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**GCC Markets**

Shariah compliant indices exclude industries whose lines of businesses include forbidden goods or where debt/assets ratios exceed 33%. Because of the popularity that Islamic finance has gained over the past few years, stock indices that abide by the Shariah rules have been introduced in many stock markets across the world, even where the Muslim population is not significant (e.g. China, Japan etc).

February has been a good month for most of the GCC countries that seem to have withstood the shock of the Dubai crisis and recorded positive returns (around 3%). In addition, the recovery of oil prices by 12% (prices around $80 per barrel) has also been beneficial. Kuwait had the best stock market performance by far (20%) while UAE was the worst performer and the only one with negative returns for this month (-6%). In terms of risk measurement, Saudi Arabia is the safest place for investments followed by Qatar. The fact that these countries have the largest GCC reserves in oil and gas respectively works as an additional guarantee for the investor. By contrast the fact that Oman and Bahrain are almost out of oil and gas reserves could be seen as introducing an additional risk to the investors. (thus increasing volatility and VaR)

Figure 1: GCC Stock Markets. Bahrain: S&P Bahrain Shariah; Kuwait: S&P Kuwait Shariah; Oman: S&P Oman Shariah; Qatar: FTSE Nasdaq Dubai Qatar 10 Shariah; Saudi Arabia: S&P Saudi Arabia Shariah; UAE: FTSE Nasdaq Dubai UAE 20

Volatility is a measure of trading activity. Higher volatility is observed during periods of financial crisis. Higher volatility is also associated with speculative trading. Value at Risk (VaR) estimates what is the worst possible return that can happen tomorrow with a given certainty (here 99%). Source: Datastream
Thailand (3%) Singapore (1.4%) and Malaysia (1.5%) recorded positive returns. By contrast, Taiwan (-2.1%), Philippines (-0.8%) and Indonesia (-2.1%) had negative returns. Risk was highest for the Philippines (1.5% volatility and -3.6% VaR) and lowest for Malaysia (0.5% volatility and -1.3% VaR). Negative returns in Indonesia were mainly driven by the turmoil in the local sukuk market where the government cancelled an ($107 million) issue which was planned to finance Indonesia’s fast rising budget deficit. Despite the growth of Islamic finance in the Southeast Asia, the Philippines has not been able to benefit from it so far. Moreover Philippines is a very new market for Islamic finance where the public “don’t know the difference between Islamic and conventional banking” (a representative of Al-Amanah Islamic Investment Bank of Philippines) Malaysia’s two Islamic indices (Hijrah and Emas) show similar performance both in performance and risk measures and indicate that Malaysia is the most advanced Islamic market in the region.

**Figure 2: Far East Stock Markets.** Malaysia: FTSE Bursa Malaysia Emas, FTSE Bursa Malaysia Hijrah; Indonesia: Jakarta SE Islamic; Philippines: SPGI BMI Philippines Shariah; Singapore: SPGI BMI Singapore Shariah; Taiwan: SPGI BMI Taiwan Shariah; Thailand: SPGI BMI Thailand Shariah. Source: Datastream
MENA Region Markets

Middle East and North Africa (MENA) region markets are less developed than the GCC and some of the Far East group. However, good investment opportunities exist within Egypt, Morocco and Lebanon recorded returns surpassing most other indices for February. Returns were 5.9%, 3.3% and 3.9% for Egypt, Morocco and Lebanon respectively. For Egypt in particular, high positive returns and low volatility reflect the country’s limited direct exposure on structured products and low levels of financial integration with world financial markets. By contrast, Tunisia and Jordan recorded negative returns of -2.2% and -8.4% respectively. The big drop in the Jordanian stock market is plausibly linked to the turmoil following the arrest of Salafi jihadists by Jordanian security forces.

Risk in MENA markets is higher than both the GCC and the Far East, because of the fewer investment opportunities and less liquidity in the markets. Tunisia is the riskiest (6.1% volatility and -17.5% VaR) while Morocco is the safest (0.8% volatility and 1.2% VaR).

Figure 3: MENA Region Stock Markets. Egypt: MSCI Egypt Islamic; Tunisia: S&P Tunisia Shariah; Morocco: S&P Morocco Shariah; Lebanon: S&P Lebanon Shariah; Jordan: S&P Jordan Shariah. Source: Datastream
The rest of the world shows mixed results. On the positive return side there is China (3.1%), Hong Kong (2.5%), South Africa (1.5%), Korea (0.3%) and the two global Islamic indices - Dow Johnes (1.5%) and FTSE (1%). On the negative side there is India (-3.1%) and Japan (-1%). The global indices are characterised by low volatility (1%) and relative high levels of VaR (-2.7%). The superior performance of China is associated with the high investment potential that exists in the country. In support of this argument, Iran is planning to transfer $30bn of assets to China to increase its involvement in energy and trade sectors. Nevertheless, China is much more volatile (2.1%) and has the highest VaR (-4.5%) among the other indices which can be attributed to the special nature of this developing country and the tension with the US over a series of issues lately (e.g. Google case). Additionally, a series of policy changes in local stock market regulations is expected to be a source of high volatility in the next months. Although these changes would primarily affect the conventional indices, spill-over effects on Islamic indices cannot be ruled out. Global indices (DJ and FTSE) have similar performance (both in terms of profitability and risk) to most GCC countries. However they fall behind when compared to Malaysia especially when riskiness is concerned (Malaysia is 50% less volatile and has almost 40% less VaR).
Sukuk Market

The Sukuk indices are provided by the Dubai International Financial Exchange (DIFC) in cooperation with HSBC. They monitor the return of a sukuk portfolio of emerging markets. Three are the most important indices, the sovereign sukuk index (SUSI), the corporate sukuk index (SUCI) and the combined sukuk index (SKBI). Although the indices are marketed as global, they constituent companies are primarily GCC based. For comparison purposes the Middle Eastern Bond Indices are also reported (MECS, MCCB and MEBI for sovereign, corporate and combined markets respectively. These indices track the performance of conventional bonds in the Middle East.

The yield of a bond, which is inversely related to its price, is a measure of the bond’s risk. A riskier bond needs to offer a higher yield to attract investors. In theory sovereign issuers bear the less risk; hence they have lower yields than corporate issuers. The combined index would lie somewhere between these two. Figure 6 verifies the theory as the corporate issuances are the riskiest, followed by the sovereign issuances and the combination lies in the middle.

By contrast in the sukuk market (figure 5) the combined issuances have the highest yields. This is plausibly linked to the default of the Dubai World, which being a state-owned corporation increased the yields of the sovereign sukuk for fear of insolvency of the Dubai emirate. Immediately after the steep rise in the sukuk yields (figure 5), risk for all sukuk issuances is priced the same (sovereign and corporate sukuk have the same yields)

In mid-December following the bail-out of Dubai by Abu-Dhabi, yields decrease a bit and stay at this (increased compared to the 5.5% yields of the pre-November period) level (7%). In January 2010, yields decreased a bit further (6%-6.5%) as confidence was partially restored. As confidence in sovereign and corporate issuers of the GCC is restored, yields will continue decreasing.
Commodities

Oil prices rebounded in February, after a drop in January, exceeding 75$/barrel. The trend in rising oil prices is expected to continue and even to exceed 100$/barrel by the end of the year due to global inflationary pressure triggered by trillion-dollar-rescue-packages of governments to tackle the economic crisis, according to Bank of America Merrill Lynch. Such a hike in energy prices could fuel not only the performance of oil giants such as Exxon Mobil, ENI or Petro China, but affect positively the performance of GCC stock market indices (e.g. Kuwait had a 20% increase in February).

Palm oil is the major export product of Malaysia and Indonesia. It is a big business and the most widely used edible oil in the world, with some 40 million tons of it being produced each year. Hence a great opportunity for companies producing it, and the shareholders who invest in them.

Prices are on the rise since last September (a rise of 20% in half a year) verifying the great potential that exists in this sector.

Raw sugar prices which rallied and saw a 28 year high this year, seem to have ended due to delays in buying by importing countries. Raw sugar has fallen 19.8 per cent since reaching 30.40 cents a pound at the start of February as investment funds holding long positions rushed to cancel out their positions after Egypt and Pakistan decided to cancel sugar purchases due to high prices. However, given the fact that both Egypt and Pakistan need to address the 50,000 and 500,000 Tonne supply shortfall and the unlikely to decrease demand for sugar from importing countries (given the inelastic nature of sugar’s demand) uncertainty in the market will increase as it is not yet certain to what extent the new crop from Brazil would alleviate supply tightness.

Figure 7: Price evolution of Important Commodities since September 2009. Source: Datastream
Recent Developments in the Islamic Finance Industry

Review of the Reuters’ Islamic Banking and Finance Summit

February witnessed a gathering of CEOs in the Islamic finance industry across the globe in a three day summit organized by Reuters across major Islamic Financial centres such as Dubai, Manama, Kuala Lumpur, London, Geneva and Jakarta from February 15-18, 2010. A synopsis of the views of the practitioners and academics on the developments and steps to bolster Islamic finance is given below. (Source: Reuters)

Islamic Finance should look for alternative avenues and lessen its reliance on real estate

The Islamic finance industry will need to look for new assets on which to base its structures as investors shun real estate after the sector took a hit during the financial crisis. The Sukuk, particularly in the Gulf Arab region, had been dominated by real estate developers before a regional building boom came to an end in 2008 after the crisis was aggravated and oil prices slumped. Other kinds of assets that could be used for Sukuk include ship and aircraft leases. (Source: Reuters)

A transparent and vigilant regulatory framework for Islamic finance is the need of the hour!

The need for a more vigilant, transparent and sound regulatory system following the aftermath of the Dubai debacle last year was emphasised at the summit. Repayment fears about the Sukuk, issued by Dubai Worlds’ property unit Nakheel put Islamic finance on the global stage and tarnished an industry that had been expected to remain buoyant even as conventional banks slowed down. To overcome this, the industry must create guidelines to ensure investor certainty over the structuring of Islamic finance products and the underlying assets used.

However, this is not an easy task, given that the Islamic finance industry spans the globe and is subject to different interpretations of Shariah Law. Currently regulation is divided between central banks, standard-setting bodies and Shariah scholars. Malaysia, for instance, is considered to be more liberal in its view of Shariah compliance, while Saudi Arabia has much stricter rules. A central regulatory body might be a solution. (Source: Reuters)

Takaful industry in despair...

Participants at the Summit said that the Islamic insurance, or takaful, is struggling to find suitable long-term opportunities. Problems arise mainly for three reasons. Firstly, unlike conventional insurers, takaful companies do not insure risk. Secondly, contributions are separated from the takaful operator’s assets and participants have ownership rights to the fund. Thirdly, it has been difficult for takaful insurers to sell products like annuities and pension plans because of the lack of long-term Islamic bonds to match such liabilities. (Source: Reuters)

An increase in the number of “sukuk funds” to be seen this year!

Sukuk funds are not a new concept, but they were created largely to take advantage of bargains through distressed asset purchases. Once liquidity and confidence returned to the Gulf Arab region, the industry could consider creating a fund management concept, an executive of Citibank told the summit. That would force professional asset managers who have access to a certain volume of assets outstanding drawing players into an “institutionally” driven Islamic securities market.

In September, Bahrain-based Islamic invest-
ment house Tharawat said it planned to raise $100 million by year-end for a sukuk fund it recently launched to snatch up bargains on the secondary market. Dubai-based Algebra Capital launched its sukuk fund in August 2008, and several more sukuk funds have been launched since. Algebra Capital is in discussions with Franklin Templeton, which is a 40 percent shareholder, as well as others, on launching and creating Shariah-compliant products. (Source: Reuters)

Key Islamic derivative standard to be launched

The launch of the first template for an over-the-counter Islamic derivative contract is “imminent” and will encourage more companies to hedge their risks according to Simon Eedle, managing director of Islamic banking at Credit Agricole CIB. The contract, which is expected to pave the way for quicker and cheaper Islamic risk management and more frequent cross-currency transactions, was initially due to be launched a year ago. The bank, as well as the IIFM, an industry body backed by the central banks of several Muslim countries, has been working with the International Swaps and Derivatives Association (ISDA) on the contract. The contract - to be known as Ta’Hawwut or hedging - would create a standard legal framework for OTC derivatives in the Islamic market, whereas currently contracts are arranged on an ad hoc basis. Designing a two-party derivatives contract could previously take six to nine months, which will be considerably reduced by this master agreement, Eedle added. (Source: Reuters)

First Halal industrial park in UK

A venture capital firm is raising funds to launch Europe’s first industrial park for Islamic goods, tapping an under-served market worth up to 4 billion pounds ($6.27 billion) a year in Britain. The Super Halal Industrial Park (SHIP) will be based in South Wales and will take three to five years to be completed. The cost of the project would be 150 million pounds - a sum to be raised in the capital markets.

Bearing in mind that the global halal industry is estimated around $2.1 trillion (and expected to grow as the Muslim middle class grows richer) and that Europe has no Halal industrial parks (despite being home to millions of Muslims) we realise that “SHIP” will make the UK a landmark Halal center for the region. (Source: Reuters)

Standard Chartered Bank Saadiq (the Islamic Finance division) expects to launch an Islamic commodity derivative by the first quarter of 2010

The Bank is in discussions with counterparties in the Middle East including trading companies and government entities, to launch the product. “Basically if you want to hedge oil rice, wheat, sugar or steel, you will be able to do so in a Shariah complaint manner,” said Afaq Khan. The product will be endorsed by the Bank’s Shariah board, and for the compliance with the Islamic law, the bank would need to have access to or possess the product. Customers for the product would be importers, exporters or distributors who “want to fix” the price of the commodity. (Source: Reuters)

Islamic Investment Megabank launch imminent-A major breakthrough for the Islamic finance industry

A plan to form the world’s largest Shariah-compliant lender which is being promoted by the chairman of Al Baraka Banking Group, Shaikh Saleh Abdullah Kamel has been in the business for some years. Sameer Abdi, Head of Islamic finance at Ernst & Young affirmed that the key shareholders (including the Islamic Development Bank, Saudi Investment bank and the Kuwait Real
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Key Islamic Finance standards Published

Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) has published its new standards: “Shariah Standards 2010” and “Accounting, Auditing, and Governance Standards 2010”.

The Shariah Standards 2010 publication contains 41 Shariah standards including 11 new standards. “The standards have introduced a high degree of harmonisation of Islamic finance practices across the major Islamic finance markets and consequently place the industry in a stronger position to expand,” AAOIFI secretary-general Dr Mohamad Nedal Alchaar said.

Luxemburg in race to become the financial hub for Islamic Finance in Europe.

Luxemburg took an important first step toward developing into Europe’s hub for Islamic capital markets, when it published a new tax circular on the treatment of a whole range of Islamic finance products including murabaha, musharaka, mudarabah, istsina, ijarah, ijarah wa Iktina and Sukuk.

Two Shariah principles that merit particular attention are identified in the circular issued by the Luxemburg tax authority: “Third party” capital providers (such as banks for instance) cannot play a passive role, but must act as true “partners”; and the prohibition on lending money (with interest). The development and listing of these products must rely on real physical assets (real estate, infrastructure projects or commodities). They may not rely on other financial products.

Australia Eyes Islamic Finance Growth

The Australian government wants Australia to become a finance hub for almost one billion Muslims in the Asia-Pacific region. A government survey found that many of Australia’s 365,000 Muslims would use Islamic banking services if they were more accessible. One of Australia’s biggest banks, Westpac, is preparing to boost its Islamic banking services by offering a commodity-trading facility for overseas investors and Dubai’s Islamic Financial Services firm named, Dubai Export Development Corporation (EDC) is in dialogues with state and federal regulators to make legislative changes to support the growth in Australia’s Islamic financial sector.

Thomson Reuters announces the launch of its “next generation Islamic Finance Gateway”.

The circular confirms the classification of sukuk as debt for Luxembourg tax purposes. Consequently, yield payments under the sukuk are treated under domestic tax law as deductible interest expenses at the level of the paying entity. In contrast to other jurisdictions, the circular confirms that tax is not levied on yield payments. “A sukuk may be considered similar to conventional financial debt instruments, the remunerations to the bearer of a sukuk being analyzed fiscally in the same way as interest. Hence, the remuneration paid to the holder of a sukuk is deductible, when it is shown that it was generated in the interests of the company” it was stated in the circular.

(Source: IFIS)

(Source: Reuters)
Professionals will now be able to access information on a wide range of Islamic finance instruments such as Sukuk, Islamic leveraged loans, funds, Islamic money market, Takaful and currencies; alongside embedded real-time news stories from Reuters, and correlation analytics for Islamic versus western conventional market views. *(Source: Reuters)*

**Thomson Reuters Unveils Risk Management Solution for Islamic Banking**

Thomson Reuters announced the launch of a risk management system specifically tailored for Islamic banking. Kondor+ Suite is a real-time trade and risk management solution, which will provide full front-to-back and cross-asset coverage for Islamic banks.

Recent events have shown that whilst Islamic banks have avoided the complex instruments that were central to the credit crisis, they have still been susceptible to the downturn. Non-performing loans and investment impairments in the region have mounted in the last year, resulting in a call from the market for systems that foster transparency.

Kondor+ Suite for Islamic Banking is a modern software solution that can be customised to a client’s needs to meet the practices and regulations that vary by region. Instrument coverage in Kondor+ Suite for Islamic Banking, includes: commodity and reverse Murabaha; Wakala; deposit exchange; Islamic spot and forwards, point based borrowing and lending; Islamic currency options, profit rate swaps and Sukuk. *(Source: Reuters)*

**Standard & Poor’s launches regional credit rating scale**

Standard & Poor’s Rating Services today announced the launch of a new regional credit rating scale for the Gulf Cooperation Council to support debt markets in the region. The GCC scale will cover a wide array of funding instruments issued in local currencies, including capital market debt, project finance debt, bank loans, and Shariah-compliant obligations. It will complement S&P’s existing global rating scale, which remains available to issuers in the GCC, by providing a finer distinction of the relative credit quality of Gulf debt issues and issuers.

“Although local debt issuance peaked in 2006-2008, we expect resurgence in local currency issuance over the coming years, driven by large financing needs for infrastructure development, stronger competition for funds in the GCC, and government initiatives to stimulate local bond markets, such as those being undertaken in Saudi Arabia. The anticipated launch of the GCC Monetary Union is also expected to drive demand for regional scale ratings”, Rob Richards, Standard & Poor’s Managing Director and Criteria Officer, said. *(Source: IFIS)*

**GateHouse Bank’s Structured Trade Finance Fund – On a run to become a major asset class?**

The imminent launch in early 2010 of the Shariah-compliant Structured Trade Finance Fund by Gatehouse Bank Plc, the latest wholesale Islamic bank authorized by the UK’s Financial Services Authority, and DDCAP Limited, the London-based wholesale Islamic market intermediary company, will see a return to a classical financing activity, which the Islamic finance industry seems to have neglected over the last few years for the more lucrative private equity, asset management, real estate etc.

Trade finance could be an ideal way of stimulating the elusive goal of increasing intra-Islamic trade, which currently stands at about 14 percent of the total trade of the 56 member countries of the Islamic Development Bank (IDB). The IDB has disbursed $34.8 billion in trade finance for the
period 1996 to 2008 financing the imports and exports of member countries, primarily through installment sales, Murabaha (cost-plus financing) and lines of financing.

Currently, as a result of the credit crisis, many Western banks operating in this sector are restricted in their trade finance activities. Thus the creation of an Islamic fund to service this sector would have worldwide benefits, providing liquidity to a market that has been seriously constrained. *(Source: IFIS)*

**Steps by UK government to bolster Islamic finance**

The UK treasury and the Financial Services Authority have been working to remove barriers and uncertainty in the regulation of alternative finance investment bonds (Sukuk). Moreover, the Financial Services and Markets Act 2000 Order 2010, was sent to the House of Commons in mid-January, and the Brown government is confident that the new regulations will come into effect by the end of March. These measures will reduce compliance and legal costs for these instruments, and facilitate the issuance of corporate sukuk in the UK.

In his 2009 pre-budget report, Chancellor of the Exchequer Alistair Darling, announced the government’s intention to provide relief from tax on capital gains for alternative property refinance, subject to satisfactory safeguards. The proposed change would allow those who own property that has appreciated in value to obtain additional bank finance in a Shariah-compliant way, using the property as collateral. Such refinancing currently faces prohibitive tax barriers where principal private residence relief does not apply. *(Source: IFIS)*

**The Bank of London and The Middle East funds Real Estate projects via Islamic financing**

Bank of London and The Middle East plc (BLME) announced in February that the Peterborough Garden Park development has opened, following £6.8m financing by BLME. Peterborough Garden Park, which is owned by a private company, Garden Parks (Peterborough Two) Limited, comprises a 89,000 square foot purpose built park with 16 retail outlets. The park has managed to pre-let 80 percent of its retail shops prior to opening and employs 300 people.

The (mezzanine) financing, according to BLME, was a Murabaha transaction providing 6.8 million pounds of “mezzanine-type” financing for the construction of the project. This financing, provided alongside conventional senior debt, “is somewhat groundbreaking from a Shariah point of view”. The deal matures in June 2010 and was structured for Garden Park Investments, a subsidiary of Garden Parks (Peterborough Two) Limited.

BLME is also involved in the CL Global Property Fund PCC Limited, which is registered in Gibraltar, agreeing in principle to allocate 25 million pounds as mezzanine financing to the fund. The CL Global Property Fund PCC Limited will invest in a portfolio of student accommodation assets and other real estate developments such as residential property and distressed property developments, which may be leveraged through Shariah-compliant facilities such as commodity Murabaha or Ijara arrangements. *(Source: IFIS)*

**Launch of an Islamic Finance Center at Aston Business School - Stepping up Islamic Finance Education in UK**

Aston Business School in Birmingham, UK launched an Islamic Finance and Business Centre – the first of its kind in Europe. The
center has been funded by a Dubai-based trading company Surgi-Tech, which gave £1.5m to set up the center. The El Shaarani Islamic Finance and Business Centre, named after its benefactor El Shaarani, CEO of Surgi-Tech Group in Dubai, will be headed by Director Omneya Abdelsalam. She highlighted that the centre would offer Masters and Doctorates in Islamic finance as well as short courses for executives. (Source: IFIS)

Prime Rate eyes $250m Islamic overnight fund

UK-based cash management firm Prime Rate Capital is aiming to raise $250 million for an Islamic cash fund that it will be the first of its kind to provide Shariah-compliant overnight liquidity. The Islamic Liquidity Fund, which should be ready to launch in March, will give banks, insurers and corporate treasurers the ability to park their cash overnight in a Shariah-compliant way.

Currently Islamic institutions use non-compliant products such as government bonds to house their cash, or undertake commodity Murabaha transactions on an individual basis. The latter involve the purchase of commodities, including metals listed on the London Metals Exchange. The new fund, which will be domiciled in Dublin, will make these transactions on the client’s behalf and trade all its net assets every day. (Source: IFIS)

GCC Developments

UAE

Fitch Ratings comments on the Impaired Loans in UAE

Fitch Ratings has been following the ratings of the banks in the UAE closely and highlights the challenges the UAE banking industry faces in the coming year, in a recent article in Financial Times.

It reports that one of the trickledown effects of the global financial crises was the tightening of bank liquidity in the UAE in late 2008. For many banks, loan/deposit ratios remain substantially above 100 per cent, access to international capital markets remains limited and expensive, and there is no sign of foreign depositors returning. While the ratio of advances to stable resources across the system has fallen below 100 per cent, lending growth is nonetheless likely to remain weak this year. The UAE authorities have provided ample liquidity support, most recently through an uncapped facility set up following Dubai World’s debt standstill in November. This facility has not been used to any great extent. Laws are also close to finalization to formalize a three-year central bank guarantee on deposits, inter-bank lending and selected capital market issues.

However, Fitch ratings believe that, rather than liquidity, the main issue facing UAE banks is deteriorating asset quality. As the reporting season for banks’ 2009 results begins, significant pressure is being placed on profitability by higher impairment charges. These have resulted in Abu Dhabi Commercial Bank announcing losses for the year as a whole, and Mashreqbank for the fourth quarter. In Fitch’s opinion, reported non-performing loans of about 2-3 per cent for most banks at the end of last September significantly underestimate the current situation. Full 2009 results will show a further deterioration in this ratio – expected by the central bank to hit 6.5 per cent this year but possibly 10 per cent or higher – reflecting exposure to troubled Dubai government-related entities and other problems. Greater clarity on the most problematic of these, Dubai World, is unlikely before a standstill agreement is finalized. Impairments in retail portfolios are high, running at double digits for many banks, while corporate impairments have largely been avoided through informal reschedul-
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ing facilities. It is also unlikely that banks have fully recognized the total impact of a collapse in real estate valuations, particularly in Dubai but also in Abu Dhabi. The continuing uncertainty has resulted in Fitch placing the five Dubai-based banks on a ratings-watch.

Nevertheless, Fitch believes the impact on UAE banks can largely be absorbed, if problems are mainly restricted to Dubai World. Fitch has conducted a capital sensitivity test on the 14 banks it rates and found that all of these can survive an increase in impaired loans to 10 per cent of their portfolios and still maintain tier one capital ratios at 8 per cent. However, impairment ratios only slightly above this level could mean that some banks will require significant recapitalization. Capitalization levels have increased during the past year by almost six percentage points, to 19.2 per cent at the end of December. While it therefore seems unlikely that the sector as a whole will need significant recapitalization, the presence of large government shareholdings in many banks contributes to Fitch’s assessment that there is a high probability of support for most of the industry.

The past year has demonstrated that, when recapitalization is needed, the first call is to the government of each emirate where it is a shareholder in a bank. Abu Dhabi moved first to boost capital in its majority-owned banks last year, followed by Dubai. The UAE federal government also injected capital by converting deposits into tier two capitals Abu Dhabi is clearly in the strongest position to provide further support if required. (Source: Financial Times)

United Arab Emirates’s woes not over! UAE banks need up to $6.8 bn injection

In early February Noor Islamic Bank’s chief executive called on the UAE government to inject up to 25 billion dirhams ($6.8 billion) into the country’s banks. The banking sector in the UAE needs continued capital injection. Hussain al-Qemzi said in the newspaper “The Nation”. “I can say we need another 20-25 billion dirham”. UAE media reported that the central bank is expected to order lenders to increase provisions for bad loans, a move that is expected to restrain lending. However, cash is needed to revive lending to consumers and business. The country’s central bank has already injected 120 billion dirham since the financial crisis hit the region in 2008. (Source: IFIS)

A Rocky path for the Amlak-Tamweel merger- A delay yet again!

The merger process of the two UAE-based financial lenders has been facing several delays. UAE- based financial lenders Amlak Finance and Tamweel have not yet applied for a license that will create the new Islamic bank. The UAE government first announced the merger between Amlak and Tamweel in November 2008, but the project has been delayed ever since.

National Bank of Abu Dhabi on a lookout to expand! Expansion to Jordan and Malaysia

National Bank of Abu Dhabi (NBAD) has begun commercial banking operations in Jordan and will use it as a base to expand in neighbouring markets. Abu Dhabi’s largest bank by market value was granted approval by the Central Bank of Jordan (CBJ) last August to set up a subsidiary with a minimum capital of $71 million, as stipulated by the country’s banking regulations. Ranked as one of the top 50 safest banks in the world, NBAD currently operates across 13 countries on four continents. It also plans to start commercial banking operations in Malaysia following the government’s move to liberalise the financial services sector. (Source: IFIS)
Abu Dhabi Islamic Bank (ADIB) to Raise Stake to 51% in Egypt’s National Bank

ADIB, plans to raise its stake in Egypt’s National Bank for Development (NBD) to 51 percent from 49 percent. Hence, NBD will be converted into an Islamic bank and renamed Abu Dhabi Islamic Bank. *(Source: IFIS)*

Dubai World seeking debt standstill on the “Limitless” $1.2bn loan

Dubai World’s lenders have rolled over a pending $1.2bn loan payment for its Limitless property unit, Reuters has reported. The Islamic loan to Limitless World is due next month. *(Source: IFIS)*

Abu Dhabi’s “Mubadala” in Refinancing Talks

Abu Dhabi government investment fund, Mubadala is in negotiations with banks to refinance a $2 billion loan due in April. The original deal was a $2 billion, three-year club loan signed in April 2007 via 21 banks. It paid a margin of 17.5 basis points over LIBOR. Mubadala established a global medium-term note program targeting global fixed income investors. It issued $1.25 billion of five year and $500 million of 10-year senior unsecured bonds based on a $9.3 billion order book. *(Source: IFIS)*

Abu Dhabi Investment Authority (ADIA) buys a stake in Gatwick Airport

The Abu Dhabi Investment Authority (ADIA), the world’s largest sovereign wealth fund, acquired a 15% stake in Britain’s Gatwick airport from its owner US-based investment fund Global Infrastructure Partners (GIP). ADIA, believed to hold an estimated $500 billion -$700 billion in assets, is acquiring the stake for £125 million ($196.4 million). As a minority stake holder in infrastructure assets, it aims to be a long term investor but does not seek management or operational control, thus the control of Gatwick airport will continue to stay with GIP. *(Source: IFIS)*

Waha capital board approves sukuk sale

Abu Dhabi-based Waha Capital said its board has approved selling convertible bonds or sukuk worth 1bn dirhams ($272m). The board also approved the distribution of 12.5% bonus shares, the company said in a statement in February. The bond offer and bonus share payout are subject to approvals from the regulator and shareholders, it said.

Dubai International Financial Centre based fund seeks to tap the rapidly growing healthcare market in the Region by launching Shariah compliant health fund

TVM Capital MENA received the approval of the Dubai Financial Services Authority for its first regional healthcare growth capital fund, with US$40 million of subscriptions from founding investors, Saudi Health Investment Company (SHIC), the International Finance Corporation (IFC), and GE Healthcare. On the services side, the focus of the fund will be on investments in specialised clinics, medical laboratories, small hospitals, diagnostic imaging centres, providers of outsourced services to healthcare delivery facilities, clinical trial management services, healthcare IT and insurance. On the life science product side, investments will focus on pharmaceutical and other life science product companies that are involved in the licensing, import, manufacture and distribution of medicines, medical devices and diagnostics. *(Source: IFIS)*

Emaar playing it Safe!

Highlighting its prestige with the recent inauguration of Burj Khalifa, the world’s tallest building, Emaar, 31.2% owned by the Dubai government, is the Arab world’s largest listed developer. It is less indebted than other Dubai property firms, with about 8.1bn dirhams ($2.21bn) of
loans and borrowings outstanding as of September 2009 of which about half is due this year. Emaar cancelled a merger with the property units of indebted state-linked firm Dubai Holding in December of 2009 after which, Credit Suisse upgraded Emaar Properties, saying the cancellation of the company’s proposed merger with Dubai Holdings eliminated Emaar’s exposure to additional real estate assets in Dubai. Moreover, in February, Emaar announced that it plans to sell its stake in RSH Holdings, a Singapore retailer valued at $164 million, as it looks to boost cash and shed non-core assets. Emaar, which had a 30 percent stake in RSH through a joint venture with India’s MGF Group, had to increase its effective stake to 61.3 percent in the retailer after it took control of the debt owed by the joint venture firm. The move came after the joint venture firm had defaulted on a loan. (Source: IFIS)

**Dubai Islamic Bank in deal with UAE ministry**

An agreement has been signed between Dubai Islamic Bank and the UAE’s Ministry of Finance to grant the lender capital to provide Shariah-compliant products. DIB has obtained a “wakala capital”, an agency structure where a depositor authorises an agent to invest his funds in Shariah-approved assets. If the lender breaches the wakala terms and conditions, the ministry has the right “to convert all or part of the outstanding wakala capital”, which would result in a capital increase of the bank. (Source: IFIS)

**Aabar to pay $20m for stake**

The Abu Dhabi investment fund with the biggest stake in Mercedes-Benz’s parent company Daimler says it’s paying $20 million for a stake in private aviation company Xojet. Aabar Investments did not reveal the size of its stake in a disclosure to the Abu Dhabi Stock Exchange.(Source: IFIS)

**Istithmar to sell ISS for ‘$700m’**

Dubai World’s investment arm Istithmar aims to sell port and shipping agent Incheque Shipping Services (ISS) for up to $700 million. Istithmar is likely to appoint Bank of America, Merrill Lynch and Royal Bank of Scotland to manage the sale. Advent International, Cinven, Montagu Private Equity, and TPG Capital are among the buyout firms working on bids. The Financial Times reported that Charterhouse Capital Partners and Kohlberg Kravis Roberts & Co. were also working on potential bids for London-based Incheque, which is one of the world’s biggest marine management firms with some 200 offices globally.(Source: IFIS)

**Bahrain**

Bahrain’s “hub for Islamic finance” expands! Deloitte announces the launch of a new Islamic Finance Knowledge Centre in Bahrain.

Leading global companies are selecting Bahrain over other financial centres. This illustrates the stride the kingdom has made over the last four decades. News that consulting giant Deloitte has opted to base its new Islamic Finance Knowledge Centre (IFKC) in Bahrain reflects the Kingdom’s track record as the most firmly established financial centre in the Gulf and a global hub for Islamic finance. The IFKC will capitalize on the firm’s expertise in the Islamic finance field and help clients tap the growing opportunities and strong potential of the Islamic finance market that is predicted to maintain its growth record which averaged over the past five years an annual growth rate of 15-20%. Dr Hatim Tahir, who joined Deloitte as a director in the IFKC with over 20 years of experience in the field, said that the Centre will give technical support and practical expertise on matters related to the Islamic capital industry including investment asset classes, Islamic private equity, product structuring and financial engineering, regula-
tions, risk and credit analysis models, as well as regulatory framework for listing and trading rules. (Source: IFIS)

More trouble for Gulf Finance House!

Despite earning a number of awards since its establishment, Gulf Finance house, one of the most innovative Islamic investment banks in the Middle East, was downgraded by S&P which lowered its long- and short-term counterparty credit ratings to “SD/SD” (selective default) from “CC/C”. Like other Bahraini off-shore investment houses, GFH has been badly hit by the end to the real estate boom in the region. The downgrade by S&P follows GFH’s completion of the extension of maturity of $100m of its $300m syndicated loan facility due February 10, 2010.

Other notable developments by the GFH in this month were the decision to sell its stakes in Khaleeji Commercial Bank as well as its real estate projects, expecting a return of $250 million. Ted Pretty, CEO, said in that the investment house aims to replace a $100 million loan Wakala facility arranged by Liquidity Management Centre that matures in two tranches in March 2010 and March 2011, by a new two-year facility. The bank has also plans to bring down its annual costs by 45%.

(Source: IFIS)

Bahrain’s Unicorn Investment Bank on the spree to buy stakes of distressed banks in the GCC

Bahrain’s Unicorn Investment Bank is considering buying Dubai Group’s stake in Malaysia’s Bank Islam, but said a deal was not imminent as shareholders needed to agree on the right partner and price. Dubai Group, an investment vehicle owned by the ruler of Dubai, said it was reviewing its options for the 40 percent stake in Malaysia’s second largest Islamic bank.

Frederick Stonehouse, head of strategic mergers and acquisitions at Unicorn, told the Reuters Islamic Banking and Finance Summit in Bahrain that the Islamic investment bank could raise between $250 million and $500 million in equity for acquisitions, while its strategic investment fund still has $100 million to spend. Unicorn is planning to buy a commercial bank to compliment its investment banking business, and Stonehouse said the bank is also studying opportunities in the Gulf Arab region where banks’ owners are looking to exit distressed assets. However, Unicorn was not interested in taking a stake in Bahrain’s Khaleeji Commercial Bank as it prefers banks with a longer track record such as Bank Islam in Malaysia. (Source: IFIS)

Capinnova’s paid-up capital increases to $151.5m after taking 50% stake in Sakana

Capinnova Investment Bank, the Shariah compliant investment banking arm and fully owned subsidiary of Bank of Bahrain and Kuwait (BBK), has acquired 50% stake in Sakana Holistic Housing Solutions. Bahrain based Sakana was earlier a 50:50 joint venture between BBK and Shamil Bank. Capinnova has an authorized capital of $500m and paid-up capital of $151.5m. Capinnova provides a variety of products, including murabaha, ijara, mudaraba, musharaka, al Salam and istitsna’a, restricted and unrestricted investment accounts, syndications and other structures used in conventional finance, which have been appropriately modified to comply with Shariah principles. (Source: IFIS)

Al Salam Bank agrees with LMRA to simplify its fee collection process

Al Salam Bank Bahrain (ASBB) announced that it had recently signed a Memorandum with the Labor Market Regulatory Authority (LMRA). The agreement authorizes the bank to collect fees on behalf of the LMRA at its Seef district and City Centre Mall branches, as well as at all branches of
Recent Developments

Bahraini Saudi Bank (BSB), a subsidiary of ASBB (Source: IFIS)

Qatar

Qatar Islamic Bank signs agreement with Grand Regency and Regency Halls for marriage financing!

Qatar Islamic Bank (QIB), Qatar’s first Islamic bank, has signed a Memorandum of Understanding (MoU) with Doha’s newest hotel, the Grand Regency Hotel and Regency Halls, to offer financing services to address the rising cost of weddings. QIB’s newest Ijarah product, Zawaj financing, offered by QIB allows customers to cover marriage expenses easily and efficiently. (Source: IFIS)

Leasing firms in Bahrain and Qatar sign deal

Qatar’s First Leasing Co (FLC) and Bahrain’s First Leasing Bank (FLB) have signed an agreement to jointly provide Islamic Ijara services in both countries and other states of the GCC, a local Arabic newspaper reported yesterday. The two Shariah-compliant firms are currently studying a number of ijara deals that may be used in the coming period, said Mohamed al-Doureii, FLC chief executive. (Source: IFIS)

QInvest to buy 25% of India’s Ambit

Qatar’s largest investment bank, QInvest will buy a 25% stake in Mumbai-based Ambit Group, the company said. The deal, the company’s first investment in India, will help Ambit expand its investment banking, advisory and private wealth businesses. QInvest will also invest $25 million in Ambit’s equity fund, besides helping it mobilise funds under a $150-million Shariah-compliant fund. The investment “will dramatically accelerate QInvest’s ambitions in India, one of the world’s fastest growing economies”, QInvest CEO Shahzad said in the statement. QInvest’s CEO Shahbaz will also join Ambit’s board, the company said. (Source: IFIS)

QIB plans $500mn bond issue

Qatar Islamic Bank, Qatar’s second-largest lender by value, complying with Muslim banking rules, is preparing to tap the global debt markets with a bond issue worth at least $500mn, according to sources. Credit Suisse Group, HSBC Holding and QInvest, the Doha-based investment bank, are advising on the deal, sources said. The bank, which posted a 24% drop in fourth-quarter 2009 net profit last month, is looking to raise money to improve its debt to equity ratio as the company eyes growth and exposure to international investors. There is growing investor appetite for exposure to Qatar, whose economy is expected to grow 16% in 2010 on the back of ballooning revenues from liquefied natural gas exports. Qatar is the world’s largest exporter of LNG by far. People familiar with QIB’s plans said any issue would most likely be open to investors in Europe, the Middle East and Asia, but not the US. (Source: IFIS)

Saudi Arabia

Landmark Dar Al-Arkan Sukuk successfully closes at $450m!

Saudi home builder Dar Al Arkan said it raised a lower-than-expected $450 million (Dh1.65 billion) from a sukuk sale that was priced at 10.75 per cent, the first issue from the region since Dubai’s debt restructuring. Bankers said Dar wanted to raise at least $500 million and up to $700 million. The five-year Islamic bond was the fourth issue from Saudi Arabia’s biggest property developer by market value and the first international issue from the Gulf Arab region in 2010 since Dubai World announced plans on November 25 to seek debt restructuring.

The five-year sukuk offers a yield of 11 per cent and will be used to finance the company’s current and future development projects

Standard and Poor’s assigned in January a BB- to its sukuk issue which it said will be for an amount in line with previous issuance, while Moody’s Investor Service has assigned a provi-
NCB Capital launches new Shariah-compliant fund- Another addition to its record breaking product portfolio

A US dollar-denominated, open-ended, Shariah-compliant fund was launched Monday in Riyadh by NCB Capital, the investment banking arm of National Commercial Bank (NCB), the largest commercial bank in the Kingdom.

Under the new ‘Sukuk and Murabaha Fund’, NCB Capital will invest in sukuk and Murabaha issued by highly rated companies and governments. The fund will provide investors with an opportunity to participate in a new expanding asset class sukuk as a developing asset, and help them to balance their overall portfolio risk. The new fund aims to generate a higher yield than money market investments and will benefit from a diversification across countries, sectors and companies in the GCC region. The minimum subscription amount is $ 10,000.

Al Rajhi Capital and Arcapita announce launch of $ 500 million Fund

Al Rajhi Capital, the investment banking subsidiary of Saudi Arabia’s Al Rajhi Bank, and Arcapita Bank B.S.C.(c), an international investment firm headquartered in Bahrain, announced the launch of a USD 500 million (SAR 1.875 billion) fund, the ARC Real Estate Income Fund.

This Fund represents the first collaboration in private equity between Al Rajhi Capital and Arcapita and the two companies will seed the fund with a joint investment of $ 50 million (SAR 187 million). They will combine their resources and expertise to source and acquire investments for the fund in high-quality, income-generating real estate assets, in the Kingdom of Saudi Arabia and other countries of the GCC. The focus will be towards logistics warehouses, as well as healthcare and education related assets. Al Rajhi Capital will serve as fund manager for the fund. Deal sourcing and execution capability will be provided to the fund manager by a newly-formed real estate advisor, jointly owned by Arcapita and Al Rajhi Capital.

“Aramco” and “Total” hiring bankers to issue $1bn sukuk – The biggest Islamic issue from the Gulf region this year!

Saudi Arabian Oil Co (Aramco), the world’s biggest crude producer, and Total hired banks to sell Islamic bonds to help fund the construction of a $12bn oil refinery. Aramco and Total, Europe’s largest refiner, appointed Deutsche Bank, Samba Financial Group and Calyon to manage the mainly domestic bond sale, said the bankers, who declined to be identified as the details are private. The lead managers will start investor meetings late next month or at the beginning of the second quarter they said.

The size of the issue may be around $1bn, one banker said. The joint-venture is also discussing the possibility of issuing an international conventional bond after raising funds from the Islamic market as the companies seek to reduce dependence on short-term bank financing, he said.

The Aramco-Total joint venture last month borrowed $6bn through loans and plans to sign the loan agreement by the end of the first quarter, two bankers said on January 29. The companies aim to start operations at the 400,000 bpd refinery in 2013 and plan to sell 25% of the venture to the public in a share sale.

Egypt and Turket Developments

Egypt based investment bank (Beltone), merger with Pioneers on track

Egyptian investment bank Beltone Financial said its acquisition by Pioneers Holding was moving ahead and details on the merger would be announced within weeks.

Financial services firm Pioneers recently
announced that it would issue 100 million new shares to buy Beltone, at the time valuing Beltone at $129 million. Based on February’s prices, the value of the all share deal was down to $94.1 million. The firms have said the new company would have $5.31 billion under management and be Egypt’s second largest brokerage firm. (Source: IFIS)

**US$75 million dual currency Murabaha facility for Turkish bank**

ABC Islamic Bank along with Noor Islamic Bank PJSC and Standard Chartered Bank have been mandated by Turkey’s Bank Asya to arrange a US$75 million (and/or equivalent in Euros) syndicated dual currency Murabaha financing facility. The facility which offers a profit margin of 225bps over the applicable benchmark has been structured as a Shariah compliant dual-currency facility with a one-year tenor. Proceeds will be used to fund Bank Asya’s Islamic trade finance activities. (Source: IFIS)

**Malaysia, Indonesia and Pakistan**

**Malaysian Islamic banks utilise globally accepted Islamic finance facilities**

Bank Islam acted as a lead arranger along with Affin Islamic Bank Bhd as a co-arranger for a Bai’Inah facility worth 330mn Malaysian Ringgit to Kedah Sato Sdn Bhd (KSSB). Bank Islam will participate with an amount RM200 million and Affin Islamic Bank with RM130 million. The facility will be used for the construction and development of a new permanent campus for Kolej University Insaniah (KUIN) in Kedah. KSSB will settle the facility over 15 years, inclusive of a three-year grace period. KSSB will begin servicing the facility in 2013.

Cambodian Transmission Limited (CTL) had executed a Facility Agreement with Export-Import Bank of Malaysia Berhad ("EXIM Bank") whereby EXIM Bank has offered to CTL an Islamic financing under Overseas Project Financing of USD 65 million under the Islamic principle of Iistisna and for a tenure of 13 years. The purpose of the Financing Facility is to partly finance the development of the announced project in January 2010 regarding power transmission system.

Malaysia’s first Shariah-based deposit product for corporations Bank Islam Malaysia Berhad (Bank Islam) launch a new deposit product, the Waheed-i, for Malaysian corporations. Waheed-i, is based on the Shariah contract of Wakalah (Agency) whereby the customer appoints Bank Islam as the Wakil (Agent) to manage the funds deposited with the Bank. It is Malaysia’s first globally accepted Shariah-based deposit product. (Source: IFIS)

**Bahrain Financial Exchange and Bursa Malaysia agree on cooperation**

The Bahrain Financial Exchange and Bursa Malaysia signed an agreement to study a common platform on which Islamic finance products such as commodity murabahas can be traded. Malaysia’s stock exchange launched a platform last year on which murabaha, an Islamic money market instrument, can be traded using palm oil as the underlying commodity (Source: IFIS)

**Foreign interest in Bank Islam stake**

At least three of the potential buyers of Dubai Group’s 30.5% stake in Bank Islam are said to be from the Middle East. There are “six to seven” foreign financial institutions interested in buying Dubai Group LLC’s 30.5% stake in the country’s oldest Islamic bank, Bank Islam Malaysia Bhd.

Three of the potential buyers are said to be from the Middle East. Qatar Bank and Saudi National Commercial Bank are among names speculated to be interested, although this could not be confirmed as at press time (Source: IFIS)
**Excess Demand for Sukuk in Indonesia**

The sales of “SR-002” sukuk series by seven sales agents reached IDR4.18 trillion last week and the total demand is estimated to reach IDR7.5 trillion. Based on the information of some sukuk sales agents, PT Bank Mandiri Tbk could book the largest sales of IDR1.5 trillion ($161mn).

Indonesia has sold more than 850mn USD (7.9 trillion IDR) worth of Islamic bonds to domestic retail investors, three-times more than its target, officials said Monday. The bonds, or sukuk, will mature in three years and pay 8.7 percent. *(Source: IFIS)*

**Bank Rakyat Plans to Buy Stake in Bank Agroniaga**

PT Bank Rakyat Indonesia, the nation’s second-largest lender by assets, plans to buy a stake in PT Bank Agroniaga. Bank Rakyat, which has a market capitalization of 92 trillion rupiah ($9.8 billion), turned Bank Jasa into a stand-alone Islamic bank early last year. *(Source: IFIS)*

**Titan Kimia reconsiders Islamic bond worth 200 billion Indonesian rupiahs**

PT Titan Kimia Nusantara reviews the plan to issue bonds worth IDR500 billion this year following pressures from the global bourses in the wake of the default risk of European countries, which is worried to affect the bond market condition. Previously, the company was advised to sound issuing bonds worth IDR500 billion in April 2010. Standard Chartered is to become the trustee and PT Indo Premier Securities the underwriter. *(Source: IFIS)*

**Pakistan May Sell as Much as $1 Billion of Bonds, including $500 mn Islamic bonds**

Pakistan may offer as much as $1 billion of bonds and resume selling state assets in the coming months. Pakistan’s budget defi-
The Gulf One Lancaster Centre for Economic Research (GOLCER) was established in May 2008 by Lancaster University Management School and Gulf One Investment Bank. The centre is funded by a donation from Gulf One Bank.

The main purpose of the Centre is to conduct empirical research focused on key economic and financial developments in the Middle East and North Africa (MENA) region, with special emphasis on the Gulf region. This region includes Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates, countries that form the Gulf Cooperation Council.

GOLCER’s research agenda will include, as primary topics, energy economics, Islamic banking and finance, telecommunication and infrastructure economics. Recent developments in these fields will be assessed in the light of their impact on the economy of the Gulf region.

In addition to its research activities, GOLCER will provide tailored training courses in specialised areas, including quantitative methods and applications of state-of-the-art econometric and statistical software packages to economic and financial phenomena. GOLCER will also provide consultancy services.

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