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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 Organization'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

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
Hatim S Zu'bi & Partners

Tier 3

Hassan Radhi & Associates
Qays H Zu'bi

As in the rest of the Gulf Cooperation Council (GCC) area, Islamic finance is booming in Bahrain. *Sharia*-compliant structures such as *sukuk* (Islamic bond) and *musharakah* (partnership finance) transactions have become more common and now feature in some of the major deals coming out of the GCC area.

Islamic finance structures have the twin benefits of maintaining good relations with the government while attracting GCC investors, who can be choosy when deciding where to invest.

"There are a lot of participants in Saudi Arabia looking to go for an IPO and want to demonstrate that it's financed in a way that is acceptable to Islam," said one partner. "There's also a lot of shareholder and government pressure to refinance in an Islamic way."

The domestic firms caused a stir this year by challenging in court the right of international firms to practise Bahraini law. This, claim the locals, is a breach of their licence. As a result, international firms now have to refer local matters to domestic firms, which has provided these firms with a tremendous amount of new work.

Ahmed Zaki Yamani

With offices in Jeddah and Riyadh, Ahmed Zaki Yamani is the only international firm authorized to practise independently of local Bahraini firms.

The firm is mainly focused on litigation, but also does considerable work on conventional and Islamic financing, and advises local and international financial institutions in relation to

investment funds and other general financing issues.

Baker & McKenzie

Baker and McKenzie's Manama office works in tandem with its Riyadh branch and is focused mainly on Saudi Arabia-related transactions. The firm is very well regarded by clients for its work on banking and finance transactions in both Bahrain and Saudi Arabia.

"We find them absolutely excellent," said one client. "We use Baker & McKenzie for project finance and structured finance more than any other firm."

The client continued: "They are Saudi-law capable and were available when we needed to originate procedures under local law."

The Bahrain office consists of the well respected partners Ian Siddell and Julie Alexander. Alexander in particular came in for praise from clients: "She is the very, very best project finance lawyer in the Middle East," said one. "She has developed significant experience in major project financings and has been in the region for many years."

Baker & McKenzie has a particular focus on Islamic financing structures, in particular *murabaha* facilities. Ian Siddell led a team which advised on a number of large *murabaha* project financings, the highlight being a \$812 million facility for Saudi European Petrochemical Company. Siddell also advised Saudi Basic Industries Corporation (Sabic) on the provision of a \$1 billion revolving reverse *murabaha* facility from Deutsche Bank.

Sukuks are another cornerstone of Baker & McKenzie's practice. The firm acted for Sabic on its BD310 million *sukuk* offering – the first in Saudi Arabia since the introduction of the new capital markets law.

Baker & McKenzie also advised Sabic on a \$3.5 billion secured financing facility for the Yanbu National Petrochemical Company, which comprised a mixture of *istisna'a* and *ijara* financing (where the risk is shared between institution and constructor) and conventional western debt financing.

Additionally, the firm acted for the banks on a \$2.87 billion Islamic financing facility for telecommunications company Etihad Etislat Company.

Hassan Radhi & Associates

Hassan Radhi & Associates consists of three partners and eight attorneys, and covers all facets of financial and corporate law. The firm benefits from a close relationship with Baker & McKenzie, which passes on a lot of local work it is unable to advise on.

The firm boasts an impressive list of clients, acting for companies such as BNP Paribas, Axa

and Coca-Cola Middle East. The firm has also worked alongside international law firms such as Allen & Overy, Clifford Chance and Cleary Gottlieb Steen & Hamilton on deals in the past.

Leading lawyers

Hassan Radhi

Hatim S Zu'bi & Partners

Formerly known as Al Mahmood & Zu'bi, Hatim S Zu'bi & Partners was named Bahrain's law firm of the year by *International Financial Law Review* for its role on the groundbreaking IPO of Al Baraka, a banking group. The firm acted as lead Bahraini advisor on the deal, which involved counsel in more than 10 Middle Eastern countries.

Another standout deal saw Hugh Stokes provide Bahraini advice on a \$650 million *sukuk al-manfa'a* (trust certificates) for the Saad Trading, Contracting and Financial Services Company in May 2007. The issue is one of the largest corporate *sukuks* to date in Saudi Arabia.

The firm benefits from a close relationship with Norton Rose, often providing local Bahraini advice on cross-border deals. The practice is also heavily involved in funds work, with a particular focus on issuing units for Dubai-based investors.

Leading lawyers

Hugh Stokes
Hatim Zu'bi

Norton Rose

Norton Rose is one of a handful of international firms in the market that primarily act on international cross-border finance deals. The firm advises on a range of big corporate finance, banking, project finance and Islamic finance transactions mainly in Bahrain, Dubai and Saudi Arabia.

The firm is led by the "excellent and very tough" managing partner Dominic Harvey and attracts praise from clients for its high quality corporate and financial work.

"[The firm's partners are] absolute standouts – top of the tree," said one client.

The highest-profile deal on the banking and capital markets side saw the firm act for the issuer on the BD219 million (\$580 million) initial public offering (IPO) of the Albaraka Banking Group. This was the first dual listing of shares on both the Bahrain Stock Exchange and the Dubai International Financial Exchange and was short-listed for the *IFLR* Middle East Equity Capital Markets Deal of the Year award in 2006.

Norton Rose was also active in the relatively new Islamic securitization sector, with one deal seeing the firm advise the Bahrain Islamic Bank on the first multi-million dollar domestic

musharakah mutanakisa (diminishing partnership finance) securitization facility to close in Bahrain. The firm also advised a syndicate of banks on the first ever multi-million dollar cross-border syndicated *musharakah mutanakisa* securitization.

The firm was also active on the bank lending side, with standout deals including advising the borrower on a \$641 million dual-tranche refinancing for Aluminium Bahrain, acting for the lenders in a \$525 million acquisition finance facility for Bahrain Telecommunications Company (Batelco) and guiding the lender on a \$36 million aircraft financing deal.

Norton Rose's investment funds team was also busy this year, advising clients such as Saudi National Commercial Bank, Delta Partners and Raffles City Bahrain Bay on structuring and managing funds and Islamic trust certificates.

Norton Rose's project finance team acted on a number of standout deals, with the highlight seeing the firm advise Saudi British Bank (an associate of HSBC) on the \$1 billion financing of the Al-Waha Petrochemical Complex in Saudi Arabia. This transaction was the first structured project financing done on an entirely Islamic basis and won numerous awards in the project finance sector.

The firm also advised a syndicate of lenders including Saudi Hollandi Bank and Samba Financial Group on the \$80 million *murabaha* (deferred sale) financing of the Jana Petrochemical Plant in Saudi Arabia. The firm also advised lenders for the \$2.5 billion financing of the Karo Aromatics plant and for the \$1.2 billion Saudi International Petrochemical Company development project.

Although Norton Rose concentrates mainly on finance, the firm was involved in some significant corporate deals in the past 12 months. Notable deals included acting for Batelco on its \$158 million acquisition of 20% of Sabafon from Sheikh Hamid bin Abdullah Al-Ahmar and the same client's \$415 million purchase of a 96% stake in Umniah. The firm also advised the Bahraini government on its \$500 million acquisition of 20% of Batelco from Cable & Wireless.

Leading lawyers

Dominic Harvey

Qays H Zu'bi

Describing itself as a local international firm, Qays H Zu'bi represents international companies on Bahraini transactions. Name partner Qays Zu'bi inherited the firm after White & Case's departure from Manama in 2002 and has since entered and ended a partnership with Clifford Chance, which left the jurisdiction to focus on its Dubai office. Nevertheless Qays H Zu'bi maintains strong links with both ex-part-

ners and continues to work with them on deals in Bahrain.

"Qays are the best in my opinion ... they have a qualified and very professional legal service," said one client. "We give them very tight deadlines and they always comply."

Clients singled out partners Qays H Zu'bi and Foutoun Alami as the firm's leading lawyers, while associate Phillip Sacks was noted as a lawyer on the rise.

Qays H Zu'bi has acted on some notable project finance deals over the past 12 months. One of the firm's standout activities was guiding an international operator on the privatization of the Mina Salman and Khalifa Bin Salman ports in Bahrain. This included drafting concession agreements, lease agreements, draft laws and regulations, establishing a joint-stock company and obtaining all licences and approvals. Another standout deal on the project finance side saw the firm advise an international lender regarding the privatization of the Al Hidd power plant.

On the capital markets side, one highlight saw Qays H Zu'bi act for Yaazi Bank on a \$15 million capital increase. Other notable deals saw the firm advise Sadad Homes on a \$4.5 million capital increase and guide Eskan Bank on the BD35 million securitization of a housing loan portfolio.

The bank lending side was also active for Qays H Zu'bi, with one highlight seeing the firm advise Gulf Investment Bank on a \$1.2 billion term loan facility. Other standout deals included advice on all aspects of a \$10 million syndicated loan. The firm also advised former pop star Michael Jackson on a \$400,000 refinancing of his assets and debts.

Qays H Zu'bi has recently assisted and advised on a number of financial regulatory matters, the highlight being guidance to Dexia Private Bank in Switzerland in relation to obtaining licences from the Central Bank of Bahrain in February 2007.

Leading lawyers

Qays Zu'bi

Trowers & Hamblins

Trowers & Hamblins is well represented in the Middle East, with offices in Abu Dhabi and Oman, partnerships in Saudi Arabia and Egypt and numerous so-called best friends relationships in Qatar and Istanbul.

Managing partner Dominic O'Neil is seen as the standout partner at the firm by peers. "He's good, very professional and seems to know his stuff," a rival partner said.

Trowers's standout deal on the corporate side saw the firm advise Qtel on its \$4 billion acquisition of a controlling stake in Wataniya, which the biggest M&A deal in the GCC area and is the biggest ever on the Kuwait Stock Exchange.

The firm continues to work with Qtel in relation to a further \$500 million acquisition in the Middle East.

The firm also acted for Asia Mobile Holdings on a \$650 million investment into joint vehicle Asia Mobile Holdings, which was created by Qtel and Singapore Technologies Telemedia. The vehicle holds 50% of Indonesia's PT Indosat and Singapore's Starhub.

Trowers also recorded a solid year in the banking and finance area. The capital markets were an active area, with one standout deal seeing the firm advise Ithmaar Bank on its \$332 million IPO on stock exchanges in Bahrain and Kuwait.

Another prominent deal saw Trowers act for Cable & Wireless on the \$506 million disposal of 20% of its stake in Batelco – the largest deal ever on the Bahrain Stock Exchange.

The firm was also active in structured finance, acting on a number of *murabaha* facilities for banks and companies. Partner Neale Downes led a team which advised Gulf Finance House in connection with a \$300 million *murabaha* facility arranged by Raiffeisen Zentral Bank Österreich and WestLB's London branch. The firm again guided Gulf Finance House on a \$90 million *murabaha* facility arranged by Bayerische Hypo- und Vereinsbank.

Elsewhere, the firm guided on the formation of, and acquisitions by, a number of private-equity funds.

Leading lawyers

Dominic O'Neill

Other notable firms

Freshfields Bruckhaus Deringer was granted its licence by the Bahraini government in late July 2007. The firm has a focus on corporate, financial and real-estate work and benefits from a close relationship with the Government of Bahrain.

The firm advised the government on the privatization of the £738 million Al-Hidd Independent Water Power project, which led it to retain Freshfields on the upcoming Al-Dur 2,000MW power project.

Freshfields was consulted by the government during its acquisition of a 30% stake in Formula One's McLaren Group and the restructuring of Gulf Air.

The firm also advised companies such as the Bahrain Petroleum Company on the development of its facilities and a number of investment companies in connection with project development and private-equity transactions.