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Changes to Bahrain's investment framework

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There have been a number of developments and government-driven initiatives in the Kingdom of Bahrain over the last year. The banking and insurance sectors have undergone reform and Bahrain has become the first country in the Middle East to enact a Trusts Law.

The progress of the country's institutional reform and regulation has enhanced its position as the financial leader in the region, spurring growth in the financial sector. There is no doubt that the Kingdom has evolved into a key player in the world's banking and financial services market.

New legislation

The Central Bank of Bahrain and Financial Institutions Law 2006 (CBB Law), enacted in September 2006, established the Central Bank of Bahrain as the successor to the highly respected and effective financial regulator, the Bahrain Monetary Agency.

The CBB Law goes beyond reinforcing the regulator's independence and powers: it implements a system of rulebooks covering all aspects of the banking and finance industries, including conventional banks, Islamic banks, insurance and investment firms, and capital markets.

The new rules on collective investments have highlighted Bahrain's role as the Middle East's financial centre, especially in respect of funds. The regulations are specifically geared to expert funds and other alternative asset classes, such as hedge funds.

Bahrain's Trusts Law was also enacted last year, providing a sophisticated legal framework for creating and administering financial trusts. In a region which is said to possess the world's highest concentration of high net worth indi-

viduals, the enactment of a Trusts Law takes on a new significance considering that trusts have traditionally been used as vehicles of wealth preservation.

The US-Bahrain Free Trade Agreement

On August 1 2006, the Free Trade Agreement between Bahrain and the US came into force. The agreement means that the US and Bahrain have committed to pursuing a single-minded and reciprocal approach to trade and investment.

The underlying aims of the agreement are to promote trade and investment between the US and Bahrain, to encourage the mutual exchange of expertise and to boost employment.

By signing a Free Trade Agreement with Bahrain, the US government is making it clear to potential investors and traders that it is a country in which they can safely invest and do business.

Real estate

The trend for foreign ownership of real estate was boosted by new legislation enabling foreigners to own property in certain residential buildings which have been classified as zones A, B and C. The law was also extended to enable foreign ownership in the many new tourist developments sprouting up throughout Bahrain.

The Kingdom's skyline has witnessed a dramatic change over the last year. The Bahrain Financial Harbour opened officially in early May 2007, with other projects such as the World Trade Centre scheduled to open later in the year.

E-government

Two years ago, the government signed an agreement with Microsoft to advance the growth of Bahrain as an "intelligent kingdom". This was part of a greater e-government initiative which has taken on a new dimension this year.

The Government Data Network, which connects all government departments, and an e-

voting project are now up and running, and an unprecedented number of citizens are using these services. Underpinning this trend is the Central Informatics Organisation's new training programme which aims at improving the computer literacy of the country's civil servants.

The network recently enabled an online transaction, the first of its kind, between the government and the Bank of Bahrain and Kuwait (BBK), whereby the bank paid the Ministry of Finance its regulation fee directly over the internet. The banking and finance sector as a whole is expected to participate in and benefit from the plethora of e-government services now on offer.

Banking and capital markets

Recommended firms

Tier 1

Baker & McKenzie
Norton Rose

Tier 2

Hatim S Zu'bi & Partners
Trowers & Hamblins

Tier 3

Hassan Radhi & Associates
Qays H Zu'bi

Tier 4

Ahmed Zaki Yamani

Mergers and acquisitions

Recommended firms

Tier 1

Norton Rose
Trowers & Hamblins

Tier 2

Freshfields Bruckhaus Deringer
Hassan Radhi & Associates
Hatim S Zu'bi & Partners
Qays H Zu'bi

Tier 3

Ahmed Zaki Yamani

Project finance

Recommended firms

Tier 1

Norton Rose

Tier 2

Baker & McKenzie
Freshfields Bruckhaus Deringer
Hatim S Zu'bi & Partners

Tier 3

Hassan Radhi & Associates
Qays H Zu'bi

The legal market for international firms operating in Bahrain has settled down following claims last year that the Industry and Commerce Ministry and the Central Bank of Bahrain (CBB) were guilty of breaking the law by granting licences to foreign lawyers. The case was later adjourned and Freshfields Bruckhaus Deringer was subsequently granted a licence to formally operate in Bahrain, signalling the tide is changing towards a more accommodating playing field for foreign players.

"It is a matter of sour grapes; local firms often do not have the capacity to handle complex cross-border transactions," says one for-

eign partner. Other commentators note that some Bahraini lawyers don't understand the role of foreign firms in the market: "I think there is a misconception that the international firms are going to take the bread-and-butter work, but that is simply not the case."

This year saw another entrant into the Bahrain market, with UK firm Charles Russell opening its doors in September 2007. The mid-size UK firm works closely with the Telecommunication Regulatory Authority in Bahrain, and hit the ground running by acting for the Government of Bahrain on the \$738 million sale of Al Hidd water and power plant. Other notable energy projects include the Al Dur independent water and power plant (IWPP), which is set to create a number of mandates for both local and international firms.

The capital markets in Bahrain are still dominated by *sukuks* (Islamic bonds), which are still providing strong mandates for local firms. This is set to continue with the introduction of the Islamic Sukuk Liquidity Instrument (IslI) by the CBB. This allows conventional and Islamic financial institutions to access short-term liquidity against Government of Bahrain Islamic leasing bonds issued by the CBB.

Islamic finance structures have not been confined to the *sukuk* market - many projects in the power, property and telecoms sectors have also been financed under *shariah* principles, with *murabaha* (deferred-sale) structures being especially popular.

Baker & McKenzie

Baker & McKenzie is praised by peers and clients for its corporate and Islamic finance practice. The firm operates in conjunction with its office in Saudi Arabia, sharing staff and resources where necessary. Clients report that they are more than satisfied with the firm's level of service: "We are happy with their work and will be using them in the future," said one.

With the help of Julie Alexander, clients note that the firm has established a strong reputation for project finance work. "Julie is outstanding in the project finance area. She knows the Saudi market very well, and she has had a longer period of experience than most people we see from international firms," says one client.

The firm has maintained its focus on Saudi Arabia-related project financing transactions. Alexander has been joined by new arrival Caroline Long to advise the Saudi Arabian Mining Company in a \$5.5 billion multi-tranche project financing for a phosphate mine and beneficiation plant in Al Jalamid, and a fertiliser production complex in Ras Az Zawr.

Baker & McKenzie also acted for the bidders on the two tenders for Saudi infrastructure projects. George Sayen led the firm when it acted for the successful bidder on its tender for the \$2.5 billion Marafiq power and desalinated water plant in Jubail, Saudi Arabia in June 2007.

Sayen was joined by Amelia Jalleh in November 2007 when the firm advised a bidder on the tender for the \$5 billion Landbridge rail project in Saudi Arabia, which involved equity structuring and project implementation documentation.

Baker & McKenzie's banking practice was also active this year. On one highlighted deal, the firm acted for Gulf International Bank on a \$600 million *murabaha* facility project for Barwa Real Estate Company in July 2007. The firm has also represented The National Commercial Bank in an Islamic leasing transaction.

Baker & McKenzie's financial services regulatory department was also busy this year, acting on behalf of investment banks including Morgan Stanley and JP Morgan.

Leading lawyers

Julie Alexander
Ian Siddell

Freshfields Bruckhaus Deringer

Freshfields Bruckhaus Deringer enters the M&A and project finance rankings for the first time following outstanding feedback from market commentators. The firm first opened its doors in 2007, securing consistent mandates from the government of Bahrain and well-respected international financial institutions. Both Joseph Huse and Harnek Shoker have established close working relationships with the investment arms of the Royal Court of Bahrain and the Court of the Crown Prince, and have advised them both on regional and international corporate transactions.

"We use Freshfields because of their international presence and their trademark quality of service," says one client.

Joseph Huse is known for his expertise in infrastructure and energy projects, and advised the National Oil and Gas Authority on a \$450 million deal to set up an oil manufacturing plant in Bahrain. In other standout work, the firm has been advising Bahrain Mumtalakat Holding Company on the corporate restructuring of Gulf Air.

Harnek Shoker's rapport with clients is second to none. "His calm and professional nature makes him good at managing client relations," says one. Shoker and his team are acting for a UAE company investing in the Al Salam Resort in southern Bahrain.

In the past year, the firm has taken on three new associates. This team has been assisting in the high-profile Al-Dur IWPP project, which is expected to produce up 48 million gallons a day of desalinated water and 600MW of electricity by 2010.

Another considerable project finance deal is the \$4 billion Qatar-Bahrain causeway, linking Qatar and Bahrain via a 42km road and bridge connection; the deal was signed in May 2008. Freshfields is also advising Kuwait Finance House (Bahrain) on the development of an equestrian centre in Bahrain.

Leading lawyers

Joseph Huse
Harnek Shoker

Norton Rose

Norton Rose prides itself as being one of the longest-established legal practices in Bahrain's banking and finance sector. The firm's head of banking, Dominic Harvey, receives a rapturous response from peers and clients alike. "Dominic is the driving force in banking transactions," says a rival lawyer. Harvey is also top of the list for clients: "He is our preferred choice of practitioner," one client says.

One of the firm's highlights was advising Calyon on its \$96 million financing for Topaz Energy & Marine and Nico Middle East's acquisition of shares in Doha Marine Services. The transaction involved two borrowers and six guarantors, and covered nine jurisdictions.

Harvey worked alongside Victoria Sim to advise the Arab Banking Corporation in the financing of a \$525 million syndicated facility for Gulf Industrial Investment Company. The facility will be used to build an iron ore plant next to its existing plant in Hidd, Bahrain. Norton Rose also advised the Bahrain Ministry of Finance on a \$350 million multicurrency term-loan facility provided by Calyon Cr dit Agricole.

In capital markets, Campbell Steedman led a team acting for National Commercial Bank as underwriter for Medgulf's £53 million IPO on the Saudi Stock Exchange in July 2007.

Drawing on the firm's local regulatory expertises, Norton Rose advised HSBC Korea Exchange Bank on the acquisition of a controlling interest in Korea Exchange Bank. The firm is also advising BNP Paribas on the licensing of BNP Paribas Asset Management.

Leading lawyers

Dominic Harvey

Hatim S Zu'bi & Partners

Hatim S Zu'bi & Partners specialises in banking, telecoms, international trade, construction, intellectual property, joint ventures, litigation and arbitration work. The firm hit the headlines when it scooped *International Financial Law Review's* Bahraini Firm of the Year award in 2007 after a very strong year.

One of the firm's standout deals was its role advising on a \$650 million *sukuk al-man-fa'a* (trust certificates) for the Saad Trading Contracting and Financial Services Company - one of the largest corporate *sukuks* in the history of Bahrain.

The firm also advised on the \$450 million Bahrain Bay project and the Villamar development, which are the first waterfront residential developments in the Bahrain Financial Harbour.

Hugh Stokes, a leading partner in the firm, is noted by competitors for his status in the Bahraini legal market. "Hugh Stokes has been around for donkeys' years, he is a very sound lawyer; he doesn't mess around and people like him," says one rival lawyer.

Leading lawyers

Hugh Stokes
Hatim Zu'bi

Qays H Zu'bi

Qays H Zu'bi has been active in Bahrain for 27 years, and has a licensed legal consultancy in Dubai. The firm is at the forefront of the Bahraini market, working on transactions in sectors as diverse as investment funds, *sukuks*, banking, project finance and M&A.

The firm was active in the M&A market this year. One highlight saw Qays Zu'bi, an ex-White & Case lawyer, advise APM Terminals Bahrain in the \$500 million privatisation of the Khalifa Bin Salman Port and the Mina Salman Ports, Bahrain in May 2008.

The bank lending market was also a good source of mandates for Qays H Zu'bi this year. The highlight was advising the global facility agent in the \$1 billion financing for the acquisition of the Al Hidd power station and water treatment plant. The firm also advised the lenders on a \$1.2 billion loan facility for Gulf Investment Bank Bahrain.

The firm was also active in capital markets. The highlight on the equity side saw Grahame Nelson lead a team advising Unicorn Investment Bank in its \$500 million private share placement.

On the debt side, the firm acted for the issuer on the issue of \$80 million RMBS, and also acted on a *sukuk* issue in December 2007. UBS and Merrill Lynch also turned to Qays H Zu'bi for advice on Gulf Finance's GDR offering in July 2007.

Leading lawyers

Qays Zu'bi

Trowers & Hamblins

Trowers & Hamblins' nomination for M&A Team of the Year and M&A Deal of the Year at the *International Financial Law Review's* 2007 Middle East awards has put the firm in the spotlight this year.

The firm's award-winning role in Qtel's \$3.8 billion acquisition of Wataniya is undoubtedly Trowers' highlight for the year. Abdullah Mutawi led a team which advised Qtel on the deal, which was the biggest regional telecoms transaction of 2007 and the biggest deal ever on the Kuwaiti Stock Exchange.

Corporate finance is another area proving the firm with big-ticket transactions. Abdullah Mutawi again led the firm to advise Qatar Telecom on its \$1.25 billion acquisition of shares in the Asia Cell consortium vehicle.

Neale Downes heads the firm's banking department, which secured a number of high-profile banking deals this year, with Islamic finance being a particular area of expertise. "Trowers & Hamblins is emerging as one of the best banking firms in Bahrain," says one client. The banking practice also attracts praise from competitors: "The firm has a strong following in the banking sector and in property development," says one rival partner.

One of Trowers' standout mandates in the banking sector was advising Gulf Finance House on the \$2.6 billion financing of Energy City Qatar. The financing for the energy business centre - the first of its kind in the Middle East - will partly involve Islamic financing.

The firm worked on some strong capital markets mandates this year, with one highlight advising Ithmaar Bank on a \$500 million *sukuk al-wakala* (trust certificates with a management agreement), which was later postponed.

The firm is also advising Global Investment House on the \$300 million Global Real Estate Ijara Fund - the first exempt collective investment undertaking fund established under Bahrain's new regulatory regime, which was introduced on June 1 2007. The fund will provide development financing for a range of projects across the Middle East and North Africa.

Leading lawyers

Dominic O'Neill