The Private Equity Calamity
The Untold Story of the Premium Collapse of Gulf Finance House

Gulf Finance House (GFH) is a Shari'ah compliant Islamic wholesale investment bank established in 1999 in Bahrain. The core business of GFH has been private equity, and most of this was in new real estate projects. During its first seven years of operations, GFH launched projects and investments with an aggregate final value exceeding $12 billion. Its diversified investment portfolio includes mega real estate developments such as the $1.3 billion Bahrain Financial Harbor, the $1.6 billion Energy City Qatar, and the $3.8 billion Legends in Dubai. When the global financial crisis hit in 2008, it also uncovered GFH's premium scheme, a lopsided fee structure that not only contributed to its meteoric rise but also to its near colossal collapse.

GFH was heavily involved in real estate-related Private Equity (P/E) deals and real estate-related infrastructure projects. The bank's operating activities generated a 2009 net loss of nearly $7.728 million of which $607 million was announced in the last quarter (Fitch, 2010). Compared to 2008, there was a decline of approximately 350% in the net income (net income in 2008 $292 million).

Perhaps GFH's end-of-year results can symbolize the property bust in the GCC region. For example, due to an impairment loss in 2009, the bank's total assets fell from $3.49 billion in 2008 to $1.64 billion at the end of December 2009. As one would expect these massive asset impairment provisions affect the bank's ability to fulfill its commitments on current headline projects like DubaiLand and at least three of their four Energy city projects (Qatar, Libya, Kazakhstan and India), if not all four.

The global financial crisis was fully evident by the end of 2007, and by the end of 2008 there were almost no investment sectors worldwide that had not experienced dramatic value declines. U.S. and European private equity firms openly stated in their year-end financial statements that assets declined anywhere from 15% to 25% or more. GFH (hassened its demise though thanks to a combination of risk mismanagement and a private equity fee scheme known as the premium.

Failure of Gulf Finance House (GFH) is the title of a recent book by Mohammed Khnifer. The book is a comprehensive analysis of the collapse of GFH, a private equity firm that was once considered one of the most successful in the region. The book is a must-read for anyone interested in understanding the collapse of GFH and the implications for the future of private equity in the region.

The book covers the history of GFH, its rise to prominence, and its eventual collapse. It also examines the factors that contributed to its failure, including a flawed business model, poor risk management, and inadequate governance. The book is a valuable resource for anyone interested in understanding the complexities of the private equity industry and the challenges that private equity firms face.

The book is well-researched and provides a comprehensive overview of the events leading up to GFH's collapse. It is a valuable resource for anyone interested in understanding the complexities of the private equity industry and the challenges that private equity firms face.
This kind of lopsided fee structure profits to GFH. Successful, truly deliver enormous which would, if the investment was also carried a performance fee, all of GFH’s investments with LPs a successful exit. Oddly enough, investment using LP money before case) made enormous profits on an strategy as the GPs (GFH in our example, GFH bought a mid-sized American company for $10 per share. It would then sell a majority of its position to the LP investors for $15 per share, making an immediate 50% profit on its investment. This extra bonus became commonly known as the “premium.”

The GFH model for charging the performance fee in advance became commonly known as the “premium.” This strategy backfired when the various GFH SPVs collapsed in value. GFH was once a household name in the Islamic Investment sphere but they also were a pioneer in developing a highly questionable Private Equity business model that hugely rewarded GFH before investments matured, in other words reversing the order of the success fee from the end to the beginning of a transaction. Everything changed when the credit crisis reached the Gulf’s shores. For now, GFH is trying to stand up on its feet by implementing aggressive restructuring plans from within. We should also note that further provisions equal or exceeding last year’s magnitudes are likely, which might mean the bank is on the brink of bankruptcy. But that remains to be seen in the coming months.

Mohammed Khnifer is regarded as part of a ‘second generation’ of Islamic banking practitioners who have a solid academic background in Islamic finance. He is a holder of an MSc. in Investment Banking & Islamic Finance from Reading University and is a Chartered Islamic Finance Professional (CIFP) from INCEIF. He is one of the most prolific and well-known journalist specializing in Islamic Finance today. For the past six years he has been in charge of the editorial content for the Islamic Banking section of Al Eqtisadiah (Kingdom of Saudi Arabia). By 2011, he is expected to earn his MBA in Islamic Banking & Finance after he won the Silver Scholarship Award from Bangor University.