses ratings by Standards & Poors Moody's, Fitch and Capital Intelligence to derive risk weights for the purpose of capital adequacy computations. However, preferential risk weight of 20% is used which is applicable to short term claims on locally incorporated banks where the original maturity of these claims are three months or less and these claims are in Bahraini Dinar or US Dollar. The other exposures are primarily classified as 'unrated exposure' for the purposes of capital adequacy computations.

As per CBB guidelines, 100% of the RWA's financed by owners' equity (i.e. self financed) are included for the purpose of capital adequacy computations whereas only 30% of the RWA's financed by unrestricted investment account holders are required to be included for capital adequacy computations.

Following is the analysis for credit risk as computed for regulatory capital adequacy purposes:

US\$ 000's

Exposure class	Gross credit exposures	Average risk weights	Total credit risk weighted exposure
Self financed assets			
Cash items	1,152	0%	-
Total claims on sovereign	9,204	0%	-
Standard risk weights for claims on banks	404,731	30%	121,979
Preferential risk weight for claims on locally incorporated banks	172,388	20%	34,478
Short-term claims on banks	154,151	20%	30,830
Claims on corporates	478,736	100%	478,736
Past due facilities	190,603	139%	265,373
Investments in securities and sukuk	375,765	150%	563,339
Holding of real estate	548,777	200%	1,097,554
Others assets	79,514	100%	79,514
Total self financed assets (A)	2415,021	110%	2,671,803
Total regulatory capital required (A x 12%)		12%	320,616
Financed by URIA			
Cash items	-	0%	-
Total claims on sovereign	14,864	0%	-
Standard risk weights for claims on banks	4,129	20%	826
Preferential risk weight for claims on locally incorporated banks	-	0%	-
Short-term claims on banks	-	-	-
Claims on corporates	143,769	100%	143,769
Investments in securities and sukuk	27,137	150%	40,706
Total financed by URIA (B)	189,899	98%	185,301
Total regulatory capital required (B x 30% x12%)			6,671
TOTAL RISK WEIGHTED EXPOSURE	2,604,920	-	2,857,104
TOTAL REGULATORY CAPITAL REQUIRED	-	-	327,287

4.2- Quantitative information on credit risk

4.2.1- Gross and average credit exposure

The following are gross credit risk exposures of the Bank classified as per disclosure in the consolidated financial statements:

US\$ 000's

Balance sheet items	Funded exposure	Unfunded exposure	Total gross credit exposure	Average gross credit exposure*
Cash and bank balances	5,947	-	5,947	12,349
Placements with financial institutions	649,022	-	649,022	696,257
Financing assets	73,643	-	73,643	70,899
Assets held-for-sale	571,996	-	571,996	581,996
Investment in associates	535,804	-	535,804	484,309
Available-for-sale investments	291,523	48,571	340,094	387,860
Receivable from investment banking services	146,642	-	146,642	196,263
Other assets	426,390	37,036	463,426	474,629
Total credit exposure	2,700,967	85,607	2,786,574	2,904,562

* Average gross credit exposures have been calculated based on the average of balances outstanding on a quarterly basis during the period ended 30 June 2009

4.2.2- Classification of assets by geography

The classification of assets by geography, based on the location of the counterparty, was as follows:

US\$ 000's

	GCC countries	Other MENA	Other Asia	UK	Europe (excluding UK)	USA	Total
Assets							
Cash and bank balances	2,437	2,726	-	784	-	-	5,947
Placements with financial and other institutions	614,807	-	-	34,215	-	-	649,022
Financing receivables	19,993	-	-	-	53,650	-	73,643
Development Property	571,996	-	-	-	-	-	571,996
Investment in associates	528,781	7,023	-	-	-	-	535,804
Available-for-sale investments	204,523	43,845	37,573	-	2,582	3,000	291,523
Receivable from investment banking services	112	65,329	80,750	-	451	-	146,642
Other assets	366,783	55,938	3,669	-	-	-	426,390
	2,309,432	174,861	121,992	34,999	56,683	3,000	2,700,967
Off-Balance sheet items							
Commitments	34,994	30,613	20,000	-	-	-	85,607

4.2.3- Classification of assets by industry

US\$ 000's

	Trading and manufacturing	Banks and financial institutions	Development Infrastructure	Technology	Others	Total
Assets						
Cash and bank balance	-	5,944	-	-	3	5,947
Placements with financial and other institutions	-	649,022	-	-	-	649,022
Financing receivables	-	-	73,643	-	-	73,643
Development property	-	-	571,996	-	-	571,996
Investment in associates	124,452	222,960	175,000	6,369	7,023	535,804
Available-for-sale investments	-	54,154	150,972	-	86,397	291,523
Receivable from investment banking services	-	78	146,530	34	-	146,642
Other assets	1,340	23,803	219,581	-	181,666	426,390
	125,792	955,961	1,337,722	6,403	275,089	2,700,967
Off-Balance sheet items						
Commitments	-	-	83,641		1,966	85,607

4.2.4- Classification of credit exposure by maturity

The maturity profile of credit exposures based on maturity was as follows:

US\$ 000's

	Up to 3 months	3 to 6 months	6 months- 1 year	1 to 3 years	Over 3 years	Total
Assets						
Cash and bank balances	5,947	-	-	-	-	5,947
Placements with financial institutions	649,022	-	-	-	-	649,022
Financing receivables	-	5,333	-	68,310	-	73,643
Development property	75,844	75,844	151,688	268,620	-	571,996
Investment in associates	50,977	-	39,917	121,950	322,960	535,804
Available-for-sale investments	3,193	1,234	58,255	153,502	75,339	291,523
Receivable from investment banking services	66,642	80,000	-	-	-	146,642
Other financial assets	116,113	-	150,383	75,118	-	341,614
Total assets	967,738	162,411	400,243	687,500	398,299	2,616,191

4.3- Exposures in excess of 15% of capital base

The following exposures (funded and unfunded) were in excess of 15% of the capital base of the Bank as at 30 June 2009:

As at 30 June 2009	% of capital base	Exposure (US\$ 000's)
Non-financial institutions		
Counterparty A	44.37	421,033
Counterparty B	18.44	175,000
Financial institutions		
Bank A	19.04	180,667

4.4- Impaired facilities and past due exposures

As the Bank is not engaged in granting credit facilities in its normal course of business, it does not use a detailed internal credit "grading" model. The current risk grading consists of two broad grades "Unimpaired" and "Impaired", reflecting risk of default and the availability of collateral or other credit risk mitigation. The Bank does not perform a collective assessment of impairment for its credit exposures as the credit characteristics of each exposure is considered to be different. Credit and investment exposures are subject to regular reviews by the RMD.

Movement in impairment provisions during the period:

As at 30 June 2009	Financing receivables	Other assets	Investments	Development property
At 1 January 2009	30,999	19,328	30,927	-
Charge for the period	1,194	33,857	45,876	40,000
At 30 June 2009	32,193	53,185	76,803	40,000

US\$ 000's

Analysis of past due and impaired and past due but not impaired receivables as at 30 June 2009:

US\$ 000's

As at 30 June 2009	Past due but not impaired amounts *	Gross impaired amounts
Upto 3 months		66,665
Over 3 months to 1 year	70,540	119,133
1 to 3 years	561	21,469
Over 3 years		-
Total	71,101	207,267

* The Bank believes that the past due exposures are not impaired on the basis of the assessment of the level of future expected cash flows from the counterparty and / or the stage of collection of amounts owed to the Bank.

Geographical concentration of impaired and past due receivables:

US\$'000's

As at 30 June 2009	Past due but not impaired amounts	Gross Impaired amounts	Specific impairment allowance
GCC Countries	111	88,134	44,685
Other MENA	40,540	47,789	23,000
Other Asia	30,000	-	-
Europe	450	71,344	17,693
Total	71,101	207,267	85,378

Industry/sector wise breakdown of impaired and past due receivables as at 30 June 2009:

			US\$'000's
As at 30 June 2009	Past due but not impaired amounts	Gross Impaired amounts	Specific impairment allowance
Development Infrastructure	70,990	205,981	84,452
Others	111	1,286	1,286
Total	71,101	207,267	85,378

4.5- Credit risk mitigation

The credit risk exposures faced by the Bank are primarily in respect of its own short term liquidity related to placements with other financial institutions, and in respect of investment related funding made to its project vehicles. The funding made to the project vehicles are based on the assessment of the underlying value of the assets and the expected streams of cash flows. Since these exposures arise in the ordinary course of the Bank's investment banking activities and are with the project vehicles promoted by the Bank, they are generally transacted without any collateral or other credit risk mitigants.

4.6- Renegotiated facilities

As at 30 June 2009, other assets which are neither past due nor impaired include certain receivable from projects amounting to USD 82,000 thousand were renegotiated during the year. In certain cases, on a need basis, the Bank supports its project vehicles by providing short-term liquidity facilities. These facilities are provided based on assessment of cash flow requirements of the projects and the projects ability to repay the financing amounts based on its operating cash flows. The assessment is independently reviewed by the risk management department of the Bank. Although no specific collateral is provided, such exposures are usually adequately covered by the value of the underlying project assets. The terms of the renegotiation primarily include extension of the repayment period.

4.7- Related party and intra-group transactions

Related counterparties are those entities which are connected to the Bank through significant shareholding or control or both. The Bank has entered into business transactions with such counterparties in the normal course of its business. For the purpose of identification of related parties the Bank strictly follows the guidelines issued by Central Bank of Bahrain and definitions as per IFRS and AAOIFI. Detailed break up of balances and transactions with related parties as at and for the period ended 30 June 2009 are as follows:

	Amount US\$'000's
Assets	
Cash and bank balances	4,147
Placements with financial and other institutions	42,667
Financing receivables	73,643
Investment in associates	535,804
Development property	571,996
Available-for-sale investments	219,428
Receivable from investment banking services	146,641
Other assets	339,284
Liabilities	
Investors' funds	252,393
Placements from financial and other institutions	249,816
Financing liabilities	218,522
Payables towards development property	301,926
Income	
Income from investment banking services	47,890
Placement, arrangement and management fees	3,578
Income from investment in associates	(512)
Income from short-term placements	198
Income from financing assets	735
Expenses	
Impairment allowances	40,927
Finance cost on placements	5,117

4.8- Exposure to highly leveraged and other high risk counterparties

The Bank has not provided financing facilities to highly leveraged and other high risk counterparties as per definition provided in the CBB rule book PD 1.3.24.

4.9- Equity investments held in banking book

The Bank does not have a trading book and hence all of its equity investments are classified in the banking book and are subject to credit risk weighting under the capital adequacy framework. For regulatory capital computation purposes, the Bank's equity investments in the banking book include available-for-sale investments, significant and majority investments in commercial entities and associate investments in non-significant financial and non-financial entities (i.e. significant financial entities which qualify as associates are treated separately for regulatory purposes). The Bank's equity investments are predominantly in its own projects, which include venture capital, private equity and development infrastructure investment products. The intent of such investments is a later stage exit along with the investors principally by means of sell outs at the project level or through initial public offerings. The Bank also has a strategic financial institutions investment portfolio which is aligned with the long term investment objectives of the Bank.

Information on equity investments	US\$ 000's
Privately held	923,916
Quoted in an active market	630
Realised gain/ loss during the year	-
Unrealised gain/ loss in equity	(1,381)

The following are the categories under which equity investments are included in the capital adequacy computations as per the requirements of the CBB rules:

	US\$ 000's			
	Gross exposure	Risk weight	Risk weighted exposure	Capital charge @12%
Quoted equity investment	630	100%	630	76
Unquoted equity investment	364,404	150%	546,606	65,593
Investments in managed funds	10,735	150%	16,103	1,932
Real estate holdings	548,777	200%	1,097,554	131,706
Total	924,546		1,660,893	199,307

5- Market risk

To assess its capital adequacy requirements for market risk in accordance with the CBB capital adequacy module for Islamic Banks, the Bank adopts the standardised approach. Foreign exchange risk charge is computed based on 8% of overall net open foreign currency position of the Bank.

US\$ 000's

	Risk weighted assets	Capital requirement @ 12%	Maximum during the period	Minimum during the period
Foreign exchange risk	81,563	9,787	6,975	6,525

6- Operational risk

The Bank adopts the Basic Indicator Approach to evaluate operational risk charge in accordance with the CBB capital adequacy module for Islamic Banks. According to this approach, Bank's average gross income for three past financial years is multiplied by a fixed coefficient alpha of 15% set by CBB and a multiple of 12.5x is used to arrive at the risk weighted assets that are subject to capital charge.

US\$ 000's

	Average gross income	Risk weighted assets	Capital charge @ 12%
Operational risk	476,052	892,598	107,112

As on the reporting date, the Bank has no material legal contingencies including pending legal actions.

7- Other types of risk disclosures

7.1- Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting its financial obligations on account of a maturity mismatch between assets and liabilities. The Bank's approach to managing liquidity is to ensure, that it will always have sufficient funds to meet its liabilities when due without incurring unacceptable losses or risking damage to the Bank's reputation.

The following are the key liquidity ratios which reflect the liquidity position of the Bank and the maximum and minimum ratios for the period ended 30 June 2009:

Liquidity ratios	30 June 2009	Maximum	Minimum
Liquid assets : Total assets	24.25%	25.90%	24.25%
Liquid assets : Total deposits	73.68%	77.12%	73.68%
Short-term assets : Short-term liabilities	101.95%	101.95%	101.73%
Illiquid assets / Total assets	75.75%	75.75%	74.10%

The maturity profile of the Bank's financial liabilities is as follows:

US\$ 000's

	Up to 3 months	3 to 6 months	6 months- 1 year	1 to 3 years	Over 3 years	Carrying amount
Investors' funds	225,166	-	-	27,227	-	252,393
Placements from financial and other institutions	535,929	100,670	-	-	-	636,599
Financing liabilities	-	5,935	350,224	95,765	161,884	613,808
Payable towards development property	37,922	37,922	75,844	150,238	-	301,926
Other liabilities	56,362	-	-	11,917	-	68,279
Total liabilities	855,379	144,527	426,068	285,147	161,884	1,873,005
Unrestricted investment accounts	3,123	1,006	-	-	-	4,129
Off balance sheet items						
Commitments	1,353	83,641	-	613	-	85,607

7.2- Management of profit rate risk in the banking book

Profit rate risk is the potential impact of the mismatch between the rate of return on assets and the expected rate of return of the sources of funding. Majority of the Bank's profit based asset and liabilities are short-term in nature, except for certain long term liabilities which have been utilised to fund the Bank's strategic investments in its associates.

The management of profit rate risk against profit rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard profit rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) parallel fall or rise in yield curves.

US\$ 000's

30 June 2009	Up to 3 months	3 to 6 months	6 months- 1 year	1 to 3 years	Over 3 years	Total
Assets						
Placements with financial and other institutions	649,022	-	-	-	-	649,022
Financing receivables	-	5,333	-	68,310	-	73,643
Total assets	649,022	5,333	-	68,310	-	722,665
Liabilities						
Investors' funds	225,166	-	-	27,227	-	252,393
Placements from financial and other institutions	535,929	100,670	-	-	-	636,599
Financing liabilities	-	5,935	350,224	95,765	161,884	613,808
Total liabilities	761,095	106,605	350,224	122,992	161,884	1,502,800
Unrestricted investment accounts	3,123	1,006	-	-	-	4,129
Profit rate sensitivity gap	(115,196)	(102,278)	(350,224)	(54,682)	(161,884)	(784,264)

The management of profit rate risk against profit rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non-standard profit rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) parallel fall or rise in all yield curves worldwide. An analysis of the Group's sensitivity to an increase or decrease in market profit rates (assuming no asymmetrical movement in yield curves and a constant balance sheet position) is as follows:

100 bps parallel increase / (decrease)	2009
At 30 June 2009	±7,843
Average for the period	±8,242
Maximum for the period	±8,641
Minimum for the period	±7,843

7.3- Counterparty credit risk

Counterparty credit risk is the risk that a counterparty to a contract in the profit rate, foreign exchange, equity and credit markets defaults prior to maturity of the contract. The Bank's counterparty credit risk as such is limited to the fair value of contracts of foreign exchange risk management instruments the overall exposure to which is currently very immaterial. For other credit market transactions (primarily inter-bank placements), the Bank has established a limit structure based on the credit quality (assessed based on external rating) of each counter party bank to avoid concentration of risks for counterparty, sector and geography. The Bank is constantly reviewing and monitoring the position to ensure proper adherence to the limits and defined policies of the Bank.

7.4- Reputational risk (non-performance risk)

Reputation risk is the risk that negative perception regarding the Bank's business practices or internal controls, whether true or not, will cause a decline in the Bank's investor base, lead to costly litigation that could have an adverse impact on liquidity or capital of the Bank. Being an Islamic Investment Bank, reputation is an important asset and among the issues that could affect the Bank's reputation is the inability to exit from investments, lower than expected returns on investments and poor communication to investors. A well developed and coherently implemented communication strategy helps the Bank to mitigate reputational risks.

7.5- Displaced commercial risk

Displaced Commercial Risk (DCR) refers to the market pressure to pay returns that exceeds the rate that has been earned on the assets financed by the liabilities, when the return on assets is under performing as compared with competitor's rates. The Bank's DCR primarily arises from the funds accepted in the form of Unrestricted Investment Accounts (URIA) which is currently not very significant in terms of its size and in comparison to the overall activities of the Bank. The returns to investors on the funds are based on returns earned from short-term placements and hence the Bank is not exposed to a significant repricing risk or maturity mismatch risk in relation to these accounts. In relation to the DCR that may arise from its investment banking and restricted investment account products, the risk is considered limited as the Bank does not have any obligation to provide fixed or determinable returns to its investors. The Bank constantly monitors all potential risks that may arise from all such activities as part of its reputational risk management.

7.6- Other risks

Other risks include strategic, fiduciary risks, regulation risks etc. which are inherent in all business and are not easily measurable or quantifiable. However, the Bank has proper policies and procedure to mitigate and monitor these risks. The Bank's Board is overall responsible for approving and reviewing the risk strategies and significant amendments to the risk policies. The Bank senior management is responsible for implementing the risk strategy approved by the Board to identify, measure, monitor and control the risks faced by the Bank. The Bank as a matter of policy regularly reviews and monitors financial and marketing strategies, business performance, new legal and regulatory development and its potential impact on the Bank's business and best corporate governance.

8- Product disclosures

10.1- Unrestricted investment accounts (URIA)

The Bank does not have significant amount under URIA and does not use URIA as a main source of its funding. The Bank does not, as a focused product proposition, offer URIA products to its clients. The current URIA deposits have been accepted on a case-by-case basis considering the Bank's relationship with its customers.

The URIA holder authorises the Bank to invest the funds in any investments approved by the Bank's Shari'a Board without any preconditions. All URIA accounts are on profit sharing basis, but the Bank does not guarantee any particular level of return. In accordance with the principles of Shari'a, the entire investment risk is on the investor. Any loss arising from the investment will be borne by the customer except in the case of the Bank's negligence. The Bank charges a Mudarib fee as its share of profit. Early withdrawal is at the discretion of the Bank and is subject to the customer giving reasonable notice for such withdrawal and agreeing to forfeit a share of the profit earned on such account.

Currently, the Bank commingles the URIA funds with its funds for investments only into interbank placements and hence is not subject to any significant profit re-pricing or maturity mismatch risks. The Bank has an element of displaced commercial risk on URIA which is mitigated by setting up and maintaining an appropriate level of Profit Equalisation Reserve (PER) and Investment Risk Reserve (IRR) to smoothen return to URIA holders. Profit Equalisation reserve (PER) is created by allocations from gross income of the Mudarabah before adjusting the Mudarib (Bank) share. Investment Risk Reserves (IRR) comprises amounts appropriated out of the income of investment account holders after deduction of the Mudarib share of income. Administrative expenses incurred for management of the funds are borne directly by the Bank and are not charged separately to investment accounts. All terms of the URIA are agreed upfront with the customers and form part of the agreement with the customer. Till date, the Bank has not made any draws on PER or IRR. Any movements on these accounts are therefore only on account of additional reserves added.

The historical returns data on URIA is as follows:

	30 June 2009	2008	2007
Total URIA as at 30 June/ 31 Dec (US\$ 000's)	4,124	1,940	826
Average URIA balance (US\$ 000's)	3,146	3,311	826
Average rate of return earned (in %)	0.57%	2.75%	4.01%
Total profits on URIA assets earned (US\$ 000's)	8	91	8
Distributed to investor (US\$ 000's)	8	82	8
Allocated to IRR (US\$ 000's)	-	2	-
Allocated to PER (US\$ 000's)	-	3	-
Bank's share of profits (US\$ 000's)	-	4	-
Average declared rate of return (in %)	0.50%	2.48%	-4.01%

The information disclosed above pertains to URIA products directly promoted by the Bank and does not include the historical return data of similar products of its subsidiaries which are no longer consolidated in 2008 due to sale of controlling interests.

10.2- Restricted investment accounts

The Bank offers Restricted Investment Accounts ("RIAs") to both financial institutions and high net worth individuals in the GCC. All RIA product offering documents ("Offering Document") are drafted and issued with input from the Bank's Investment Banking, Shari'a, Financial Control, Legal and Risk Management Departments to ensure that the Investors have sufficient information to make an informed decision after considering all relevant risk factors. The Bank has clear guidelines for the development, management and risk mitigation of its' RIA investments and to ensure that there exist sound management and internal control systems to ensure that the interests of the investment account holders are protected at all times. Wherever it is necessary for the Bank to establish Special Purpose Vehicles for management of the investment, the Board ensures that the management of such SPVs are conducted in a professional and transparent manner by a duly appointed Board.

The Bank is aware of its fiduciary responsibilities in management of the RIA investments and has clear policies on discharge of these responsibilities. The Bank considers the following in discharge of its fiduciary responsibilities:

- Ensuring that the investment structure, Offering Documents and the investment itself are fully compliant with Islamic Shari'a principles and the CBB regulations;
- Appropriately highlighting to the Investors, as part of the RIA Offering Document, of all the relevant and known risk factors and making it clear that the investment risk is to be borne by the Investor before accepting the investment funds;
- Completing all necessary legal and financial due diligence on investments undertaken on behalf of the Investors with the same level of rigor as the Bank requires for its' own investments;
- Ensuring that the funds are invested strictly in accordance with the provisions outlined in the Offering Documents;
- Preparing and disseminating periodical investment updates to Investors on a regular basis during the tenor of the investment;
- Distributing the capital and profits to the Investor in accordance with the terms of the offering document; and
- In all matters related to the RIA, RIA SPV(s) and the investment, act with the same level of care, good faith and diligence as the Bank would apply in managing its own investments.

Within the Bank, the above mentioned responsibilities and functions are provided, managed and monitored by qualified and experienced professionals from the Investment Banking, Shari'a, Financial Control, Legal, Investment Administration and the Risk Management Departments.

Company	Cumulative return %	Half yearly return for period ended Jun 2009	Annual returns					
			2008	2007	2006	2005	2004	
Mena Real Estate Company KSCC	31.31%	-	-	31.31%	-	-	-	NA
Kuwait National Real Estate Investment & Services Co. KSCC	55.45%	-	91.79%	-	-	43.19%	-	-
Gulf North Africa Holding Company KSCC	7.55%	-	7.55%	NA	NA	NA	NA	NA
Gulf Real Estate Development Company	19.32%	-	6.76%	-	6.99%	NA	NA	NA
Pan European Fund	33.80%	-	5.36%	10.48%	23.06%	0.34%	NA	NA
Oman Development Company	-	-	-	NA	NA	NA	NA	NA
Bayan Holding Company KSCC	-	-	-	-	-	-	-	NA
Gulf Atlantic FZ LLC	34.53%	-	NA	NA	21.91%	6.56%	7.06%	7.06%
Mena Jet	40.55%	-	NA	NA	40.55%	NA	NA	NA
Energy City Qatar Holding company	35.00%	-	NA	35.00%	NA	NA	NA	NA

NA – Not applicable

The information disclosed above pertains to RIA managed by the Bank and does not include the historical return data of similar products of its subsidiaries which are no longer consolidated in 2008 due to sale of controlling interests.

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