PRIME TIME

ISSUE 2 JULY 2008

DO YOU KNOW YOUR BROKER?

There's a better way to trade

Arqaam Capital Launches UAE Brokerage

CUSTODY SERVICES:
Increasing in availability as the regional market matures

AC CROATIA:
Investing in one of the mediterranean's last unspoiled coastlines

INTERVIEWS:
Crescent Point talks about private equity & the GCC

PRIMETIME: Arqaam Capital's quarterly newsletter for the sophisticated investor

Industry Insight

News & Views

Experts and Extras

PRIME TIME

PRIMETIME CREDITS

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Message from the Management

2008 has, to date, been an exciting year for Arqaam Capital, even against the backdrop of global turbulence, uncertainty and the continued unravelling of global investment banks' positions related to the US sub-prime crisis and subsequent credit crunch. For Arqaam Capital, these events highlight the need for investment banking firms to closely review how they operate. In our opinion, this is a good thing, especially in a relatively young and still developing market like the Middle East.

We have taken this lesson to heart and are continuing our efforts to build a strong governance infrastructure. Over the past six months, we have strengthened our systems, not only by implementing best practices, but also by working to ensure they are robust enough to handle any future challenges.

Since our last issue, we have chalked up several major achievements. We successfully acquired a UAE-based brokerage firm, which will form the foundation of establishing a regional brokerage platform that will provide shareholders and clients with an effective gateway to the GCC financial markets.

Another key development is the launch of our Croatia Tourism Development Platform. This project offers investors an opportunity to achieve higher returns by investing in Croatia ahead of its anticipated accession to the European Union.

We also began our custody services, which provide shareholders and clients with safekeeping and settlement services across more than 90 markets worldwide.

Lastly, the market is expressing a great deal of interest in our Capital Markets business line. We expect this to increase as our team introduces a growing list of innovative structured products and index trackers, as well as working jointly with one of our newest shareholders, Vontobel, on concepts for new derivatives products.

All of these developments add to the depth and breadth of services we offer and take us further toward our goal of making Arqaam Capital a truly world-class firm offering investment banking services. As you can see, we continue to make great strides, and as always, these are thanks to our shareholders, our partners and our team.

In this issue of PRIMETIME we discuss in more detail a number of the developments noted above. We also provide our thoughts on the regional and global IPO and credit markets. We speak to one of our shareholders, Crescent Point, for insights into the private equity industry in Asia and the GCC region. In light of our new custody service, we also have prepared an article giving an overview of this sector.

We hope that you will find this issue of PRIMETIME both interesting and informative. As always, we welcome your feedback and questions regarding any of the topics, products or services mentioned in this newsletter, or any other matters related to our business.

"...we continue to make great strides, and as always, these are thanks to our shareholders, our partners and our team."

Sincerely,

Riad Meliti

Dennis Wijsmuller

GCC Credit Watch List:

Some of the recent primary debt issuances in the region include:

Issuer	Size	Coupon	Maturity	Comments
Nakheel	AED 3.6 Bn	EIBOR + 225 bp	May-10	
Tabreed Convertible	AED 1.7 Bn	7.25%	May-11	Mandatory conversion to Tabreed shares at maturity
Dubai Government	AED 4.0 Bn	EIBOR + 50 bp	Apr-13	
	AED 2.5 Bn	4.25%	Apr-13	
NBAD Convertible	AED 2.0 Bn	EIBOR - 0.25 bp	Feb-18	Sub-debt convertible, callable after 2013
DEWA	AED 3.2 Bn	EIBOR +125 bp s/a	Jun-13	
Al Dar	AED 3.75 Bn	EIBOR + 175 bp quarterly	Jun-13	

We see an increased appetite for dirham- or any GCC currency-denominated paper due to the possibility of an "imminent" currency revaluation. This demand also is being driven by the Dirham now being eligible as a settlement currency through the Euroclear clearing system. In response, there is a growing trend toward dirham-denominated issuances in the region. Moreover, convertible bonds are increasingly in demand, leading many firms to announce such issuances. Some new convertibles expected to be offered in the near future include:

- **Taqa,** a global energy investment company owned primarily by the government of Abu Dhabi, has received shareholder approval to issue convertible bonds for up to AED 4.1 billion.
- **ADCB,** the second largest bank in Abu Dhabi, plans to issue convertible bonds for up to AED 4.8 billion.
- **Amlak Finance,** the largest publicly held Islamic finance institution in the UAE, will be issuing convertible bonds worth AED 1.3 billion.
- **Tamweel,** the largest provider of real estate finance in the UAE, has received shareholder approval on the sale of AED 1.1 billion of convertible bonds.
- **First Gulf Bank,** a major Abu Dhabi-based bank, may come out with a US$2.5 billion convertible issuance.

IPO Watc

The first six months of 2008 have indeed set records, but they've been for all the wrong reasons!

As the year began, the world's major bourses recorded their worst starts in two years, then 10 years, and then since the Great Depression of the 1920s! The main culprit behind this sea of red was the continued fallout from the US sub-prime mortgage crisis, where estimates of losses have jumped from a manageable US$300-400 billion to an indigestible US$1 trillion, once that is, the market fully accounts for defaulting home mortgages and non-performing consumer loans.

Unfortunately, this worsening situation firmly slammed the door on the primary deal market. By the end of February, it was clear that many pending public offerings would not see this side of summer, and the pipeline soon began to dry up. However, a few deals did make it to market, though with mixed results:

DEPA – Dubai DIFX (+1.5% over a one-day holding period)

The DIFX continued to disappoint on the IPO market. Fundamentally, DEPA is a compelling company and a clear market leader across the GCC in the interior fit-out market. However, after reassuring investors that the firm would price at the low end of the pricing range to reflect the DIFX listing, as well as the weak market conditions related to the sub-prime crisis, the company unexpectedly priced in the mid range, which in this market only helped to induce short-term profit taking. The stock closed down 1.03% to US$1.53 at the end of the first day and continued to drift lower to US$1.34 before stabilizing.

Reliance Power – India (-4.5% over a one-day holding period)

Anil Ambani's independent power producer (IPP) company was a highly anticipated IPO, given his family's Midas touch and strong record of high investor returns from their stable of companies. Unfortunately, negative market conditions were simply too much, even for this strong name, so despite delaying allocations for several weeks, the stock closed down 17.36% on the first day of trading, and continued to fall, not stabilizing until it was down 31.80% off its issue price.

Also in India, market sentiment was simply too weak to offer a premium for an execution strategy, and Emaar MGF's decision to cancel its IPO just before the offering only helped to aggravate matters.

h List

Visa – United States (+20% over a four-day holding period)

This is without doubt the star performer year-to-date for any large-cap deal globally and is particularly impressive considering that the deal came at the same time as Bear Stearns was capitulating to JP Morgan and the market was awash in rumors that Lehman Brothers would be next. The stock was attractively priced at a discount to its sector (namely MasterCard) and has the unique advantage of being described as a financial stock, thereby giving investors exposure to the global consumer market, but with no exposure to the sub-prime market or to bad debt in the credit card market (since that risk lies with the issuing bank, not Visa).

INDIKA – Indonesia (+15% over a two-day holding period)

This widely anticipated primary offer certainly delivered on expectations. The global book-coordinator was Citigroup, and they did a very good job ensuring genuine long-only money was accepted. Indika is a thermal-coal play, and given the scarcity in coal, and the rising demand for the product, it was no surprise that this offering did so well.

Pending / Future Deals

As Arqaam approaches the end of its financial year, IPO sentiment appears to have improved. Recent issues that Arqaam has participated in, and is still long on, include Brazilian oil company OGX - owned by high-profile entrepreneur Ike Batista, and the BOLSA Mexico - the Mexican bourse. OGX was up more than 8% at the end of its first day of trading, while BOLSA closed flat at the end of its first trading day. In the near term, expect a correlation between OGX and oil prices, while BOLSA likely will reflect the strong fundamentals of the market and macro economy, and Mexican bourse should benefit from continued interest from emerging fund managers.

Going forward, the volume of deal flow is expected to increase on the primary side, and generally IPO performance should improve since global markets generally appear to have stabilized. Despite continued bearish sentiment in the financial sector arising from the ongoing sub-prime fallout, recent upgrades in the sector by Morgan Stanley is a sign that investors are returning to the sector. This will help improve sentiment over the summer.

A large number of IPOs - as many as 60 IPOs globally - are expected in Q3 and Q4 of 2008. The challenge, as always, will be to identify the fairly priced, high-quality deals, while price sensitivity will likely continue to be a factor for the remainder of the year.

As the GCC Market Grows, So Does the Role of Custody Services

The increasing availability of custody services for HNWI and institutions of all sizes exemplifies the expanding and maturing character of the regional market.

There are many ways to characterize the tremendous transformation remaking GCC capital markets and the region's investment environment. Sometimes numbers can help convey the scope of what's happening. For example, GCC market capitalization grew fivefold between 2002 and 2008, while the value of locally issued corporate debt grew tenfold between 2003 and 2007.

As well, the GCC is catching up to more developed markets in terms of increasingly sophisticated settlement procedures, while banks and financial institutions are rapidly deploying the latest IT systems. There also are more high-net-worth individuals investing in regional markets, partly because there are simply more of them and partly because many are returning to local markets, where previously they invested only overseas.

But perhaps more qualitative measures - such as the changing mix of investment services on offer - are better suited to capture the true extent of this revolutionary transformation. One such service - and one that is particularly useful for high-net-worth and institutional investors in this increasingly sophisticated market environment - is custody services.

Previously, custody services were offered only by major international banks and were only accessible by large institutions. Today, regional firms are offering these services as well, and they are tailoring them to suit the needs of smaller institutions and high-net-worth individuals.

What are Custody Services?

Familiar to sophisticated investors in other markets in Europe, Asia and North America, custody services typically include the settlement,

safekeeping and reporting of customers' marketable securities and cash. Customers for such services generally include mutual funds and investment managers, pension funds, insurance companies, corporations, endowments and private-banking clients.

A good custodian will provide "a high level of reporting and functionality, while ensuring that a client's assets and cash are securely handled and segregated," according to Fadi Chamas, Custody and Operations Director at Arqaam Capital. "Offering this level of service in a cost-effective manner, while providing excellent relationship management over the long term, is a sign of a good custodian," he added.

> ...because sophisticated investors seek geographic diversification of their portfolios, the better-situated custody service providers will offer their services on cross-border securities transactions in upwards of 90 or more markets.

Some core domestic custody services include settling trades, investing cash balances as directed, collecting income, processing corporate actions, pricing securities positions and providing recordkeeping and reporting services.

And because sophisticated investors seek geographic diversification of their portfolios, the better-situated custody service providers will offer their services on cross-border securities transactions in upwards of 90 or more markets.

Custody Services in the Gulf

In the GCC, custody services are not new, as major international banks have been offering these services here for years. However, they have almost exclusively served large institutional investors, whose major concern was managing their many investments outside the region. High-net-worth individuals and small- to medium-sized financial institutions were left under service by these international custody providers. This created an opportunity for specialized custody service providers, like Arqaam Capital, to provide these individuals and institutions with access to global markets and back office operational support.

"Given the many changes affecting GCC investors noted above, there is an increasing need, and demand, for custody services among the growing cadre of sophisticated regional investors, even at the smaller end of the 'qualified investor scale'," said Anil Menon, Associate Director, Arqaam Capital. "Markets are growing, the knowledge base of products is growing, and one of the byproducts of this is the need for someone to manage it all," he explained.

These increasingly sophisticated investors are pursuing greater diversification, both geographically and across asset classes, making the job of managing their accounts exponentially more complicated.

Menon gives an example of a typical investor trading across the GCC. "They've got say five brokerages, so they are getting five monthly statements, five separate payment instructions, five separate accounts, etc."

Custody Services:

- Clearing and settlement of capital markets trades
- Safekeeping of funds and assets on behalf of clients
- Providing portfolio indicative valuations
- Providing comprehensive reporting services
- Reconciling clearances and settlements and trade management assurance

GCC Market Developments

- **GCC Market Capitalization:** US$200 billion in 2002, US$1 trillion in 2008
- **GCC Shares Traded:** 59.8 billion in 2003, 265 billion in 2007
- **GCC Corporate Debt Issues:** US$8 billion in 2003, US$80 billion in 2007
- **GCC Current Account Surplus:** US$954.6 billion in 2008
- **GCC Oil Revenues in 2008-09:** Estimates as high as US$1.3 trillion
- **HNWI Wealth in GCC:** US$2.1 trillion in 2008, US$3.8 trillion in 2012

Sources: DIFC, Arab Monetary Fund, Gulf Research Center, Al-Shall Economic Consultants, Oliver Wyman

Then add to this their securities investments in markets outside the region, and it's clear that they face a bookkeeping nightmare.

What a custody service provider does is consolidate all trades across all products in all markets into a single monthly statement. As well, investors using custody services have a single point of contact for the execution of all their investment transactions, from stocks and bonds to foreign exchange. Some custody service providers are even set up to handle more exotic products such as equity and credit derivatives.

A second factor driving the demand for these services is the growing international interest in GCC markets. According to Chamas, overseas-based asset managers and other institutions require a strong local custodian to be their single window into GCC markets.

The region is in the midst of a dramatic evolution of both markets and services. The strong growth in demand for custody services is one of the clearest indications of how substantive and structural these changes are, and it bodes well for the investment environment, both now and in the future.

Arqaam Capital soars to New Heights

Arqaam Capital Launches a UAE Brokerage Service: Arqaam Securities

Arqaam Capital launched a new UAE brokerage service for its clients and shareholders. This capability is an essential component of the firm's Capital Markets business, particularly given its focus on derivatives and other structured products. The ability to deal and execute directly with local exchanges reduces costs to clients, adds flexibility and confidentiality to its trading, and eliminates a whole range of other risks, thereby allowing for complete execution control of its Capital Markets offering.

The new firm, called Arqaam Securities, focuses on serving primarily institutional clients with timely and high-quality transaction execution. The UAE operation represents the first step in a plan to offer a one-stop-shop brokerage platform covering all major GCC exchanges. The brokerage team has expertise in handling large transactions, in following trading instructions and in "working an order," so as to ensure best execution of trades for clients. As well, because brokers have knowledge of regional markets, they are able to offer valuable local insights, particularly to international clients. Arqaam Securities also plans to launch an e-trading platform in the near future that will allow clients to trade directly on the UAE's two exchanges.

To ensure Arqaam Securities operates to the highest standards, investments have been made in implementing superior IT and brokerage trading systems and in building an experienced and professional brokerage team. Additional improvements to the operational infrastructure include the introduction of appropriate financial, control and risk management systems and other procedures that represent best global practice in order to ensure the proper and timely execution of work orders and trade instructions.

The Transaction

Obtaining a new brokerage license in the UAE is a challenging process that in recent years has become more lengthy and restricted. Therefore, Arqaam Capital chose instead to acquire an existing brokerage and build it into a world-class operation.

Arqaam Capital was able to make the acquisition because the Securities and Commodities Authority (SCA) had recently suspended the licenses of several brokerage houses - including the one acquired by Arqaam Capital - because of changes in licensing procedures and the increase in bank guarantee requirements. In contrast to a lengthy licensing procedure,

Dubai Financial Market, the trading floor

acquisition provided a quick and efficient way to get the business up and running. In less than three months the process was successfully completed.

Benefits of Adding Brokerage Services

The prime benefit of adding a brokerage service is the direct access it provides to the clearing exchanges of the Dubai Financial Market (DFM) and Abu Dhabi Securities Exchange (ADX) in order to ensure professional cash equity execution for clients. Having direct control over execution is key to serving institutional investors efficiently and to capturing market share in brokerage services under the Arqaam brand. There are myriad other advantages to offering in-house brokerage services, including revenue generation, providing an avenue to introduce institutional clients to Arqaam Capital's other business lines and product offerings, and - as a value-added service - establishing a first point of contact for the critical process of client-relationship management.

As a result of this acquisition and the market access it provides, Arqaam Capital will enjoy a reduction in execution and settlement risk, which in turn creates value for the firm by facilitating high-volume, low-risk trades. Additional benefits include lower execution costs and the ability to ensure the discrete execution of transactions - which are proprietary in nature - related to the Capital Markets business.

arqaam
SECURITIES

Arqaam Securities

Given that Arqaam Securities is licensed by the SCA (versus the Dubai Financial Services Authority, which regulates DIFC-based Arqaam Capital), the new brokerage firm is able to reach out to local institutions in the UAE market in addition to serving Arqaam Capital's shareholders and clients.

With all its clients, Arqaam Securities will seek to build the Arqaam brand and business through professional service and execution on behalf of its local, regional and international clients.

CRO

Investing in one of the Last Unspoiled

FAST FACTS

- Croatia has an amazing 5,835km of coastline
- There are 1,185 islands in the Adriatic, but only 66 are populated
- There were over 10 million foreign tourists in 2006 generating a revenue of €8 billion
- Croatia is ranked as the 18th most popular tourist destination in the world
- The country includes six World Heritage sites and eight national parks
- Some of the world's first fountain pens came from Croatia
- Croatia also has a place in the history of clothing as the origin of the necktie (kravata)
- The official flower of the Republic of Croatia is the Iris

Source: croatianhistory.net copyright by Darko Zubrinic, Zagreb

ATIA

Mediterranean's Coastlines

The Mediterranean Sea has about 46,000 kilometers of shoreline across Europe, Africa and the Middle East, but little of it remains unspoiled. Finding pristine, sea-facing real estate is rare - except in exceptional places like Croatia. Most of its 386 kilometers of coastline, both along the mainland and around its 1,200 islands, remains largely undeveloped.

Recognizing this, Arqaam Capital has announced a private placement to raise €70 million to fund investments through a newly created tourism development holding company, AC Croatia Limited. Arqaam Capital, in consultation with leading tax advisors, has created a tax efficient legal structure to invest in the real estate markets of Croatia.

AC Croatia is a vehicle for potential investors to access the real estate sector in Croatia that aims to deliver strong returns through a combined strategy of land acquisition and development of luxury master-planned tourist resorts and communities along Croatia's Dalmatian Coast. To accomplish this, Arqaam is working with leading architects, builders, consultants and resort operators.

Background

Aside from the region's natural beauty, a number of other attributes make Croatia an attractive real estate investment opportunity. It benefits from attractive demographics, rapid economic growth, an average 10% annual increase in inbound tourists and limited competition in real estate development. Arqaam Capital is well positioned to benefit from this environment, and because of its financial strength and its ability to identify investment opportunities at an early stage, it should be able to secure large parcels of developable land at attractive prices.

Other positive factors include a recent decision by the government to lift a two-year development moratorium on most hospitality and residential construction and the generally substandard quality of the many hotels and resorts built during the Cold War era. As a result, there is a shortage of new high-quality developments along the Dalmatian Coast. What's more, the price of sea-facing real estate currently lags behind that of EU members, but is likely to converge with prices in those countries, ahead of Croatia's expected accession to the EU in 2010.

Portfolio

Arqaam Capital has already acquired a 129,500-square-meter site in Brezenica, on the island of Hvar. As well, it has identified several more developable sites along the coast that it has targeted for acquisition.

All these sites share the following key characteristics:

- Natural beauty in a seaside setting
- Unspoiled and under-developed Mediterranean coastline
- Zoned for development, either Tourist (hotels, villas and apartments) or Urban

This portfolio will be developed and managed by an experienced team, both internal and external to Arqaam, with specific expertise in Croatian planning laws, procedures and applications in both urban planning and tourist zoning. Arqaam also has made great progress in developing relationships with government officials at the national, regional and local levels, an important condition for success due to the high level of government participation in the complex Croatian planning process.

The Private Placement

The private placement will give investors an access to the Croatian real estate market through subscription of shares in AC Croatia Limited

The Private Placement will launch in the third quarter of 2008, and potential qualified investors are requested to obtain a copy of the Private Placement Memorandum from their relationship officer or from the offices of Arqaam Capital.

Interview: Crescent Point

An Alternative View on Alternative Investments

Sami Sindi is one of Arqaam Capital's Non-Executive Directors, representing the Crescent Point consortium of investors in Arqaam Capital. He is a Partner and Managing Director of Crescent Point, an emerging markets investment firm focused on the Asia-Pacific region. Crescent Point, whose investors come 50% from Saudi Arabia and 50% from Western Europe and the US, has an average IRR above 170% on US$ 600 million of invested capital. In a conversation with PRIMETIME, he talks about the private equity industry, Crescent Point's investment strategy, and the reasons why his firm took a stake in Arqaam Capital.

Private Equity in Mature and Emerging Markets

For Sindi, private equity is about identifying investment opportunities that can deliver the industry's IRR target of 20%-25%. "US and European private equity markets are mature, and company valuations are equally mature. So the way to hit those IRRs in mature markets is to play the LBO game, although at one point [in the late 1990s and early 2000] there was growth associated with the technology sector, so there were moves into VC and late-stage VC."

> There is a lot of talk about the private equity opportunities in the GCC, but really, it's a mispriced opportunity right now.

"Asia tends to be different, with a different macro environment. Asia went through a fundamental shift after the mid-1990s crash. Two things happened: firstly, a lot of companies had to restructure, and secondly, a real Asian consumer was created. Historically, Asian growth was based on exports, but post crisis of 2001 and 2002, Asians started to spend money, a strong middle class began emerging, and this was driving the internal economy."

"And, because Asia, unlike Europe and the US, is a growth environment, the valuations a firm ends up paying for growth companies are at a discount to the mature companies in the US or Europe. By investing at the lower [valuation] level, firms don't need to lever up because their returns are embedded in the growth of the company, and they just have to ensure good management. In two to three years, they can exit with good returns and meet their targets."

Private Equity in the GCC

While Sindi sees both Asia and the GCC as growth environments, they do have fundamental differences. "In the GCC, there's so much liquidity in play - liquidity that's not always financially savvy - that investors face growth companies with valuations that trade like mature companies. There is a lot of talk about the private equity opportunities in the GCC, but really, it's a mispriced opportunity right now. It's very difficult for a firm to find a price that will generate the returns that deliver a comfortable risk/return ratio."

Following the 2005 crash of GCC public markets, Sindi observed how this liquidity led to a first-of-a-kind market situation where "private equity valuations were trading at higher multiples than the public markets, while it should be the other way around because of the relative illiquidity of private equity. There was so much liquidity, and people didn't know where to put it. They were afraid of the public markets. Real estate was complicated and took a lot of capital, and it also was becoming inflated. So people were throwing their money into private placements."

In the GCC, there's so much liquidity in play - liquidity that's not always financially savvy that investors face growth companies with valuations that trade like mature companies.

Crescent Point's Investment Strategy

Sindi used a discussion of his firm's investment strategy to talk more about Asian private equity markets. "We have one of the best track records in the industry, and we've done that by identifying an interesting niche in Asia. It's how we've beaten players like CPG, Carlyle and Tiger. A lot of these guys' original mandates - which they've now begun to adjust - were to take control. Our mandate is different. What we decided was we'll go and just buy a 10%-20% stake in the company."

Source: mostlyeconomics.wordpress.com

"Typically these [investee] companies really know how to operate, but what they lack is financial engineering, working the balance sheet, managing an exit with an IPO, etc. So we'll just take 10%-20%, and we'll pay a low valuation, and we say to them, 'The return we'll give you by our value-add on financial engineering will more than make up for whatever discount you perceive in your valuation today.' Also, when they look at a valuation on just 10%-20% of the business, it's less of an issue and becomes more about how we can help them run their business. Also, we're not talking about taking over their business."

But the firm also has a "macro" component to its strategy. "By 2002, you had real companies growing; however, investors still had in mind the 1997-98 crash, so there was a lag between the opportunity and the liquidity, and we identified that. We started scouring the universe for deals, and while the exits were not as clear as they are today, it was clear that good companies could be built. These economies were going through a sustainable boom and the liquidity would come back."

Derivatives are a necessary tool for managing your money, managing your balance sheet and being able to hedge, so for Arqaam, it is a differentiating factor that nobody else has, and something on which it can go out and build a real business.

He added that his firm has never set up a fund; rather, it identifies a deal, sets up an SPV, raises money into the SPV, and uses it to acquire a stake in the company.

Why Arqaam Capital?

Arqaam Capital has been Crescent Point's only private equity acquisition in the Middle East. Sindi explained why Arqaam's special expertise in derivatives sealed the deal. "The key to Arqaam from our perspective is this: all the existing investment banks and commercial banks only offer the most basic aspect of capital markets, which is brokerage. None of them has gotten into the derivatives product areas. And that is a massive, massive business. Three years ago, China kicked off derivatives; today it's 25% of all trading. It's a huge growth business with strong margins."

"Derivatives are a necessary tool for managing your money, managing your balance sheet and being able to hedge, so for Arqaam, it is a differentiating factor that nobody else has, and something on which it can go out and build a real business."

Arqaam Capital in the News

$300bn trading lift on way for DIFX

Posted on June 03. 2008 Asa Fitch The National

Derivatives trading on the Dubai International Financial Exchange (DIFX) is likely to begin in September, potentially adding US$300bn (Dh1.1 trillion) in trading volume to the bourse.

Sources close to the matter said that, barring delays in building the regulatory framework, derivatives trading should begin in Autumn. Calculations by Arqaam Capital showed that market volume last year was $1.4tn, and futures and options trading could eventually add another 25 per cent of trading activity.

The introduction of equity derivatives to the region is a key step in the rapid modernisation of the UAE's capital markets. For the first time, investors and brokers in the UAE will have a set of tools enabling them to use complex hedging strategies and take high-risk positions. Derivatives are traded in virtually all developed markets.

It had been widely expected that the DIFX would introduce derivatives at some time this year, and it has now emerged that the bourse has September as its target date. The DIFX is currently working with its regulator, the Dubai Financial Services Authority, to craft regulations that would govern these instruments.

Trading is to begin with 22 options and futures products. They include a futures contract over the FTSE, DIFX, UAE 20 index, options contracts on Dubai Ports World stock and single-stock futures contracts for all 20 securities in the index. More options contracts could be introduced in the ensuing months, provided there is sufficient demand.

Arqaam Capital begins custody services

DUBAI: Arqaam Capital, a UAE based financial institution offering investment banking services, has announced the addition of a custody division to its operations which provides a range of services including the safekeeping of assets and funds, clearing and settlement of securities transactions, among other services. The custody service represents a key benefit to investors wishing to better manage their investment portfolios in terms of cost issues and service convenience matters. The custody division mainly serves the clients of the Capital Markets business line for Arqaam Capital, which was launched earlier in January 2008. Arqaam Capital is a new financial institution, with a strong base of institutional shareholders from across the GCC. Operating out of offices in Dubai and London, its head office is located in the United Arab Emirates within the Dubai International Financial Centre (DIFC) district with a category 2 authorisation from the Dubai Financial Services Authority (DFSA) and an additional authorization to arrange and provide custody services.

Source: The Gulf Today, Monday, March 3, 2008

Vontobel, the award winning derivatives investment house in Switzerland, takes a stake in Arqaam Capital

Posted on Thursday, 3 April 2008, Arabian Business, Industry Sector Finance & Insurance

Joint plans to introduce new investment products into the region and the Swiss market.

Arqaam Capital, the leading financial institution in developing derivatives in the region, confirmed Vontobel's investment into the firm and becoming one of Arqaam Capital's latest shareholders.

Vontobel is one of the top Swiss banks in the derivatives market in Europe quoting over 5,000 products listed on the major European Stock Markets Swiss Stock Exchange (SWX), Deutsche Börse (SCOACH), Stuttgart Stock Exchange (EUWAX/ both Germany) and Borsa Italiana (SEDEX/ Italy).

Its investment provides Arqaam Capital with access to the biggest wealth management market in Switzerland and the Swiss Exchange Market. The cooperation also allows for the joint development of derivatives products from the region which would be listed and marketed in the region and in the Swiss market in addition to other relevant international markets.

Arqaam Capital aims to introduce derivatives products that offer regional and international investors with a platform to diversify their investment portfolios while managing their investment risks.

Commenting on this development, Riad Meliti, the Chief Executive Officer at Arqaam Capital, said: "We are very excited about having Vontobel Group as one of our shareholders. Their track record and prominence in their respective market in the field of derivatives underlines the market's growing confidence in our strategy and business plan. This synergy puts Arqaam Capital in an ideal position to continue leading the derivatives business in the region and introducing product diversity into the market."

Arqaam Capital is one of the first regional financial institutions to issue, list and trade structured derivatives products on GCC underlying equities as a core business line, and is the only institution with a dedicated derivatives team situated in the GCC.

In a statement by Roger Studer, Head of Investment Banking at Votobel Group, he commented: "The cooperation with Arqaam Capital provides the Vontobel Group with easier access to the Gulf region, as Arqaam Capital is a well known and respected partner for professional wealth and asset management."

Vontobel Group also announced earlier today establishing their fist GCC subsidiary based in the Dubai International Financial Centre (DIFC).

Learning Curve

Risk Management

The Cornerstone of Big Business

by: Nadeem Butt (Arqaam Capital)

Soaring inflation rates, lack of transparent data, unrated counterparties, limited historical data, regulatory risk, and geo-political risk would be all too familiar concepts to a regional risk manager. As the GCC markets develop and open up to both global and regional investors alike, the role of the risk manager is becoming increasingly important in trying to mitigate risks and balance risk return profiles.

It was not until the late 1980s that many financial institutions across developed markets globally recognized the need for a separate risk management function rather than the individual risks being managed by the respective business lines themselves. This was not an ideal situation from a senior management point of view and due to the numerous financial scandals that arose, most notably the downfall of Baring Banks in 1995. The developments put enormous pressure on the regulators to take some form of action to promote stability in the financial markets and set a common standard across firms. One such directive was the introduction of the Basel Accords (I and II) which was a set of best market practice standards. It should be emphasized, however, that it was not compulsory then for all firms to follow the Basel guidelines. The GCC as a region that has its own set of unique risk factors some of which are listed above coupled with the traditional risks common in the global marketplace.

The real challenge that exists is in determining how some of the risk management techniques and models used globally in reviewing market and credit risks can be applied to this region and how do you get around some of the assumptions made. A classic example illustrating this point would be in trying to look at portfolio Value at Risk (VaR) for which there are three well known methodologies but two of which assume that price distributions follow a log normal pattern, which is unrealistic at best.

Today the UAE Central Bank has recognized the importance of regional financial institutions being proactive in managing their risks in line with international standards and is promoting the banking sector to be Basel II compliant over a period of time. This is becoming a greater priority with the emergence of derivatives platforms across regional markets and will inevitably bring additional challenges to the markets. Clearly there are real challenges that do exist from a risk perspective but what will differentiate firms from one another will be those whose approach internally will be based on a strong control culture and sound methodologies.

Zero In



- Arqaam Capital is pleased to welcome some new faces to the team: **Dr. Reza Hadizad** Executive Director and Head of Asset Management, **Salwa Hammami** Economist, **Ahmad Mahmoud** and **Hamdy Hamoudi** Sales Associates, **Sandra Van Calck** IT Associate, **Abhay Gupta** and **Ashish Jain** Capital Market Associates.


- Arqaam Capital's Custody Services department hosted a fast and fun night of karting at the Dubai Autodrome in honor of our partners and affiliates. Everyone had a blast! Congratulations to the winners. We hope to see you all at the next Arqaam Capital event.





The Arqaam Team

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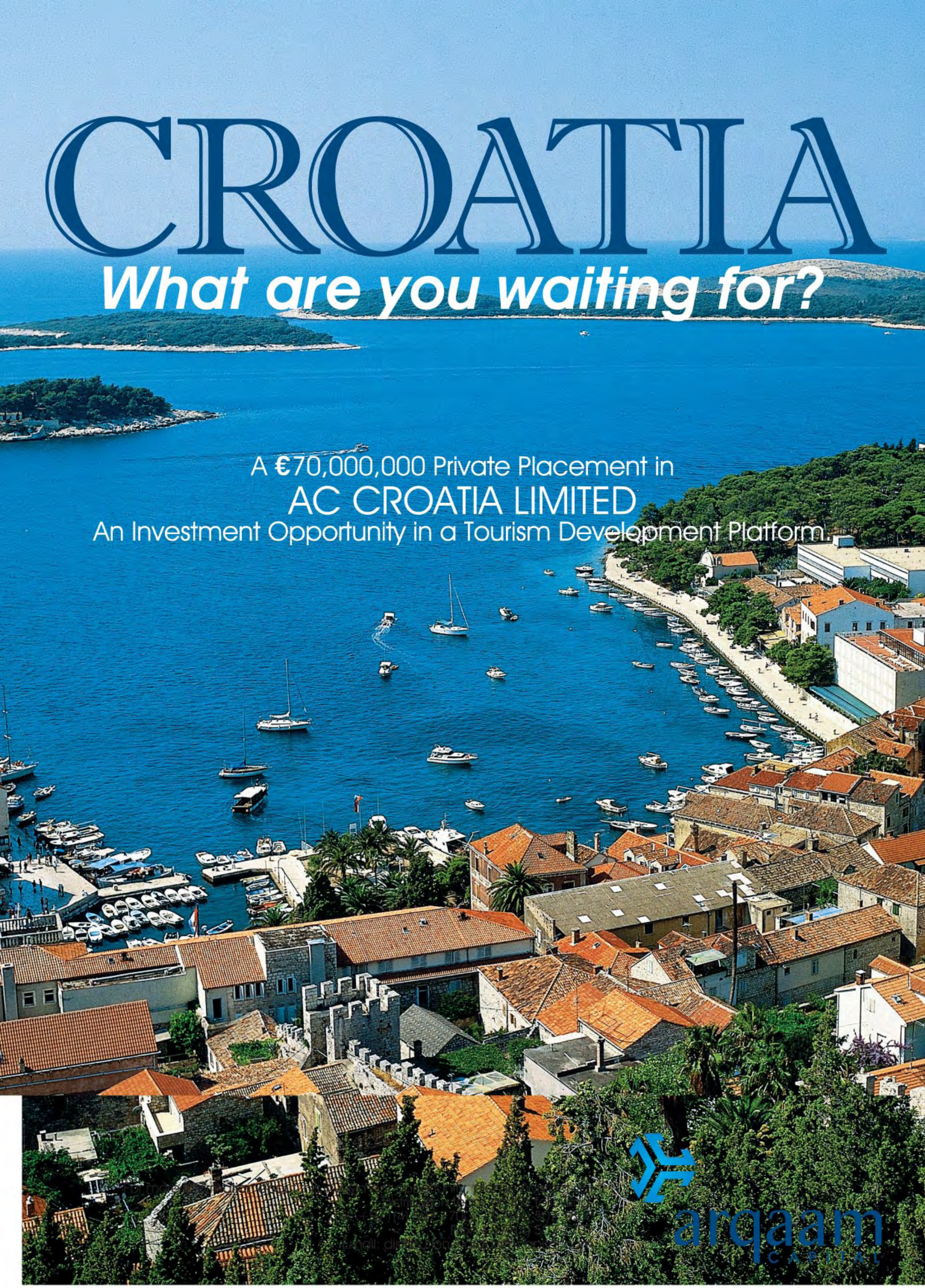

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