Volume XXXV
Autumn 2024
£5.95

ARAB Banker

The Global Magazine of the Arab Bankers Association (ABA)

YOUSEF AL AWADI'S ILLUSTRIOUS 50-YEAR CAREER

BACB ON UNLOCKING NORTH AFRICA'S TRADE POTENTIAL

HSBC'S GULF GROWTH OUTLOOK IN 2024

ANNUAL SURVEY OF BIGGEST 50 GCC BANKS

UAE AND SAUDI'S THRIVING PROPERTY MARKETS

PWC ON THE AI OPPORTUNITIES FOR BANKS

THE MIDDLE EAST'S PIVOT TO ASIA

Arab Bankers Association
جمعية المصرفيين العرب

Volume XXXV, Autumn 2024

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Arab Banker is the global magazine of the Arab Bankers Association (ABA)

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The full text of this mailing list and privacy policy statement can be obtained by writing to the Arab Bankers Association. In the case of further questions or comment concerning this policy please feel free to contact:

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N.B. The ABA is planning to move to new premises in Belgravia in 2025, but at the time of going to press, the details had not been finalised. We will inform members by email once they have been finalised and post an update on the ABA website.

A new chapter in the ABA's growth

I am excited to have taken the helm at the ABA and to have the opportunity to build on its strong foundations and shape its future growth. While these are testing times on many fronts, our members are well-equipped to navigate them while also seizing new opportunities.

In April this year, I succeeded George Kanaan as CEO of the ABA after his fifteen-year tenure in the role. Having been a member myself of the association for around 20 years, I am only too aware of the size of shoes that I am stepping in to fill.

George has done a truly impressive job of revitalising the association and elevating it to a prominent position among its peers. Moreover, he has established a strong network of contacts and connections with numerous professional bodies and noteworthy organisations, whether based in the UK or in the Middle East.

My plan is to now build on these strong foundations by expanding our relationships with local regulators and with other similar organisations, such as the Association of Foreign Banks and UK Export Finance, as well as numerous Arab/British Associations such as the Saudi British Joint Business Council, the Libyan British Business Council and the Iraq British Business Council with whom we already enjoy good fraternal ties.

Our association plays a vital role in hosting many Arab ministerial delegations visiting the UK, and I hope, given the ABA's well-deserved reputation for outstanding hospitality, that this will be a role we can develop further in the future.

Our association is blessed with an exceptionally high level of collective expertise and professional experience. It is my desire that we can continue to showcase and share some of that expertise through our seminars and events in ways that are beneficial to the sector as a whole and in particular to our membership.

We are – and have always been – a member-led organisation and I am proud to say that many of our founder banks have been able to declare positive, and in some cases, record results over the last year, mainly due to increased global economic activity after the painful pandemic years and high net interest margins.

However, we face an uncertain economic outlook in the coming year with potentially less rosy prospects. The world is grappling with political instability in a number of western countries, the ongoing Russia-Ukraine war, as well as the highly volatile geopolitical situation in the Middle East – most notably marked by the Israel-Gaza war which has spilled over into Lebanon – as well as the Sudan and Libya conflicts.

On the economic front, there is a strong possibility that developed countries will experience a slowdown, or even a mild recession. Meanwhile, China's economy is already decelerating, and emerging markets too are undergoing challenging times with Egypt, Nigeria, Ghana, Ethiopia and Pakistan recording substantial depreciation of their local currencies. Meanwhile, the G7's public finances are being stretched to ever higher deficits, necessitating tax increases and/or spending cuts.

Broadly speaking, interest rates remain higher than inflation rates, while banks are facing additional challenges in the form of increased and heavy-handed new rules imposed by the various regulators – which will inevitably result in a rise in banks' cost base.

Such factors will make 2025 a challenging year for banks, during which they will have to navigate smoothly and carefully between various obstacles. They will need to remain competitive, keep a close eye on maintaining a clean and well secured portfolio, increase spending on more sophisticated IT systems in order to keep up with the rapid pace of AI-driven change, as well as enhance their capital adequacy ratios in line with new regulatory requirements – all while trying their best to maximise returns to their shareholders.

But while the challenges are undoubtedly daunting, there is much to be optimistic about too. The MENA region still offers many exciting and unrivalled opportunities for banks.

In particular, the Gulf countries continue to post healthy growth and Arab banks are well placed to help them in financing their ongoing efforts to expand and diversify.

We are all familiar with the scale of Saudi Arabia's planned giga-projects but there is also enormous development taking place in a myriad of sectors across the GCC, including green energy, agriculture, transport and logistics, automotives, telecommunications and mining.

With their strong asset bases and healthy profits, the Arab banking community will, I am certain, be well placed to seize many of these opportunities and to keep playing the vital role it always has done in ensuring the region's future progress and prosperity.

Gaby Fadel
Chief Executive Officer

Arab banks remain buoyant amid choppy waters

The MENA region is no stranger to upheaval and 2024 has not been short of challenges. However, the breadth and depth of topics covered in this year's magazine largely speak to the dynamism of the region's banks.

While much of the world is grappling with anaemic growth, the Arab banking industry, and its activities in the Gulf in particular, are providing some much-needed bright spots.

Our annual survey of the biggest 50 GCC banks illustrates that the majority of banks report consistently strong profitability, efficiency and capitalisation. The GCC now boasts six banks with equity in excess of $20 bn: two from Saudi Arabia, and one each from Abu Dhabi, Dubai, Qatar and Kuwait.

The outlook for these banks is also promising, with HSBC noting in its article how the GCC nations are well-placed to outperform their developed and emerging market peers.

It attributes that view to the rising quality of growth among Gulf countries as their collective economic reforms and broad improvements in policy gain traction.

It was a privilege to be able to sit down in person with Dr Yousef Al Awadi to hear about the transformation he has presided over at British Arab Commercial Bank (BACB) since becoming its Chairman in mid-2022; the bank achieved the highest profits in its 52-year history at the end of 2023.

'Veteran' is a word that is used liberally these days but it is befitting of Dr Al Awadi. His illustrious career to date has included a 10-year tenure as President and CEO of the Kuwait Investment Office in which he masterminded the sale of 3% of BP shares in May 1997 – constituting the largest-ever sale of a single block deal worth nearly $2 bn.

Elsewhere, we have contributions from two of the leading lights in Kuwait's banking sector – Kuwait Finance House and National Bank of Kuwait – with both pieces illustrating why they continue to outperform many of their peers.

We also have an article by Dr Karen E. Young at the Columbia University's Center on Global Energy Policy on the tremendous financing opportunities presented by the scale of the energy transition underway in the region.

A desire to forge new growth pathways is leading Gulf countries in particular to accelerate their pivot towards Asia, as think tank Asia House explores in its piece, in which it forecasts that GCC-Emerging Asia trade will reach $757 bn by 2030, almost doubling in value from 2021.

The magazine also features three insightful articles covering the performance and outlook for the UK real estate market, as well as the thriving UAE and Saudi property markets.

But the region is not without its challenges.

Our article on Egypt examines how while its economy has been given a shot in the arm by Abu Dhabi's $35 bn real estate investment, as well as IMF and EU support this year, deep structural problems remain.

Mired in deepening turmoil, we also look at how Lebanon's financial crisis unfolded over the last five years and propose a roadmap to recovery.

Of course, it has been a team effort bringing this magazine to fruition.

I would like to say an enormous thank you to Tabitha Morgan-Butt, Editor at the ABA, who proof-read this year's magazine. Her laser-sharp skills in that regard significantly improved the quality of articles throughout, while her sound editorial judgement, and support more broadly, was invaluable.

Andrew Cunningham, the ABA's Editor in Chief, who has edited the magazine in 10 previous years, also provided ready and wise counsel.

Antony Gray, who is now in his seventh year of designing the magazine, ensured this year was no exception in maintaining its high production standards. I'm also grateful to Jason Smith of JPS Print Consultants who prints the magazine and oversees its distribution.

Thanks are also due to the ABA's Gabriella Sidoli and Hanan Al Masood who worked meticulously in compiling the magazine's distribution lists.

It has been an immense pleasure working alongside both George Kanaan and Gaby Fadel; their combined dedication towards and unbridled enthusiasm for the ABA was evident throughout the course of this year.

Given the diverse economic and political landscape of the MENA region, organisations such as the ABA play a hugely significant role in unifying the Arab banking community. In light of both the global and regional upheaval we are currently living through, the association's role is more significant than ever today.

Melissa Hancock
Editor, Arab Banker

QNB Group marks 60 years of banking excellence

QNB Group, the largest financial institution in the Middle East and Africa, marked its 60th anniversary in February this year.

Established in 1964 as a Qatari joint-stock company, it became the country's first privately-owned commercial bank. Today, its ownership is divided between the Qatar Investment Authority and the private sector, and it is listed on the Qatar Stock Exchange.

QNB has been instrumental in the evolution and transformation of Qatar.

In 1994, the bank launched a vehicle financing division. Since then, it has helped support the majority of government projects, including the construction of Doha International Airport.

The bank has also financed the North Gas Field Project, along with liquefied natural gas extraction projects in Ras Laffan, supporting Qatar's position as the world's largest exporter of natural gas. It has also provided finance for the construction of the iconic Shard Tower in London.

The bank's overseas expansion began in 1976, with the opening of its first international branch in London, followed by the Paris branch two years later.

In 2005, the group embarked on an ambitious international expansion plan and today its presence extends across Asia, Africa, Europe and the Middle East.

QNB has over 30,000 employees worldwide and provides services to more than 20 million clients in key financial and business capitals. Its strategic objectives align with Qatar's national vision and it is considered one of the highest-rated banks globally, according to the three major credit rating agencies.

Abdulla Mubarak Al-Khalifa, QNB Group CEO said the bank had played "a crucial role in supporting Qatar's growth and comprehensive development under the guidance and purview of the country's astute leadership, enhancing Qatar's international standing." He added that he took pride in its success in "establishing itself as a global banking brand and a leading financial institution in Qatar and the region."

Looking ahead to the future, the group plans to expand its reach in line with its vision to become a leading bank in the Middle East, Africa and Southeast Asia, while further strengthening its reputation as a global banking brand.

Ahli United Bank UK appoints new CEO

Philip Crawford was appointed CEO of Ahli United Bank (AUB) UK in January 2024.

He comes from HSBC's private banking division, where he was Global Market Head for Saudi Arabia and Oman. Crawford has over 36 years of banking experience, 25 of them spent in private banking and wealth management in the Middle East, where he worked at HSBC, Credit Suisse and Barclays. He has also managed businesses in London, Muscat and Geneva.

AUB has had a presence in London since 1966 during which time it has established a significant business in the UK real estate market.

In August, it completed its conversion to a fully Sharia-compliant private bank following the acquisition of Bahrain-headquartered AUB by Kuwait Finance House (KFH) in October 2022 – a rare cross-border deal in the Middle East.

The conversion will involve a strategic rebranding of KFH London.

Al Rayan: Two decades of pioneering Sharia-compliant finance in the UK

In recent years, British Islamic banks have become a common sight at the top of the best buy tables and are now a key part of the broader banking sector. Yet the UK's first Islamic bank, Al Rayan, only obtained the necessary regulatory clearance to begin operations two decades ago.

Over this time, Al Rayan Bank has been a trailblazer, leading the way for other Islamic banks that have followed. It has consistently been at the forefront of innovation, introducing new banking channels and products, advocating for change, and helping to create a level playing field for the Islamic banking sector.

In 2005, just a year after being established, the bank successfully lobbied the UK government to amend the taxation of Islamic financial products, including profits earned on deposit accounts. This effectively placed Islamic banking products on a par with their non-Islamic counterparts.

Al Rayan had only been operating for four years when the 2008 global financial crisis hit. However, due to its emphasis on low-risk, asset-backed finance, it demonstrated greater resilience to the credit crunch and subsequent global financial crisis than many longer-established conventional banks.

In 2014 – during its tenth anniversary – it was acquired by Qatari Islamic bank, Masraf Al Rayan and with the support of its new parent bank, Al Rayan Bank was able to expand. It became the first UK Islamic bank with a public rating, earning recognition from peers and industry accolades.

As the bank's reputation grew, it collaborated with the Bank of England to help design the Alternative Liquidity Facility and issued the world's first sukuk in a non-Muslim country, helping to reinforce the UK's role as the western hub of Islamic finance.

In recent years, the bank has gone from strength to strength, shifting its strategy to focus primarily on commercial and premier customers and delivering a record financial performance with pre-tax profits reaching £30.61m in 2023, the best ever returns for a UK Islamic bank. It is a testament to the pioneering spirit of Al Rayan Bank and its unwavering commitment to Islamic finance.

HSBC appoints new Group CEO

In July, Georges Elhedery was appointed Group CEO at HSBC. He takes over the reins from Noel Quinn who announced his retirement in April, after a 37-year career, including five years as CEO.

While Quinn will formally step down in September, he will remain available to the group until April 30 next year, according to the bank.

HSBC's CEO role is one of the biggest seats in global finance, given the worldwide span of the bank's business. With listings in both the UK and Hong Kong, its global footprint includes a strong presence in the US, China and Saudi Arabia.

Lebanese-born Elhedery joined HSBC in 2005 as an executive in the markets division and climbed the ranks before being appointed Group Chief Financial Officer in January 2023.

He has served as co-head of HSBC's investment banking arm, where he ran its trading operations and spent nearly a decade working in Dubai, including three years as CEO for the Middle East, North Africa and Turkey between 2016 and 2019, where he was responsible for managing 10,000 staff.

Under Quinn, the bank pivoted toward Asia and in particular China, while selling off businesses in America and Europe.

HSBC's plan now is to grow fee income by providing wealth management, insurance and savings products to high-net worth clients in Asia and, potentially, the Gulf states.

Elhedery spent part of a six-month sabbatical in 2022 learning Mandarin. It is a recently acquired language for the polyglot who was already proficient in English, French, Arabic, German, Spanish and Japanese.

He has been praised by bosses for his 'deep international perspectives', which he will likely need to draw upon amid rising tensions between the West and China, and in navigating the fragile political and economic environment in Hong Kong, the bank's biggest single market.

Elhedery is the third CEO appointed under HSBC chair Sir Mark Tucker, whose nine-year tenure in the role is due to end in 2026.

GIB appoints new CEOs in Saudi Arabia and Bahrain

In March this year, Bahrain-headquartered Gulf International Bank (GIB) appointed new CEOs for its businesses in Saudi Arabia and Bahrain.

Khaled Abbas, formerly Group Wholesale Banking Head, was appointed CEO, GIB Saudi Arabia, and Sara Abdulhadi, formerly Group Chief Investment and Treasury Officer, was appointed CEO of GIB in Bahrain.

Abbas joined GIB in October 2018, initially as UAE Country Head, leading the group's representative office in Dubai and its Abu Dhabi branch. In 2019, he was appointed to the role of Group Wholesale Banking Head, which encompasses GIB's wholesale banking businesses in Saudi Arabia, Bahrain, and the UAE, along with London and New York.

Abdulhadi joined GIB in November 2019 as Group Chief Investment and Treasury Officer, overseeing GIB's Treasury and Investment activities across Saudi Arabia, Bahrain and the UAE.

Reshuffle of upper management at Union Bancaire Privée (UBP) MEA

In January this year, Mohamed Abdellatif was appointed co-head of the MEA region for Switzerland-headquartered Union Bancaire Privée (UBP), alongside Walid Shash, who has been driving UBP's MEA strategy since 2005.

In turn, Mohamed Shoukry has succeeded Abdellatif as the new CEO of UBP Middle East, its Dubai-based subsidiary.

UBP currently manages over $12 bn for its Middle Eastern clients and is seeking to double its size in the next five years, according to Abdellatif.

To meet the growing demand for Sharia-compliant products, the bank has formed its own Sharia board and is focusing on offerings for institutions, private clients, and family offices.

UBP has also been reshuffling its wealth planning services in the region.

Jamal Al Kishi returns as CEO of Deutsche Bank MEA

Jamal Al Kishi was appointed CEO for the Middle East & Africa (MEA) and Vice Chairman of Origination & Advisory MEA at Deutsche Bank, in April this year.

Al Kishi returns to the German lender after spending four years as CEO of Gulf International Bank in Bahrain. He previously served as CEO for MEA at Deutsche Bank from 2016 to 2020.

Prior to that, he held a variety of senior management positions with Deutsche Bank, including Chief Country Officer of Saudi Arabia. He has nearly 30 years of banking experience in the Middle East.

Based in Riyadh, Al Kishi will also spend significant time in Dubai in order to manage the bank's broad regional footprint and drive growth opportunities.

Since 2010, Deutsche Bank has more than doubled its capital commitment in the region and supported the ongoing development of regional financial markets. The bank has been a strong player in the Islamic finance industry for over a decade.

Riyad Bank appoints new Chief Manager

In May 2024, Tarik Ouahmed was appointed as Chief Manager of Riyad Bank's London branch and Senior Vice President of Riyad Bank Overseas Offices (US & Asia). Ouahmed had previously spent more than 20 years in investment banking, overseeing mergers and acquisitions for Credit Suisse and SocGen, as well as in strategy consulting, as a partner at Oliver Wyman.

Prior to joining Riyad Bank, he served as Investment Director at The Public Investment Fund, Saudi Arabia's sovereign wealth fund, based in Riyadh where he focused on investments in the financial services sector.

New leadership appointments at Suez Canal Bank

In April this year, Egypt's Suez Canal Bank appointed Akef El Maghraby as the new CEO and Managing Director, alongside Ahmed Amr Tantawi as the new Chairman. Their tenure will span three years, concluding in 2027.

El Maghraby formerly served as the Vice Chairperson of Banque Misr. Before that, he served a 16-year tenure at Citibank, covering credit analysis and advisory and corporate and investment banking across Egypt, Bahrain, Saudi Arabia, the UK, and the Netherlands.

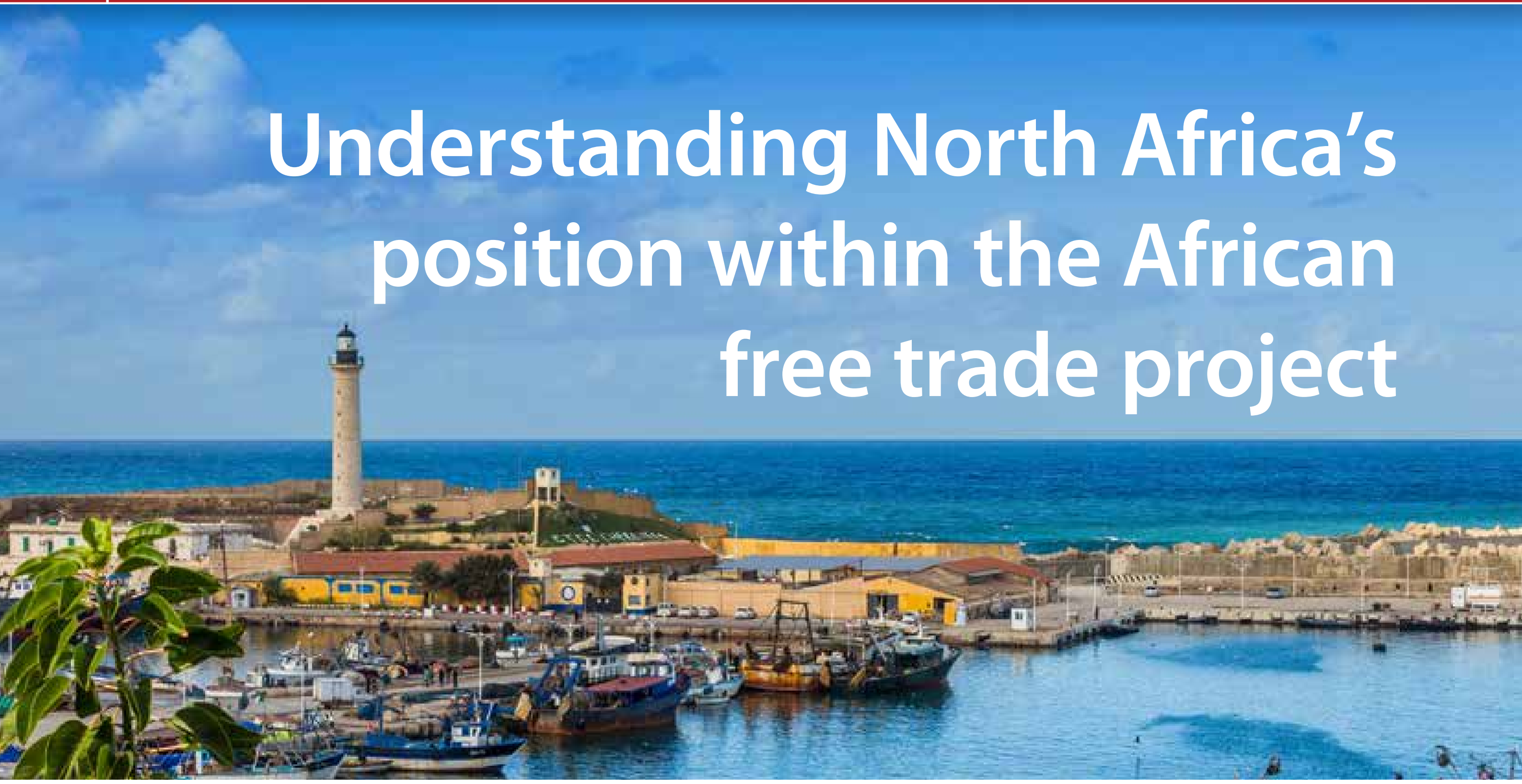
His expertise helped facilitate numerous corporate finance and sovereign wealth fund ventures through bank loans, bond issues, and sukuk.

In August this year, the bank appointed Shehab Zidan as deputy CEO and Managing Director.

Zidan had previously served as Head of Digital Transformation and Data Analytics, as well as Head of Corporate Banking Products at Banque Misr. He also established its first global banking products team.

Before joining Banque Misr, Zidan worked as Head of Corporate Finance and Regional Head of Banking Products at Barclays Bank. He also previously worked at Arab African International Bank and Commercial International Bank.

Understanding North Africa's position within the African free trade project



Conventional global economic performance indicators traditionally ignore the enormous untapped potential for wealth creation that exists within the African continent. It's a potential that has remained largely unrealised in the modern age, but which the signatories of the African Continental Free Trade Agreement (AfCFTA) are determined to unleash.

This landmark agreement, signed in Rwanda in March 2018, envisions nothing less than the realisation of the full economic power of Africa's 1.3 billion people with a combined GDP of more than $3.4 trillion.

London-based British Arab Commercial Bank (BACB), which provides trade finance and other facilities to banks across the region, is already playing an active role in pursuing this vision.

Arab Banker asked BACB's Nabil Frik, Head of Financial Institutions at BACB in London and Amine Mouffok, Senior Manager, Africa & Middle East, to examine North Africa's unique position and the challenges it faces around economic integration.

Established in 2018, the AfCFTA aims to unite Africa's 54 markets under a single free trade area, to facilitate the flow of goods, services, investment and people.

The agreement is primarily concerned with tariff concessions, harmonised regulations, and open borders. Since the 10th Extraordinary Session of the Assembly held in Kigali in Rwanda in March 2018, 47 member states have ratified the AfCFTA and several pilots have been conducted to trial the free trade area's future administration.

In October 2022, the AfCFTA Guided Trade Initiative was launched which pilots preferential trade among eight member states (Cameroon, Egypt, Ghana, Kenya, Mauritius, Rwanda, Tanzania and Tunisia) for 96 commodities – primarily agricultural products and foodstuffs – in line with the agreement's focus on value chain development.

There are plans to expand the trial to a further 32 markets in 2024.

While certainly impressive, these achievements have been modest compared to the scale of the AfCFTA's ambitions in North Africa. A unique set of cultural, economic, historical and geographic circumstances mean that North Africa poses a particular challenge to those keen to promote intra-African trade integration. Success in the region – and the initiative has had many successes thus far – will be contingent on resolving internal obstacles and attracting international investment for economic development.

Pervasive issues in North Africa endure

Currently, only 13–15% of Africa's trade is inter-regional, compared with outbound flows of more than 60% towards Europe, the Gulf and Asia, according to research published by French banking group BNP Paribas.

This falls significantly short of the World Bank's estimate that intra-African trade will account for 50% of total continental trade by 2030, as outlined in a joint report in May 2022 by the World Economic Forum and consulting firm Deloitte.

BACB

BACB is a UK-based bank regulated by the PRA and FCA. It specialises in supporting trade flows to and from the Middle East and Africa, and connecting them with the rest of the world. The Bank was founded in 1972 and has branches in Algeria, Libya and Côte d'Ivoire.

Laying the groundwork for intra-African trade in Libya

Although Libya has yet to ratify the AfCFTA, it is now on the path to implementing a ten-year, multi-phase plan that addresses trade barriers and promotes economic development. The starting point is favourable: historical precedent means that there are few regulatory trade barriers to overcome.

Despite challenging political circumstances, Libyan industry has worked to nurse its exports back from $10.4 bn in 2015, to $36 bn in 2022. This recent period of relative economic stability has enabled the country's manufacturers to begin re-engaging with African markets and their products now reach neighbouring countries such as Tunisia.

While this constitutes just 0.47% of Libya's total exports, it marks a 364% increase since 2017, adding $132 bn to the nation's balance sheet. Equally encouraging is the fact that trade flows with North African markets are mutual, Libya imported $1.6 bn worth of goods from Egypt alone in 2023.

In accordance with the broader goals of the AfCFTA, Libya has participated in initiatives such as the Common Market for Eastern and Southern Africa's Federation of Women in Business, working in tandem with the Regional Enterprise Competitiveness and Access to Markets Programme, to help improve financial literacy and empower women to gain access to finance.

That said, there are still barriers that prevent Libya from unlocking its true potential and the country remains reliant on exports of crude petroleum and gas to other continents. In 2023, Libya exported 432 million barrels of oil totalling $35.8 bn to Europe, the US, and Asia. In contrast, intra-African trade favours the exchange of metals, chemicals, and food products. While there has been progress, achieving intra-African trade integration will be a long-term endeavour.

A closer look at North Africa reveals some of the reasons behind these figures. In 2022, Morocco exported $312 m worth of goods to its neighbour, Mauritania – only 0.67% of its total exports and contributing just 0.2% to its GDP, OEC data shows. Part of the problem arises from the high level of informal cross-border trade within the region, an historic pattern that has developed over time between tribes and families on both sides of what are today national borders.

These informal flows began well before highways and air freight were conceivable possibilities and have long gone unregistered, with the Economic Commission for Africa (ECA) reporting that 30–72% of trade across Africa is informal. Thus, much of North Africa's exports – and, in turn, its true economic output – is unmeasured.

Formalising these flows would not only improve the bankability of businesses operating in the region, but also the quality of goods and the commercial security of traders.

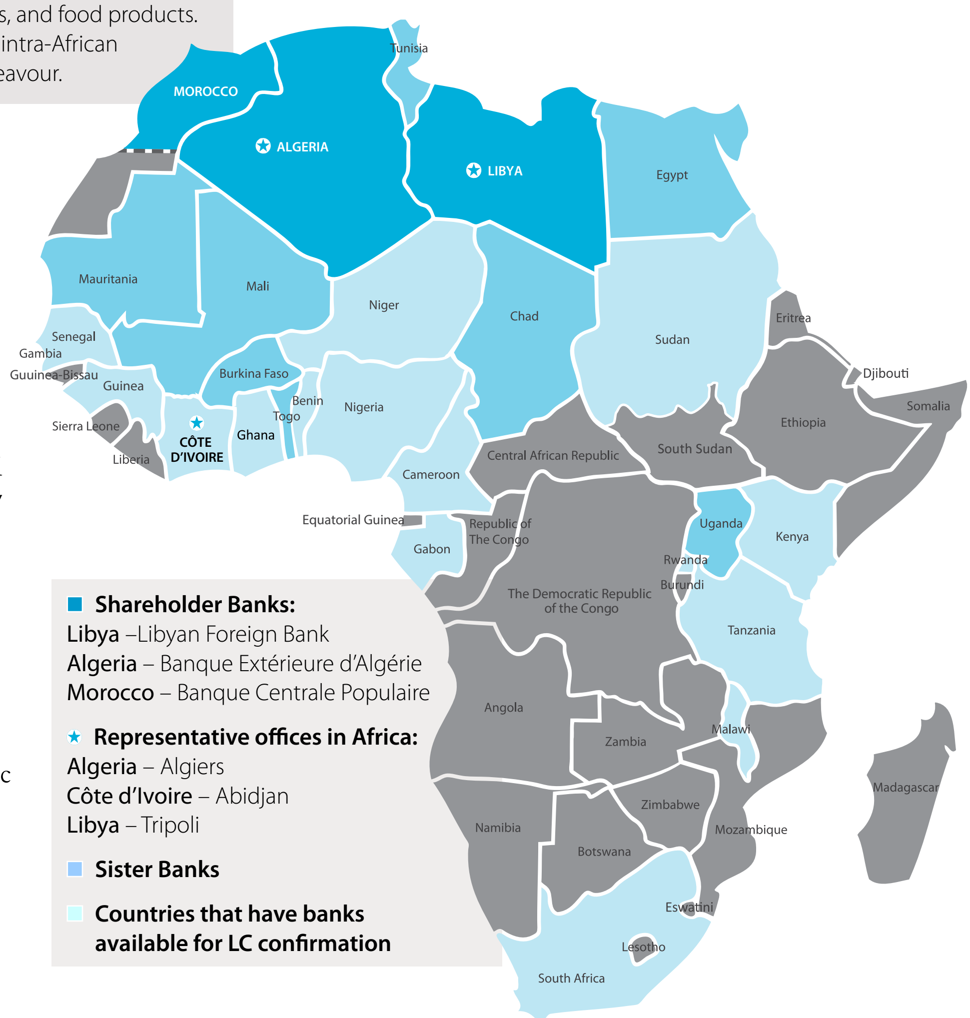
Increasing cross-border trade flows will require North African markets to improve their infrastructures. This is key to unlocking the region's potential, and would facilitate the flow of goods from North African markets to the rest of the continent. The Sahara Desert however acts as a permanent barrier, separating the region from the rest of Africa – much as the Great Rift Valley isolates the Eastern part of the continent.

More cross-border road projects would help, since the only viable existing routes are by air, which is prohibitively expensive. According to research from Denmark's Transporteca, which provides transport solutions for companies, a single cubic metre of 500 kg cargo is 18 times more expensive to transport via air than by sea. Clearly another reason why North African markets currently prioritise (ocean-bound) trade with their Mediterranean partners.

Another significant factor is the relative weakness of the North African manufacturing sector. Many of the region's economies are in the process of transitioning away from agriculture and extraction and are moving directly to more service-oriented economies, without the traditional intermediate step of industrialisation.

With the exception of Egypt and Tunisia, North African markets rank in the lower quartile for global economic complexity in Harvard Growth Lab's Country Rankings, due to their over-reliance on exporting raw materials, with none of the added value that manufacturing can provide.

BACB Africa Coverage



Nabil Frik

Nabil Frik is Head of Financial Institutions at BACB in London. He is responsible for providing strategic oversight of the bank's activities across the Middle East, North, and Sub-Saharan Africa. He has over 20 years of experience within the banking industry in both the UK and Germany, with specific expertise in risk management and business development in trade and supply chain finance.

Amine Mouffok

Amine Mouffok is Senior Manager, Africa and Middle East at BACB in London. He has over two decades of experience and expertise in servicing and delivering trade finance solutions to financial institutions in North and West Africa, as well as in the Gulf and Asia.

Opportunities lie ahead

Despite these challenges, progress is being made across North Africa, with new digital, physical, and even financial infrastructures currently being developed.

Afreximbank, headquartered in Cairo, is one such success story. It not only hosts the annual Intra-African Trade Fair, but has recently launched several digital tools to boost intra-African trade.

One of these, the Pan-African Payment and Settlement System, aims to provide secure, instant, cross-border payments, and is being increasingly used by major banks operating in markets surrounding the Sahara.

Afreximbank also recently launched its Engineering, Procurement and Construction Platform, to help contractors bid for infrastructure contracts – a welcome development that should make the administration of infrastructure projects easier to handle.

The bank has also partnered with the AfCFTA Secretariat to establish a $10 bn Adjustment Fund: a multi-legged financial support package to aid markets that suffer losses or disruptions during the AfCFTA's implementation.

The Adjustment Fund commenced operations in the second quarter of 2024 and consists of three components: The Base, General and Credit Funds. The Base Fund will use contributions from AfCFTA state parties, as well as grants and technical assistance, to address tariff revenue losses, infrastructure deficits and possible supply chain disruptions that might result from the agreement's implementation.

The General Fund will finance the development of trade-enabling infrastructure, while the Credit Fund will be used to mobilise commercial funding to support both public and private sectors to adjust and take advantage of the opportunities created by the AfCFTA.

Morocco's central bank, Bank Al Maghrib (BAM) is another success story. It has established itself as an important banking centre on the continent, while laying the foundations of a soft financial services infrastructure.

BAM has focused its efforts on neighbouring African markets, expanding its operations to over 30 countries. It works closely with pan-African regulators – including the Association of African Central Banks and the ECA – and intra-African trade currently constitutes approximately 23% of its activities.

The bank has also targeted the 23 African markets bordering the Atlantic on its west coast – known as the Atlantic Africa group – with its Atlantic Initiative, which aims to enhance logistical links via sea and air. As a result, it now looks well placed to optimise both the exchange of goods and investment flows between African markets.

North African countries have also made concerted efforts to build some of the physical infrastructure needed to connect with the rest of the continent. Spanning 60,000 miles and costing an estimated $30 bn, the Trans-African Highway Network is now mostly complete in North Africa, connecting the cities of Cairo and Dakar, Algiers and Lagos, amongst others.

However, to ensure further progress, the region will need to address its infrastructure funding gap, currently estimated to total between $68 bn and $108 bn annually, according to the African Development Bank. While positive progress has certainly been made, the realisation of AfCFTA's ambitions for North Africa still requires large-scale investment.

Unlocking new financing will be crucial to greater economic integration

There have been substantial improvements on the ground already in this respect. For example, BACB is seeing a significant number of Letters of Credit inbound towards its core North African markets, demonstrating a clear up-tick in investment and trade.

Yet international resources are essential to the realisation of the continent's potential and specialist trade finance banks hold the key to accessing them. Through years of experience and a strong knowledge of local markets, these institutions are able to tap into liquidity pools to fund infrastructure projects, attract investors to enhance manufacturing capacities, and provide the funding necessary to help the region diversify its exports.

BACB is one example of these, having been physically present in its core markets across North Africa for over 50 years, cultivating ties with African markets and creating a network of businesses, financiers, and exporters through mutual trust and loyalty.

Importantly, these banks have established and built upon investor confidence by implementing rigorous risk and compliance measures to mitigate concerns for financiers and traders alike. This not only boosts confidence when it comes to investing in the region, but also enables them to address complex issues around economic diversification.

In doing so, financial institutions such as BACB can help North African markets grow and better engage with fellow African countries in the future.

In the long-term, as North African countries integrate economically with each other and with the rest of the continent, its unique positioning will ultimately serve as a strength, not a challenge. ■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Yousef Al Awadi: A remarkable career which is still scaling new heights

Dr Yousef Al Awadi KBE, was appointed Chairman of UK-headquartered British Arab Commercial Bank (BACB) in London in May 2022.

Working closely with the bank's CEO and executive management team, Dr Al Awadi has since overseen a successful turnaround strategy that led to BACB achieving impressive financial results in 2023, including the highest profits in its 52-year history.

Arab Banker's Editor, Melissa Hancock, met with Dr Al Awadi at the bank's London headquarters, to hear first-hand about his illustrious career, spanning four decades, in the banking, finance and fund management industry.

ARAB BANKER: What are the key changes that you have introduced since joining BACB and how did they contribute to the bank's historic financial results?

YOUSEF AL AWADI: When I joined BACB in mid-2022, the bank's financial performance was not in line with shareholders' expectations and it was in the process of exiting from some legacy business activities. Therefore, my Board approved a revised strategy focused on leveraging our expertise in trade finance, treasury and real estate, as well as investing in the development of our core relationships across the 27 frontier and emerging markets we operate in within Africa. Naturally, Libya features prominently in our activities given our long history, deep knowledge and expertise in this market, as well as our shareholder ownership structure.

In addition, we have focused on cost management to ensure the bank can grow but also create more efficiency and ultimately a better customer experience.

As costs are usually flexible upward and rigid downward, we have also focused on building a strong and sustainable revenue base. BACB's cost/income ratio was close to 100% at the end of 2021; that was both extremely high and clearly unsustainable, requiring immediate attention. We brought that ratio down to 61% at the end of 2023.

The composition of the bank's senior management team has undergone significant change over the past two years, which included my appointment of Paul Jennings as CEO in April 2023. I can now confidently say we have top professionals working within the team, and in fact across the entire workforce, who are committed to and aligned with the bank's strategy. This is underpinned by a highly experienced, knowledgeable and qualified Board of Directors under my direction as Chairman.

BACB's deep product and regional expertise have seen it excel in financing trade flows to and from the Middle East and Africa. Can you tell us more specifically what this entails?

We work closely with clients to determine the trade finance solution best suited to meet their needs - this will depend on the nature of the business being undertaken and the geographies involved. This tailored approach, supported by a multilingual team of professionals, working both in the UK and our core markets, ensures that our clients' trade transactions are structured and expedited efficiently and in alignment with international banking regulations and practices, as well as local requirements.

Since the bank was established over half a century ago, it has demonstrated a steadfast commitment to the specialist markets where it operates, notably our pan-Africa focus. The loyalty shown to our core markets, notwithstanding challenging conditions from time to time, has been proven and will continue to create opportunities for us and our clients.

Furthermore, the bank's ability to properly structure transactions to mitigate risk provides additional comfort. This, coupled with strong trade distribution channels, make BACB more relevant than ever to its partners.

We are not only a transactional bank - we are a relationship bank. If your bank stands with you in difficult times, you will remember this. While we operate in a cautious manner, we work effectively to support our core clients with both the speed and quality of service that they require.

Some of the markets we are focused on may not even feature on the risk matrix of major banks or competitors, but owing to both our expertise and our partnership network in these African markets, we are able to operate comfortably, providing our clients with the solutions they need.

Relatively speaking, we are a niche institution, but we remain relevant and important to our core markets as they need international banks willing to take these calculated risks and provide a gateway to global markets. We can also be their bank of choice for Treasury services including deposit-taking activities.

What do you see as the key opportunities and challenges for BACB today?

We are confident in our ability to take advantage of the growth opportunities that will continue to present themselves in our core markets, generating value for our clients and the communities in which we operate.

BACB

BACB was founded in 1972 as UBAF Limited. It initially operated as an affiliate of Midland Bank and subsequently of HSBC following that bank's takeover of the Midland Bank Group. The Bank adopted the name British Arab Commercial Bank in 1996.

In 2010 HSBC sold its 49% shareholding to the Libyan Foreign Bank which is fully owned by the Central Bank of Libya. Following a further capital increase in June 2015, the Bank's current ownership structure is today split between Libyan Foreign Bank (86.90%), Morocco's Banque Centrale Populaire (6.55%) and Algeria's Banque Extérieure d'Algérie (6.55%).

Headquartered in the City of London, where it employs over 200 people, BACB also has three representative offices in Tripoli, Libya; Algiers, Algeria; and Abidjan, Cote d'Ivoire.

The Bank specialises in providing international trade solutions to clients located in or trading with Africa and the Middle East where it is a trusted partner.

In addition to a core trade finance offering, BACB provides niche UK real estate finance facilities and operates a full treasury function which is active in foreign exchange, derivative and debt capital markets.

Our expectation is that easing inflation is likely to allow major central banks to start cutting rates later in 2024 which could boost international trade flows in 2025.

However, we recognise that market volatility and geopolitical tensions can still cause headwinds. In particular rising nationalism, anti-globalisation and protectionism are threats to long-term growth prospects in emerging and frontier markets.

In addition, supply chain issues and negative environmental, agricultural, and economic consequences of adverse climate events still pose a risk to several of our markets.

BACB has a proven track record of agility and market knowledge, enabling it to react swiftly to changing market conditions. I am confident in our teams' ability to rise to any challenge and continue to deliver the bank's strategy in an effective manner that ensures our success, as well as providing our clients with the financial services and support they need to achieve their objectives.

You have a wealth of experience in UK-Arab banking and international finance. What aspects of this have you enjoyed the most along the way?

My association with The City goes back to the late 1970s, when I was a young banker with Gulf Bank-Kuwait that had a representative office here which I used to visit frequently.

But my real experience with UK-Arab banking started in 1990 when I moved to London to run Al Baraka Investment Company and I was in charge of the Group's investments across the UK, Europe, North America and North Africa. That gave me an invaluable opportunity to develop further my knowledge of Islamic banking and finance.

However, the greatest opportunity to enhance my skills and experience in the space of asset management came when I joined the Kuwait Investment Office (KIO) in London as President and CEO in October 1993. That was at a time when it was facing unprecedented challenges.

The KIO, which I call the grandfather of the sovereign wealth funds, was established in February 1953 when Kuwait used to be a British protectorate.

Iraq invaded Kuwait in August 1990, and during the seven-month occupation that followed, the Office played a vital role in managing the finances of Kuwait while in exile. The key source of finances for Kuwait was mainly funds managed by the KIO outside of London and from the external fund managers. When I arrived at the Office in late 1993, oil prices were at historically low levels, and Kuwait, which was liberated in February 1991, was still requiring huge sums of financing for reconstruction and rehabilitation of its oil sector. The KIO had also suffered huge losses in its investments in Spain. To meet the country's funding needs, the KIO had to embark on a program of an orderly liquidation of its assets, mainly marketable securities and real estate portfolios.

Within a few years, my team and I were able to raise staff morale, improve the performance of the Office's investment portfolios and operational resilience, inculcate a culture of checks and balances and rebuild the reputation of the Office in the City and worldwide. Also, we took pride in the fact that the cost of running the investment portfolios was extremely competitive by industry standards.

What do you consider to be your career highlights?

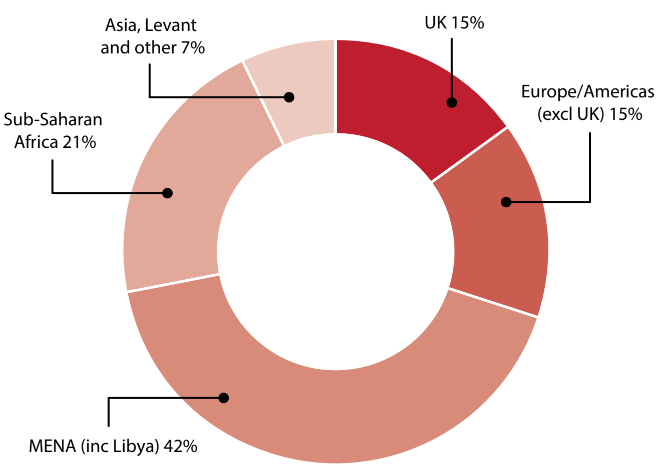
The period from 1993 to 2003 at the KIO was the most interesting and professionally rewarding in my investment and banking career. During this time, I built an excellent network of professional relationships in the City and worldwide.

One of the major highlights during that period was masterminding the sale of 3% of BP shares in May 1997, in the largest-ever sale of a single block deal worth nearly $2 billion. For Kuwait, being an oil rich country, holding a large position in BP shares represented an overweight position in the oil sector in its portfolio and therefore a strategic decision was made to partially divest from BP by selling 3% of BP shares.

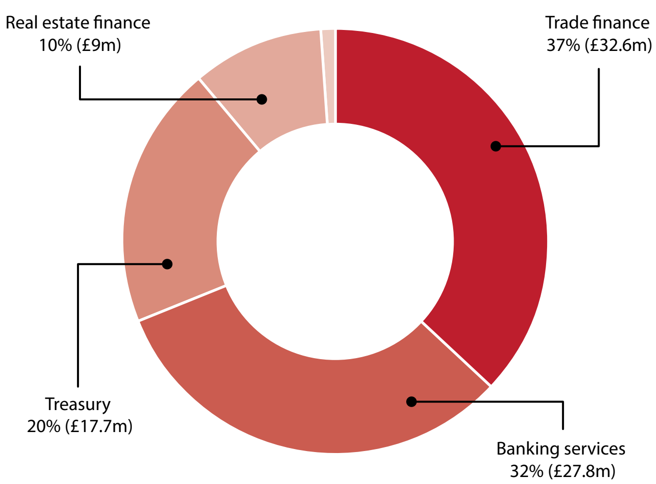
But we were not in a hurry – we spent almost three years building up to the sale – so we were very careful, patient and objective about it. We consulted with the best advisers in the City. We were regularly monitoring the macroeconomic conditions, stock markets and BP's share performance and company results.

On 14 May 1997, after the London Stock Exchange closed, we called in three major banks to bid for 170 million shares of BP and the deal was won by the best bidder, Goldman Sachs. The KIO received a lot of praise for the way it handled the

2023 Operating income by region



2023 Operating income by business



References to operating income on this page refer to operating income before allowance for credit losses as per Statement of Comprehensive Income. Source: BACB Annual Report 2023.

Dr Al Awadi

With a banking career stretching back to the late 70s, Dr Al Awadi has a wealth of experience in UK-Arab banking and international finance, having served as Chief General Manager and CEO of Kuwait's Gulf Bank as well as President and CEO of the Kuwait Investment Office in London. He was awarded the Honorary Knight Commander of the Most Excellent Order of the British Empire (KBE) in 2005.

He is currently an Independent Director of Fidelity Funds, Luxembourg. Previously he was an Independent Director of Bank ABC Group, Bahrain, ABC International Bank plc, London, and Chairman of Bank ABC Egypt. He also served as a Director of the International Advisory Board of Goldman Sachs and the Higher Planning Council in Kuwait.

sale which was received positively by the markets. It was a very successful and profitable deal for Kuwait at large and the KIO in particular.

You've talked openly about your strong commitment to the Libyan market. What's your view with regards to how the country is performing today and its prospects?

Libya is the primary market for BACB – strengthening our current relationships there and building new ones is a major objective for us. The bank has a dedicated team of Libyan experts and has operated a representative office in Tripoli for over 20 years.

Since joining the bank in mid-2022, I have made several trips to Tripoli, along with BACB's executives, where we have met with our key shareholder Libyan Foreign Bank, as well as its sole owner, the Central Bank of Libya, in addition to the major sovereign institutions, commercial banks and corporate clients.

These trips proved to be extremely successful, helping to strengthen our long-standing partnerships in the country. Our executive management team and business relationship managers are also regularly visiting Libya, and indeed other markets, to foster current relationships and develop new ones.

Libya itself is a rich country with foreign reserves of approximately $80 billion, huge potential and numerous business opportunities that will be enhanced further with improved stability on the political front. The country is in need of major economic and social infrastructure projects and BACB is well positioned to participate in the financing of such deals if required. Libyan financial institutions and corporate clients are major depositors with the bank and important trade finance and foreign exchange clients. It is worth mentioning that our Libyan exposure is very short-term and self-liquidating with a remarkable historical performance.

Outside of banking, what passions and interests do you have in life?

Well, first of all, it's my family – they're my primary responsibility and enjoyment. I also have a lovely extended family and I like socialising with my close friends.

I enjoy travelling too. London is my favourite city – this great cosmopolitan and cultural city which is second to none. Marbella in Spain is another destination that we enjoy visiting as a family and gives me an opportunity to play golf, tennis and padel. Reading is an old and a great enjoyment of mine. So I can't complain of not having enough things to do. ■

Financial highlights

	2023	2022
FINANCIAL POSITION £m		
Operating Income before loan impairments	**87.9**	57.4
Profit before income tax	**36.4**	13.9
Profit for the year	**27.9**	15.1
Total Assets	**3,002**	3,195
Total Loans	**1,331**	1,456
Total Equity	**233**	207
Tier 1 & 2 Capital (Eligible Capital)	**277**	268
RATIOS %		
Capital Adequacy[1]	**22.3%**	21.7%
LCR[2]	**271%**	254%
Cost Income Ratio[3]	**61%**	73%
Return on Tier 1 Capital	**12%**	8%
Return on Tier 1 & 2 (Total Eligible Capital)	**10%**	6%
Non Performing Loans %	**4%**	3%
Net Stable Funding Ratio[4]	**151%**	130%

[1] *Tier 1 and 2 capital divided by Risk Weighted Assets*
[2] *LCR is the average value of the preceding 12 months*
[3] *Based on Administrative Expenses divided by Operating Income*
[4] *Net Stable Funding Ratio is the average of the preceding 4 quarters.*

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Structural reforms and growth frame GCC's outlook

The Gulf is not immune to the multitude of headwinds buffeting the global economy. However, as Simon Williams, Chief Economist for CEEMEA at HSBC, explains in this article for *Arab Banker*, the growth outlook for the GCC states is more promising than many of its peers owing to its rising quality of growth and overall fiscal strength.

There are grounds for cautious optimism around forecasts for the Gulf region. Four years on from when HSBC Global Research first started to turn bullish on the Gulf, we still believe the GCC nations are well-placed to outperform their developed and emerging market peers.

That view partly reflects the pace at which we expect the region's non-oil economy to continue to expand. But it is more a reflection of the rising quality of growth, as economic reforms and broad improvements in policy gain traction. This has been backed by sharply rising investment, which is set to build on existing structural strengths, not least the youthfulness of the fast-growing population, and the Gulf's financial wealth.

This balance sheet strength helps to explain why geopolitical tensions have had a limited impact on macro performance and market sentiment.

Low debt and high savings also provide a buffer against economic shock, enabling greater policy flexibility, and at the moment there is little in the region's overall balances to be a cause of concern. This includes the outlook for the region's public finances and external accounts which remain strong, and for inflation, which we see trending lower.

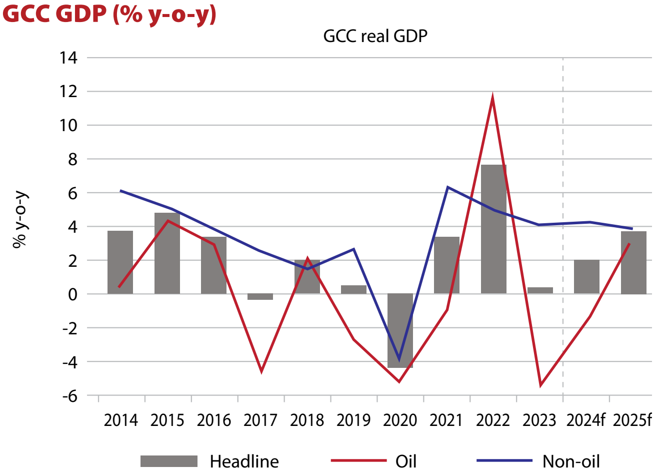
Most immediately, analysts are untroubled by the sharp drop off in headline growth which led the regional economy to expand by just 0.5% last year, and which we estimate will likely cap growth at around 2% this year on a weighted-average basis.

Simon Williams

Simon Williams joined HSBC in 2006 as Chief Economist for MENA in Dubai, before moving to London in 2014. Simon returned to Dubai in 2023, where he continues to head the Central and Eastern Europe, Middle East, and Africa (CEEMEA) region's economics coverage and lead the bank's macro research in the Middle East. Simon has more than 25 years' experience as a country analyst and economist for the emerging markets.

Both figures are considerably lower than the post-pandemic trend. This is partially explained by shifts in oil output, with OPEC production cuts driving export volumes down, leading to energy sector contraction.

GCC GDP (% y-o-y)



Source: CEIC, HSBC calculations and forecasts

But it is nominal performance (the strength of revenues) that sets the tone, and provided oil holds around the $80/b level that underpins our forecasts, we expect little feedthrough from reduced oil output into the broader economy.

Indeed, our estimates for 2023 and forecasts for 2024 show the non-oil economy expanding by over 4% – well above the headline rate – still ahead of the medium-term average and roughly double the global average.

But while we remain optimistic, emerging challenges are also clear. Most of these are external, with a booming India only partially offsetting China's slowdown, weak global risk appetite impeding access to FDI, and the GCC's dollar-peg set to leave monetary policy too tight. The drag of regional geopolitics is hard to quantify, but uncertainty brings hesitancy, and any further escalation would take a heavier toll.

Most immediately, a weak and uneven global growth outlook remains concerning. Gulf economies are more exposed to demand from still-troubled economies in continental Europe and the UK than they are to the US, where growth has run ahead of expectations.

Close links between parts of the Gulf, The Association of Southeast Asian Nations and South Asia offer some comfort, particularly in the case of the UAE with its ties to India. The challenges facing China have also offered the region some opportunity, increasing the Gulf's appeal as a destination for capital from Chinese corporates looking to access faster-growing markets.

In addition, for all the comfort offered by the dollar-peg foreign exchange regime, it has brought cyclical headwinds to the economy. Most obviously, Gulf currencies have appreciated on a trade-weighted real effective exchange rate basis, as the dollar has gained.

This will create further headwinds for the Gulf, as it seeks to attract additional investment in the face of competition from economies where the exchange rate has weakened.

There are signs that some GCC governments have loosened fiscal policy in an attempt to offset monetary tightening and have been looking to draw on the broader public balance sheet to support growth and fund capital projects.

With the headline budget outlook still strong and our forecasts suggesting public debt will trend lower, this is not a cause of immediate concern. However, the strong overall outturn masks an underlying trend within which public spending is rising more quickly than non-oil revenues, pushing the non-oil budget deficit higher.

This shift is offset to some degree by strong growth in the non-oil economy, which has kept the non-oil deficit stable as a proportion of non-oil GDP. The widening of the shortfall in nominal terms however, increases the sum that must be covered by oil receipts, thus pushing the breakeven oil price higher.

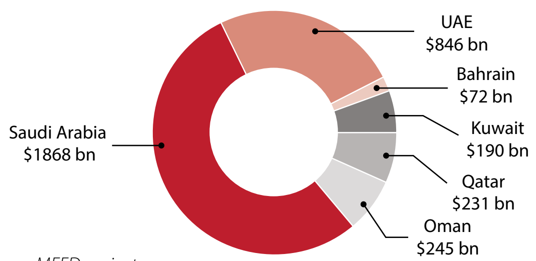
We stand by our expectation that oil will trade in a range of $70–90/barrel over the medium term. This leaves an $80/b mid-point as the basis for the comfortable outlook we are projecting and with spot currently trading above that level, the near-term risk would appear to be to the upside.

As the GCC's economic cycle matures, the defining factor in terms of its growth outlook becomes progress with structural reforms that will boost productivity and enhance the pace and quality of non-oil growth.

There is evidence that reforms have accelerated markedly over the past five years, driven in many cases by a new generation of political leaders and backed by a youthful population.

But the enormous task of transforming the Gulf from a region of consumption funded by oil income, into an economy sustaining itself by creating value through its non-oil sector, will be long and complex. It is also highly uneven, and those that are lagging with their reform agenda will see economic performance fade. Even where this is underway, the challenges of managing the economic adjustment process will become increasingly clear.

Projects planned and underway in the GCC

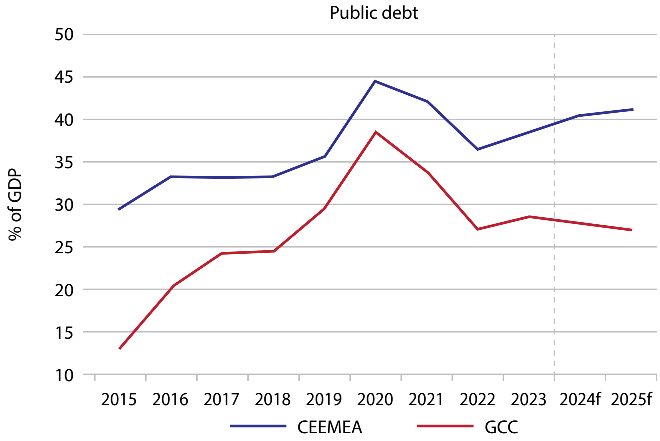


Source: MEED projects

Arguably, the UAE now leads the way, with our projection that its non-oil sector will continue to grow by 5% over both this year and next, reflecting both the cyclical momentum the economy has built since the pandemic, and the lasting gains offered by previous structural reforms. These changes are broad and numerous, encompassing labour and financial market reforms, an IPO programme, liberalisation of the social code, an ongoing overhaul of the business environment and accelerated digitalisation of both government and the domestic economy.

We are also positive on the outlook for Saudi Arabia, where

Public debt (% GDP)



Source: CEIC, HSBC calculations and forecasts

again we expect recent movement on structural reform to extend the cycle of strong non-oil growth at around 5% over the next few years.

The magnitude of the changes delivered in the kingdom over the past five years is greater than anywhere else in the region.

The IMF estimates that more than 4% of potential non-oil growth can be added to its baseline growth projections, thanks to the comprehensive overhaul of the domestic economy framed by Vision 2030.

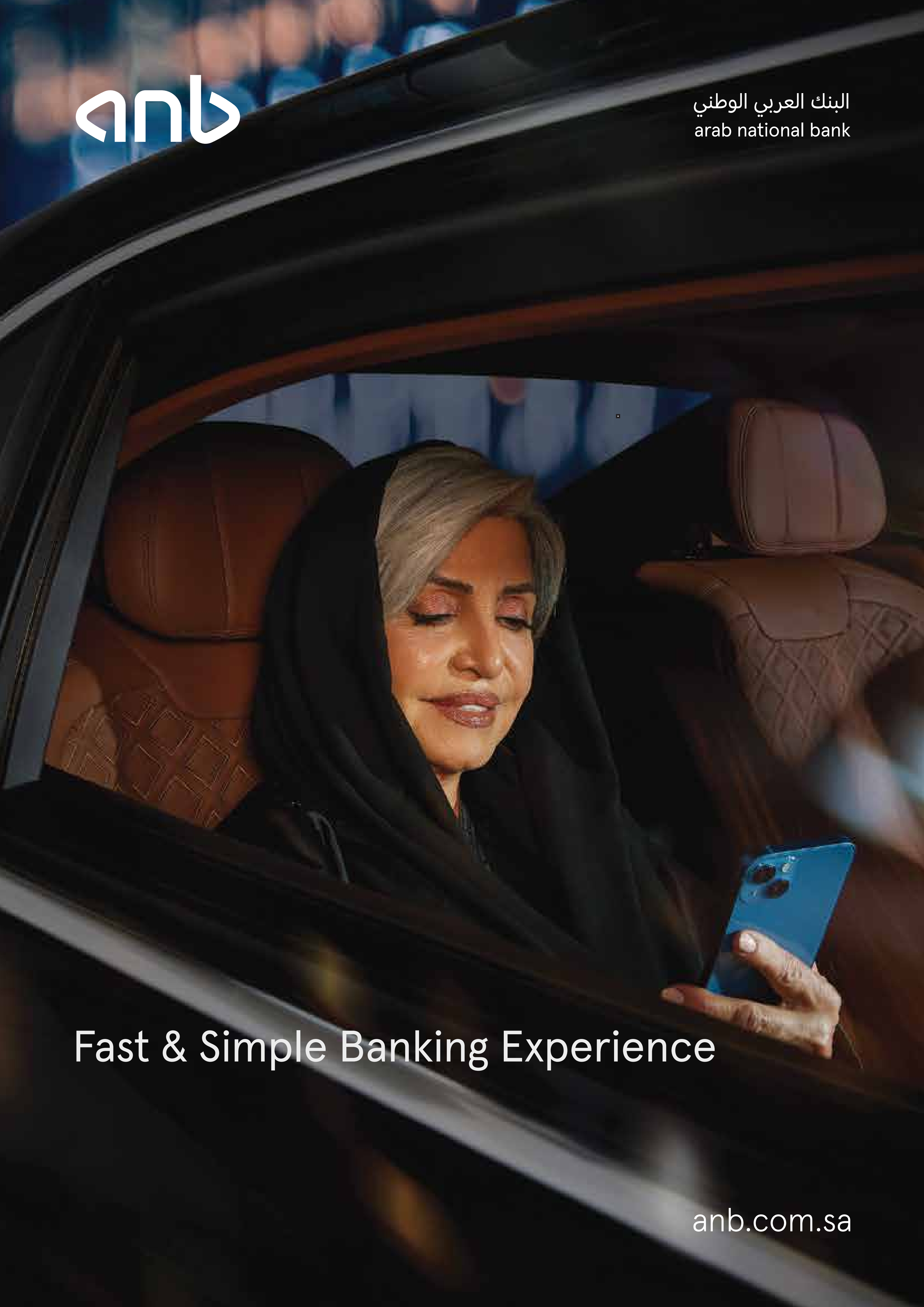
Elsewhere, however questions about non-oil growth are more acute. This includes Kuwait, where the wealth it commands underscores its potential. Current account surpluses of more than 20% of GDP highlight the economy's limited absorptive capacity, or the amount of capital the country can use productively, and the challenges involved in bringing about change from a standing start.

Qatar's long-term outlook will be dominated by the success of its LNG industry that is set to grow further and faster than expected, following the announcement of new 2030 capacity expansion plans. This will further strengthen the country's domestic and external balances.

Bahrain still appears to be in the early stages of its rebalancing programme, with debt above 100% of GDP and a budget shortfall likely to rise above 5% of GDP this year, even if oil prices hold firm. The impact on macro stability and non-oil growth is offset to a considerable degree by the likelihood of ongoing support from wealthier neighbours, who are already key sources of funding for investment in new infrastructure and the broader service sector.

For Oman, improvements in economic management since the change of leadership in early 2021 have been stark. In particular, a bold and far-reaching fiscal overhaul has put public debt on a sustainable path, leaving the sultanate set to generate budget surpluses both this year and next. These measures have already taken Oman to the brink of a return to investment grade status and we anticipate further movement on public finance management, as privatisation plans build on gains already delivered through consolidation of overlapping public agencies and tighter management.

The enormity of the long-term task facing GCC nations, as they seek to pivot their economies towards non-oil-based sectors cannot be underestimated. There is still much work needed. However, the overall picture of the GCC economies remains a positive one, with strong non-oil growth anticipated in the coming years. ■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GCC banks reap benefits of higher interest rates

Andrew Cunningham, the Arab Bankers Association's Editor in Chief, presents our overview of GCC banks, with our list of the biggest 50, ranked by equity.

The majority of GCC commercial banks performed well in 2023, and interim results for 2024 suggest that profitability will continue to be strong in 2024.

Higher interest rates have been the main driver of profitability, with wider net interest margins boosting operating income. Meanwhile, loan loss provisioning, often a legacy of the recent Covid pandemic, has stabilised. Those few banks that have been performing poorly tend to be afflicted by circumstances specific to themselves rather than system wide challenges as, explained below.

Of the 60 active GCC commercial banks, 52 reported higher net profits in 2023 than in 2022. Meanwhile, four reported net profits that were lower than in 2022 and the remaining four declared net losses.

Forty seven of the 60 reported higher operating profits (before provisions) and 49 reported higher profitability as measured by net profits over average assets.

Efficiency ratios are generally strong. The median ratio of operating income to operating expenses was 37.4%. Only 16 banks reported ratios for 2023 higher than 50% and only six of those had ratios higher than 60%.

As for capitalisation, none of the 60 banks has a risk-adjusted capital ratio lower than 14%. The median at the end of 2023 was 18.15% and 18 banks had ratios of 18% or higher. These ratios are well ahead of international norms.

It is worth noting that GCC banks' risk-adjusted capital ratios benefit from the zero-risk weighting assigned to bonds issued by their sovereign governments. Since the banks hold significant amounts of such debt, it has a notably beneficial impact on their capital ratios.

That said, unweighted capital ratios – a simple division of equity by unweighted assets – are also robust, with 43 banks showing ratios of 12% or higher at the end of 2023.

The four loss-making banks during 2023 were Al-Baraka Islamic Bank, in Bahrain, and three banks based in the UAE: Ajman Bank, Bank of Sharjah and Investbank.

Al-Baraka Islamic Bank has struggled with low profitability for some years due more to poor operating efficiency than credit losses, though it is part of the much bigger Al-Baraka banking group, and the group has been consistently profitable in recent times.

Ajman Bank has performed well in recent years and therefore its losses in 2023 mark an exception which are attributable largely to unfavourable court rulings relating to a dispute with a major customer. The bank is appealing against the rulings.

Bank of Sharjah and Investbank (which is also based in Sharjah) have been troubled for many years. During 2023, much of the net loss declared by Bank of Sharjah was due to revaluations of its subsidiary in Lebanon.

These loss-making banks are isolated examples. The bigger picture is one of consistently strong profitability, efficiency and capitalisation. We have seen weaker banks being taken over by larger and stronger peers, while mergers between equals have created national and regional champions capable of competing in international markets.

Five years ago, there were 73 active commercial banks in the GCC, compared to the 60 today. (*Arab Banker*'s ranking of GCC commercial banks does not include development banks, nor does it include investment banks and private equity houses.)

The GCC now boasts six banks with equity in excess of $20 bn: two from Saudi Arabia, and one each from Abu Dhabi, Dubai, Kuwait and Qatar.

Saudi National Bank (SNB), created in 2021 through the merger of National Commercial Bank and Samba Financial Group, is by far the biggest bank in the GCC, when ranked by equity: $47 bn at the end of 2023. Qatar National Bank, which is 50% owned by the Government of Qatar, leads the rankings in terms of customers' deposits, followed by First Abu Dhabi Bank Emirates NBD, and then SNB.

Although it is easy to group the GCC banks together, there are significant differences in size and scale between the six different countries. Saudi Arabia and the UAE account for at least 60% of total equity, loans and customers' deposits. Kuwait and Qatar together account for 25–30%, leaving Bahrain and Oman with very small market shares.

These figures are consolidated and so include loans made by overseas subsidiaries and deposits collected by them. (See table 1.)

Looking ahead, two considerations for GCC banks are whether there will be more mergers and acquisitions within the GCC, and where the opportunities for expansion lie beyond it.

Table 1: a small number of big banks now dominate GCC banking systems

	Number of active commercial banks	Equity ($mn)	Assets ($mn)	Loans ($mn)	Customers' Deposits ($mn)	Notes on concentration*
Bahraini banks	9	13,652.7	143,237.2	56,720.9	89,014.5	Two banks account for 60% of equity: Bank ABC (35%) and Gulf International Bank (25%).
Kuwaiti banks	9	52,121.2	382,665.5	228,073.9	227,727.3	Two banks account for 69% of equity: Kuwait Finance House (KFH – 38%) and National Bank of Kuwait (NBK – 31%), but NBK has a slightly higher share of assets, loans and deposits than KFH.
Omani banks	7	15,218.0	100,871.9	73,775.5	74,226.6	Bank Muscat accounts for 40% of equity.
Qatari banks	8	64,901.4	566,255.2	379,485.6	369,045.5	Qatar National Bank accounts for 47% of equity
Saudi banks	10	150,668.6	987,224.5	654,647.6	660,023.8	Two banks account for 50% of equity: Saudi National Bank (31%) and Al-Rajhi (19%).
Emirati banks	17	129,347.9	1,038,943.7	523,179.1	696,225.1	Three banks account for 64% of equity: First Abu Dhabi Bank (26%), Emirates NBD (23%) and Abu Dhabi Commercial Bank (15%).

** These notes give an idea of the extent to which banking systems are dominated by one or two (or in the case of the UAE, three) individual institutions. However, the figures do need to be treated with care because they capture overseas operations as well as domestic operations. Most obviously, KFH's figures include those of Bahrain-based Ahli United Bank, which KFH bought in 2022. Ahli United is no longer included in our rankings as a Bahraini bank, but when it was, it was the largest commercial bank in Bahrain.*

Kuwait is the only GCC country that has seen no domestic mergers: Kuwait Finance House's acquisition of Ahli United Bank in 2022 was a rare example of a cross border transaction.

KFH and National Bank of Kuwait together account for nearly 70% of the Kuwaiti banking market, leaving seven other banks competing for the remainder. Most Kuwaiti banks are owned by merchant families who are reluctant to relinquish or dilute their controlling interests, limiting opportunities for future mergers.

Earlier this year there were reports that Bahrain's two largest domestic banks, National Bank of Bahrain (NBB) and Bank of Bahrain and Kuwait (BBK) could merge to create a large national champion, following the acquisition of Ahli United Bank, previously the largest Bahraini domestic bank, by Kuwait Finance House. Both NBB and BBK are strong, well performing banks.

Further consolidation could be seen in Qatar and Oman, where unviable banks have been successfully absorbed by stronger local rivals. Bahrain has been doing a good job tidying up its commercial banking system, although some of the smaller banks remain ripe for acquisition.

Opportunities for further acquisitions in the wider Middle East are limited, at least for the moment.

Many GCC banks have expanded into Turkey and Egypt in recent years. According to World Bank 2023 figures, Turkey is the biggest economy in the Middle East, with a GDP of $1,108 bn, bigger than Saudi Arabia with a GDP of $1,068 bn, while Egypt is by far the biggest Arab economy outside the GCC with a GDP of $396 bn. Both Turkey and Egypt have a population bigger than all six GCC states combined.

Yet the Turkish economy has been struggling due to high levels of public and private sector debt, wide budget deficits, higher interest rates and rapid inflation, and monetary conditions have forced some GCC banks with Turkish subsidiaries to recognise losses arising from their exposure to its 'hyper-inflationary economy'. Egypt's prospects are also uncertain, with the exchange rate constantly falling and inflation around 30%.

The Lebanese economy remains in a state of crisis, forcing write-downs for those who have subsidiaries there, and Iraq is unlikely to offer profitable investment opportunities for many years to come. Morocco, a vibrant economy with a well-regulated banking system, is a difficult market to penetrate for those without experience of Francophone north Africa.

Better prospects are likely to lie in Asia and some of the sub-Saharan economies, such as Ethiopia, but we have not seen signs of GCC banks making structural expansion in these regions – opening branches, creating subsidiaries, or making acquisitions - as opposed to serving customers' overseas needs from their existing banks and branches. Valuations in Asia may be prohibitive.

As *Arab Banker* was going to press, it was too early to make firm predictions about GCC banks' financial performances for the full year 2024, but eight out of the ten largest banks, ranked by equity, had reported higher net profits in the first quarter of the year, and all but one had reported increases in their loans and financing portfolios.

Net profits at SNB were flat, while KFH reported lower financing and profits due to the effects of exchange rate devaluations and inflation in Turkey, where the bank has significant operations, and in Egypt. These monetary effects masked an otherwise strong performance by the bank.

Over the short term, the fate of GCC banks rests on the price of oil and gas, upon which their economies and state budgets depend. During the first half of 2024, West Texas Intermediate averaged $79/barrel according to Nicosia-based Middle East Economic Survey. This is slightly higher than the average for the whole of 2023 and sufficient to maintain financial liquidity in the government and private sectors.

In the longer term, GCC economies have fundamental questions to answer about their reliance on revenues from the sale of hydrocarbons. The long-term future of GCC banks will in turn depend on how well GCC governments are able to respond to those questions. ■

Largest 50 GCC commercial banks, ranked by equity size (end-2023)*

All figures in $mn except for the capital ratio which is %

			Equity	Assets	Net Loans	Customers' Deposits	Net Profit	Total Capital Ratio (Basel)
1	Saudi National Bank	Saudi Arabia	47,101.0	276,555.0	160,407.3	157,347.0	5,362.3	20.1
2	First Abu Dhabi Bank	UAE (Abu Dhabi)	34,149.2	318,185.7	131,766.9	206,889.2	4,495.3	17.4
3	Qatar National Bank	Qatar	30,263.4	338,034.1	234,234.2	235,365.3	4,301.8	19.8
4	Emirates NBD	UAE (Dubai)	29,942.3	234,908.8	121,189.6	159,159.5	5,859.6	17.6
5	Al-Rajhi Bank	Saudi Arabia	28,469.2	215,492.9	158,454.6	152,826.8	4,432.3	21.5
6	Kuwait Finance House	Kuwait	20,056.3	123,689.9	63,212.5	70,982.1	2,196.9	18.2
7	Abu Dhabi Commercial Bank	UAE (Abu Dhabi)	19,400.3	154,431.1	82,224.6	98,808.8	2,234.3	17.3
8	Saudi Awwal Bank	Saudi Arabia	16,506.6	95,104.4	57,582.9	64,250.7	1,867.3	19.7
9	Riyad Bank	Saudi Arabia	16,068.8	103,159.7	73,172.9	67,975.4	2,145.5	20.7
10	National Bank of Kuwait	Kuwait	15,966.8	122,567.5	72,505.7	71,425.3	1,914.7	17.3
11	Dubai Islamic Bank	UAE (Dubai)	12,915.0	85,572.7	54,305.5	60,459.1	1,908.6	17.3
12	Banque Saudi Fransi	Saudi Arabia	10,965.7	67,568.7	47,837.7	45,922.4	1,126.1	19.5
13	Arab National Bank	Saudi Arabia	9,359.4	58,848.9	40,596.0	44,229.7	1,086.8	20.9
14	Alinma Bank	Saudi Arabia	9,155.6	63,124.0	46,299.7	50,106.8	1,290.5	17.0
15	Mashreq Bank	UAE (Dubai)	8,527.0	65,340.0	30,046.7	39,814.9	2,362.3	16.5
16	Qatar Islamic Bank	Qatar	8,242.8	51,943.4	33,606.3	33,181.7	1,177.5	20.4
17	Abu Dhabi Islamic Bank	UAE (Abu Dhabi)	7,145.1	52,501.4	31,311.9	42,764.9	1,429.8	16.8
18	Masraf al-Rayan	Qatar	6,812.0	45,089.9	29,720.0	25,462.4	406.4	21.8
19	Commercial Bank of Qatar	Qatar	6,701.9	38,436.5	25,123.7	21,018.6	826.6	14.9
20	Bank Muscat	Oman	6,119.8	35,533.8	25,668.1	24,526.5	552.0	21.2
21	Bank ABC	Bahrain	4,804.0	43,892.0	19,096.0	23,705.0	296.0	16.1
22	Saudi Investment Bank	Saudi Arabia	4,596.0	34,662.5	21,533.5	22,195.5	469.8	20.1
23	Bank Al Jazira	Saudi Arabia	4,377.5	34,546.9	21,541.6	25,081.2	272.0	19.9
24	Commercial Bank of Dubai	UAE (Dubai)	4,296.8	35,119.7	22,683.9	24,038.1	721.5	16.0
25	Bank Albilad	Saudi Arabia	4,068.8	38,161.5	27,221.4	30,088.3	631.7	17.8
26	Dukhan Bank	Qatar	4,040.4	31,419.5	21,305.3	21,419.7	357.6	18.3
27	Doha Bank	Qatar	3,966.4	27,805.1	15,929.7	13,765.8	211.3	19.3
28	Gulf International Bank	Bahrain	3,368.6	47,069.9	13,624.6	34,517.9	169.4	18.9
29	Boubyan Bank	Kuwait	3,347.9	27,351.1	20,569.5	21,084.0	254.5	18.0
30	Burgan Bank	Kuwait	3,257.1	24,165.6	13,787.5	14,523.9	146.8	20.0
31	National Bank of Ras al-Khaimeh	UAE (Ras al-Khaimeh)	2,819.2	20,135.8	10,745.9	13,721.2	485.7	17.8
32	Gulf Bank	Kuwait	2,658.0	23,347.2	16,910.5	13,730.2	231.7	18.0
33	Qatar Internat. Islamic Bank	Qatar	2,610.4	16,922.9	10,022.9	10,691.4	319.8	17.0
34	Ahli Bank of Qatar	Qatar	2,264.1	16,603.7	9,543.6	8,140.7	229.7	14.9
35	Sharjah Islamic Bank	UAE (Sharjah)	2,212.7	17,937.0	8,993.2	12,308.5	231.8	18.9
36	Commercial Bank of Kuwait	Kuwait	2,149.7	13,589.3	7,907.6	7,160.1	361.9	18.1
37	Sohar International Bank	Oman	2,084.5	17,382.3	10,190.2	13,261.4	182.7	17.9
38	Al Ahli Bank of Kuwait	Kuwait	2,020.3	20,466.0	13,855.2	12,466.3	147.7	16.7
39	Bank Dhofar	Oman	1,904.9	12,177.2	9,785.9	8,574.1	100.8	17.5
40	National Bank of Fujairah	UAE (Fujairah)	1,787.9	14,081.8	7,597.4	10,502.1	197.4	19.0
41	National Bank of Oman	Oman	1,752.9	12,531.2	9,085.0	9,285.3	150.7	16.9
42	Bank of Bahrain and Kuwait	Bahrain	1,628.4	10,349.9	4,213.0	5,649.9	199.2	28.1
43	National Bank of Umm al-Qaiwain	UAE (Umm al-Qaiwain)	1,535.9	4,023.4	1,903.4	2,376.7	136.8	41.6
44	National Bank of Bahrain	Bahrain	1,531.1	14,250.7	6,724.4	9,296.6	215.9	23.2
45	Kuwait International Bank	Kuwait	1,392.1	11,764.1	8,088.8	6,895.2	62.8	19.8
46	AlAhli Bank	Oman	1,355.0	8,623.4	7,001.3	6,433.7	94.6	17.4
47	Oman Arab Bank	Oman	1,343.6	10,444.4	8,510.1	8,725.1	53.5	16.7
48	Warba Bank	Kuwait	1,273.0	15,724.7	11,236.6	9,460.1	64.1	17.0
49	Al Salam Bank	Bahrain	1,084.1	13,652.8	7,099.5	7,957.8	127.9	20.4
50	Al Masraf	UAE (Abu Dhabi)	1,073.7	5,926.2	3,512.5	4,016.0	51.6	21.6

** Includes GCC banks that are licensed by their central bank. Source for data is publicly available financial statements*

KFH eyes new era of domestic and international growth

Kuwait Finance House's (KFH) recent acquisition of Ahli United Bank has significantly enhanced its financial firepower and further cemented its status as a regional heavyweight. Today, the bank has a presence in 12 countries and is considering expanding into new markets.

Arab Banker asked Abdulwahab Al-Rushood, Acting KFH Group CEO, to share what the Bank hopes to achieve with its expansion strategy, its new youth-focused Sharia-compliant digital bank, TAM, as well as its $4 bn sukuk programme.

***ARAB BANKER*: KFH's acquisition of AUB-Bahrain in July 2022 constituted a rare cross-border deal within the GCC which was almost four years in the making. What was the motivating factor behind the deal?**

ABDULWAHAB AL-RUSHOOD: The landmark cross-border acquisition of AUB-Bahrain, is one of the largest deals ever completed in the region. It is considered a significant milestone in the history of the Kuwaiti banking sector, setting the stage for a new era led by KFH.

The motivating factor behind the acquisition and merger, the largest-ever in Kuwait's banking sector, was the ambition to enhance the position of KFH group globally.

This strategic step brings several benefits. It has created a stronger financial institution that can support various sectors of the economy through an increased financing capacity of more than KWD500 mn ($1,6 bn) for a single client, investment in new projects and further support for small and medium enterprises. All of which will benefit Kuwait's economy.

The acquisition of AUB-Bahrain not only strengthens the banking sector, but also plays a vital role in advancing Kuwait's broader economic and development objectives, through the potential it creates to provide funds to various projects and businesses, both directly and indirectly.

Last October, KFH launched TAM, the first Sharia-compliant digital bank in the country, which has helped it to win a sizeable new share of the market. 60% of TAM users were existing KFH customers, while 40% were new. What are the key products and services it offers?

The initial strategy of TAM was to cater to the youth demographic with services and products compatible with their lifestyle and needs. Currently, TAM allows customers with a minimum age requirement of 15 years, to onboard end-to-end digitally and we automatically issue a digital debit card upon account opening. This enables users to easily send and receive money.

Another product we offer is the TAM digital prepaid card, which users can start to enjoy the benefits of instantly. Various other innovative products and services, such as credit cards and personal financing, are also in the development pipeline, as we expand the business line to cater for the salaried demographic. TAM has biometric facial recognition built into it and we are also considering leveraging AI to further personalise our digital offering to our customers.

KFH's investment banking arm has also been active. You acted as joint lead manager on Turkey's $2.5 bn sukuk last November – the country's first issuance since its May 2023 elections. In January this year you established a $4 bn sukuk programme and issued a $1 bn sukuk the same month. What do you plan to achieve with your sukuk programme?

Yes, in January KFH issued a five-year senior, unsecured sukuk of $1 bn which was extremely popular and more than three times oversubscribed, attracting orders exceeding $3.45 bn.

The aim of this issuance was to enable KFH to access a wider pool of capital, diversify its funding base, support international expansion plans and enhance its brand recognition. Additionally, it gives KFH the opportunity to increase its investment capabilities and support Kuwait's infrastructure projects and other sectors in the country, as well as help corporate customers with their expansion plans both regionally and globally.

In addition to your recent acquisition of AUB-Bahrain, in February this year you completed the merger with AUB-Kuwait, the largest-ever merger in Kuwait's banking sector. Are you considering other acquisition targets, and if so, in which markets?

Our ambitious vision created by KFH's Board of Directors involves targeting a place among the top 100 global banks within the next decade. The recent acquisition and merger with AUB is another significant milestone, solidifying KFH's position as both the largest bank in Kuwait in terms of market cap and the world's second-largest Islamic bank by assets. This strategic move marks a new chapter in KFH's growth trajectory and is an historic achievement.

KFH is currently studying opportunities in more than one bank in Saudi Arabia, although no memorandum of understanding or agreement has yet been signed with any bank there. We are at the stage of conducting careful studies of potential opportunities for expansion in the kingdom. Such studies are in line with KFH's strategy of supporting growth opportunities, after fulfilling all the requirements of the regulatory bodies. It is worth mentioning that KFH is a full-service bank offering retail, corporate, treasury and private banking and wealth management services and currently operates in 12 countries around the world.

What's your outlook for the global banking industry in 2025? Are you more glass half full or half empty – what do you see as the expected bright spots and main headwinds?

The future of global banking in 2025 is likely to be shaped by digital transformation, collaboration, and regulatory changes. While there are bright spots in terms of technological advancements and customer-centric services, banks will need to navigate various challenges to stay competitive and adapt to the evolving landscape.

Overall, the outlook for global banks remains steady. This resilience is largely due to solid capitalisation, improved profitability and ongoing sound asset quality. ■

KFH

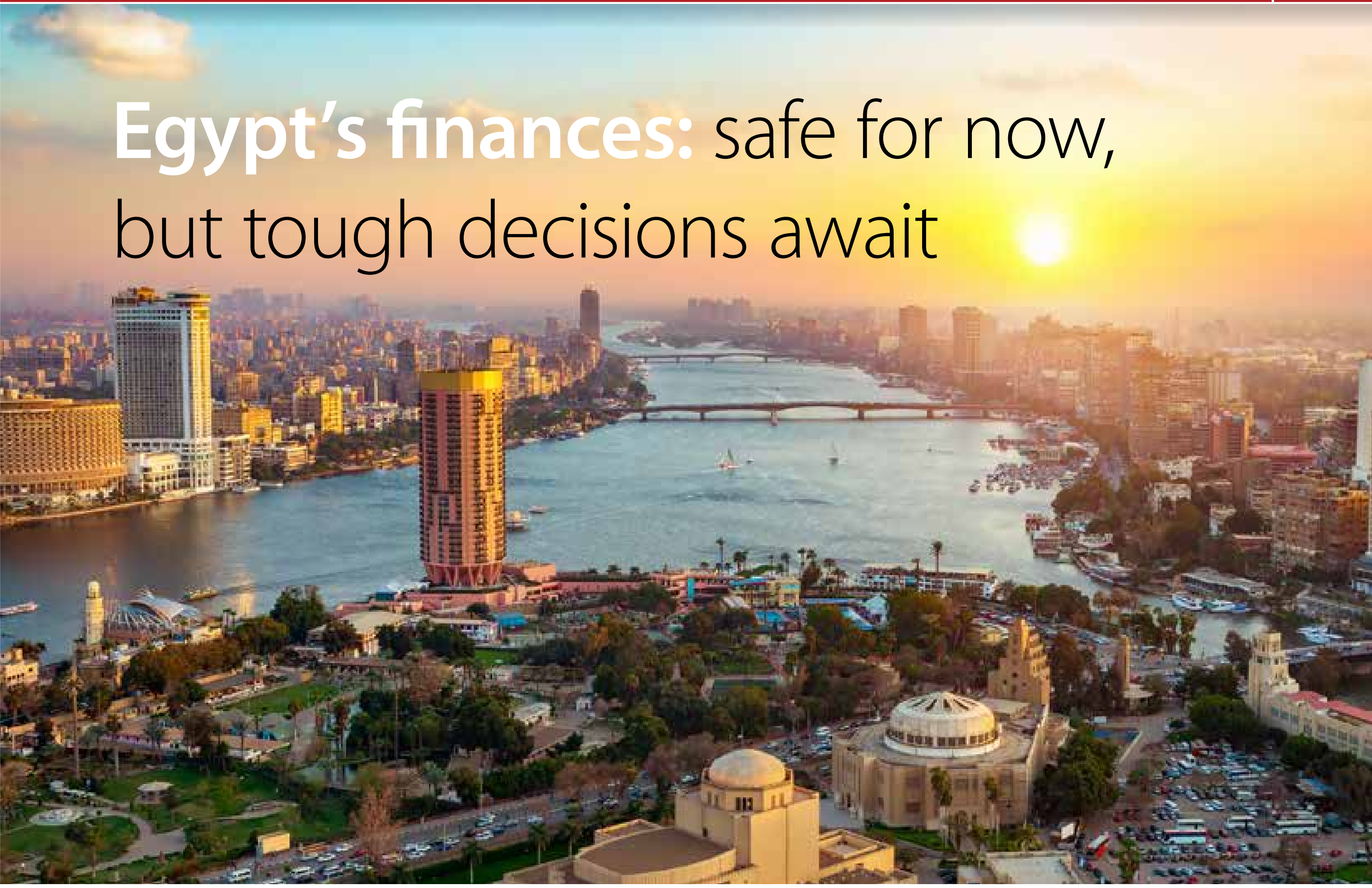
Kuwait Finance House (KFH) is a pioneer in Sharia-compliant banking. Established in 1977, it became the first Islamic bank in Kuwait and today is considered one of the foremost Islamic financial institutions in the world.

Abdulwahab Issa Al-Rushood

Abdulwahab Issa Al-Rushood is the Acting Group CEO of Kuwait Finance House. He previously served as Group Chief Treasury and Financial Institutions Officer at KFH, and was the Chairman of KFH Capital Investment Company as well as being a Board Member at KFH – Bahrain.

He joined KFH's Treasury Department in 2002 and went on to be promoted to various leadership positions within it, ultimately serving as its general manager from 2013 until 2015.

Egypt's finances: safe for now, but tough decisions await



Investments from Abu Dhabi and renewed IMF support have solved Egypt's financial needs over the short term, but fundamental long-term challenges relating to both budgetary stability and economic policy remain. Andrew Cunningham, the Arab Bankers Association's Editor-in-Chief, reviews the country's financial position.

Egypt's short-term financial position was transformed earlier this year by Abu Dhabi's $35 bn real estate investment in the north coast resort of Ras al-Hekma.

The first tranche of the investment was executed just days after the deal was announced in late February, with ADQ, one of Abu Dhabi's investment funds, adding $15 bn to Egypt's reserves, either in the form of new money or through the conversion into equity of deposits that had already been placed with the Central Bank of Egypt. The remaining $20bn, again comprising a substantial proportion of new money, was arranged by the end of April.

The effect on Egypt's state finances was immediate. The country's foreign exchange reserves doubled to nearly $50 bn –the highest level seen in recent years. The new foreign exchange liquidity will be sufficient to cover the country's external funding requirements until mid-2026.

The good news did not stop there.

In early March, the IMF announced that it would increase to $8bn the $3bn Extended Fund Facility (EFF) inaugurated in December 2022; and in mid-March, the European Union announced that it would disburse an $8 bn package of loans and grants over the following three years.

All three major international credit rating agencies responded by changing their outlooks on Egypt to positive.

Just six weeks earlier, Moody's had assigned a negative outlook to Egypt's Caa1 ratings: effectively signalling that it expected Egypt to default on its debt in the coming months. But on 7 March it was the first of the three to change its outlook, stating that, 'the downside risks that prompted the change in outlook to negative in January are significantly reduced.'

Moody's also drew attention to what it described as 'the marked change in economic policy,' comprising a large devaluation in the currency and an increase in interest rates.

Just hours before Moody's changed its outlook, the Central Bank of Egypt had announced that it would allow the pound to float freely. The currency immediately lost 60% of its value, stabilising around fifty to the dollar. The previous day, the Central Bank's Monetary Policy Committee had raised the Overnight Lending Rate by 6% to 28.25%.

These policy measures had been prerequisites for the increase in the IMF's support package and are seen by the IMF, rating agencies and others as essential to ensure Egypt's long term financial stability. Yet such policy measures also have immediate short-term impact on living standards in a country where 30% of the population already lives in poverty, unemployment and under-employment are high, and food prices are heavily influenced by the exchange rate.

Following a familiar pattern

However dramatic the change in Egypt's fortunes may have been last spring – and the size of Abu Dhabi's investment was certainly unprecedented – events followed a pattern that has become familiar over many decades. Financial support from multilateral donors, led by the IMF and from Gulf governments, staves off an impending financial crisis; changes are then made to monetary policy with the aim of reducing the likelihood and size of external financial imbalances in the future; and promises are given to put government finances on a more sustainable footing through privatisation of state-owned companies, reducing subsidies, and measures to enhance private sector competitiveness.

Is this time different?

The decision to allow the currency to float freely is certainly significant. In recent years, Egyptian governments have acquiesced in the devaluation of the pound, but they have recoiled from giving up control.

In December 2016, the currency was devalued by 100%, from around nine to the US dollar to around 18, in order to secure a three year $12 bn facility from the IMF, including an immediate disbursement of $2.75 bn.

From September 2022, the exchange rate was allowed to fall further, declining to around 30 to the dollar over the next six months. That move followed the resignation of Central Bank Governor Tarek Amer, who had been hesitant about further devaluation, and his replacement by the current Governor, Hassan Abdulla.

Abu Dhabi's injection of foreign currency has taken the pressure off the exchange rate over the short term, so the question to answer is whether the authorities will be able to avoid intervening if pressure resumes in 2026.

Whether such pressure will indeed resume will depend on more fundamental factors of economic and industrial policy, and here it is hard to argue that events in recent months indicate that the Egyptian government is following a path that is any different from that taken in the past.

The current IMF facility contains provisions that Egypt must fulfil for disbursements to be made. The movement to a flexible exchange rate regime was the first of those conditions.

The second was the introduction of monetary policy to reduce inflation. Following the monetary policy committee's (MPC) rate hike in March, Egypt now has positive, or at least neutral, real interest rates.

Inflation fell from around 40% in September 2023, to around 30% over the past summer, but the MPC expects that further, significant reductions will not occur until early 2025.

The third and fourth conditions comprise standard exhortations to make the government's fiscal position more sustainable by finding new sources of revenue and reducing expenditure and to introduce policy measures that will reduce bureaucratic restraints on private sector business.

The IMF's press release on the facility, published in December 2022, explicitly stated the need to '[manage] national investment projects in a manner consistent with external sustainability and economic stability' – a clear reference to the grandiose real estate projects, such as the building of a new capital city outside Cairo, that are costing large amounts of money, but have yet to prove their long-term economic worth.

On the perennial question of state subsidies, which account for around a sixth of all government expenditure, the Egyptian government has taken some eye-catching measures. On 1 June, the price of subsidised bread was increased to E£0.02 from E£0.004 ($1 currently equates to E£48). Still, the new price – at a fraction of a US cent per loaf – remains far below the cost to bake.

Electricity prices were increased in January and, at the time of *Arab Banker* going to press, further increases were planned for September, although again the new price remains well below the cost of production.

Both increases are politically sensitive: more than half of all Egyptians are entitled to the bread subsidy, and the increases in energy prices are being implemented despite frequent power cuts in recent months.

The money saved by reducing subsidies will actually have little effect on the government's finances. The budget for the 2024/25 financial year, which began on 1 July, predicts a 19% increase in the cost of subsidies compared to the previous year, due to enhanced measures to provide social support for the most vulnerable sectors of society.

Implementation of the new budget will be overseen by Ahmed Kouchouk, who replaced Mohammed al-Maait as finance minister in a reshuffle that was announced at the start of the new financial year. Kouchouk had been deputy finance minister since 2016 and has led negotiations with the IMF.

Trouble ahead

Already, there are indications of trouble ahead. In July, the IMF postponed a meeting that had been expected to approve the disbursement of the third tranche of its current facility. It cited several conditions for disbursement that had not yet been met, including publishing new regulations on public finance, new rules on accounting standards and the publication of an indicator to track the pace at which the government is reducing state ownership of major industries.

A further point related to the need to publish a plan to settle arrears owed by the Egyptian State Petroleum Corporation to foreign oil companies. These reached around $6 bn at the end of 2023, according to Nicosia-based Middle East Economic Survey, and some progress has already been made to reduce the amounts owed.

The IMF approved the delayed disbursement at the end of July, but with another two years to run, there will be plenty more occasions for Egypt and the Fund to disagree about the pace at which officials in Cairo are implementing promised reforms.

It is usually the pace of administrative change that is the cause of such disagreements and, to be fair to Egypt, the drafting and publication of new regulations does take time, especially when a wide range of stakeholders are involved.

But the underlying question relates to the Egyptian government's commitment to reduce its control over the economy and enable the private sector to flourish and take the lead in economic development. In recent years, it has been large state-funded investments that have driven economic growth. Some of these projects have clear and widespread benefits – new roads and new housing developments on the outskirts of Cairo – but the impact of others, such as the vast real estate projects planned on the north coast as part of Abu Dhabi's $35 bn investment, are likely to be more limited and focused on the wealthier sections of society.

Reducing state involvement in the economy is as much a political issue as an economic one. Help from Abu Dhabi and the IMF has given Egypt some breathing space, but hard decisions to secure long term financial security are still waiting to be made. ■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Time to address Lebanon's crippling banking crisis

Lebanon has been mired in economic crisis for almost five years. A combination of acute negligence and mismanagement on the part of the government, the central bank and key institutions culminated in a series of economic and political crises that have left the banking sector on its knees and more than three-quarters of the population living in poverty.

In the following guest article for *Arab Banker*, Dr. Nasser Saidi, founder and president of Nasser Saidi & Associates, and Alia Moubayed, emerging markets economist, analyse how the crisis unfolded and chart a proposed roadmap to recovery.

October 2024 will mark five years since the advent of Lebanon's financial crisis, one of the world's deepest in modern history, according to the World Bank. Faced with persistently large twinned deficits in its budget and current accounts, and an exchange rate that has been overvalued for more than a decade, the central bank, Banque du Liban (BDL) resorted to costly 'financial engineering', excessive borrowing, effectively a disguised Ponzi scheme, to maintain an unsustainable currency peg to the US dollar.

These quasi-fiscal operations resulted in the accumulation of more than $70 bn of losses at the BDL that were disguised through creative accounting until the crisis unravelled in October 2019. The subsequent decision by banks to unilaterally declare a banking holiday in the absence of capital controls, precipitated a run on the banks, capital flight, a disorderly sovereign debt default, and a currency collapse – the worst in Lebanon's history. The subsequent prolonged period of debt and broader financial distress led to widespread protests and acute political crisis.

Since 2019, failure to restructure the banking system, and the public sector, by not undertaking structural reforms, combined with the absence of a social safety net has inflicted severe socio-economic costs. The economy contracted by a cumulative 38.0% in real terms between 2018 and 2023. Nominal GDP shrank from $52bn in 2018 to less than $20bn in 2023, and GDP per capita fell by almost one-third since 2018 to $3350.3 in 2023.

Five years after: Lebanon's polycrisis exacerbates

The decline has continued in 2024, worsened by the violence and destruction wrought by the war in the south of Lebanon. Lower real incomes and dismal growth prospects have led to a massive brain drain (10% of the population), with Lebanon increasingly dependent on expatriate remittances – now running at about 31% of GDP.

A sharp and disorderly devaluation of the national currency, combined with the prevalence of distortionary and corruption-driving multiple exchange rates, monetary financing of public sector deficits and the poorly managed removal of fuel and electricity subsidies, led to accelerated inflation. The inflation tax has averaged 127.0% over the past five years, eroding peoples' purchasing power and pushing increasing numbers into poverty – the rate of which increased from 12% in 2012 to 44% in 2022.

Public finances collapsed as revenues to GDP fell from 21% in 2018 to 6.1% in 2022, preventing the state from fulfilling its key functions of providing security, as well as basic social and infrastructure services. The government in Lebanon ceased to be able to function in any meaningful sense.

Today, Lebanon is the only emerging debt-stricken country where the crisis remains unresolved. Since January 2020, around fifteen countries have defaulted on their debt, including Ecuador and Zambia in 2020, and Sri Lanka, Ukraine and Ghana in 2022 . All of them have either completed, or are currently finalising negotiations with their creditors based on national recovery plans to resolve the situation. They all are in discussions with key stakeholders in the private sector and civil society, reaching common ground and agreeing on a way forward to restructure debt, dealing with losses in their financial sectors and limiting the fall out on the real economy. At the same time, they have been prioritising social cohesion and protecting the most vulnerable, supported by the international community in the context of IMF programs.

In Lebanon, none of the above was done. Instead, and for the past five years, politicians have prioritised their common interests with bank shareholders above those of the rest of society, socialising the losses and privatising the gains, while actively obstructing any progress towards a much-needed IMF programme that was agreed in principle as long ago as April 2022.

The banking sector at the epicentre of the problem

Today, a major challenge hampers progress towards banks' restructuring: the distribution of the losses. Until now, the authorities have failed to recognise the losses at either the central bank or banks, or to allocate them in a way that protects smaller depositors and society at large.

Unlike other crisis-hit countries, such as Greece, Iceland and Cyprus, the BDL failed to impose a restructuring and recapitalisation of banks based on 'the waterfall of loss distribution' which would have required banks' shareholders to absorb the losses first, at the onset of the crisis.

Faced with losses that were too big to be absorbed by the banks' existing equity (estimated at approximately $21 bn at the time), the BDL did not work towards mobilising other sources of external capital either from existing shareholders, strategic investors, or the sale of banks assets, nor did it consider turning to depositors' savings as a potential source of capital through a bail-in. Instead, the BDL, in collusion with the Association of Banks in Lebanon, rewarded the latter's bad governance and mismanagement by deliberate 'Lirafication' – the effective conversion of foreign currency deposits into Lebanese Liras – of more than $20 bn of deposits, a massive, unvoted-for wealth tax.

Accordingly, the size of the banking sector shrank, and its structure dramatically changed, while a massive transfer of wealth took place. Total assets declined from $262.8bn at the end of October 2019, to $104.3bn at the end of May 2024. Total private sector deposits fell from $168.3bn to $90.9bn during the same period (Figure 1).

Importantly the sharp devaluation in the Lebanese Lira eroded the value of any such deposits from the equivalent of $44.7bn at the end of 2019, to a mere $0.6 bn at the end of May 2024. In parallel, frozen foreign currency (FC) deposits fell from $123.7bn to $90.3bn due to capital flight and a *de facto* haircut through forced Lirafication causing a massive multi-generational destruction of wealth.

Concomitantly, with the implicit acquiescence of the BDL and the Banking Control Commission (BCC) – banks allowed borrowers to repay their FC-denominated loans using both their lira and frozen FC deposits ('lollars')

Privileged private sector corporates rapidly deleveraged, in a chaotic process causing a huge wealth transfer from depositors to borrowers. In the absence of any clear and coherent policy framework, the deleveraging process did nothing to support economic recovery and credit to GDP fell from more than 102.2% of GDP in 2019 to around 37% in May 2024 (Figure 1).

Failure to restructure left banks in a zombie state, fuelling dollarisation, as well as the cash and informal economy and raising risks to the sector. Today, banks are unable to fulfil their normal functions of financial intermediation, but are increasingly exposed to the risks of an expanding cash economy and thriving illicit activities (such as smuggling and illicit trade).

Ironically, some of these activities are being facilitated by the BDL's own regulations, notably Circular 165, through which the BDL allegedly aims at 'bringing back the liquidity into the banking system'.

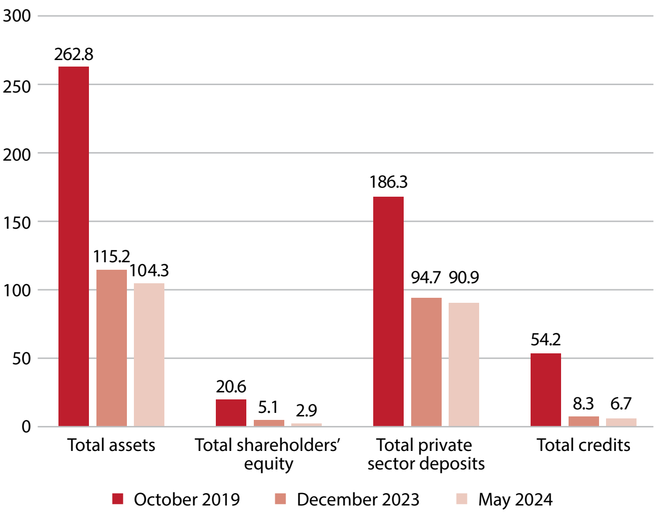
The size of the dollarised cash economy is estimated to have increased from 26.2% in 2021 to around 46% of GDP in 2022, heightening the risks of money laundering, corruption and growing informality, while also facilitating tax evasion.

In 2023, the Financial Action Task Force (FATF), an international financial crimes watchdog, highlighted six key areas where Lebanon is only 'partially compliant' with internationally accepted rules on anti-money laundering and counter-terrorist financing (AML/CFT). Deficiencies in combating money laundering, in transparency and beneficial ownership of legal arrangements, concerns about some designated non-financial businesses and professions, and a weak system of mutual legal assistance (freezing and confiscation) raise the likelihood of a grey-listing in 2024. A grey-listing would pressure politicians into adopting and implementing a reform roadmap to avoid a black-listing, sanctions and Lebanon's increasing international financial exclusion.

A Reform Roadmap: reform or die

Before any other measures can be taken, the country must urgently address the perils of zombie banks – they are a compelling reason why the sector must rapidly proceed with a comprehensive restructuring. Lebanon needs between five to 10 years to restore banks' viability and their ability to efficiently allocate resources to support the recovery. This requires action on three fronts: (i) devising a restructuring plan based on bank recapitalisation, starting with shareholders and a bail-in of large depositors in order to maximise deposit recovery; (ii) restoring trust in the BDL and the banks by

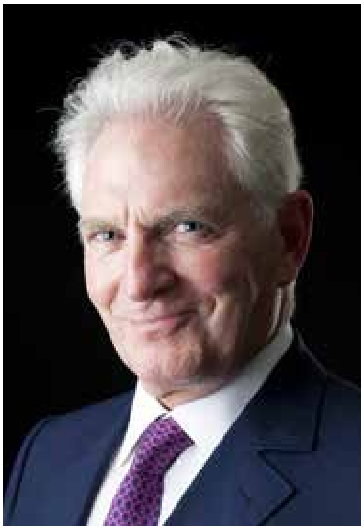
Figure 1: Lebanon – Key banking indicators 2019–24 ($ bn)



Source : Banque du Liban, IMF

Dr. Nasser Saidi

Dr. Nasser Saidi is President of Nasser Saidi & Associates, a niche economic advisory and consulting company operating out of Dubai and Beirut. He is the former Chief Economist and Strategist of the Dubai International Financial Centre. He was formerly Lebanon's economy minister and a vice-governor of the Central Bank of Lebanon for two mandates.



Alia Moubayed

Alia Moubayed is an emerging markets economist. She previously worked as Director for Ge-economics at the International Institute for Strategic Studies, Chief Economist for MENA at Barclays, Senior Economist at the World Bank and held policy responsibilities in key economic institutions in Lebanon, including the Banque du Liban, the Ministry of Economy and Trade, and the Council for Development and Reconstruction.

stressing accountability and bolstering independence of the regulatory framework; and (iii) accelerating structural reforms to propel growth and rebuild national wealth.

Work had progressed on a revised bank resolution law, to address some of these issues related to loss absorption, but it was sabotaged recently by politicians. This revised version, establishing an independent Bank Resolution Authority, should be expanded and resubmitted to parliament.

However, even before any of this work can be done, it will be critical to pass amendments to the Bank Secrecy Law. These would enable deficiencies highlighted by the IMF to be identified, combat pervasive tax evasion, facilitate the effective implementation of AML/CFT regulations and identify the stock of deposits that could be eligible for consideration, while increasing their potential recovery rate.

Credible monetary reform requires a strong, professional, and politically independent central bank. Monetary policy should be directed at controlling inflation, accompanied by a flexible exchange rate regime. There is a need to radically reform the BDL's governance by limiting the governor and vice-governors' terms to four years, renewable only once and without cumulation of functions.

The BCC, the Special Investigation Commission and the Capital Markets Authority, should be independently governed institutions. Moreover, the BDL's Central Council, which sets monetary, exchange rate and credit policies, must play a dominant role in decision-making. This should not be confined to the central bank governor only, as was the case during former BDL governor Riad Salameh's mandate. In addition, reinstating transparency and disclosure at the BDL will be critical. It will need to publish audited financial statements and accounts, minutes of central council meetings and provide reports on its performance to the council of ministers and parliament. Without rebuilding and modernising the regulatory and legal framework, there can be no prospects for restoring trust in the banking system.

The next area to address is, macroeconomic stabilisation and growth – which will require urgent fiscal reform, public sector restructuring and structural reforms. We need to see the introduction of a fiscal rule, which would enable Lebanon to achieve a sizeable primary fiscal surplus and put public debt on a downward and sustainable path.

Addressing tax evasion and the 'underground economy', reviewing the size of government subsidies (via smart, targeted cash subsides or direct transfers to households) and implementing the government procurement law, will all support the nation's fiscal performance.

A pension system and social protection reform, including social safety nets, is critical, considering rising poverty and inequality levels in the country. Structural reform is essential for the public electricity, water and telecom sectors, and more widely, for other state-owned enterprises and government-related entities (SOEs and GREs). A potential solution would be to establish an independent, national wealth fund (like Singapore's Temasek) to professionally manage all SOEs and GREs in addition to future oil and gas revenues. Privatisation is not a viable option without fundamental structural reform and good governance of SOEs and GREs. Eventually, moving to a digital government would increase transparency and accountability, while also helping to combat corruption.

Lebanon should build on the lessons learned over the last five years of crisis to move forward. The institutional failure of the BDL, BCC, successive governments and parliament, coupled with a lack of judiciary independence, has caused, perpetuated, and deepened the polycrisis.

The bottom line is that the country cannot recover from its polycrisis without fundamental political reform to instil economic and judicial good governance, rule of law and accountability. Political reform remains unlikely in a polarised domestic landscape dominated by regional geopolitical issues, the war in Gaza and a political class benefiting from the large informal, cash-based economy and the cushion of remittances.

Having said that, the only way forward for the next five years must begin with the election of a new president who garners enough support and is capable of managing the worsening crisis, and the nomination of a new prime minister prepared to focus on the restructuring agenda (debt, financial sector, and the public sector) and negotiate an IMF programme as soon as possible.

This programme should help downsize the public sector and recapitalise banks while reducing their numbers, and quick-start negotiations with international bondholders to reach a restructuring deal and regain their trust. In parallel to re-integrating international financial markets, Lebanon will need to re-establish good and friendly relationships with the GCC and embrace deepening its trade and investment with them. ■

NBK's headquarters in Kuwait

National Bank of Kuwait: leading the way in digital banking and innovation

National Bank of Kuwait (NBK) has been in the vanguard of embracing digitalisation and innovation as an integral part of its growth strategy over recent years.

Arab Banker asked Mohammed Al Kharafi, COO – Head of Operations and Information Technology at NBK Group, to outline the key aspects of its digital offering and how the bank is expanding its footprint in this sphere beyond its home market.

In the dynamic landscape of banking, digitalisation has emerged as a transformative force, reshaping the industry and redefining the way customers interact with financial services.

At National Bank of Kuwait (NBK) we have embraced this paradigm shift, propelling us to the forefront of the digital banking landscape in the country. From the inception of Weyay, Kuwait's first fully digital bank, to the comprehensive overhaul of our mobile banking app, each innovation has been aimed at leveraging technology to better serve our customers and adapt to their evolving needs.

Our customer-focused strategy has enabled us to offer innovative solutions that cater to the expectations of the younger, tech-savvy demographic, ensuring that NBK remains the bank of choice for future generations.

To meet these expectations, NBK has invested heavily in developing a robust digital infrastructure, expanding our digital channels, and leveraging cutting-edge technologies.

In July this year, the bank signed a five-year partnership agreement with German technology solutions provider, Software AG, to boost our global digital integration.

The collaboration will enable NBK to leverage Software AG's cutting-edge super integration platform across our international locations of Saudi Arabia, UAE, London, Bahrain, Egypt, and France. The new technology, known as the Super iPaaS, is designed to future-proof the integration of applications, data and application programming interface management and will considerably enhance execution efficiencies for our consumer and corporate offerings.

It also will be first time the German company has rolled out its Super iPaaS in the Middle East region.

By expanding our digitalisation efforts beyond Kuwait, NBK is reaffirming its leadership in the global digital banking landscape. NBK has made particularly significant strides in digital transformation in Egypt, leveraging innovative technologies and digital channels to enhance the customer experience and streamline banking operations. The bank's digital banking services have been well-received, contributing to its growing presence and market share.

Similarly, NBK's Islamic arm, Boubyan Bank, has embraced digitalisation to provide Sharia-compliant banking solutions that cater to evolving customer needs.

Our digitalisation efforts extend beyond simply integrating new technologies into our operations; they encompass a broader commitment to sustainability and ESG principles. We seek to harness advanced technologies such as AI, big data analytics, and the Internet of Things, in order to optimise resource utilisation, minimise waste, and reduce our environmental footprint. By integrating digitalisation with sustainability and ESG practices, NBK not only drives operational efficiencies, but also demonstrates its commitment to responsible business practices and long-term environmental and social sustainability goals.

Internally, NBK fosters a culture of innovation through employee training and empowerment – the bank believes that its ability to innovate will be enhanced by an internal culture of continuous learning and the exploration of new ideas. It aims to equip its teams with the tools they need to drive positive change and contribute to organisational growth through ongoing training programmes, cultivating creativity, critical thinking, and problem-solving skills.

Our dedication to digitalisation and innovation has been celebrated in the form of numerous prestigious industry awards. In October 2023, NBK was recognised as 'Best Consumer Digital Bank' by Global Finance magazine and received MEED magazine's accolades of 'Best Digital Bank' and 'Best Innovation Programme in MENA' the following May. The latter award highlighted our enhancement in operational efficiency through robotic process automation.

Looking ahead, NBK remains committed to advancing its digitalisation initiatives and embracing new technologies to better serve its customers and drive sustainable growth. NBK stands ready to navigate the challenges and opportunities that lie ahead, as both technology and customer expectations continue to evolve in tandem. Its digitalisation journey is an ongoing evolution that has just begun. ■

Mohammed Al Kharafi

Mohammed Al Kharafi joined NBK in 2001 and has been COO – Head of Operations and Information Technology for the Group since May 2023. Prior to that, he held several leadership positions in NBK's operations and consumer banking division. He has extensive experience in retail and digital banking, intelligent automation, technology and operations.

Weyay app

NBK launched its digital banking app Weyay in November 2021.

Built from the ground up in just twelve months, Weyay has been designed to primarily serve the financial and lifestyle needs of young Kuwaitis.

Two-thirds of the country's population are under the age of 35 and Kuwait has one of the highest smartphone and internet penetration rates in the world; recent advancements in Kuwait's telecom sector have extended 5G network coverage to about 97% of the population.

According to the World Bank's Digital Progress and Trends Report 2023, Kuwait ranks second globally in terms of monthly mobile data consumption, with an average of 83.9 GB of mobile data used monthly.

NBK was determined to capture this market and after surveying 15 and 24-year-olds, it found that 80% of those surveyed wanted an app that would help them set personal saving goals and track their money.

Weyay was launched to cater to the demands of this expanding market sector.

In February this year, NBK followed this up with the Jeel Card (within the Weyay app) designed to empower younger users with financial independence and literacy from an early age.

Geared specifically towards 8 to 14-year-olds, the Jeel Card simplifies banking language and adopts a friendly, jargon-free approach, making it accessible and engaging for young customers.

Parents can set up accounts for their children using a secure authorisation process which enables parental control, while comprehensive transaction monitoring enables them to track their children's spending habits.

A new opportunity for global banking: accelerating trade and investment between the Gulf and Asia

Although global economic growth remains distinctly lacklustre, a steady increase in trade and investment between the Gulf and Asia is creating grounds for optimism.

In this article, Freddie Neve, Senior Middle East Associate, Asia House, explains how non-oil sectors such as technology, manufacturing, logistics, ports and renewables are playing a key role in driving this growth.

The last few years have seen a pronounced acceleration in trade and investment between the GCC countries and Emerging Asia.

'Emerging Asia' refers to the IMF's 'Emerging and Developing Asia' list of 34 Asian economies, which includes China, India, and most ASEAN members, but excludes advanced Asian economies such as Japan, Singapore, South Korea, Hong Kong, Macao and Taiwan.

Asia House's report, '*The Middle East Pivot to Asia*', published in December 2023, shows that trade has surged by 34.7% from $383 bn in 2021, to $516 bn in 2022.

It will grow further. Asia House projections show GCC-Emerging Asia trade reaching $757 bn by 2030, almost doubling in value from 2021. Crucially, this trade is expected to overtake the Gulf's combined trade with the US, UK, Eurozone and other advanced economies by 2026.

This projected geo-economic shift presents numerous opportunities for bankers who can use their expertise and networks to facilitate new Gulf-Asia trade and investment flows, and help clients navigate them, as well as provide financial services to facilitate this new cooperation.

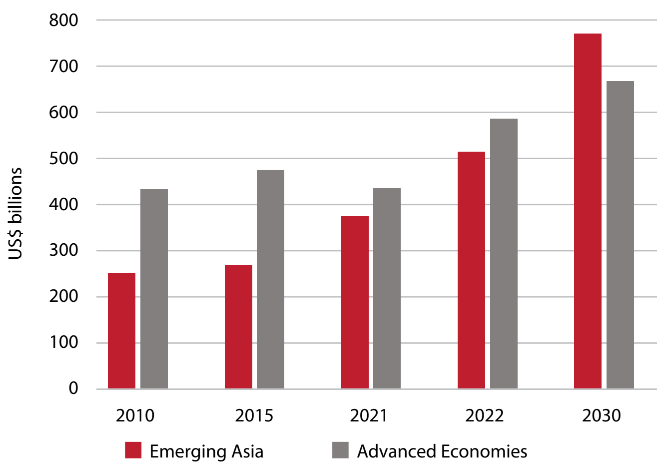
Hydrocarbons account for around half of the Gulf's exports to Asia. But importantly, there has also been a rapid rise in investment, trade and cooperation in non-oil sectors, with technology, logistics, and renewables particularly benefiting.

While Gulf trade and investment between India and ASEAN economies has increased markedly over the last few years, China has also proved to be a key driver of Gulf-Asia trade growth. Beijing is a major investor into Saudi Arabia and the UAE. Chinese investments in the Emirates rose by over 16% in 2023 to $1.3 bn, accounting for 60% of China's total investment in Arab nations, according to the UAE's Ministry of Investment.

Asia House

Asia House is an independent think tank and advisory service. They work with companies and governments in Asia, the Middle East and Europe, facilitating high-level dialogue, providing business and market intelligence, and driving commercial outcomes. Asia House enables commercial, political, and economic engagement between Asia, the Middle East and Europe.

GCC trade with Asia is catching up with Advanced Economies



Gulf-Asia collaboration is creating non-oil sector growth

Gulf states recognise Asia as a source of crucial expertise and technological know-how for those non-oil sectors that could drive their own diversification and modernisation strategies. For its part, Asia sees the Gulf as a source of capital to fuel growth, but also increasingly as a base for companies' international expansion.

Technology

The Gulf is investing in and sourcing Asian technology to encourage digitalisation as part of its economic diversification. Chinese technology firm Huawei, for example, has been instrumental in building the Gulf's 5G and cloud network as well as data centres to support digital transformation.

AI has captured Gulf leaders' imaginations as an efficiency enhancer across multiple sectors. They are investing heavily in creating its own domestic infrastructure, including in semiconductor production, but is also looking to Asia for technological expertise. For example, Aramco's Prosperity7, recently invested in Zhipu AI, a Chinese start-up working to create its own version of ChatGPT.

Fintech is another growing area of cooperation, with the Hong Kong Monetary Authority (HKMA) signing deals with the UAE and Saudi Central Banks to develop fintech and payments infrastructure. The Gulf and Asia are also jointly developing Central Bank Digital Currencies (CBDCs). The UAE, China, Thailand, and Hong Kong's 'm-CBDC Bridge Project' will use blockchain to facilitate cross-border payments and enhance financial integration between these economies.

Renewables

The UAE's hosting of COP28 in November 2023 has boosted Gulf-Asia cooperation in the renewables space, leveraging several existing synergies. China is a major source of the solar panels, EVs, and batteries that the Gulf requires for its energy transition. Meanwhile, Gulf investment in blue and green hydrogen and ammonia is leading to growing shipments of the fuel to Asia, where it can aid the continent's own energy transition and the decarbonisation of hard-to-abate sectors.

Manufacturing, logistics and ports

Central to Gulf economic diversification strategies are the development of domestic manufacturing bases, enhanced logistics capabilities, and port modernisation into global trading hubs.

The Gulf is utilising Asian expertise in multiple greenfield construction projects across the GCC, while simultaneously drawing on its own sector expertise in operating ports to win deals and conduct work in Asia.

One recent deal involved multinational Emirati logistics company DP World and the Indonesia Investment Authority signing a $7.5 bn contract to develop Indonesian sea ports over the next thirty years.

The Gulf-Asia corridor is primed for future growth

There is good reason to expect further Gulf-Asia trade and investment growth. The fundamentals for economic growth in both regions are strong.

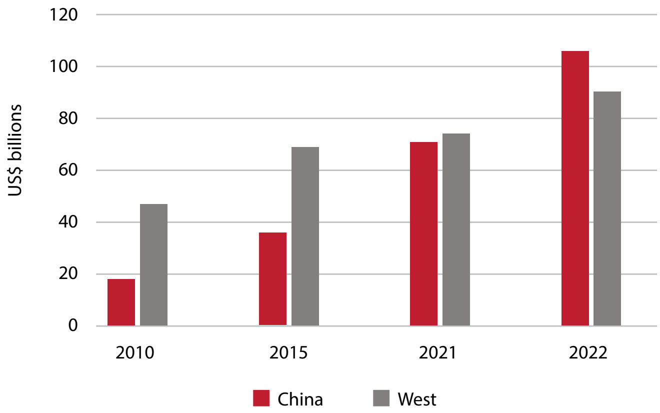
President Mohamed bin Zayed's visit to South Korea and China at the end of May saw several economic cooperation deals signed. Other political initiatives, such as the inaugural ASEAN-GCC summit in Riyadh last year, as well as the UAE and Saudi Arabia's accession to the BRICS group of countries, also move the Gulf states closer to the strategic decision-making of Asian powers on global affairs.

The UAE's recent spate of bilateral trade deals with Asian powers is removing tariff and non-tariff barriers to trade.

Freddie Neve

Freddie leads the Asia House Middle East Programme, convening briefings and events with leading business and policy figures and conducting research focused on the region. He is central to Asia House's engagement with the Middle East, helping corporates better position themselves in the region and providing strategic advice on the business and policy environment there. Freddie is also the lead author of Asia House's annual 'Middle East Pivot to Asia' research publication.

UAE-China trade has overtaken UAE-West trade



In recent months, the UAE has signed trade agreements with India, Indonesia, and South Korea, with other Comprehensive Economic Partnership Agreements (CEPAs) with ASEAN powers in the pipeline.

Conclusion: opportunities for Arab bankers

The Gulf and Asia are increasingly becoming entwined in each other's growth prospects. This is a bright spot within the global economy that is presenting numerous opportunities for the Arab banking and financial services sector.

- Gulf-based funds and asset managers are looking towards Asia for investment opportunities, particularly in the technology, sustainability, manufacturing, and logistics sectors. Banks with the expertise and connections to help their clients navigate Asian markets will benefit and growing number of Arab banks are setting up local offices in Asia to meet these requirements.
- Asian firms are increasingly looking to establish operations in the Gulf. Arab banks should invest in their positioning in Asia to demonstrate their knowledge of these local markets. Producing thought leadership, conducting stakeholder-mapping exercises, and convening roundtables and conferences on the ground in Asian markets, is one tactic to achieve this.
- Asian family offices, particularly from Singapore and Hong Kong, are increasingly looking to the Gulf as a new growth frontier. Arab banks with the networks and knowledge to assist family offices establish themselves in the region will also benefit.
- The volume and value of cross-border Gulf-Asia trade is increasing. Arab banks should study the provision of innovative trade finance solutions to facilitate this. The growing uptake of Renminbi as a global trade currency is one potential opportunity, as is the possible expansion of China's Cross-Border Interbank Payment System to Gulf participants to facilitate trade and payments.
- As Gulf capital markets continue to expand and introduce new trading products, Asian investors may be interested in increasing their exposure to Gulf equities and other investments. Gulf bourses are exploring dual-listing partnerships with their Asian counterparts which could boost Asian interest.

The Middle East's pivot to Asia is one of the defining geopolitical and geoeconomic shifts of our time. The phenomenon deserves greater attention and focus from global businesses and banks in order to capitalise on this growing opportunity. ■

Bank ABC: enhancing its presence in Turkey

Headquartered in Bahrain, Bank ABC today operates in 15 countries across five continents with a strong presence in Egypt, Turkey, Tunisia, Algeria, Jordan, Libya and the GCC countries.

Arab Banker asked Gokselin Ondul, Vice-President, Wholesale Banking Europe at the bank, to explain the key areas of business it is focusing on in Turkey and the country's broader economic context.

ARAB BANKER: Why is Turkey an important market for Bank ABC today?

GOKSELIN ONDUL: Turkey has the world's 19th largest nominal gross domestic product and 11th largest GDP based on purchasing power parity. It has a strong industrial infrastructure and a robust financial sector. Our banking operations in Turkey started almost twenty years ago when we opened Bank ABC's Istanbul Representative office in 2005.

The country has a strategic geographical location, enabling it to serve as a regional hub between the EU and MENA region – both geographies where Bank ABC has a long history of banking operations.

We are involved in numerous trade and infrastructure projects across these geographies, as well as facilitating the financing needs of corporates and the banking sector.

Turkey has been battling sky-high inflation which reached 75.45% in May – among the highest rates in the world. What challenges does this present and how are you navigating them?

Since the general election of May 2023, the Turkish government has been implementing a more orthodox economic policy.

The new cabinet has introduced tighter monetary policies to fight inflation. Access to liquidity continues to be a major problem for Turkish corporates as banks have been cautious in providing credit to them.

Bank ABC has been able to provide much needed trade finance solutions to Turkish corporates unable to tap into the local market for financial products. We have seen an increase in funding requests from these companies.

What do you see as the key opportunities for you in Turkey in 2025?

Since the government started to implement more orthodox economic policies, there have been various positive developments in the Turkish market. These include: a sharp drop in credit default swap levels, a rapid increase in the reserves of the Turkish central bank, Turkey's recent removal from the grey list of the AML watchdog, the Financial Action Task Force, and a sovereign ratings upgrade to a positive outlook, by multiple external agencies. All these developments have increased FDI into Turkey.

Moving into 2025, we are expecting an increase in Turkey's trade volume with its trading partners. We anticipate this will be partially fuelled by interest rate cuts by the central banks of Turkey's major trading partners, the US, EU, and the UK.

The UK and Turkey are in talks to sign a new free trade agreement (FTA). What opportunities could a new FTA present to Bank ABC?

The UK launched talks with Turkey on a new, modernised trade deal in March 2024. An enhanced FTA will open new trade and investment opportunities for financial and related professional services, as well as laying the groundwork for more robust bilateral relations and a frictionless trade environment that will benefit both nations.

The UK is Turkey's third largest trading partner after the US and EU. Total trade in goods and services (exports plus imports) between the UK and Turkey was £25.9 bn ($33.3 bn) in the four quarters to the end of Q1 2024.

Total UK imports from Turkey amounted to £16.2 bn in the four quarters to the end of Q1 2024. The country ranks as the UK's 14th largest import partner and is 22nd among its export partners.

Key UK exports to Turkey include diesel engines, automobiles, iron and steel and scrap metal. Major UK imports from Turkey include textiles, electrical machinery, automobile spares and white goods. Bank ABC continues to help finance the trade of all these products. ■

Gokselin Ondul

Gokselin Ondul has over 16 years of experience in Turkey's banking sector. Currently he is responsible for enlarging and developing Bank ABC's client portfolio and promoting its capabilities across global trade and project finance, Islamic finance, syndicated loans, debt capital markets and treasury products to banks, non-bank FIs and corporates.

Become a Member

The Arab Bankers Association (ABA) was founded in London in 1980 as a non profit-making organisation. Its aims are to promote the professional interests of Arab bankers in Europe and the Middle East, provide services to the Arab banking and financial community and enhance overall awareness of recent financial industry developments.

The ABA seeks to develop ties between Arab professionals working in financial services and to encourage the exchange of views, information and expertise between the banking and financial sectors in the Arab world and their counterparts in the United Kingdom and other countries.

Arab Bankers Association

جمعية المصرفيين العرب

ABA Membership Application

PLEASE TICK ✓ BELOW AS APPLICABLE

I wish to become a member of the Arab Bankers Association in the category of:

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☐ **Young Professional** (less than seven years' experience in the banking and financial sector) | Annual fee £100

☐ **Associate (corporate) Membership** | Annual fee £4,000

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Middle East sovereigns look set for rating upgrades

Arab Bankers Association's Editor-in-Chief, Andrew Cunningham, presents our annual survey of how credit ratings on Middle Eastern governments have moved over the past year, and looks ahead to likely upgrades in the months to come.

With some exceptions, the ratings on Middle Eastern governments have remained largely unchanged over the past year.

Notably, Egypt, Morocco, Oman and Saudi Arabia have all received positive outlooks from at least one of the three big international credit rating agencies, Fitch, Moody's and S&P Global.

Where rating changes have taken place, they have been due to country-specific factors rather than a general uplift prompted by region-wide events.

Earlier this year, Fitch and Moody's upgraded Qatar by one notch from AA- to AA, the rating that the country had enjoyed until 2017 when all three agencies issued downgrades amid a diplomatic spat between Qatar and some of its Gulf and regional neighbours. S&P had already restored its AA rating in November 2022.

Moody's press release, announcing its upgrade of Qatar, stated that global demand for liquefied natural gas (LNG), the biggest element in Qatar's energy export mix, is likely to peak considerably later than demand for other fossil fuels (such as crude oil). As a result, the agency argued, Qatar will therefore have more time to adjust to the global transition away from carbon-based energy than those countries which are depending on oil exports.

Upgrades for Oman

In the second half of 2023, all three agencies upgraded Oman by one notch to BB+, and in March this year S&P changed its outlook to positive from stable, indicating a strong possibility that the country will be put back into investment grade territory (by that ratings agency at least) in the months ahead. The agencies consider ratings of BBB- or higher, to be investment grade.

Announcing the changed outlook, S&P focused in particular on the reorganisation of Oman's state-owned enterprises, which have significant influence on the Omani economy and which are also heavily indebted. As part of a broad programme of structural reform, the Omani government is moving from being an owner of these enterprises to a regulator. As a result, S&P believes, government indebtedness will decline, and its balance sheet will become stronger and more resistant to any future oil price shocks.

Moody's upgraded Jordan to BB- in May this year, following through on the positive outlook assigned in November 2022. The rating agency said that the upgrade reflected Jordan's lengthening track record of macro-economic, fiscal and risk management, which provides the Jordanian government with resilience in the face of economic shocks.

In March, S&P changed its outlook on Morocco's BB+ rating to positive. It cited a faster than expected decrease in budget and current account deficits during 2023, as well as the Moroccan economy's ability to successfully weather recent challenges, such as the surge in energy and food prices due to the Russia-Ukraine war, the Covid pandemic, and local droughts. The agency also pointed to reform of Value Added Tax in the 2024 finance law and the simplification of the tax system.

An upgrade to BBB- would take Morocco into investment grade territory for the first time since sovereign ratings were first assigned by the big three agencies 25 years ago.

Saudi Arabia continues to enjoy a positive outlook on its A+ rating from Moody's. That outlook was assigned in March 2023, around the same time that Fitch and S&P upgraded their ratings by one notch, to A+ and A, respectively. An upgrade from Moody's would give the Kingdom a AA rating for the first time since 2017.

Egypt goes down, then back up

Egypt saw its ratings cut, and then restored over the past year, and now enjoys a positive outlook from all three agencies. In 2023, Fitch and Moody's each downgraded the country twice, and S&P downgraded it once. Moody's even changed the outlook on its exceptionally low Caa1 rating to negative from stable in January this year. But all three agencies changed their outlooks to positive following Abu Dhabi's announcement of plans to invest $35 bn in Egypt's north coast, and Egypt's agreement of a new IMF support programme.

Lebanon has seen its ratings withdrawn by Fitch, while Moody's continues to hold a rating of C, implying not only a very high likelihood of default but also a high likelihood that creditors will take significant losses. S&P marks Lebanon at 'selective default', indicating that some, though not all, of the country's obligations are not being repaid.

Tunisia also remains at the lower end of the rating scale, with a CCC- rating from Fitch and Caa2 from Moody's, in both cases unchanged from a year ago. S&P does not rate Tunisia.

None of the three agencies publishes sovereign ratings on Algeria, Libya or Syria.

Rating agencies have warned of the possible impact of the war in Gaza on sovereign ratings in the region, but in practice, the war has not led to downgrades or even changes in outlook for Arab governments. In contrast, Moody's and S&P have downgraded Israel, to A+ and A respectively, and assigned negative outlooks. Bucking this trend Fitch affirmed its A+ rating, with a stable outlook in April this year, having put the rating under review for downgrade just days after the start of the conflict in October last year. ■

Ratings on governments in the Middle East ('Sovereign ratings')

Moody's ratings are shown using Fitch/S&P notation to facilitate comparison

		3 August 2024	12 July 2023	24 July 2022
Bahrain	Fitch	B+ stable	B+ stable	B+ stable
	Moody's	B stable	B stable	B stable
	S&P	B+ stable	B+ positive	B+ stable
Egypt	Fitch	B- positive	B negative	B+ stable
	Moody's	Caa1 positive	B- (Review Down)	B negative
	S&P	B- positive	B negative	B stable
Iraq	Fitch	B- stable	B- stable	B- stable
	Moody's	Caa1 stable	Caa1 stable	Caa1 stable
	S&P	B- stable	B- stable	B- stable
Jordan	Fitch	BB- stable	BB- stable	BB- stable
	Moody's	BB- stable	B+ positive	B+ stable
	S&P	B+ stable	B+ stable	B+ stable
Kuwait	Fitch	AA- stable	AA- stable	AA- stable
	Moody's	A+ stable	A+ stable	A+ stable
	S&P	A+ stable	A+ stable	A+ stable
Lebanon	Fitch	Rating withdrawn	RD	C
	Moody's	C stable	C stable	C stable
	S&P	SD	SD	SD
Morocco	Fitch	BB+ stable	BB+ stable	BB+ stable
	Moody's	BB+ stable	BB+ stable	BB+ stable
	S&P	BB+ positive	BB+ stable	BB+ stable
Oman	Fitch	BB+ stable	BB positive	BB- stable
	Moody's	BB+ stable	BB positive	BB- stable
	S&P	BB+ positive	BB positive	BB- stable
Qatar	Fitch	AA stable	AA- positive	AA- stable
	Moody's	AA stable	AA- positive	AA- stable
	S&P	AA stable	AA stable	AA- stable
Saudi Arabia	Fitch	A+ stable	A+ stable	A positive
	Moody's	A+ positive	A+ positive	A+ stable
	S&P	A stable	A stable	A- positive
Tunisia	Fitch	CCC-	CCC-	CCC
	Moody's	Caa2 stable	Caa2 negative	Caa1 negative
	S&P	Not rated	Not rated	Not rated
UAE	Fitch	AA- stable	AA- stable	AA- stable
	Moody's	AA stable	AA stable	AA stable
	S&P	Not rated	Not rated	Not rated

If no rating outlook is shown, there is no outlook on that rating. RD = Restricted Default. SD = Selective Default.
Source: Publicly available information on the rating agencies' websites.

Harnessing growth opportunities and fostering greater collaboration between the UK and the Middle East

Elected annually in November, the Lord Mayor of the City of London serves as a global ambassador for the UK's financial and professional services sector. Not to be confused with the Mayor of London, the Lord Mayor is the head of the City of London Corporation, the governing body of the 'Square Mile', the historic heartland of London's banking and financial district.

Arab Banker asked Alastair King, the incoming Lord Mayor, to set out his key priorities and the most promising areas for collaboration between the UK and the Middle East region.

Alastair King

Alastair King is an Alderman of the City of London and previously served as Sheriff of the City of London from 2022 to 2023.

Currently, he sits on the board of five City of London-based financial services companies, four of which he chairs. He owns two of them – Naisbitt King Asset Management Limited (a fund manager) and Naisbitt King Limited (a family office).

He is Secretary of the UK Parliament's All-Party Parliamentary Group on Sovereign Wealth Funds. He is also Chair of the Institute of Directors, London Region and a member of CEO, an invitation-only group of 2000 leading CEOs from around the world.

In November 2024, subject to final ratification, I will become the 696th Lord Mayor of the City of London. This remarkable office – dating from 1189 – has gone through many iterations in its 835-year history.

This is a roving appointment – my job will be to go around the world seeking to encourage people that if they want to raise capital to fund expansion for their business, they should do it in the UK; if they want to insure against catastrophe, they should do it in the UK; and, if while doing both of the above, they also want to fall out with their partners, they should sue them in the UK.

The Lord Mayor also seeks to attract foreign investment into the UK's financial, professional and legal services sector – one of the most economically vibrant in the world. Further, it will encourage UK businesses to seek new opportunities in dynamic markets abroad.

UK Services – World Beaters

According to the latest statistics published by the UN's Trade and Development Organisation, the UK was the fourth largest exporter of financial and legal services in the world in 2022 – behind only China, USA, and Germany. It has moved up from its previous position in 2021 as seventh in the ranking, overtaking France, the Netherlands, and Japan. The UK's service sector is now truly world class.

Financial, professional and legal services are where I see the greatest potential for the UK's commercial engagement with the Arab world, based on my own experience in chairing an asset management company with interests in the region. I hope the contacts that I have made in the Middle East over the years will provide a firm foundation for the ambassadorial role that I will undertake in November 2024.

It will be useful to have a head start as I commence my year in office and I already have a good set of Gulf-based contacts in the worlds of banking, asset management and finance. I sense that there is a desire on the part of markets within the GCC to continue to diversify their economies, a process which will require investment and expertise. The United Kingdom's financial, professional and legal sectors have the ability to invest into high growth markets and the expertise to make this a really productive area of potential collaboration.

Secondary listings in London

By way of an example, an area where I see great potential is that of secondary listings on the London Stock Exchange for companies in the Arab region. At the end of last year, I gave a talk alongside Dame Julia Hoggett, CEO of the London Stock Exchange PLC, in Saudi Arabia. We spoke of the opportunities for Saudi companies to raise additional capital investment through secondary listings on the London market.

More broadly speaking, this approach can expand the investor base for GCC companies, and raise their international profile, without seeking to remove them from their home markets. It can also have the benefit of reducing the cost of capital from international financial markets. We see an immense opportunity for London to work with the Arab business community on secondary listings from across the region.

Project financing / sustainable finance

Given the ambitions within the GCC for further development of infrastructure, together with a plethora of major capital projects across the region, tapping into the UK's deep expertise in both recourse and non-recourse project finance looks to be a sensible way for the UK and the GCC nations to collaborate.

Green finance, together with sustainable finance, are still growing sectors within the London market and can easily be deployed to help fund associated projects throughout the GCC and beyond. The deep and trusted expertise in these areas – as well as the cutting-edge innovation taking place in these sectors – resides in London.

I had the privilege to speak at the recent UK-Saudi Sustainable Infrastructure Forum, held in London in June. I was impressed by the intense interest expressed in sustainable infrastructure by both Saudi and UK participants. So many innovative projects were under discussion. It seems certain that this sector will continue to be a fulcrum of capital flows, for the benefit of all participants.

Risk appetite

One of my main aims when in office will be to be the cheerleader-in-chief for the City of London. I wish to extol its extraordinary depth of expertise and experience in so many innovative areas of finance. I want people to hear that London is on top of its game when it comes to financing complicated projects.

Yet this role has another important, domestic aspect, which is perhaps less obvious. It will centre on exhorting the UK's financial, professional and legal services to take positive risk once again. It is within the 'muscle-memory' of the sector – we know how to do it. However, over the last decade, the sector has become more risk-averse. A spirit of 'safetyism' has pervaded recently, only a few years before, there was more of a 'can-do' attitude.

An example of this phenomenon can be seen in the way business is currently being done in the high growth markets in the Arab world. Too often, remarkable opportunities in these markets are turned down by UK financial, professional and legal services firms, because the markets are viewed as a little problematic when drafting their internal risk assessments.

The number of people within the risk and compliance departments of several firms has in many cases ballooned, yet the number of projects done in markets that might be perceived as not being straightforward has declined. These missed opportunities have been grabbed with open arms by the UK's competitors.

Change of mindset required

The genesis of this 'safetyism' culture has many causes – there is not enough space here to go into them all in detail. Certainly, a tough and habitually enforced regulatory regime plays a part. Some of the legislation passed by the UK Government relating to the financial, professional and legal services sectors in recent years has also had the (perhaps unintended) consequence of stifling opportunities, rather than giving rise to them. The mindset of senior figures within the sectors has also changed – anecdotally, there seem to be fewer swashbuckling business leaders in the sector than perhaps there used to be.

As cheerleader-in-chief for the sector, I must therefore bang on the doors of my colleagues in the UK. I look forward to telling them that, although I will push for legislative and regulatory reform, which will lift some of the hidden burden on businesses, they cannot wait for this to take effect before taking action. Legislative and regulatory reform can take years to be enacted. We do not have this time. The moment to explore the new growth markets, including so many in the Arab world, is now.

When speaking with my colleagues I will be encouraging them to get on planes to the Arab world, to present more ideas and to seek more business. A much more entrepreneurial approach is required when seeking new mandates. I know this as a long-standing entrepreneur within the sector. I will do what I can to lead major trade delegations to the Arab world in my term of office.

Re-discovered entrepreneurialism

I will take office in a profoundly exciting moment. The UK looks set to be a beacon of stability in an unstable international political environment over the next five years of the Labour government. We have an opportunity to reset and regrow our entrepreneurial potential. This five-year window coincides with remarkable opportunities in the Arab world, where the thirst for development and investment shows no sign of being quenched.

The cheerleader-in-chief for the UK's financial, professional and legal services sector will soon be coming to a financial centre near you. He will be on a mission to show how the Arab world, harnessing the UK's newly re-discovered entrepreneurialism in these sectors, can assist the region. It is a remarkable moment for us all. ■

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Weighing all-out war against prospects for peace in the Middle East

2024 has proven to be one of the most tumultuous years in recent Middle Eastern geopolitics.

Arab Banker asked veteran Middle East correspondent William Law, to share his view on how events so far have impacted the region, what is shaping the political calculus of the numerous players and what the future might hold.

Given how fast-moving events are on the ground, *Arab Banker* recognises that by the time we publish this article, some of the information it contains could be out of date.

As the plight of the Palestinians continues and as insecurity and fear deepen among Israelis, there is growing concern within the Middle East, and the wider world, that a full-scale war may be imminent. Such fears were heightened by the assassination of Hamas leader, Ismail Haniyeh, on 31 July in Tehran and the killing, just a few hours earlier, of senior Hezbollah commander Fuad Shukr, in Beirut. Subsequent military action by Israel against Hezbollah targets in Lebanon and Hezbollah's response have seen the two sides trading missile attacks, raising the stakes once more.

While both Hamas and Iran have blamed Israel for Haniyeh's death, Israel has neither confirmed nor denied any role in line with its standard policy of not commenting on targeted killings in Iran. It was however quick to claim responsibility for the Beirut airstrike that killed Shukr.

Despite the dangerously escalating hostilities between Iran and Israel since the start of the Gaza war in October last year, neither Tehran nor the Lebanon-based militant group Hezbollah wants a full-scale war with Israel.

The Israeli Defence Force – already stretched by events in Gaza – also sees no advantage to a broader war. But this is not a view shared by far-right extremists in Prime Minister Benjamin Netanyahu's cabinet, chief among them National Security Minister Itamar Ben-Gvir and Finance Minister Bezalel Smotrich. They believe a major war would create further opportunity to drive Palestinians out of their existing homeland and achieve their goal of a Jewish theocratic state.

Though public support for them is not strong, a measure of their strength in the Knesset was the passing of a resolution on 18 July rejecting the establishment of a Palestinian state. The vote, at 68–9, was carried by the narrowest of margins, with widespread abstention by the opposition, but it further erodes hopes for a two-state solution.

For Netanyahu himself, the continuation of the war in Gaza is a political necessity. Once it ends, he will face a political reckoning for the security failures that enabled the Hamas attack of 7 October to be carried out and for his prior efforts to subvert the judiciary to escape justice over long-standing fraud and corruption charges. Recent signals that a ceasefire deal was close to being signed have, like previous signals, become obscured in the haze of the oblique game that the Israeli PM has played since the beginning of the war: talk ceasefire while using the Israeli war machine to ensure no ceasefire can happen.

The current conflict in Gaza also benefits the strategic imperatives of Russian president Vladimir Putin. The Gaza war has served to distract the world's attention both from Ukraine, and from his efforts to strengthen Russia's presence elsewhere in the MENA region. But while Putin's involvement in the war in Syria is well documented, he is unlikely to risk engaging Russian troops in Lebanon should Israel open a new front on its northern border there.

America's policy stance towards the region may be shifting slightly since the start of Kamala Harris's presidential candidacy. President Biden's previously unwavering support for Israel has been tempered by Harris's concern over civilian casualties. Democrats support amongst Arab- Americans has been eroded, particularly in swing states such as Michigan, which Harris must win to secure the Oval office.

For its part, China is keeping a watching brief on developments, refraining from outright support for either side, and focussing instead on enhancing its position in the region. Its most notable regional success was in brokering a deal restoring diplomatic relations between Saudi Arabia and Iran in 2023.

On 23 July 2024, Beijing brokered talks involving 14 Palestinian factions, including rivals Hamas and Fatah, which culminated in a signed agreement aimed at 'ending division and strengthening Palestinian unity'.

The Chinese have already staked a huge financial investment in the Middle East (which it sees as a crucial link between Europe and Asia) through its Belt and Road initiative (BRI), launched in 2013. By 2021, China had pumped $123 bn into MENA in BRI-related projects, primarily in energy and digital projects in the Gulf states. Beijing also plans major port and infrastructure projects involving the UAE, Saudi Arabia, Oman, Djibouti and Egypt. It currently has a $400 bn trade deal with Iran.

So Beijing certainly has skin in the game. Earlier this year, both China and Russia were reported as seeking a deal with senior Houthi figures to secure safe passage for their vessels through the Red and Arabian Seas. The move appears to reflect Chinese concerns that an extended conflict in Gaza could potentially jeopardise its significant BRI investments.

Houthi attacks in international shipping have had a more immediate impact on Egypt, which has seen a dramatic decline in traffic through the Suez Canal, causing revenues to plunge by between 40% to 50%, according to the government. Egypt's battered economy is already grappling with enormous foreign and domestic debt issues. No surprise then that Cairo is playing a significant role with Qatar and Washington in efforts to secure a ceasefire.

President Sisi has thus far resisted suggestions by Ben-Gvir and other extremists to accept Gazan refugees in large numbers. North Sinai is impoverished and still vulnerable to threats from the remnants of ISIS-affiliated militant groups; adding approximately 2 million Palestinians into a potentially politically volatile region could further destabilise the territory. As well, the huge economic and social impact of the influx of Syrian refugees in southern Turkey will not have been lost on the Egyptian president.

The Arab Peace Initiative proposed by Saudi Arabia in 2002 remains the best template for securing regional peace. It recognises the boundaries of a Palestinian state on the 1967 Green Line border, with East Jerusalem as the capital, in exchange for normalisation of relations with Israel by the rest of the Arab world. It may be that after the enormous suffering of the Palestinians, the trauma of the Hamas attack inflicted on the Israelis and the risk of an all-out war looming, the time of this initiative has now arrived.

Those Arab states that have already established formal relations with Israel under the Abraham Accords – Bahrain, Morocco, Sudan and most particularly the UAE – can and should bring more determined economic and diplomatic pressure to bear on Israel. So too should Saudi Arabia, which, under the leadership of Crown Prince Mohammed bin Salman, has already spoken out with increasing forcefulness in support of the two-state solution. The crown prince has wisely ignored Biden's entreaties to join the Accord, arguing it would only do so once the Israelis have made an inviolable commitment to Palestinian statehood.

The Emiratis, anxious to maintain their economic and security links with Israel have been subdued in their criticisms.

A joint threat from both the UAE and Bahrain, to withdraw ambassadors unless a ceasefire is implemented, would perhaps clarify thinking in Israel, Washington, London and other capitals. Such a step would require close co-ordination with efforts by Saudi Arabia, Oman, Kuwait and Qatar to achieve the same end.

But of course, the player with most clout is, as ever, the US. Given the transactional and bizarre manner in which Donald Trump conducted US policy in his term in office, it is virtually impossible to predict what he might do if he returns. He is however, likely to renew Biden's commitment to continue arming Israel.

On the other hand, should Harris win in November and take the unprecedented step of halting the flow of weapons to Israel to essentially force a ceasefire, then what seems today to be a mirage could become reality.

Between now and the presidential election in November, America will continue to push, albeit fitfully, for a ceasefire. Meanwhile, other regional players and Western democracies can apply the sort of economic and diplomatic pressure that, should Harris win, would set the stage for the US to force significant concessions from Netanyahu. In that regard the most important regional players are the UAE, Saudi Arabia, Egypt and Qatar.

The UK and EU could also take a far more assertive stance in creating the pathway to a two-state solution, or even a one-state version that treats Palestinians as equal citizens.

The economic, political and diplomatic benefits that would flow from regional peace and security are almost incalculable. Finally, after more than a century of exploitation and abuse, the Palestinians would have a state. ■

William Law

William Law is the editor of Arab Digest, an online platform where high-level business leaders and experts on the MENA region share insights and analysis of the most pressing issues it faces.

Arabdigest.org publishes a daily newsletter about the region as well as the weekly Arab Digest podcast.

Law is an award-winning journalist and documentary maker who has reported extensively from the MENA region for the BBC. He previously served as the broadcaster's Gulf analyst.

Bright futures for UAE and Saudi Arabian real estate

The dynamic real estate markets of the UAE and Saudi Arabia have shown extraordinary growth over recent years. It's a trend that shows no sign of abating as high-net-worth-individuals (HNWIs) and forward-looking corporates alike, seek to secure a stake in these markets.

Arab Banker asked Faisal Durrani, Partner and Head of Research for MENA at Knight Frank, to share his expertise on this strengthening demand in both markets and on key trends that are emerging.

Dubai's prime residential market has made global headlines over the last four years because of the exceptional double digit price growth recorded in the city's most exclusive neighbourhoods.

These areas, which encompass Jumeirah Bay Island, Emirates Hills, the Palm Jumeirah, and this year's new addition, Jumeirah Islands, registered combined price rises of 44.4% during 2022 – the highest rate of increase for any prime market in the world. Dubai's efficient handling of the Covid 19 pandemic has been a key factor behind this trend. In parallel, macro-economic policy decisions such as the introduction of a wide range of new residential visa options designed to attract and retain talent, making it much easier for people to move to Dubai and the UAE, also contributed to the influx of new residents.

As a result, prices grew by 16.3% in 2023, and by 18.2% in the 12 months to the end of March 2024. December 2023 saw a new record set for the most expensive property sale ever registered in the emirate, when the 22,000 square foot penthouse at the Como Residences on the Palm Jumeirah, was sold for an unprecedented $135mn.

Dubai's residential market is in the midst of its third freehold residential property price growth cycle. It commenced at the start of the pandemic, in March 2020, and prices have been appreciating ever since. Dubai's first such cycle lasted approximately six years, reaching a peak in 2008, while the second lasted four years, peaking in 2014.

Sound fundamentals

The current cycle however, is fundamentally different, with the various KPIs that underpin house prices pointing to more sustainable growth going forward.

While Dubai's residential market has historically recorded sharp price fluctuations, it is worth noting that despite the double-digit price growth recorded over the last four years, residential values today are on average, just 2.3% above the 2014 peak – standing at about $425 per square foot.

One of the stand-out trends in this market cycle has been the change in the buyer profile, particularly at the higher end of the price spectrum. Not only do we have anecdotal evidence to show that international HNWIs are choosing Dubai for their second, holiday, or retirement homes, but we are also recording a sharp fall in the number of homes available for sale, as a 'buy-to-live' mentality beds in. This constitutes a dramatic shift away from the speculative investment activity that drove extreme price volatility in the past.

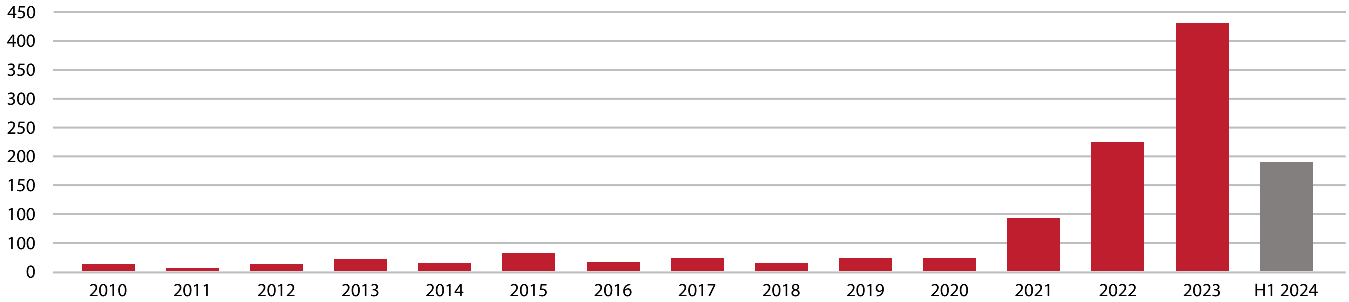
The number of homes available for sale in the city as at the end of Q2 2024, was 23% lower than during the corresponding period last year, while in prime residential neighbourhoods there are currently 47% fewer homes for sale than there were last summer. And if you move up into the ultra-exclusive $10 mn+ bracket, there has been a 65.5% fall in the number of home listings – with developers racing to try to keep pace with demand.

A global luxury homes hotspot

Last year, with a total of 431 $10 mn+ home sales, Dubai emerged as the world's leading market for luxury property sales – notching up more sales than London and New York combined. During the first half of 2024, 190 properties sold for more than $10 mn (at an average price of just under $1,000 per square foot) putting the emirate well on track to equalling, if not exceeding last year's figure.

This highlights a significant opportunity to supply more ultra-luxury homes in the city. Indeed, of the 261,000 residential units due for delivery over the next six years, (which Knight Frank is currently tracking) only 368 are being built in the city's prime neighbourhoods. The 261,000 figure roughly translates into 43,500 homes per year until the end of 2029 – this is higher than the historical annual completion rate of 30,000 units.

Number of $10 mn+ transactions in Dubai **Average transacted price Q2 2024: AED 3,546 per square ft**



Source: Knight Frank, REIDIN

Demand is being catalysed by Dubai's relative affordability – $1 mn secures 980 square feet of space in the city's prime residential districts – three or four times more than you can expect in London, New York, or Singapore.

And global demand keeps growing. Our 2024 *Destination Dubai Report* revealed that a potential $4.4bn of global HNWI private capital could be invested in residential property in the city. This is a 76% increase on last year, further evidence not only of the opportunities available to developers, but also the growing global interest in the emirate's property market.

A dearth of grade 'A' offices

Over the last three or four years, the market for office space in Abu Dhabi, Dubai and Riyadh has come alive, with a sharp upturn in demand. In Saudi, this has of course been super charged by Vision 2030 – the total current value of its real estate and infrastructure projects is $1.3tn.

According to Knight Frank's *Construction Landscape Review – H1 2024* for Saudi Arabia, the value of construction projects awarded across the residential, institutional, infrastructure, industrial, energy & utilities and commercial sectors, amounted to a total of $141.5 bn in 2023, an increase of 4.3% compared to the previous year.

While the pandemic may have curtailed office development plans globally, Abu Dhabi, Dubai and Riyadh are anomalous on the world stage in that these three cities have virtually run out of prime grade A office space. Occupancy levels for grade A space in Riyadh stood at 97% at the end of June. In Dubai and Abu Dhabi, the figure stood at over 95%. Demand is now so high for some of Dubai's most sought-after office buildings that they now have waiting lists for space which run into the hundreds of thousands of square feet.

This has led to a subsequent upward pressure on rents in the face of growing office space demand. For instance, in Dubai, rents in the Dubai International Financial Centre (DIFC) (c. AED 350 per square foot) are up almost 60% since Q1 2020, while in nearby Business Bay (c. AED 200 per square foot) the growth rate has been even higher at 150%.

Rents in prime office space in Riyadh have risen by 8% in the last 12 months and almost 37% since the first quarter of 2021. This is partly due to the fact that Saudi Arabia has stipulated that companies must base their regional headquarters in the kingdom if they want access to government contracts worth SAR1 million ($260,000) or more. To date, 350 European companies have been granted licences to establish their regional HQs in the capital.

During the first half of 2024 alone, requests for new office space in Dubai logged with our leasing team equated to 486,200 square feet, both from businesses new to the city and those that are expanding. This compares to a total of 778,000 square feet throughout the whole of last year.

Some developers have begun to respond to this burgeoning demand, such as Aldar, which recently announced plans for a new mixed-use tower on Sheikh Zayed Road, which will contain close to 950,000 square feet of Grade A space (due in Q4 2027) and the DIFC which has unveiled plans for the 1 million square foot DIFC Square project (due in Q1 2026).

Against a global backdrop of subdued economic growth, Dubai and Saudi's strong growth prospects are setting them apart as favourable destinations to live and work.

Business activity in Dubai's non-oil private sector grew at the fastest rate in almost four years in February, with the S&P Global Dubai purchasing managers' index reaching 58.5.

Meanwhile, Saudi's pursuit of its Vision 2030 will continue to require vast amounts of investment into projects aimed at overhauling and diversifying the economy. The real estate sector will undoubtedly be a key beneficiary of that transformation. ■

Faisal Durrani

Faisal Durrani is Partner – Head of Research for Knight Frank MENA. His work in the Middle East is focused on the impact of Vision 2030 on Saudi Arabia's real estate landscape as well Dubai's ultra-prime residential market and the growing importance of ESG considerations. His knowledge and experience spans all real estate sectors and includes markets across the UK, Middle East and Africa.

The enduring appeal of the UK property market

The property market has long been a key pillar of the UK economy, but the challenging macroeconomic backdrop of the last few years has subdued performance across the residential, commercial and retail sectors.

Today however, the gradually improving financial picture is reigniting investors' appetites, while the new Labour government's pledge to build 1.5m homes over the next five years would, if achieved, be a major boon for the UK's property market.

Arab Banker asked Maisam Fazal, Chief Commercial Officer of Al Rayan Bank, to share his insights into how the property market is performing, and his expectations for the future.

The UK property market continues to provide some of the best opportunities for overseas investors – and the growing population and continuing shortage of housing supply means its desirability is only expected to increase further.

GCC investors in particular view the UK as a reliable location for returns. In 2023, Al Rayan Bank surveyed 150 investors from Saudi Arabia, Qatar and the UAE with an average net worth of $208 m as part of its Annual GCC *Investment Barometer* research.

Al Rayan's research found almost nine in ten (89%) viewed the UK as a strong investment opportunity – with a third (33%) having bought property in London over the previous 12 months, more than in any other major global market.

In responses to the survey, investors told us they could rely on the UK's stable currency, growing demand for housing, rising rental incomes, transparent legal system and its established network of skilled property professionals, which made buying and owning property in the UK a profitable and headache-free experience.

More than four in five (85%) said their confidence in the market had increased in the preceding year, citing excess demand, reliable investment returns, strong rental growth and the availability of a mix of assets.

It was also interesting to note that the type of UK property respondents planned to invest in was diverse, with 59% considering residential apartments, 52% looking at commercial office space and 49% seeking residential housing.

As well as investment-driven purchases, interest is also strong from those GCC residents who seek a second home in the UK and in London in particular.

Residential continues to boom

The residential market has experienced its share of challenging conditions over the past few years, including the impacts of Stamp Duty Land Tax changes, Brexit, the pandemic, elections, fluctuating exchange and home finance rates. Yet it remains most investors' 'bread and butter' market as it proves a resilient long-term investment.

This is despite the home finance rate volatility, which has resulted in many UK residents experiencing challenges around affordability when deciding to purchase a property – or even secure a new finance deal.

A surge in rental demand has also been impacted by private landlords exiting the market. However, Labour's plans to revolutionise the rental sector should reinstate benefits for both landlords and occupiers.

As part of its manifesto, the new UK government laid out commitments to improve rental conditions and increase the supply of affordable homes, with the abolition of Section 21 – which allows a landlord to evict a tenant without providing a specific reason – as a key priority.

Al Rayan Bank Executive Committee

Maisam Fazal

Maisam Fazal was appointed as Al Rayan's Chief Commercial Officer in 2018. Since joining the bank in 2013, he has overseen its pivot to focus on commercial and premier banking. He is also responsible for liabilities, product management, and marketing and communications.

For investors, there is a real opportunity to build and develop portfolios as faith in the market is restored, although there is still a question mark over potential future tax on foreign investment.

As for house prices, these have begun to stabilise, and we should start to see more buyers – in particular first-time buyers – come into the market.

In previous years, prospective buyers have been affected by the government's consistent shortfall on annual housebuilding targets, resulting in a substantial shortage of affordable and available homes.

Labour has committed to 'get Britain building again' with plans to build 1.5m new homes over the next five years, which, if achieved, should help to considerably boost the new home sector and provide first time buyers with an opportunity to get onto the property ladder.

Commuter belt regions with strong transport links have continued to provide exciting opportunities for investment, as people move out of the cities to get more for their money. This trend was accelerated by the pandemic, as working from home became the new norm.

Al Rayan is seeing this demand first-hand with the value of its commercial property finance asset book increasing to £904 m ($1,160 m) in 2023, marking a 14% year-on-year increase on 2022.

This has been driven by our support for high-value real estate investors who require funding for new purchases, re-financing, or releasing additional finance for projects including build-to-sell, build-to-rent and expansion through permitted development rights.

Some of our most notable financing deals have included the refinancing of; 143 apartments as part of a private rented sector scheme in Luton, 190 flats in Southampton and 113 new-build flats in Farnborough, among others. The common trend across all these newly completed properties was that while ramp-up from valuers was forecast at circa five months, most were fully let within the first six weeks, demonstrating the heightened level of demand for residential.

Commercial market recovery

As home finance rates stabilise, we're seeing more demand for commercial assets, especially around London and other major UK cities, with investors becoming increasingly willing to look further afield. Al Rayan Bank's annual barometer found Liverpool (34%), Manchester (34%), Birmingham (26%), Brighton (23%) and Newcastle (19%) were the top five most attractive investment destinations outside of London (56%) in 2023.

Following the pandemic – and the requirement to work from home where possible – there has been a slow but steady return to office working. While remote working is still far more common compared to pre-pandemic, office space is still in demand, with many businesses opting for a hybrid model of working. Investors do however require a level of flexibility to manage business changes as they figure out what is needed from an office space.

From valuers' perspectives, capital values, which have been falling for the last few years, have finally plateaued. The reduction in hybrid working has also helped to stabilise the office market and some recent transactions have shown that the appetite for the right asset is on the increase.

Appetite increases for student accommodation

The UK remains one of the key global destinations for students looking to study abroad. Growth is expected within the student accommodation sector as UCAS – the UK's centralised university application service – has projected that UK universities could have as many as 1 million university applicants by 2030.

Still, investors should keep a watching brief on how universities are approaching the subject of tuition fees, as well as how immigration rules will impact international students. University fees for international students are not capped in the same way as they are for UK students and so providers can charge significantly more. As a result, many universities have become highly reliant on international students to generate revenues. Their continued presence in the UK, in significant numbers, is also directly linked to the performance of student accommodation assets.

Resurgence of retail

We expect 2024 to be a turning point for the retail sector following a challenging few years. Colliers' latest *Real Estate Investment Forecast* predicts that total returns growth will reach 10.2%, with capital values forecast to be up by 5.5% on 2023 levels.

With falling inflation, anticipated base rate drops and improving consumer confidence, a resurgence of the retail sector is likely, especially for larger store formats at out-of-town locations, as shoppers seek convenience with the benefit of free and flexible parking and multiple retailers under one roof, or in close proximity to one another.

One example of this is Al Rayan's recent provision of a £34 m ($43 m) 65% financing-to-value facility to refinance a retail warehousing park in Cheshire, anchored by a major supermarket chain.

Optimism returns to the property market

At the start of 2024, Al Rayan launched a three-year strategy that continues to put commercial property financing at its core, with an ambition to accelerate growth in residential and shift incrementally to higher margin assets.

Increased activity across the UK regions and London reflects investors' growing confidence around both their budgets and the market in general. We continue to believe in the potential of the UK property market and will continue to work with clients to help identify assets in which to invest, as well as the appropriate investment structures to ensure interesting and rewarding opportunities. ■

Al Rayan Bank

Al Rayan Bank is the longest established and most successful Islamic bank in the UK. Founded in 2004, the bank is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority and is a member of the FSCS. It was the first Islamic bank in the UK to receive a credit rating, and last year delivered record pre-tax profits of £30.61 m.

How equity became toast

The UK property market has been grappling with depreciating asset values over recent years due to a rare confluence of extreme events.

Arab Banker asked Raed Hanna, Managing Director of Mutual Finance, one of the UK's largest property finance companies, to analyse the impact this has had on the sector and the way both lenders and borrowers are endeavouring to protect equity.

The UK property market has been buffeted by a series of 'black swan events' over recent years. Today, lenders and investors alike are taking a more cautious approach, as they seek to adjust to often unwelcome new realities. Collectively, the impact of the Covid pandemic, Russia's invasion of Ukraine and the infamous budget from former UK Prime Minister Liz Truss, have had a significant impact on valuation, sales velocity and yield expectation.

Lenders and borrowers squeezed

Lenders and borrowers are being forced to confront the fact that property values are decreasing, that the equity in many properties is dwindling and in some cases, may have vanished totally. For many investors, regardless of the value of their property, the question they are asking is 'has my equity become toast?'

While this is certainly bad news for borrowers, it is also placing a strain on lenders. Many are finding that the loan-to-value covenants they had originally imposed are now underwater, or at least under significant pressure, since in many cases the outstanding mortgage or loan on a property exceeds its value.

This has prompted a number of lenders to re-examine their real estate exposure and review loan and legal documents in a bid to enforce revaluation clauses. This is done with a view to asking clients to inject additional equity from their own resources, or via a consensual asset sales programme.

We have seen a number of lenders pull back from certain sectors such as offices and retail assets, while others have altered their lending criteria, embracing a more prudent and cautious approach. Based on our knowledge of the lending markets, we estimate that the LTV ratio for both offices and retail has respectively fallen by at least 10% since Covid, while interest coverage ratios are significantly more stressed than in the past. The sudden, sharp reduction in leverage of real-estate debt has had a major impact on refinancing opportunities, leaving many borrowers with no options and lenders with little chance of a provision-free exit via refinance. A number of lenders will no longer even consider office or retail assets.

This in turn has hit sales prices and caused a significant yield shift, prompting, on some occasions, the hasty sale of assets.

Valuers who may once have been robust and optimistic in their 'Red Book' reporting, in line with mandatory valuation practices issued by global professional real estate body RICS, are suddenly in a very different place.

Valuation figures have been squeezed from both sides. Just as lenders are demanding updated valuations to reflect changes in market conditions, increasing levels of distressed or forced sale transactions have provided an unwelcome new set of market comparables on which to base them.

The pace of forced sales, transforming paper losses into actual ones, is accelerating as lenders double down on reviewing documents and covenants and continue enforcing default scenarios across the lending books of real estate-backed loans.

Tougher Basel 3 requirements

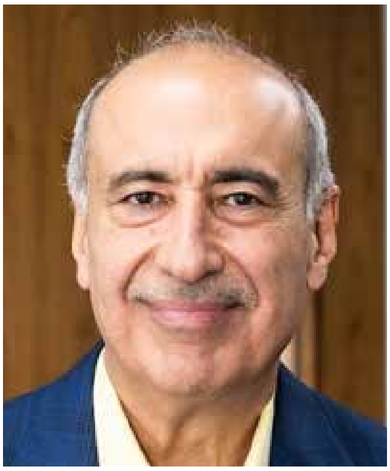
In the short term there seems little grounds for optimism, indeed it looks likely that lending facilities will reduce still further as UK banks limber up in readiness for the new, more stringent requirements of Basel 3. Many have already drawn up plans for a re-allocation of capital in mid-2025, in response to Basel 3, which will require them to increase capital requirements significantly.

These new standards also include new rules for calculating risk-weighted assets – a metric used to determine the minimum amount of capital a bank must hold in relation to the risk profile of its lending activities and other assets. Under the new rules banks will be required to set aside more capital in order to reduce an asset's risk weighting. They will be phased in gradually over four and a half years, so it will take time before their full impact will be felt.

Ultimately Basel 3 will lead to different assets classes being appraised in more stringent ways, resulting in increased lending margins, thus compounding the cost of borrowing further.

This will be most clearly marked in the different treatment of commercial versus residential property owing to the fact that Basel 3 will require banks to risk adjust their lending downwards against commercial real estate assets. In turn, this will force many commercial property lenders to allocate more capital, thereby restricting their overall lending.

The lending industry has been hit hard since the global financial crisis of 2008–2009, when historic levels of government intervention were required to bail out and rescue



Raed Hanna

Raed Hanna established Mutual Finance in London in 1998 and since then the firm has become one of the largest property finance intermediaries in the sector. During 2023 the company arranged over £800m of debt and has been consistently involved in financing some of the most high-profile assets in the UK.

lenders with large exposures to commercial real estate. In my opinion, this assistance will not be provided again.

Quite often we see that the challenge lies with individuals within a department rather than the bank itself. Some less experienced teams or departments may panic, taking quick decisions to protect themselves, without considering and acting with the long-term benefit of the property lender or client in mind. Others have asked for unreasonable equity injections at inappropriate times.

The sudden transfer of some loans into 'restructuring teams' within banks, often as a result of technical rather than actual covenant breaches, can also severely affect relationships. Many clients who had been highly respected borrowers suddenly find themselves confronted by lenders and bank officials with whom they had no relationship history or track record.

New lending considerations

Of course, the disappearance of 'cheap money' as a result of the Bank of England's steep hike in interest rates over the last couple of years has impacted many clients. Those who had stretched themselves by obtaining high LTV ratios and low-end covenants have been the most exposed. However, this does not necessarily mean they would be the first targets. With a loan already at close to 100% LTV, lenders will often be more patient and seek a way to secure an exit without losses.

Lenders may also take a more favourable view of those clients who can provide a full repayment most swiftly. Banks will also be more considered in cases where there is junior debt and personal guarantees. This additional layer of equity can be used as a lever to reduce facilities. Traditionally, private banks had relied upon a client's asset base to support personal guarantees, but readjusted property values and other market disruptions have been eroding the net asset value of high net-worth clients. This has unfortunately led to many conflicts between clients and banks as they seek to remedy the situation.

We continue to see disagreements between clients and lenders regarding the best way to deal with LTV breaches. Typically, lenders will want to sell assets and clients will want to hold onto them, assuming that there will be a better time to sell in the future.

Although most facilities are agreed on a bi-lateral basis, disagreements can intensify when the debt layers of banks in syndicated larger deals are ranked in a capital stack. Those further down the stack can face a total loss on their investment and consequently their attitude toward loan restructuring may differ significantly from those at the top of the stack, for whom exiting may involve no – or significantly smaller – financial loss.

Many methods have been tried and tested with a view to restoring equity in a transaction. However, given it is often not possible to know how long this process will take, or indeed if it will ever be achieved, it can be a dangerous waiting game that lenders are not always prepared to play.

There are also many instances where the fundamentals are so bad that investing new equity is simply an economically unviable option for a borrower. Sometimes cutting your losses is the only option. Even large companies with long arms and deep pockets have had to let go of some deals.

As we become accustomed to a higher interest rate environment, the banking market is stabilising. However, lenders have become much more prudent, seeking to lend mainly against best-in-class assets, or to secure income streams with financially robust tenants.

This now poses a significant challenge, in that there are substantial proportions of the property market deemed 'off-limits' by lenders, especially outside major cities and well-performing sectors.

Commercial real estate has been particularly affected.

According to the latest bi-annual report from Bayes (formerly Cass) Business School in London, published in May this year, new lending for commercial real estate fell 33% last year to its lowest level since 2013.

The report also found, in terms of specific asset classes, that fewer than ten lenders, from a total of 71 surveyed, were willing to finance secondary retail assets or shopping centres. By contrast, 45 and 43 lenders were prepared to finance prime logistics assets and student housing assets respectively, ranking them among the most attractive asset types today,

We continue to work hand in hand with lenders and borrowers to reach consensual and mutually beneficial solutions. Once paper losses are quantified and the lender recognises its worst-case position (potentially with a debt-for-equity swap), it is often agreed that the client is the best placed asset manager to maximise potential recoveries. With a share in the equity position, the bank can hopefully take a more sympathetic view, in accordance with a long-term business plan.

I would like to think that some lessons have been learned over recent decades, with a number of clients now very focused on interest rate hedging. Having long term fixed rates in place helps increase the predictability of cashflows. Others are seeking (where cashflow permits) to amortise their loans, reducing the debt over the term of a facility and mitigating the refinance risk at the end of the loan.

Additionally, on occasion, we see some lenders reducing margins and increasing fees so as to increase the income available to service debt.

We are starting to see some light at the end of the tunnel. New lenders are entering the marketplace with no legacy of 'doubtful debt' – an account receivable that might become a bad debt at some point in the future – and others are looking forward positively as interest rates look likely to continue to fall. However, we don't expect this to be a quick fix and it is likely to be some time before wider positive market sentiment returns and we see transaction levels increase significantly. ■

New Opportunities in Energy Finance in the Gulf

Global demand for energy is at an all-time high. Even as the deployment of clean energy expands, so too does the use of carbon-intensive fuels like coal and oil. According to the Energy Institute's *Statistical Review of World Energy*, while there has been a 2% increase in renewable power generation during 2023, there has also been a simultaneous 2% increase in energy emissions from coal and oil consumption. Dr Karen E. Young, of Columbia University's Center on Global Energy Policy, considers what the implications of this surge in energy demand might be for energy finance in the Gulf.

Renewable energy generation is the fastest growing primary energy source worldwide, with wind and solar power adding 462GW of new capacity globally in 2023, up 67% year-on-year. China alone accounted for 25% of new solar capacity globally.

At the same time, emerging markets, dominated by growth in India and China, have also seen coal electricity generation increase by 9.3% and 6.9% year on year, respectively.

The trend lines for energy and particularly power demand, are creating new market dynamics where there is a clear need for financing a transition to lower carbon energy production, but also ample opportunity to expand traditional energy offerings.

One feature of energy transition is the extensive regional variation that exists in the patterns and pace of renewable energy adoption. In the Middle East, the energy system is still extremely reliant on oil and gas.

Yet, it is also in the Middle East, especially in the Gulf, that we see some of the most active deployment of renewable projects, especially solar, and innovations in technologies to make traditional oil and gas extraction less carbon intensive.

The International Energy Agency expects countries in the region to add 62GW of renewable energy capacity over the next five years.

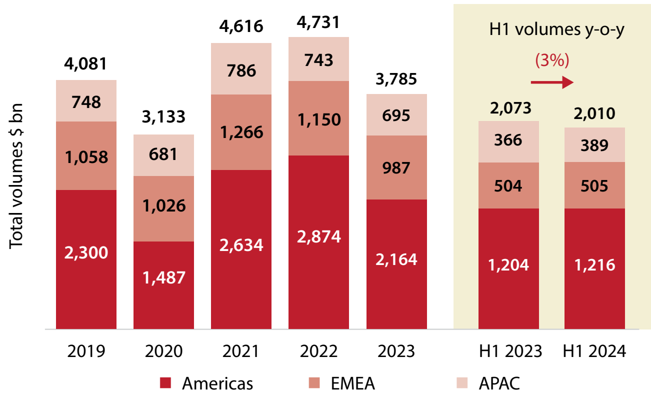
According to data gathering platform Statista, regional renewable energy generation capacity stood at about 28.5GW in 2022.

So, while it may currently constitute a small share of the current and planned global renewable energy installation, aiming to reach over 100GW capacity in the next five years is a considerable leap.

One example of this is the speed in which it is developing large, utility scale, Independent Power Projects (IPPs) In 2023, the MENA region awarded a total of $25.3 bn to tenders for power and transmission projects, according to Middle East business intelligence website, MEED. Saudi Arabia accounted for more than half of the 2023 awards, including four combined cycle gas turbine IPPs, with a total capacity of 7.2GW. These included the 1.2GW Rabigh

Global loan market overview

Global



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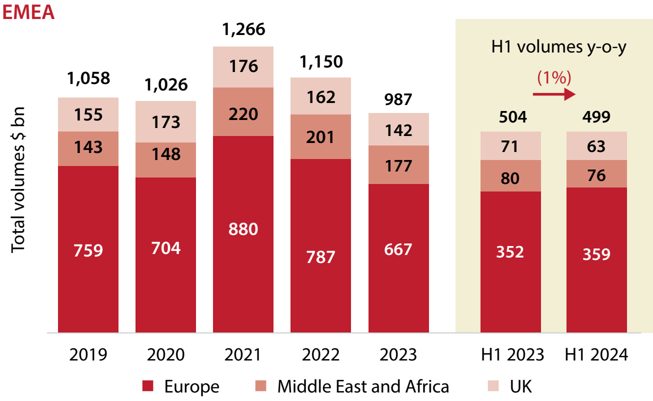

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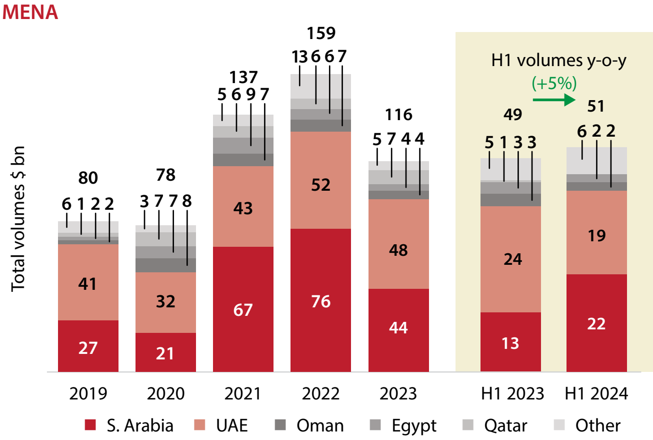


Source: Dealogic, Citi.

Dr. Karen E. Young

Dr. Karen E. Young is a political economist focusing on the Gulf, the broader MENA region and the intersection of energy, finance, and security. She is currently a Senior Research Scholar at the Columbia University's Center on Global Energy Policy. Her latest book, *The Economic Statecraft of the Gulf Arab States: Deploying Aid, Investment and Development Across the MENAP,* was published by Bloomsbury in 2023.

Power Plant along with 6.7GW of solar photovoltaic (PV) IPP projects.

In 2024, Saudi power projects are expected to continue with tenders through the National Renewable Energy Program, with roughly 3.7GW of solar projects and 1.8FW of wind. The UAE is also increasing its power and transmission project awards from 2023 levels, according to MEED, with January-March 2024 UAE power project awards exceeding those of the full 2023 year.

Gas-fired power plants are indeed transition projects in the Gulf, as the Middle East and Africa account for 27GW of 134GW globally of gas-fired power capacity projects underway (as of January 2024).

For GCC states, replacing oil-fired generation with a mix of gas and renewable, or nuclear power, is both a means to achieve a net-zero target and a diversification strategy to set aside oil for export. In addition, there is momentum to expand Gulf regional gas production, financed by the sale of some infrastructure assets, and through partnership with external investors on large scale projects.

For example, the Abu Dhabi National Oil Company (Adnoc) has signed agreements with international energy companies to divest 40% of its Ruwais liquefied natural gas (LNG) project. British energy producer BP, Japanese firm, Mitsui & Co, UK-based Shell and French energy producer Total Energies, will each hold 10% stakes in the Ruwais LNG terminal project with Adnoc retaining 60% ownership in the facility. This 'all of the above' energy transition is characterised by the embrace of a diverse domestic energy mix, and the acceleration and investment in carbon products for export. There could therefore be ample opportunity for traditional state-owned oil and gas companies to combine forces with international energy firms.

In terms of the global loan market however, Europe, Middle East and Africa (EMEA) is second in size after the Americas, and larger than the loan market in the Asia Pacific region (APAC). The MENA region made up about 10% of lending of EMEA totals for the period covering 2023 until end-June 2024. The sectors that dominate lending in MENA are energy, with oil and gas leading, followed by the utility sectors, comprising more than 30% of the region's loan market, according to data from Dealogic/Citi.

For regional finance, this means that there will be tremendous opportunities in the coming decades in terms of the power sector, district cooling, renewable energy and traditional energy project awards. According to analysts at Goldman Sachs, Saudi Arabia and the UAE plan to invest roughly $ 300bn in order to achieve their net zero targets by 2060 and 2050, respectively. Based on a debt funding assumption of 70%, typical of project finance deals, there could be an incremental US$ 200bn financing opportunity.

Gulf regional banks are also seizing the opportunity to create sustainable financing products like green bonds and sukuks. During COP28 in Dubai in December 2023, the UAE Banks Federation pledged US$272 bn in sustainable financing on behalf of its 56 member lenders.

Recent green sukuk offerings have included Abu Dhabi Islamic Bank's $500mn world-first dollar green sukuk issued by a financial institution. Green bonds have also been issued by Abu Dhabi Commercial Bank, including a $500mn bond in 2022 and $650mn in September 2023, followed by Emirates NBD's issuance of a $750mn green bond in October 2023. First Abu Dhabi Bank leads in the regional green bond market with more than 15 issuances in six currencies since 2017.

Saudi investors have been offered a number of sustainability sukuks by Riyad Bank, including a $750mn sukuk to fund green and social projects in 2022. Al Rajhi bank committed $800mn for renewable energy project finance in 2002, including funds towards green ammonia and hydrogen projects in the region.

Sustainable retail banking options are also becoming more common, as investors seek 'green deposits' to support green financing initiatives, including a 2022 retail deposit launch by Saudi Awwal Bank.

There is also a growing market for carbon credit trading. Saudi Arabia launched its Greenhouse Gas Crediting and Offsetting Mechanism in early 2024, supplementing the existing Regional Voluntary Carbon Market Company launched in 2022.

Meanwhile, the Abu Dhabi Global Market launched its own carbon exchange and carbon clearing house in 2022 – constituting the region's first regulated voluntary carbon market. There are also abundant Gulf-based private initiatives to create carbon credits through land and biodiversity offerings, including that of Dubai-based Blue Carbon.

The scale of both the energy transition and the continued demand for traditional carbon-intensive products means that the array of dealmaking, project finance, and new financial products will continue to expand.

And as governments continue to increase their own targets for renewable capacity and traditional energy output, financing will be in high demand. Goldman Sachs estimates that between $190–212 bn in investments could be required to achieve the GCC's renewable installation targets by 2030–2035.

It is not just project finance, which will require financing and partnerships between local and foreign investors, but also the enabling of decarbonisation through industry and technology transfer, including plans to develop local manufacture of solar panels in Saudi Arabia.

While the state continues to be the driver of energy infrastructure decision-making, there are growing calls for regional banks and other financial institutions to do more to respond to the sheer scale of the energy system transformation underway. ■

Dirty business: the financial crime risks of the clean energy transition

Last year's COP28 UN climate summit was hailed as historic for marking the first time in which world leaders agreed on the need to 'transition away from fossil fuels in energy systems.'

While this is both welcome and overdue given the urgent need to address climate change, the global energy transition underway also poses a myriad of financial crime risks.

In this article, Olivia Dakeyne, Associate Director of Insight at specialist anti-financial crime platform Themis, explains how these risks can include fraud, serious organised crime, bribery, corruption and illicit trade flows.

Among the stand-out successes of the COP28 UN climate summit, held in Dubai in late 2023, were the pledges made to triple global renewable energy capacity by 2030, greatly expanding the need for – and attractiveness of – investment in the sector.

Clean and renewable energy is today a key growth area for many regions. According to the International Renewable Energy Agency's *World Energy Transition Outlook, 2023*, cumulative investments of $150 tn are required by 2050 to finance the scale-up of renewable power generation and associated technology deployment if the world is to limit global warming to the 1.5°C target outlined by the 2015 Paris Agreement.

Even the oil and natural gas-rich states of the Gulf have undertaken to increase their investments in clean energy in pursuit of this goal.

UAE and Oman have committed to net-zero emissions by 2050, while Saudi Arabia, Bahrain and Kuwait have set a net zero target for 2060.

Qatar, meanwhile, along with Egypt, has updated its Nationally Determined Contributions (NDCs) – countries' self-defined national climate pledges – in line with the 2015 Paris Agreement.

The UAE government has approved an updated National Energy Strategy to triple renewable power-generation capacity by 2030 and increase the share of clean energy in its overall energy mix to 30%. It has also set a target for at least 10% of all vehicles (equivalent to around 42,000) to be electric by the same date.

Meanwhile, Saudi Arabia is targeting a hugely ambitious electricity generation split of 50% renewables and 50% natural gas by 2030, with the current value of renewable projects in the kingdom exceeding $10 bn. For its part, Oman is targeting a roughly 40% contribution from renewable energy sources to its electricity requirements by 2040.

According to the 2023 Invesco *Global Sovereign Asset Management Study*, 71% of Gulf sovereign wealth funds now invest in renewable energy, and yet 94% of Gulf sovereigns state they are concerned about greenwashing – companies giving false or misleading information about the environmental impact of their products or operations.

They are right to be concerned: greenwashing of financial products – which can constitute a form of fraud – is on the rise, the result of increased demand by companies and investors to consider the sustainability and ESG impacts of their operations or footprint.

For the Middle East, along with the rest of the world, burgeoning demand for clean and renewable energy represents a risk, even as it does an opportunity, for the financial sector.

This begs the pertinent and increasingly urgent question: how 'clean' are these various sustainable and renewable energy sources, and the sector as a whole, when it comes to the issue of financial – and indeed environmental – crime?

To start with, it is worth setting out some clear definitions (see adjacent box-out) given that many terms are used interchangeably, sometimes without regard to their subtle but important differences.

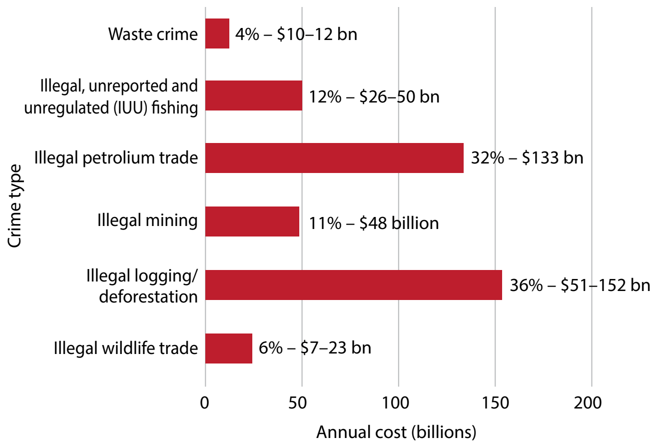
Key Definitions

Clean energy produces little to no greenhouse gas emissions.

Green energy neither produces emissions nor harms the environment in its extraction.

Renewable energy comes from recyclable and constantly replenished resources, like the sun and the wind, which are replenished at a higher rate than they are consumed.

Categories of global environmental crime – multi-billion dollar industries



The Illegal Petroleum Trade figure is sourced from 2022 figures published by the Transnational Alliance to Combat Illicit Trade (TRACIT) – the most recent figures available. All other figures are the most recent estimates published by FATF in 2021.

While there is plenty of crossover between the three – many renewable energies are both clean and green – an energy type may be one without being another: hydropower, for example, while generated from water and therefore renewable, may not be considered green because the infrastructure needed to harness it has a destructive impact on the environment and produces harmful emissions.

It has long been the case that criminals exploit new and emerging opportunities for their own illicit gains. With so many countries investing in transitioning away from fossil fuels towards greener energy sources, it should come as no surprise that bad actors already have their foot in the door.

For financial institutions, it is extremely important to understand the predicate crime risks associated with any emerging sector, given their legal and regulatory obligations in regards to crimes predicated on money laundering and terrorist financing.

And fraud isn't the only financial crime risk posed by the swelling clean and renewable energy market – not by a long way.

Serious organised criminal involvement for example, has long been a feature of the clean energy sector.

In 2013 EUROPOL released a report linking the financing, development and operation of numerous renewable energy projects – especially those pertaining to wind energy infrastructure – to organised crime in Europe.

Furthermore, the infrastructure required to harness, store and utilise clean or renewable energy is often implicated in environmentally damaging activities. These often intersect with other predicate crimes, since there is a frequent overlap between countries with high rates of criminality and those with significant deposits of the minerals required to produce green energy.

For example, the lithium used in rechargeable batteries, which is sourced in Mexico presents organised crime risks because it is found in territory controlled by drug cartels.

The market for transition minerals (so-called because of the integral part they play in the production of technologies related to the transition to clean energy) remains attractive to criminals because it is so lucrative.

A report published in July last year by McKinsey & Company estimated that investments in mining, refining and smelting critical minerals will need to increase to about $3 tn to $4 tn by 2030, or about $300 bn to $400 bn a year, in order to meet global targets for building solar power, manufacturing adequate quantities of car batteries to meet expanding demand and bolstering electricity grids.

As a result, global demand for transition minerals is predicted to increase by almost 500% by 2040 which in turn is expected to result in an up-tick in both illegal and legal mining activity.

Mining for such minerals poses a myriad of environmental crime risks, such as waste dumping of toxic chemicals, illegal mining without the requisite permits and licenses (sometimes facilitated by bribery and corruption) and illegal logging or land clearing, to make way for mining operations.

Copper, for example, is widely used as a conductor in the infrastructure underpinning renewable energy systems including wind, thermal, solar and hydro. Many of these systems require up to six times more copper than their traditional counterparts and yet not enough is currently being mined to meet anticipated requirements. This relative scarcity of supply, in tandem with burgeoning demand and inflating prices, has incentivised illegal mining activity at scale across the Amazon and in Zambia's Copperbelt, where the involvement of serious organised crime groups is rife.

Similarly, rare earth elements – 17 scarce metallic elements which power magnets used in wind turbines and electric vehicles – are also implicated in environmentally damaging mining practices which are, additionally, linked to the financing of violent autocratic regimes. Groups linked to the widely sanctioned military junta in Myanmar for example, fund their activities through rare earth mining in the country's Kachin state (the number of mines has expanded dramatically from just a handful in 2016 to over 2,700 today.)

Given its role as a key international transit hub, the Middle

Olivia Dakeyne

Olivia Dakeyne is the Associate Director of Insight at Themis. Olivia leads on projects with specialisms in human and wildlife trafficking and other environmental crimes, particularly through the lens of serious organised transnational crime.

East is vulnerable to illicit trade flows, particularly those stemming from the illegal wildlife trade and the illegal gold industry. Many strategic ports and airports in the region serve international markets and key destination countries for products of the illegal wildlife trade, particularly as regards the Africa-Asia nexus.

However, the Middle East has been stepping up its fight against environmental crime. In 2021, the Saudi Attorney General, Sheikh Saud Al-Muajab, announced the establishment of a dedicated department tasked with investigating environmental crimes.

More recent initiatives were highlighted at the COP28 summit.

For example, the International Initiative of Law Enforcement for Climate, a joint initiative led by the UAE's Ministry of Interior in close partnership with the United Nations Office on Drugs and Crime and INTERPOL, has developed a 2023–2025 roadmap which focuses on five key initiatives to tackle environmental crime and the climate crisis more widely.

These include; the establishment of a global training centre in Abu Dhabi to support police services, the formation of an INTERPOL-led joint climate operations unit to target environmental crime, a global assessment of how countries are tackling the issue, an UN-led research programme to gain greater understanding of the problem, training UN Police to become so-called 'climate incident observers' who can be deployed to areas affected by extreme events.

In December last year, INTERPOL announced that it had arrested more than 70 people as part of two operations it had coordinated to tackle environmental crime. Both operations were funded by the UAE.

The international policing organisation claims that environmental crime has become the third most lucrative industry for transnational organised criminal groups, generating up to $280 bn a year, destabilising communities, economies and the environment in the process.

The UAE's Public-Private Partnership initiative – the Anti-Money Laundering and Counter Terrorism Financing (AML/CFT) Partnership Forum – is also undertaking some good work, including the development of an Environmental Crime Sectoral Risk Assessment, due to be completed before the end of 2024.

"By combining the resources, expertise, and enforcement capabilities of the public sector with the innovation, agility, and on-ground presence of private enterprises, this initiative enhances the effectiveness of national efforts to combat environmental crimes such as illegal wildlife trade," Mohamed Shalo, Chair of the AML/CFT Partnership Forum, and Director of Communication and Partnerships at the UAE's Executive Office of AML and CFT, told Themis.

"The work of the Partnership Forum has built on the UAE's strong regulatory environment and supports various government initiatives such as the International Initiative of Law Enforcement for Climate Change (I2LEC), led by the Ministry of Interior in partnership with the UNODC".

The illegal wildlife trade has also been a key focus area for the UAE, which has introduced a robust legal framework and three-pronged approach. This has involved developing dedicated financial intelligence units and training supervisors and banks to better identify suspicious transactions and practices in wildlife trafficking, along with international collaboration to increase transparency around related illicit flows.

Initiatives endorsed by the UAE in this area include the Illegal Wildlife Trade Financial Flows Toolkit, developed by the UK government's Serious and Organised Crime Network in collaboration with Themis, the World Wildlife Fund, and TRAFFIC, a global NGO monitoring the trade in wild animals and plants, which is aimed at supporting financial institutions in addressing illegal wildlife trade risks and reporting related suspicious transactions.

The private sector is also taking a proactive stance. In August 2022, Emirates NBD joined the United for Wildlife Financial Taskforce, comprising around 50 global financial institutions dedicated to stopping illicit financial flows associated with the illegal wildlife trade.

The different links between environmental crime and other predicate crimes

The transition away from fossil fuels to clean energy yields many vital benefits which should not be undermined or disparaged. It is, however, worth noting that the pursuit of clean energy is fraught with complexity. It brings with it a multitude of environmental and social risks, from an ESG perspective as well as a financial crime one – in much the same way as fossil fuels do.

This is not to say that companies and financiers should abandon the attempt to support the transition to clean energy; rather, that they need to keep on top of these emerging hazards if they are to protect themselves from legal, regulatory and reputational risk, as much as they seek to protect the planet and its people.

Many of these risks are covered in a report published earlier this year by Themis and WWF-UK entitled *Financial Crimes and Land Conversion: Uncovering the Risk for Financial Institutions*.

This is the first stage of a wider Environmental Financial Crimes Toolkit being developed by Themis and WWF-UK, with a pilot due to be released by the end of the year. ■

How the UK's Lenkor judgment has laid the foundation for judicial cooperation with UAE Courts

The UAE has been striving to align its legal framework with international standards in an effort to build confidence in its judicial system.

Over the past four years, two separate, but connected, legal rulings have brought the UAE significantly closer to international norms. The first of these, known as the 'Lenkor judgment', marked a major milestone in the UAE's progress towards enforcing overseas court judgements.

Arab Banker asked Richard Spector, Head of Litigation at London-based firm Spector, Constant & Williams (SCW) and Aurelia Matonis, one of the firm's Litigation Associates, to explain why the Lenkor judgment was a welcome decision that has streamlined the approach to cross-border enforcement between England & Wales and the UAE.

ARAB BANKER: What is the usual procedure for enforcement of English Court judgments overseas?

AURELIA MATONIS: Typically, the procedure for enforcement of English Court judgments outside of England and Wales is either governed by the terms of the Hague Convention, or is implemented through a reciprocal enforcement regime, in which the UK and the jurisdiction where enforcement is sought, have both ratified a treaty.

The UAE, however, is not a party to the Hague Convention. Although the UK and the UAE have been parties to a Treaty on Judicial Assistance in Civil and Commercial Matters since 2006, this does not encompass mutual recognition and the enforcement of judgements. This has had a deterrent effect for prospective claimants issuing proceedings that have cross-border elements in these two jurisdictions due to the difficulties regarding enforcement.

What does this mean in practice?

AM: In cases where a foreign court has awarded damages, but there is no treaty, the enforcement of the damages award can become problematic. The creditor is only able to enforce a judgment as a debt obligation in the courts of the jurisdiction where enforcement is sought by issuing proceedings, a costly and time-consuming process. In other words, a party seeking the enforcement of an English civil court judgment in the UAE, is compelled to rely on the applicable provisions of UAE law to enforce the foreign judgment.

In the UAE, the process for enforcement of foreign judgments is governed by Article 222 of the Law on the Promulgation of the Civil Procedure. The article requires that the judgment must be ratified in the foreign jurisdiction; that it must not conflict with other UAE court judgments and does not violate UAE public order; and that it must be final and binding.

Moreover, judgments issued in a foreign jurisdiction outside of the UAE, can only be enforced in the Emirates under the same conditions that apply to the enforcement of judgments in the law of that foreign jurisdiction. This is known as the principle of reciprocity. Essentially, the UAE courts can enforce an English judgment where there is reciprocity between the UAE and the English courts.

What is the significance of Lenkor Energy Trading DMCC v Puri (2020), otherwise known as the Lenkor judgment?

RICHARD SPECTOR: Historically, there was little to no reciprocity between the UAE and the English courts. The UAE courts often declined to enforce English judgments, largely because English courts failed to enforce judgments emanating from onshore UAE courts. They argued this meant that the principle of reciprocity of enforcement was not satisfied.

The absence of reciprocity, combined with the lack of a treaty between the two jurisdictions made enforcing English judgments in the UAE very difficult.

The Lenkor judgement drastically changed this landscape by streamlining the approach to cross-border enforcement between the two jurisdictions.

So what happened in the Lenkor proceedings?

RS: They concerned a British national, Mr Puri, who was the sole director and shareholder of a commercial entity. He had signed two cheques in 2014, each drawn from a Dubai bank account, in favour of Lenkor Dubai to pay for cargo. The value of the cheques was roughly $55m. When Lenkor Dubai attempted to present the cheques, there were insufficient funds in the accounts to meet them. Lenkor Dubai subsequently issued proceedings in Dubai with respect to the dishonoured cheques and won, with the Dubai First Instance Court granting a judgment against the defendant in 2017.

Richard Spector

Richard Spector is a partner and the head of litigation at SC&W. Richard engages in banking and insolvency litigation, and regularly acts in high value professional negligence claims, contractual disputes, banking disputes, intellectual property and competition law claims. He works extensively with clients in the Middle East and the Far East.

Aurelia Matonis

Aurelia Matonis is an Associate in SC&W's Dispute Resolution Department. She has a broad-based practice and has acted for clients on a range of disputes including insolvency litigation, breach of contract, intellectual property, competition law and professional negligence claims.

Mr Puri proceeded to defend the enforcement of this judgment in England on public policy grounds. However, in 2020 the English High Court rejected Mr Puri's defences and enforced the Dubai court judgment. A decision which was subsequently upheld by the English court of Appeal in 2021.

This led the UAE's Ministry of Justice to issue a circular confirming that English court judgments should be capable of enforcement in onshore UAE courts and specifically referring to the Lenkor judgment. Most notably it stated:

"We find that this principle (of reciprocity) is met given that English courts have enforced a judgment rendered by the Dubai courts under a final judgment handed down by the High Court of Justice [...] which is judicial precedent and binding principle for all English courts according to their judicial system."

While the circular addressed the Dubai courts specifically, it does refer to reciprocity between England and the UAE.

As a result, a litigating party can now rely on both the circular and the Lenkor judgement to enforce an English court judgement in the Emirati courts.

What other hurdles are foreign claimants likely to face when seeking to enforce judgments in the UK or UAE courts?

RS: It must be borne in mind that unlike the English courts, the onshore UAE courts do not have a binding system of judicial precedent and the circular is not binding on Emirati courts. Moreover, even if there is reciprocity between the two jurisdictions, there may be other grounds on which the UAE court cannot enforce a foreign judgment. Any enforcement proceedings must comply with local laws (including Sharia law) and there may be public policy grounds for resisting enforcement. Domestic public policy encompasses legal, moral, economic and/or social values that are fundamental to a jurisdiction (for example violations to human rights).

Having said that, the Lenkor judgment clearly sets out the scope of the public policy defence in resisting enforcement in England and Wales. The judge observed that under this defence the judgment itself, rather than the underlying transaction on which the judgment is made, must be deemed offensive to English public policy.

In this instance, the defendant, Mr Puri, had argued that the agreement according to which the two cheques were issued was tainted by illegality. However, the English court held that the previous Dubai judgment held, since it had been based on the independent legal consequences of signing cheques in Dubai without the ability to honour them. Something that could not be considered to offend English public policy.

So has the Lenkor judgment had an impact on enforcement proceedings in the UK and the UAE?

AM: The Lenkor judgment has been proven to be persuasive and there is now a compelling line of judicial authority. There have been a number of subsequent cases in the UAE in which the judgement has been enforced, as well as cases of English courts enforcing UAE judgments post-Lenkor. Notable cases include:

- Emirates NBD v Mr. Almakhawi & Anor (in which Spector Constant & Williams acted). In June 2023, the High Court in England and Wales ordered that a Dubai court judgement in favour of UAE bank Emirates NBD, to enforce a personal guarantee against Mr. Almakhawi, a UAE national, was enforceable in England and Wales, allowing the bank to recover against the individual's assets in the UK.
- In a landmark case, in January 2024, the Dubai Court of Cassation ruled in support of enforcing an English judgement regarding the division and transfer of matrimonial property, specifically two properties in Dubai, in proceedings related to a divorce. This judgment specifically stated that the requirement of reciprocity had been adhered to.

These developments are a welcome shift in judicial cooperation between the two jurisdictions.

Do you think the Lenkor judgment underscores the evolving landscape of international judicial cooperation?

RS: Yes. Countries which were not previously cooperating on a judicial level are now doing so which means that entities that operate in both jurisdictions are now more confident to enter into business arrangements, given that legal judgments can be more easily enforced in both jurisdictions. This also helps to prevent international fraud.

Legal practitioners will also have the judgment in mind when considering potential enforcement against assets located in England & Wales and/or the UAE which in turn would have an impact on litigation strategy. ■

Spector, Constant & Williams

Spector, Constant & Williams is a London-based law firm with extensive international and cross-border experience. It undertakes work in commercial litigation, mediation and arbitration, property disputes and banking & insolvency.

Less pain, more gain: unlocking the transformative potential of GenAI

Generative artificial intelligence (GenAI) opens up game-changing opportunities for banks, from more compelling and personalised customer service, to improved operational efficiency and data-driven decision-making. But some banks are seizing the opportunities faster than others. They're also proving more effective in managing the disruption and risks opened up by GenAI.

Arab Banker asked David O'Brien, PwC's Channel Islands' Consulting and Transformation Leader, to look at what marks out the front-runners.

If you can't keep pace, you can't survive. Nearly half of the business leaders (45%) that took part in PwC's 27th Annual CEO Survey, published in January this year, believe that their company won't be viable in ten years' time if it stays on its current path. The result is an acceleration in the pace of innovation, modernisation and competitive reinvention, with transformational technologies like GenAI leading the charge. Seven in ten global CEOs believe that GenAI will significantly change the way their company creates, delivers and captures value over the next three years.

Banking and wider financial services (FS) is one of the industries where this value potential is most marked. PwC's AI Jobs Barometer has found that sectors with the most exposure to AI, which include FS, are seeing 4.8 times greater growth in labour productivity. Looking at retail banking in particular, research carried out by PwC found that GenAI could generate a potential 4.6% increase in operating profit margin.

Closer to customers

Within the front office, the key advantage is the ability to offer to a full range of customers, the kind of tailored advice, service and financial solutions that would previously only have been available to high-net-worth clients. We're already seeing the results in areas ranging from personalised investment recommendations, to virtual assistants that learn from each interaction, engage in a human-like way and relay the resulting data to inform and enrich individual customer insight.

More for less

In the mid-and back-offices, benefits include tackling some of the labour-intensive pain points that raise costs and consume time that could be more valuably used elsewhere. Properly deployed, technology can reduce the overall cost of compliance by 30%–50% for example, with specific benefits in areas ranging from workflows and reporting, to data-driven decision-making.

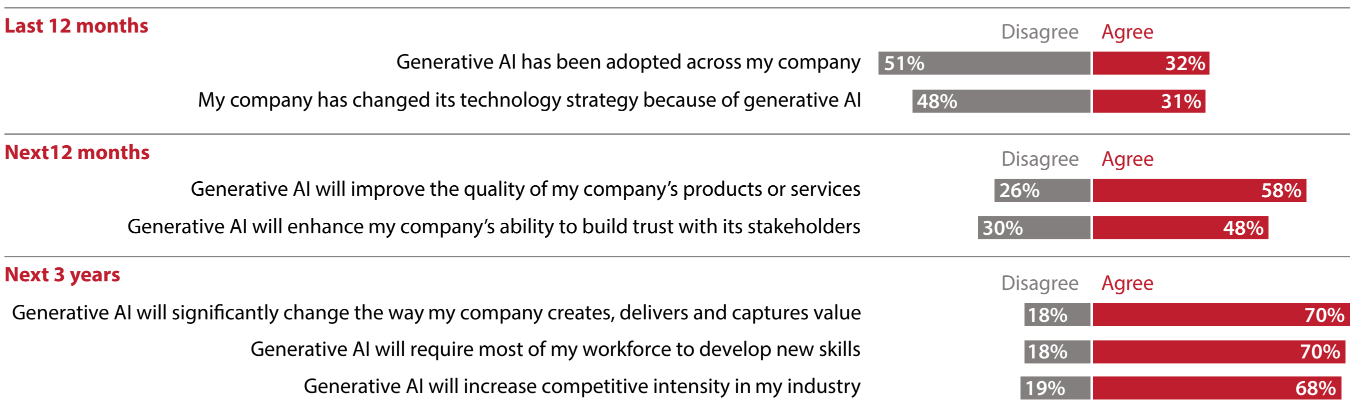
Further applications include fraud protection. We're seeing how GenAI's ability to analyse vast datasets and spot anomalies and unusual patterns in real-time can not only boost detection, but also filter out false positives, so bank professionals can concentrate on genuine threats.

Gold mine of data

Do neobanks and fintechs have a head start in capitalising on this potential? Not necessarily. Where traditional banks have a decisive edge over more recent entrants is the 'gold mine' of

The impact of GenAI

Question: To what extent do you agree or disagree with the following statements about generative AI



Note: Disagree is the sum of 'slightly disagree', 'moderately disagree', and 'strongly disagree' responses. Agree is the sum of 'slightly agree', 'moderately agree', and 'strongly agree' responses. Source: PwC's 27th Annual Global CEO Survey.

Five ways to realise GenAI potential

So how can your bank make the most of GenAI value potential, while guarding against the risks? Drawing on my work with a range of banks, five priorities stand out:

Build trust in the data

Timely and reliable data will drive the transformation – the more you trust the data, the faster you can move forward without fear of bias, hallucinations and other risks.

Rubbish in, inevitably leads to rubbish out

As a result, you not only need to make sure the initial data sets and populations are right first time, but also to keep prompting, checking and re-prompting the AI as part of a continuous cycle of input and output.

Cut through the noise

Cut through the noise to determine how your particular business can benefit and how GenAI would support your overall strategy – tackling specific pain points, or enhancing customer experience, for example.

GenAI can do so much that it can be hard to know where to focus. So, a good starting point for identification and prioritisation is to gauge the value of a process such as onboarding, the number of hours you currently spend on it and the data available to support it. You can then look at how GenAI can help not only to do this in less time and at lower cost, but also better.

Create an agile springboard for delivery

Moving to a cloud platform can provide a fast, accessible and scalable plug-and-play entry point for a range of digital technologies including GenAI. It can also make it easier to source data from across your organisation.

With this springboard for delivery in place, you can then identify systems vendors or partnerships to develop your GenAI capabilities.

To bypass legacy systems and accelerate value creation, some banks are creating their own neobanks with cloud-enabled GenAI at the centre of a compelling new customer proposition.

Make upskilling count

The emergence of GenAI will raise the bar for upskilling, as so much of its potential centres on increasing workforce capability and productivity. But it could also create incentives by allowing people to re-imagine their roles and what they can accomplish within them.

A key part of the upskilling is helping employees learn how to use AI responsibly, understand its limitations and apply human-led governance as part of a human-in-the-loop approach.

customer data at their disposal. But outdated core banking systems can often hold back their ability to make the most of this data, leaving the door open to institutions – traditional as well as neobanks and fintechs – with more agile and modern operating platforms.

Human-led, tech-powered

What also marks out the banks at the forefront of this transformation are their GenAI-focused talent and skills. It is people, not systems, who will drive this innovation and make the most of its tech potential. In relation to GenAI, this human-led, tech-powered edge not only centres around specialist developers and trainers, but also the organisation-wide capabilities needed to frame the requests or 'prompts' and utilise outputs effectively to enhance decision-making and customer outcomes.

Recognising the risks

This 'human-in-the-loop' understanding is also critical in recognising and managing the risks created by GenAI. If data feeds are incomplete or training, prompting and monitoring aren't up to scratch, the technology can slip into bias, hallucinations (false answers) or toxicity (harmful language). In banking, these risks can manifest themselves in areas ranging from an inaccurate basis for decision-making, to discrimination against particular population groups. These lapses can not only cause severe reputational damage, but also lost opportunity costs. Boards may be reluctant to use GenAI-generated analysis in their decision-making, or sign-off AI use cases, because they don't have sufficient confidence in the outputs.

Make the cultural leap

Harnessing GenAI is as much a cultural as technological leap. A key part of this shift in mindset is a readiness to experiment, even if this might end in failure. Accepting this up front as part of a 'fail fast' approach would help you to quickly identify what went wrong, address it and learn from the experience.

Clearing a path forward

Like it or not, GenAI will only keep advancing, opening up significant opportunities, but also potential risks as it does so. Forging the right balance between capability, responsibility and value creation can help organisations build confidence in their GenAI strategy and enable them to move to the front of this fast-moving field. ■

David O'Brien

David O'Brien leads PwC's Channel Islands' Consulting & Transformation services. He has over 15 years' experience in leading large and complex transformation programmes over multiple geographies, including the US, Europe, Asia, and the Middle East. He has significant experience supporting clients to realise the benefits and value of appropriately and correctly implemented technology solutions within a defined Target Operating Model. David has supported global banks, asset managers and other financial institutions in realising tactical and strategic growth, driving value from financial and digital programmes and initiatives.

Looking ahead with confidence

Membership is expanding and we have some new team members.

Gaby Fadel took over the reins of the Association on 1 April, replacing George Kanaan as our Chief Executive Officer. Gaby was already well known to the London Arab banking community, having led Byblos Bank's operations in London for many years, and having served as Deputy CEO of the ABA since early 2022.

George Kanaan, who had been our CEO since 2009, has stepped up to Honorary Chairman and in this capacity he continues to support the work of the Association and well as promoting commercial and personal relationships between the UK and Middle Eastern institutions more broadly.

In January, Fawzi Dajani, the Managing Director of National Bank of Kuwait, International, took over the chairmanship of the association, replacing Abdulaziz al-Khereiji. Yasser Ibrahim, from Arab National Bank replaced Fawzi as deputy chairman.

Earlier this year, Tabitha Morgan joined the ABA, working on our website and other publications, taking over much of the work previously done by Andrew Cunningham. Melissa Hancock also joined us to edit *Arab Banker* magazine. Andrew remains as our Editor-in-Chief.

In our London office, Gaby is assisted by Hanan AlMasood, who manages business development, and Gabriella Sidoli, who manages accounts and administration. Talar Joulhajian manages business development from Beirut.

The Association now has 36 corporate members, comprising branches and subsidiaries of Arab banks in London, Arab-owned banks that are incorporated in London, international banks, and financial services companies who are working with Arab banks or seeking to do so. Our financial position remains strong and liquid.

In May this year, we launched ABA News, our new digital publication with details of our activities and news from the sector. It has been well-received, but we are always interested to hear suggestions for how to improve it.

Our website continues to attract readers, and we are actively considering ways to make it more relevant to our members' needs.

During the first seven months of 2024, we held three technical seminars on financial crime, energy markets and real estate. We held our Eid Dinner and our summer party. We also held three specialised lunches and seminars for corporate members: PwC hosted a lunch on sustainable resilience for banks on 31 January, Grant Thornton hosted a seminar on consumer duty of care and on Basel 3.1 on 14 May, and Empire Global Finance hosted a lunch on sports financing on 12 June.

We continue to act as interlocutors between the UK financial regulators and the London Arab banking community. On 11 July, the Prudential Regulation Authority (PRA) visited our offices for in depth discussions about current issues. This followed a similar visit in November 2022.

Later this year, the Arab British Chamber of Commerce will move from its current building to new offices, between Hyde Park Corner and Victoria. We will be moving with them. We will send out more details when we have a clearer idea about the time of the move.







Clockwise from top left:
Gaby Fadel
Melissa Hancock
Tabitha Morgan
Talar Joulhajian
Andrew Cunningham
Gabriella Sidoli
Hanan AlMasood

Board of Directors

The ABA's Board of Directors is elected at the Annual General Meeting. A list of serving board members, as of 1 September 2024, is given below.

George Kanaan ABA Honorary Chairman, ABA board member since 2009
George served as Chief Executive Officer from 2009 until April 2024. Having handed over the CEO position to Gaby Fadel, George continues to be involved in the Association's work in his capacity as Honorary Chairman. George began his banking career with Citibank in New York in 1975 and spent three years with First Chicago in London from 1984. He returned to Citibank in 1987 to establish and become General Manager of the London branch of Saudi American Bank (which was managed and partly owned by Citibank) and its associated investment company. After leaving Saudi American Bank, he established and managed a family office and acted as a consultant to Arab companies and high net worth individuals.

Fawzi Dajani ABA Chairman, National Bank of Kuwait (International), ABA board member since 2008
Fawzi is the Managing Director of National Bank of Kuwait (International) plc, the London-based subsidiary and European arm of National Bank of Kuwait (NBK). Fawzi joined NBK in 1985 and held positions in Singapore, Kuwait and London before leaving to take up senior posts at Merrill Lynch International Bank and then HSBC Private Bank. He has been Managing Director of National Bank of Kuwait (International) since 2007. Fawzi was elected Chairman in January 2024, having previously served as Deputy Chairman.

Yasser Ibrahim ABA Vice Chairman, Arab National Bank, ABA board member since 2018
Yasser Ibrahim was appointed General Manager of Arab National Bank's London branch in September 2021. Previously, he had worked in Frankfurt as Partner & Managing Director of International Banking and Co-Head of International Banking Sales at ODDO BHF, based in Frankfurt. Prior to that appointment he had been Chief Executive Officer and Managing Director of National Bank of Egypt (UK) Ltd. in London. Yasser also spent more than 25 years at Commerzbank AG in Germany, Bahrain and Egypt. In his last function at Commerzbank, he served as Managing Director and head of the bank's Representative Office in Cairo. Yasser also served as non-executive Chairman of the Board of Directors of Mercedes-Benz Egypt and as the Vice Chairman of the German-Arab Chamber of Industry and Commerce. Yasser was elected Deputy Chairman in January 2024.

Gaby Fadel ABA CEO, ABA board member since 2023 (and from 2004 until 2014)
Gaby was appointed Chief Executive Officer of the Arab Bankers' Association in April 2024, having served as Deputy CEO since early 2023. He is a seasoned banker with many years' experience in international trade finance. He has been based in London since 1982. After graduating from Université Saint Joseph in Beirut, he began his banking career with Credit Lyonnais, and then joined Byblos Bank, first in Beirut and then in Brussels. From 1993 until 1999, he worked for Banque Française de l'Orient (part of Credit Agricole). From 1999, until he retired in 2022, he was General Manager of Byblos Bank's branch in London.

Rajeev Adrian ABC International Bank Plc, ABA board member since 2022
Rajeev is the Chief Executive Officer and Managing Director of ABC International Bank Plc (ABCIB), the London-based subsidiary of Bank ABC Group. Rajeev joined ABCIB in October 2014 as CFO and was subsequently also made Deputy CEO and a Board Director. Before joining ABCIB, Rajeev worked at Royal Bank of Scotland in various senior positions, including CFO of International Banking, Chief Administration Officer of Global Banking and Markets and Senior Strategist. Prior to RBS, Rajeev served at Lehman Brothers London in various roles. He began his career in Australia, working at the Office of the Auditor General and at the Australian Securities Commission. Rajeev holds a Bachelor of Commerce (B.Com) and a Master of Business Administration (MBA) and is a Fellow of the Australian Society of Certified Practicing Accountants (FCPA).

Bana Akkad Azhari BNY, ABA board member since 2022
Bana is Head of Treasury Services for Europe, Middle East & Africa (EMEA), at BNY. She is based in London, having previously been based in Lebanon where she led the bank's Treasury Services Relationship Management and Business Development for the Middle East, Africa and the Commonwealth of Independent States, and was the bank's Chief Representative in Lebanon. Before joining BNY in 2006, Bana spent nine years with Citigroup where she held various senior positions. She is a member of BNY's EMEA Executive Committee and the EMEA AML Oversight Committee.

Vivien Davies Fieldfisher, ABA board member since 2012
Vivien is a partner and head of the MENA Group at international law firm Fieldfisher, which is headquartered in London. Fluent in Arabic, Vivien's established Middle East practice encompasses a range of company, banking, and commercial dispute activities. Vivien services the needs of MENA clients with a global reach, offering advisory services for inward and outward investment and development particularly in Saudi Arabia, UAE, Egypt, Qatar, the Levant and Turkey. She represents worldwide financial institutions, UHNWIs, sovereign wealth funds and corporate entities. Vivien holds a top tier ranking for sanctions in the leading independent legal directory Chambers and Partners in recognition of her expertise in this field.

Ayda Habboush Towers & Hamlins, ABA board member since 2020
Ayda is a partner in the corporate departments of Trowers & Hamlins and is co-head of the firm's Hotel and Leisure Group. She has over 15 years' experience as a corporate lawyer. During her career Ayda has been involved in a broad range of work including mergers and acquisitions (both in the UK and abroad), with a particular focus on inward investment in UK real estate from the MENA and ASEAN regions; and advising banks, institutional investors and ultra-high net worth investors. As a member of Trowers' Islamic Finance team, Ayda advises on the corporate structuring of Sharia-compliant acquisitions and the establishment of Sharia-compliant offshore funds. She is a fluent Arabic and French speaker.

Yasser Hassan National Bank of Egypt (UK), ABA board member since 2023
Yasser was appointed CEO and Managing Director of National Bank of Egypt (UK) in May 2019. He previously served as Managing Director and CEO of National Bank of Kuwait (Egypt) where, over the course of an 18-year tenure, he led a major transformation project that significantly increased the bank's market share. Earlier in his career, Yasser had worked for several banks including National Bank of Abu Dhabi and National Société Général Bank. Yasser is a director of the Egyptian British Chamber of Commerce in the UK and is a board member of the Association of Foreign Banks.

Haytham Kamhiyah Europe Arab Bank, ABA board member since 2020
Haytham was appointed CEO of Europe Arab Bank in December 2018, prior to which he had been CEO of Emirates Development Bank in the UAE. Haytham started his career with Arthur Andersen and then joined Capital Bank of Jordan in 1996, where he progressed to become General Manager of the bank in May 2005. He has served as a director of several organisations, including Jordan International Investment Group, Ithmar Islamic Finance Company, Jordan International Insurance Company and Safwa Islamic Bank. Haytham holds a bachelor's degree in accounting and business administration as well as professional qualifications from the Institute of Certified Management Accountants and from the Institute of Certified Public Accountants in the United States. In 2005, he obtained the Advanced Management Programme Diploma from INSEAD Business School

Charbel Khazen Gulf International Bank, ABA board member since 2014
Charbel Khazen is a Senior Vice President at Bahrain-based Gulf International Bank (GIB) and the manager of its London branch. He is based in London and has lived in the UK since 1985. Charbel joined GIB in 1995 and has held his current position since 2006. Before joining GIB, Charbel worked for Qatar National Bank and Europe Arab Bank (then known as Arab Bank) in London. Most of his banking career has focussed on corporate and institutional banking, with an emphasis on relationship management and business development.

Ralph Al Raheb Morgan Stanley, ABA board member since 2016
Ralph is a Managing Director of Morgan Stanley and is Head of Emerging Markets Onshore & Offshore Sales for Europe, Middle East and Africa. He is a member of the Morgan Stanley MENA Management Committee, and the Cross-Divisional CEEMEA Management Committee. Ralph joined Morgan Stanley in Paris in 2003 as an analyst in fixed income sales covering French financial institutions. He transferred from Paris to London in July 2004 to cover the MENA region, and in 2020, he became head of Fixed Income Sales for MENA. In 2014, Ralph became the head of fixed income for MENA and in 2018 Head of Emerging Markets Onshore Coverage for the CEEMEA region. In 2020, he was made head of Emerging Markets Onshore & Offshore Sales for Europe, Middle East and Africa.

Hani Salem ABA Treasurer, PwC, ABA board member since 2016
Hani is a Director in PwC's assurance practice based in the Channel Islands. He has extensive experience auditing and advising multinational banks, corporate service providers, sovereign wealth funds, real estate funds, and other financial services firms in the Channel Islands, the UK and the Middle East. Hani is a Chartered Accountant in the UK and is a Certified Public Accountant from the New Hampshire Board of Accountancy.

Amr Turk Banorient, ABA board member since 2010
Amr is the General Manager of Banorient, based in London. A graduate of the American University of Beirut and the University of Oxford, Amr joined the Planning and Administration Division of Saudi Oger in Riyadh in 1983. In 1984, he joined Banque Banorient France and was among the first staff to be involved in setting up of the London branch that was, and continues to be, focussed on providing private banking services, property finance and documentary credits. With over 40 years in the UK, Amr has developed an in-depth knowledge of the financial system, and he has established links with many corporations and individuals seeking banking services in London.

Obaid Alrasheed honoured for distinguished service to Arab banking

Our Annual Gala Dinner, on 26 October 2023, drew guests from London and the Middle East.

Our annual gala dinner for 2023 was a magnificent occasion, confirming London's central position for Arab banks in Europe and providing the opportunity to present our annual award for distinguished service to Arab banking.

The dinner was held at the Jumeirah Carlton Tower, in London's Knightsbridge, and attracted 250 guests, many of whom had flown in from the Middle East.

This year, we presented our annual Award for Distinguished Service to Arab Banking to Obaid Alrasheed, the CEO and Managing Director of Arab National Bank, the Saudi bank based in Riyadh.

Mr. Alrasheed was introduced by Professor Michael Mainelli, who would be taking up the position of Lord Mayor of the City of London just a few days after the dinner. Professor Mainelli is well known for his work in London's financial sector and with the City livery companies.

Our keynote speaker was the Rt Hon Tobias Elwood, a former government minister for the Middle East and Africa and a former chair of the House of Commons Defence Select Committee.

The Arab Bankers Association's CEO, George Kanaan, opened the dinner, and in his speech, he reflected on the uncertain geopolitical environment, while stressing the continued resilience of Arab banks, and their branches and subsidiaries in London.

During the evening, guests were entertained by magicians and professional opera singers.

Our Annual Gala Dinner is the flagship social event for London's Arab banking community, and it attracts not only Arab bankers but also professional service providers who work with Arab banks in London and beyond. It was a wonderful occasion!

George Kanaan presents the annual award to Obaid AlRasheed, flanked by Michael Mainelli.

Obaid Alrasheed with his colleagues from Arab National Bank, including, on his right in this picture, Yasser Ibrahim, the General Manager of the bank's London branch.

The Gulf International Bank table, with Charbel Khazen, manager of the bank's London branch third from the left.

Magician Josh King kept surprising our guests!

Lady Olga Maitland.

Tobias Elwood delivers the keynote address.

Haytham Kamhiyah, CEO of Europe Arab Bank.

Financial Crime remains key concern for banks and regulators

Our seminar on financial crime, on 8 February, considered current trends in criminal activity and regulatory responses and the landscape of international sanctions.


Nadia O'Shaughnessy, Themis


Vivien Davies, Fieldfisher


Yasser Hassan, National Bank of Egypt; and Mrs Hassan


Kofi Mills-Bampoe and Sona Ganatra from Fox Williams; and Gaby Fadel, CEO of the ABA


Elena Valtorta, BNF Bank; and Fotini Leventi, Carter Lemon Camerons

The first in this year's series of regular ABA seminars focussed on key questions related to financial crime. The event covered areas of regulatory focus for 2024 and discussed the UK financial regulators' approaches to enforcement.

Vivien Davies and Vanessa Wilkinson from Fieldfisher provided a comprehensive review of latest trends in sanctions regulations and sanctions compliance. Carel van Randwyck and Nadia O'Shaughnessy from Themis then addressed current trends in financial crime and in particular how financial criminals are exploiting deforestation to create and launder illicit financial flows.

Sona Gonatra from Fox Williams then briefed participants on the UK regulators' agenda and areas of focus for 2024.

The discussion was moderated by Thomas Townson, Partner, Head of Financial Crime, Grant Thornton UK.

The event was made possible through generous sponsorship from Arab National Bank, Fieldfisher, Fox Williams and Themis.


Thomas Townson, Grant Thronton

Bill Farren-Price, Oxford Institute of Energy Studies

Gido van Graas, First Abu Dhabi Bank

Antonio Nicotra, BB Energy

Bahaeddine Bassatne, BB Energy and Soulaf Kanaan

Lamis Al-Abed and Zahia Benatia, Ahli United Bank

Energy seminar considers impact of geopolitics on oil, gas and renewables

Our seminar on energy markets, on 20 June, focussed on how geopolitics is changing the supply and demand for different types of energy.

The wars in Ukraine and Gaza and tension in the South China Sea have been changing our perceptions of energy security in recent months, while climate change and investment in renewables are challenging the dominance of oil and gas in the energy mix.

Our seminar on the energy markets addressed these issues from both a long term and a more immediate perspective.

Sebastian Vismara from BNY gave an overview of the latest developments across the whole energy spectrum and he was followed by Gido van Graas, from First Abu Dhabi Bank who was able to provide perspectives, from one of the Middle East's biggest banks. Bill Farren Price, a seasoned observer of oil and gas markets, provided the view from the Oxford Institute of Energy Studies.

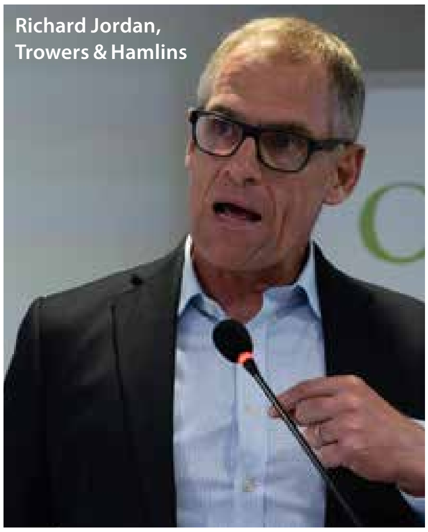
The seminar was admirably led and moderated by Antonio Nicotra from BB Energy.

The event was made possible through generous sponsorship from Arab National Bank, BB Energy, First Abu Dhabi Bank, Gulf International Bank and Qatar National Bank.

Expert insights into the real estate market

Our annual real estate seminar, on 26 June, looked ahead to likely trends in both domestic and international property values.


Liam Bailey, Knight Frank


Richard Jordan, Towers & Hamlins

Our annual real estate seminar is one of our most popular events and this year was held just a few days before the UK general election. Presenters looked ahead to changes in policy and in market sentiment that could be expected from a new Labour government.

Liam Bailey from Knight Frank presented a fascinating series of slides that showed how the London super-prime market had performed in recent years in comparison to other international hot spots such as Miami and Dubai, and he showed how the London market had performed under previous UK governments, both Labour and Conservative.

Richard Jordan from Towers & Hamlins gave an admirably clear explanation of how regulations on tax, and particularly inheritance tax, could affect overseas residents in the UK under a new government. Nicholas Haber from National Bank of Kuwait analysed recent trends in commercial real estate financing and Neville Side from BDO, updated participants on developments in property insolvency and restructuring.

The seminar was followed by a buffet dinner.

The event was made possible through generous sponsorship from Arab National Bank, Towers & Hamlins and National Bank of Kuwait, International.

Above left: Raed Hanna, Mutual Finance; Johan Eriksson, Oryx Real Estate Partners; Nicholas Haber, National Bank of Kuwait International. Above right: Susan Jarvis, Towers & Hamlins LLP; Ayda Habboush, Towers & Hamlins LLP; Charbel Khazen, Gulf International Bank; George Kanaan, ABA Honorary Chairman

Above left: Suet Wing Chan, Arab National Bank; Matthew Tuskin, Arab National Bank; Raza Anjum, Heydons Legal. Above right: Fawzi Dajani, NBK International and ABA Chairman; Tarik Ouahmed, Chief Manager, Riyad Bank; George Kanaan, ABA Honorary Chairman

Rajeev Adrian, Bank ABC; and Haytham Kamhiyah, Europe Arab Bank

Guests from Bank of Beirut

Social events continue and are well supported

Our Eid Dinner and our summer party drew big crowds, and we are looking forward to our Christmas party later in the year.

We held our Eid Dinner on 15 April at the Millennium Hotel in Kensington. This is an event that draws a wide range of members, from the Muslim community and beyond, to celebrate the conclusion of the holy month of Ramadan.

On 18 July, we held our summer party, at our offices in Mayfair. After several days of rain, the sun shone and we were able to spread out on the terrace. Guests were entertained by a jazz duet and a range of Lebanese mezze dishes.

Our Eid Dinner was made possible through generous sponsorship from Arab National Bank, Europe Arab Bank, National Bank of Egypt (UK), National Bank of Kuwait International, and QIB (UK).

The summer party was made possible through generous sponsorship from Arab National Bank, BNF Bank, Europe Arab Bank and National Bank of Egypt.

Our Christmas party is provisionally scheduled for 12 December. Details will be appearing on our website nearer the time.

Shaf Ali, Belleveue Mortlakes; Fuad Shakshir, QIB UK; Yasser Ibrahim, Arab National Bank

Philip Crawford, Ahli United Bank (UK) PLC; Gaby Fadel, Arab Bankers Association; Fawzi Dajani, National Bank of Kuwait; Ralph Al Raheb, Morgan Stanley

Guests from Arab National Bank

Saadiyat Cultural District

Abu Dhabi seeks to solidify its status as a city of culture

In 2006, Abu Dhabi embarked on a quest to reinvent itself as the cultural capital of the Gulf with the launch of a project known as Saadiyat Cultural District.

Almost two decades in the making, Saadiyat - Arabic for "happiness" – will see its grand unveiling in 2025.

The area is already home to the Louvre Abu Dhabi – borne out of a cultural exchange partnership with France's Musée du Louvre which opened in 2017 – along with three other cultural institutions. Next year will see the addition of four new institutions. *Arab Banker's* Editor, Melissa Hancock, takes a look at how these institutions will make the district one of the most unique cultural destinations in the world.

2025 will mark a significant year for the advancement of arts and culture in Abu Dhabi, with the completion of four new major arts institutions in the emirate.

Saadiyat Cultural District (SCD), the centrepiece of this major new cultural ecosystem, is located on the 2.43 square kilometres of Saadiyat Island – soon to be home to no less than eight significant international arts and cultural institutions.

SCD is already home to Louvre Abu Dhabi, the first universal museum in the Arab world which showcases artworks from different cultures side by side. It also boasts the unique interfaith project that is the Abrahamic Family House, which seeks to encourage visitors of all faiths to engage in open dialogue and knowledge sharing, the music and arts educational institute Berklee Abu Dhabi and the event space Manarat Al Saadiyat.

2025 will see the planned opening of four more prestigious institutions: Guggenheim Abu Dhabi, Natural History Museum Abu Dhabi, Zayed National Museum, which showcases the history, culture and social and economic transformation of the nation, as well as teamLab Phenomena Abu Dhabi which provides an immersive artistic experience where art and technology converge.

The district aims to celebrate the region's heritage along with the riches and diversity of world culture.

In May, DCT Abu Dhabi said the construction progress of the district's four outstanding institutions stood at 76% and are on track for completion in 2025.

The same month, it launched a promotional campaign with a short film fronted by Oprah Winfrey, called '*Be Moved in a Thousand Ways*', which highlights the importance of culture in uniting, inspiring and opening minds.

The star-studded campaign has enlisted other popular cultural personalities and prominent figures in the arts, including Lord Norman Foster, architect of famous Pompidou Centre in Paris and of Abu Dhabi's Zayed National Museum and Mariët Westermann, Director of the Solomon Guggenheim Museum and Foundation. The campaign also includes Hollywood actor Idris Elba, legendary pianist Lang Lang, as well as leading Emirati figures including internationally acclaimed writer and translator, H.E. Zaki Nusseibeh, a long-time advocate of cultural diplomacy, who is currently cultural adviser to the UAE President, and celebrated Emirati artists Mohammed Ibrahim, Najat Makki, and Afra Al Dhaheri.

As H.E. Mohamed Khalifa Al Mubarak, Chairman of DCT

Abu Dhabi, has explained, the district aims to be a hub for cultural exchange.

"Culture transcends mere connections; it shapes our very evolution and broadens our perspectives," he said, adding that he believed the district would "convey a message of cultural diversity that will become more powerful over time, creating global connections, inspiring cultural exchange, and fostering new ways of thinking to support the region, the global South and the world. Saadiyat Cultural District is somewhere people can come to learn from the past, understand our present and focus on our future."

Tourism drive

Abu Dhabi recognises the significant role that cultural landmarks can play in attracting tourists to the emirate, thereby supporting the diversification of its economy.

In April this year, DCT Abu Dhabi unveiled its Tourism Strategy 2030, which aims to increase visitor numbers to 39.3 million by 2030, up from around 24 million in 2023. This would boost the sector's GDP contribution from AED49 bn in 2023 to AED90 bn annually by 2030.

It is also expected to create 178,000 new jobs and nearly double international overnight visitors to 7.2 million.

In that regard, Louvre Abu Dhabi – which welcomed more than 1.2 million visitors in 2023 – is already proving a success. This represented a significant increase on the 622,399 who visited in 2022 – 72% of whom were from overseas. The majority derived from key tourism growth markets for Abu Dhabi in particular Russia, India, France, the USA, China, Germany, Italy, Kazakhstan, and the UK. The remaining 28% of visitors were residents of the UAE.

In March last year, DCT Abu Dhabi took steps to consolidate the emirate's status as an international cultural destination when it launched Public Art Abu Dhabi. It plans to make investment of over AED128 mn ($35 mn) in the sector annually, to support the emirate's wider creative industries through public art. A key strand of the initiative is the launch of the Public Art Abu Dhabi Biennial in November 2024.

Other projects include Manar Abu Dhabi, (Manar meaning 'lighthouse' in Arabic), which is a public art platform which features light projections, sculptures and installations, as well as performances in the archipelagos and mangroves of Abu Dhabi. ■

CURRENTLY OPEN TO THE PUBLIC

Louvre Abu Dhabi

A collaboration with the Musée du Louvre in Paris, and several other French Museums, Louvre Abu Dhabi has its own permanent collection which is supplemented by rotating loans from 19 French partner institutions, regional and international museums. Louvre Abu Dhabi reached a notable milestone in March this year when it welcomed its 5 millionth visitor.

Designed by Pritzker-prize winning architect Jean Nouvel, the building measures 565.5 metres in circumference and weighs around 7,500 tonnes (akin to the Eiffel Tower in Paris).

Presented across 6,400 square metres of galleries, as of 2024, the museum displays artworks by 313 artists from diverse cultures including Mexico, Peru, Senegal, Japan, Morocco and Cuba. Exhibits are displayed chronologically, side-by-side, their juxtaposition highlighting cultural connections, similarities, intellectual exchange and important points of difference.

Highlights of the gallery's permanent collection include a page of the Blue Quran, considered one of the most important Quranic manuscripts of the early medieval period dating from the 9th or 10th century and the painting *Virgin and Child* (1480–85) by Giovanni Bellini.

Abrahamic Family House

The Abrahamic Family House officially opened to the public on 1 March 2023. It was inspired by the principles in the Document on Human Fraternity, signed by Pope Francis and Grand Imam Dr Ahmed El-Tayeb in Abu Dhabi in 2019.

This unique religious institution encompasses the Eminence Ahmed El-Tayeb Mosque, St Francis Church, and the Moses Ben Maimon Synagogue, and enables worshippers of each faith to participate in religious services, celebrations and faith-based learning.

Visitors to the Abrahamic Family House can participate in guided tours, community events, workshops and panel discussions to foster interfaith dialogue and inspire mutual understanding.

Berklee Abu Dhabi

Established in 2020, Berklee Abu Dhabi is a collaboration between DCT Abu Dhabi and Boston-headquartered Berklee College of Music, a globally-renowned institute of contemporary music and performing arts

It provides music, performing arts and educational programmes throughout the year, as well as an artist accelerator certificate programme, PEARL (PErformance ARtistry and Leadership).

The Berklee Abu Dhabi Centre aims to build bridges between the Middle East and the Berklee educational community, to support outstanding international talent. It offers the Berklee Abu Dhabi Fellowship Fund, to which students from across Mena and South Asia are invited to apply for funding to attend Berklee programmes across its other campuses in Boston, New York, Valencia or Berklee Online. It also hosts the annual Berklee Abu Dhabi Music Summit.

Manarat Al Saadiyat

Opened in 2009, Manarat Al Saadiyat is a 15,400 square metre arts centre that supports Abu Dhabi's cultural life through a year-round series of exhibitions and events. It is equipped with photography and art studios, four galleries for temporary exhibitions, an outdoor events terrace, a cafe, a 250-seat auditorium and 100-seat theatre space for exhibitors and local communities.

Zayed National Museum

It has been the annual home of Abu Dhabi Art, the UAE capital's annual art fair, as well as the Culture Summit Abu Dhabi, an annual global forum where cultural leaders and public policy makers from more than 90 countries discuss how culture can transform societies and communities worldwide.

A place dedicated to enlightenment, 'Al Manara' translates as 'the beacon' in English.

COMPLETE IN 2025

Guggenheim Abu Dhabi

Guggenheim Abu Dhabi is a collaboration between DCT Abu Dhabi and the Solomon R. Guggenheim Foundation.

A contemporary art museum celebrating art from the 1960s to the present day, it will present an international collection with a specific focus on West Asia, North Africa, and South Asia.

The museum will comprise 28 galleries spanning a total of 12,080 square metres, alongside an additional 23,000 square metres of exhibition space that will be available in the atrium, in external plazas and terraces, and in the land encircling the building. It will also include an education centre and a 350-seat theatre. It plans to offer a diverse range of educational and performing arts programmes.

Designed by Pritzker Prize-winning architect Frank Gehry, the Guggenheim Abu Dhabi will be one of the largest of the Guggenheim museums.

Natural History Museum Abu Dhabi

The emirate's natural history museum will take visitors on a journey spanning 13.8-billion-years, exploring the mysteries of time and space, while offering a compelling vision for a sustainable future on earth.

Highlights of the museum's collection include 'Stan', a 67 million-year-old, 11.7 metre-long, fossilised *Tyrannosaurus Rex* skeleton and a specimen from the seven-billion-year-old Murchison Meteorite, which famously crash-landed in Australia in 1969. The meteorite contains organic 'stardust' compounds, older than our solar system that have provided scientists with insight into the very building blocks of life.

Visitors also will see seven-million-year-old fossils, discovered in Abu Dhabi's Al Dhafra region, which date from a time when much of Arabia was a rich landscape of rivers, savannah grasslands and forests.

The Natural History Museum's Research and Education Institute will seek to play a pivotal role in furthering research and broadening the public's knowledge and understanding of the natural world. It will support the advancement of scientific knowledge through the creation of a think tank focusing on innovation and emerging technologies.

Zayed National Museum

Zayed National Museum, the UAE's national museum, will explore the country's history and culture from prehistory (the time before written records) to the present day. The museum is named after the late Sheikh Zayed bin Sultan Al Nahyan (1918–2004), the UAE's founder and first President.

The museum will contain over 2,500 artefacts from both ancient and living cultures of the UAE and wider region, including the southern Mediterranean, North Africa, Europe, India and China, contextualising the interactions, exchanges and influences that each has exerted on the other throughout history.

Zayed National Museum will also display material related to the life and achievements of Sheikh Zayed, his role in unifying the UAE, and his influence on the country.

As well as training new generations of Emirati archaeologists and historians, the Zayed National Museum is also committed to preserving oral histories and the rich stories of older generations.

The 72,441 square metre museum was designed by UK architectural firm Foster + Partners. Its unique form includes a series of five steel feathers that rise above the building, evoking a falcon's wing, and reflecting Sheikh Zayed's love of falconry.

Each steel feather will contain a gallery showcasing the history and culture of the UAE. Acting like thermal towers, they will deploy the same cooling principles as the traditional barjeel wind towers that can be found across the UAE, ventilating the museum by drawing warm air out of the building naturally.

teamLab Phenomena Abu Dhabi

Covering a space of 17,000 square metres, teamLab Phenomena Abu Dhabi will include spaces for immersive artwork and has been designed by renowned Tokyo-based art collective teamLab, known for their interdisciplinary work.

The collections contained within the space will be curated around a theme of 'environmental phenomena' where the artworks are an evolving product of their environment.

The building will blend art and architecture with cutting-edge technology and science, to guide visitors on an immersive, multi-sensory journey through 17 digital installations that each respond to specific local environments.

The buildings depicted in these images are conceptual illustrations. Actual buildings and layouts may differ from the representations shown here by the time of completion.

teamLab Phenomena

Battleground: Ten Conflicts that Explain the New Middle East

Christopher Phillips

320 pages. Yale University Press. £18.99 hardback.

With the Middle East engulfed in growing conflict, Christopher Phillips' book *Battleground*, published in February this year, is a timely examination of the multiplicity of factors that have conspired to destabilise the region today.

Phillips, a Professor of International Relations at Queen Mary University of London, structures his book around ten geographical conflicts – whether violent or political in nature – that have broken out in the region since the onset of the Arab Spring uprisings in December 2010.

They comprise Syria, Libya, Yemen, Iraq, Egypt, Lebanon, Palestine, Kurdistan, the Gulf and the Horn of Africa – with each geography being accorded its own chapter.

However, they are all deeply interconnected, with Phillips quick to dismiss lazy attempts to explain any one of these conflicts through a single factor such as 'religious intolerance' or 'oil', arguing that each conflict's complexity requires a much more considered analysis of the interaction of domestic and external factors.

One of his central arguments is that the retrenchment of US involvement in the region's security and politics since 2010 has created a vacuum which has been filled by other key players who often have competing interests – notably the Gulf states of Saudi Arabia, the UAE and Qatar as well as Iran, Russia and Turkey, along with China, the EU and Israel.

At times, the desire of individual players to pursue their own – often mutually incompatible – interests has served to escalate the region's conflicts.

Turkey's sponsorship of the Muslim Brotherhood brought it into direct conflict with Saudi Arabia and the UAE who supported Egyptian President Abdel Fattah el-Sisi's 2013 coup against the democratically elected government of Mohamed Morsi.

Similarly, the two Gulf states' subsequent role in the economic blockade of Qatar stemmed from an attempt to quash the Muslim Brotherhood.

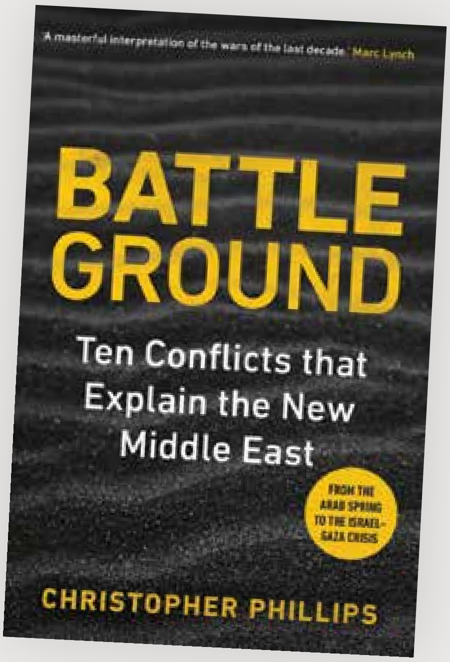
Meanwhile, Iran's expanding regional influence led both Saudi Arabia and the UAE to directly intervene in Yemen and to fund rebels in Syria's civil war.

Phillips highlights how the descent of most of the 2011 Arab revolutions into chaos has led to a corresponding growth in violent non-state actors – actors outside the formal security forces of a government or state.

Growing competition between regional and international players has seen money, weapons and even fighters, flow into numerous countries as they seek to leverage these extremist groups as proxies. By late 2015, it was estimated that up to 30,000 fighters from 70 foreign countries were fighting in Syria.

Of course, regional activism is not a new phenomenon, but what is noteworthy is the number of new players that have intervened since 2011.

Perhaps the starkest illustration of this is that the various Middle Eastern civil wars that spanned the period 1945–2008 attracted on average intervention from just over two foreign powers each. Since then, that number has tripled to an average of over six.



Furthermore, today's Middle Eastern-based rivalries have spilt over beyond the region's borders, with the Horn of Africa now a new arena for competition. While Phillips acknowledges that the latter had a history of violence long before these outsiders arrived, he observes how conflicting interests between the UAE, Qatar and Turkey, with each of them seeking a stake in shaping Somali politics, have exacerbated tensions.

Despite the complexity of the subject, the book's arrangement into ten chapters – each consisting of around 20 pages – and the author's clear writing style ensure that the myriad issues are easily distilled.

Phillips does a good job of first exploring the historical context of each conflict to understand the underlying issues, before moving on to examine its contemporary crisis.

Syria, born in the aftermath of the First World War, contains a 'mosaic' of different peoples with multiple identities alongside being Syrian – based on religion, Arabness, Kurdishness, tribe, region, or class – that could be manipulated by domestic or foreign leaders.

An informed observer of the region's geopolitics will not glean much new information from reading this book. Rather, *Battleground*'s value lies in serving as a compact, balanced and thought-provoking assessment of the significant upheaval over the last 14 years that Phillips believes has given rise to the 'New Middle East' as referenced in the subtitle of the book.

He concludes that, for all the upheaval, there have been few winners; most of the intervening powers are in a weaker regional or global position as a result of their engagement in the conflicts.

China has arguably strengthened its position the most among the international powers, possibly due to the fact that its engagement has been mainly limited to economic and diplomatic advances.

Among the regional powers, the UAE's wide intervention has greatly expanded its regional influence and boosted its global diplomatic clout, but it has also subjected it to stinging international condemnation, particularly with regards to its intervention in Yemen.

One of the book's most valuable lessons is that regional stability cannot be divorced from the stability of individual states.

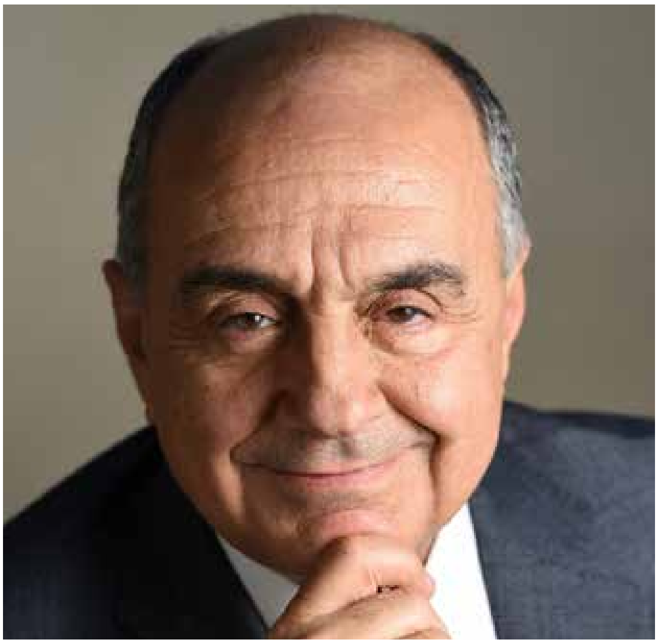
Phillips' conclusion is that solutions reached by regional powers will have more long-term success than those imposed by outsiders. He cites Barack Obama's controversial statement in 2016 that Middle Eastern leaders needed to, "find an effective way to share the neighbourhood."

Such an idealistic notion seems more elusive than ever today. ■

Melissa Hancock

Looking ahead to the next 15 years

During the previous 15 years in which I served as CEO of the ABA, I witnessed tremendous peaks and troughs that marked the region's performance. I wanted to reflect on this and share how it might inform our expectations for the next 15 years.



The last fifteen years have been very good for the ABA. We have consolidated our position and become an indispensable institution in the City of London. The period has been characterised by success, both in cementing fraternal bonds with our colleagues in the banking sector and also in providing an excellent service to our members. The next fifteen years look to be equally promising, if not more so.

Over the same period, our region by contrast, has undergone serious convulsions both political and economic, not least the financial crisis of 2008–9. While most countries in the region weathered the storms this brought with it, Dubai bore the brunt of many of these economic headwinds and suffered immensely.

Then of course we had the tumultuous political events of the 'Arab Spring', that moved like wildfire across the region. Its fallout continues, particularly in Iraq, Syria and Libya, three major Arab countries that remain in great turmoil. Its challenges have been further exacerbated by the Covid pandemic and its aftermath. We should also not ignore the lengthy war in Yemen, as well as the civil war and mass displacement in Sudan, the continuing instability in Tunisia and the remarkable unending crisis in the Lebanon.

But there have been positive things too. Dubai recovered, the price of oil stabilised, Lebanon survives and the war in Syria has abated. Technology has made significant inroads in many countries in the region, helping them to prosper. It is being widely adopted in most sectors, particularly in finance, where it is being embraced with exemplary speed. Green policies also, are now taking centre stage.

However, we are also grappling with many unknowns – not least in Palestine. Today this conflict remains at the core of instability in the area and is now of such intensity that it threatens to engulf the region and the world in a great war. Unless it is resolved, our vision of the region will remain blurred and its economic and human potential unrealised.

Critical to the region's fortunes over the next fifteen years will be the careful management of the oil resources upon which its prosperity has rested. Demand for oil will continue to ease, given the move away from fossil fuels and into alternative sources of energy. Managing this transition will likely be the area's greatest challenge over the decades to come. There is no value in burying one's head in the sand and hoping that this too shall pass. Global warming is with us and climate change is already wreaking havoc around the world.

Of course, the diversification of economic activity and sources of income has been a goal for many oil producing countries for some time now, with varying degrees of success. For some, it remains a distant vision, but one which should nevertheless be aggressively pursued.

For the foreseeable future, the area will remain divided into countries with capital surpluses and those with deficits. The region has to become more adept at making this complementarity work. This was amply illustrated by Prince Mohammed bin Salman's statement last September that Saudi Arabia will not prosper unless the region around it prospers.

In this regard, we have to look forward to the day when two countries who could play big roles as investors in the region become capable of doing so. These are of course, Libya and Iraq. This needs to happen soon, whilst oil revenues remain high enough to aid in their rehabilitation.

Egypt and Iran could also play a decisive role. If they were able to realise their true economic potential, the region's fortunes could be transformed. The same is true of Turkey, today one of the world's fastest growing economies. The pace of economic progress within our region as a whole, is inextricably tied to the progress – or lack thereof – of these five countries.

There have been lessons learned during the crises of the past fifteen years. One of the most useful has emerged from Lebanon's ongoing crisis. While it continues to suffer from the debilitating political deadlock which has reduced the state's effectiveness and its ability to deliver basic services, the private sector has stepped in to prop up various areas of the economy. Unfettered and free from state interference, an entrepreneurial spirit is reminding people of the potential for prosperity.

It is time for the private sector to be the region's engine of growth and for it to reduce its reliance on the public sector.

Let this serve as a source of inspiration across the region as we look ahead to the next 15 years.

George Kanaan
Honorary Chairman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