ARAB Banker

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The Global Magazine of the Arab Bankers Association (ABA)

NATIONAL BANK OF KUWAIT
A BANK FOR THE NEXT GENERATION

H.E. MANSOUR BTEISH
LEBANON'S ECONOMIC PRIORITIES

BANK ABC
PUTTING DIGITAL AT THE HEART OF THE BANK

GCC BANK MERGERS

REFORMING IRAQ'S BANKING SYSTEM

EGYPT'S STRENGTHENING ECONOMY

INTERPRETING LIBYA EIGHT YEARS AFTER THE FALL OF QADHAFI

MANAGING SANCTIONS COMPLIANCE IN THE AGE OF BREXIT AND GDPR

Arab Bankers Association
جمعية المصرفيين العرب

Volume XXX, Autumn 2019

Cover photo: Mada'in Saleh, a Nabatean archaeological site in the north-west of Saudi Arabia

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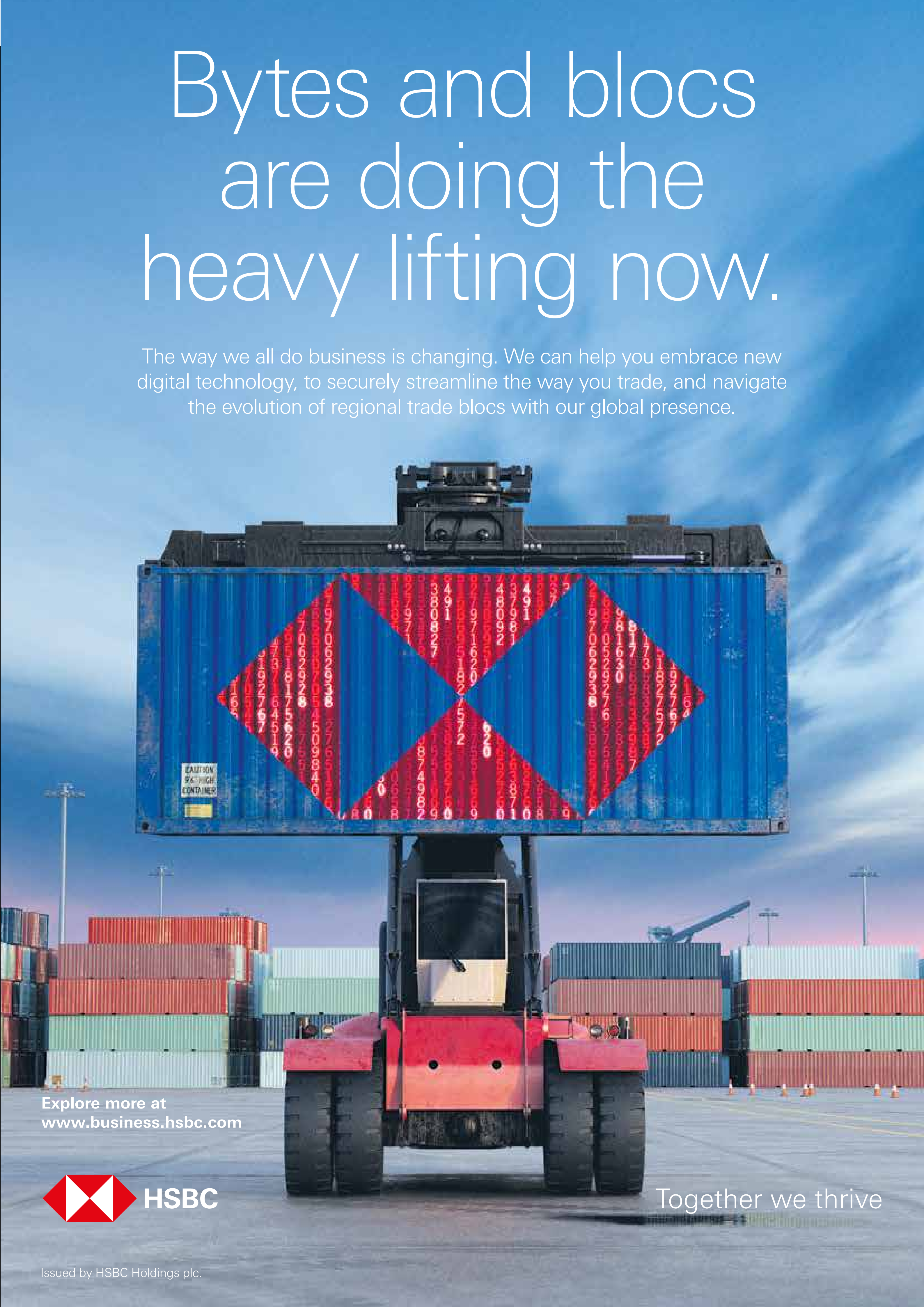
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Celebrating ten years as CEO of the Arab Bankers Association

It has been ten years since I took the helm at the Arab Bankers Association and it is therefore appropriate that I take a look at what has happened over the past decade to our Association, to our industry and to the world at large. Perhaps in this review there are pointers as to the opportunities, risks and the shape of things to come.

Our Association has been transformed over the past ten years. We have increased membership in all categories; we have broadened our activities greatly; and we have galvanised the Arab banking community in London into a force for good in the service of its members, the industry to which we belong and to the City of London, of which we are an integral part.

The Association now is a credible provider of professional development and industry knowledge. We enhance the skills of our members, strengthen their expertise and improve their understanding of the environment in which they operate. Furthermore, we provide our members with the opportunity to meet with official bodies of the UK government, such as the Financial Conduct Authority, the Prudential Regulation Authority and Her Majesty's Revenue and Customs. These meetings bring together senior teams of officials and the heads of Arab banks in London and are of exceptional value to both parties. Questions are answered, concerns raised and issues discussed as in no other forum.

We are extremely proud of another achievement: the relaunch of *Arab Banker*. This magazine, in style and substance, has no equal in our industry. Its coverage is timely and interesting, and the subject matter is of continuing relevance. It can spend the whole year on your desktop and not lose its freshness.

In short, your Association is now financially stable, more broadly inclusive, useful, relevant and very highly regarded.

Arab banking has done well over the past decade. It survived the crash of 2008, it sailed through a significant drop in the price of oil and the 'Arab Spring'.

The nature of the business, however, is changing.

The most obvious change is the extraordinary increase in scope and intensity of the regulatory regime. This may have peaked, but it is not going to be reversed. Some regulations may be re-examined, particularly as to proportionality, but there will be no going back.

In addition, we are beginning to see a wave of bank mergers in the Middle East and I think this is going to continue. Certain economies in the area are overbanked and capacity needs to be reduced. There are also economies of scale to be attained.

There is also the threat – and opportunity – of technological change. Fintech will change the nature of the banking industry and its economics. Bankers and regulators in the Middle East will have to come to grips with it.

The really bad news from the past ten years relates to the political situation in the Arab world. For years, several countries have had to deal with the consequences of the 'Arab Spring'. In the desert environment of the Arab world, spring is a time of sandstorms, low visibility and volatility as to temperature, humidity and wind. One only wants to see the end of it.

So it was with the 'Arab Spring'. It brought about instability, war and economic devastation. Its effects are still with us, and there is no end in sight.

The situation has been exasperated by political division and war. The danger of sweeping and devastating conflict has never been greater. We can only wait and pray for common sense to return to the area.

As to the world around us, we are experiencing events that would have been unthinkable a few years ago: look at Brexit and the threat to the City of London that it carries; examine the appalling trade wars in the offing. They do not bode well for the future of the world economy.

On top of that we have to live with a threat of climate change. What will it bring, when and where? The early signs are ominous.

Hope, in the face of all this gloom, comes in the shape of a cadre of Arab bankers who are hardworking, decent, intelligent and law-abiding. Our future is safe in their hands.

George Kanaan
Chief Executive Officer
Arab Bankers Association

Positive Stories to Tell

Andrew Cunningham, *Arab Banker's* Editor, reflects on the joys and challenges of producing a magazine about Arab banking.

I am delighted to present this year's edition of *Arab Banker* magazine, the seventh since it was relaunched in 2013.

The magazine is appearing at a time when a quarter of all GCC commercial banks are engaged in a merger with or acquisition of another GCC bank, or have recently completed one. Banks in all six GCC states are involved. This is a positive development, enabling GCC banks to combine strengths, extract efficiencies and gain the scale needed to compete outside their home markets.

This magazine covers these developments in depth, with data and statistics, while also considering how the development of digital banking and fintech is opening up new opportunities for banks to redefine the relationship they have with their clients, and for new, start-up companies to engage with some of the biggest financial players in the region.

We also look beyond the GCC at Iraq, where economic and financial conditions have improved greatly over the past two years, and where the central bank has been taking a series of measures to encourage banks to be more involved in the local economy. We also have two articles on Egypt, which is successfully completing a three-year economic reform programme under the auspices of the International Monetary Fund and widening its access to international debt markets.

I am pleased that we have been able to include an interview with H.E. Mansour Bteish, the Minister of Economy and Trade in Lebanon, who describes the policy objectives of the new Lebanese administration and of his own ministry.

These are all positive stories and it is a pleasure to be able to publish them. Much of the news on the Middle East that is presented in the West focuses on political turmoil, while much that is presented within the region itself is superficial and has an agenda.

Arab Banker has no illusions about the challenges facing the Middle East. This edition includes an interview with Peter Millett, until recently the British Ambassador to Libya, who explains the huge obstacles to peace, unity and reconciliation there; Gerald Butt, a correspondent with decades of Middle East experience, describes the vulnerability of oil supplies in and around the Strait of Hormuz; and we consider how upheavals in Algeria might push the reform of the country's banking system even further into the future.

But while we retain our sense of realism and have no time for optimism that is based on wishful thinking rather than hard facts, when there are positive stories to tell, *Arab Banker* is here to tell them. It is therefore disappointing that so many of the region's most talented senior bankers and financiers are unwilling themselves to engage with the broader financial community at a level of detail and specificity that will retain our interest. These senior executives shape strategy and monitor performance. The global financial community needs to hear their stories – positive stories from the region – told by them, rather than by third parties who are far from the action and often do not appreciate the significance of new initiatives and concrete achievements. This phenomenon is most evident in Saudi Arabia, the region's most important economy, which has a hugely positive story to tell about its economic stability and development, but where few top executives are willing to explain their achievements in detail to a financially sophisticated audience.

Arab Banker will continue to report realistically and positively on developments in Arab banking; and we will continue to seek out those who are shaping our industry and ask them to explain what they are doing and why it matters. We look forward to telling those stories again next year, as we have done for the past seven.

As always, huge thanks are due to George Kanaan, the Chief Executive Officer of the Arab Bankers Association, for his enthusiasm for this magazine and for the practical support that he provides. Thanks are also due to Antony Gray, who has designed the magazine and ensured that its appearance remains sharp; and to Jason Smith, of JPS Print Consultants, who printed the magazine and managed its distribution.

Andrew Cunningham
Editor in Chief

More Western and Arab banks receive commercial banking licenses in Saudi Arabia

Credit Suisse and Standard Chartered Bank have become the latest Western banks to be granted branch banking licences in Saudi Arabia. The decision on Credit Suisse was announced by Central Bank Governor Ahmed al-Kholeify at a conference in April, and the Standard Chartered decision was announced by the Council of Ministers in February.

Both Credit Suisse and Standard Chartered have been operating in Saudi Arabia for some years under licences issued by the Capital Markets Authority, but these did not enable them to undertake commercial banking business or deposit taking. Banking licences are issued by the Saudi Arabian Monetary Agency (SAMA).

First Abu Dhabi Bank and Bank of Tokyo-Mitsubishi UFJ opened SAMA-licensed branches in November 2018.

In April this year, Gulf International Bank (GIB) announced that it had completed converting its three branches into a locally-incorporated bank. GIB is a Bahraini bank, licensed by the Central Bank of Bahrain and headquartered in Manama; but after a capital restructuring several years ago it is 97.2% owned by Saudi Arabia's Public Investment Fund (PIF). The Saudi subsidiary is owned both by PIF directly, with a 50% stake, and by GIB Bahrain, in which it has the 97.2% stake. As a result, PIF owns 98.6% of the Saudi subsidiary either directly or indirectly.

GIB has been active in the kingdom, through its branches, for years, and in 2014 launched a new technology-based retail banking service, 'Meem'. Nonetheless, the award of a local licence is significant – it is the first time in decades that a local commercial banking licence has been awarded to a non-Saudi bank.

It is difficult to imagine that the GIB licence will be the first in a long series granted to non-Saudi-incorporated banks. GIB is, after all, Saudi-owned, even if it is Bahrain-based and GCC/international in outlook. Nonetheless, the GIB licence is part of a trend. SAMA is now more willing to see foreign banks conducting commercial banking business in the kingdom than at any time since the 1970s.

That said, banking in Saudi Arabia continues to be dominated by the locally-incorporated Saudi banks and this is unlikely to change in the short term. There are now 12 locally-incorporated commercial banks. The recent merger of Saudi British Bank and Al-Awwal Bank has reduced the number by one, but this has been offset by the addition of GIB.

After taking into account the Credit Suisse and Standard Chartered licences, there are now 16 foreign banks which have branches in the kingdom. Although never stated, it is clear that the allocation is based on political/diplomatic considerations. Each of the five other GCC countries has one representative, except for the UAE which has one for Abu Dhabi and one for Dubai.

Four European countries now have direct banking representation in Saudi Arabia: France with BNP Paribas; Germany with Deutsche Bank; the UK with Standard Chartered; and Switzerland with Credit Suisse. (British bank HSBC and French bank Crédit Agricole also hold significant stakes in local banks, Saudi British and Saudi Fransi.)

From Asia, there is Turkey's Ziraat Bank, National Bank of Pakistan, State Bank of India, China's ICBC and Bank of Tokyo-Mitsubishi.

From the United States, JP Morgan Chase has a branch.

Many foreign banks and asset managers hold licences from the Capital Markets Authority. In late July 2019, the Authority listed 100 licensed institutions on its website, of which ten had still to begin operations in the kingdom.

Emirates NBD in significant overseas expansion

Dubai-based Emirates NBD will implement big expansion plans in Turkey, Saudi Arabia and Egypt over the next year, with the aim of becoming one of the leading banks in the Middle East region.

The bank completed its acquisition of Turkey's Denizbank from Sberbank at the end of June. Under the agreement with Sberbank, Emirates NBD will acquire 99.85% of the share capital of Denizbank. An announcement on 30 June said that all "required" regulatory approvals had been received and that the bank was seeking "a few remaining" regulatory approvals, after which the transaction would be completed.

Emirates NBD and Sberbank signed a 'definitive agreement' for the acquisition in May 2018. At that time, Denizbank was the fifth-largest private bank in the country with assets of TL169.4 bn ($43 bn on 22 May 2018 and $34 bn on 30 June 2019). Although only about one third the size of the biggest Turkish banks, Denizbank is in the top ten of a banking system that comprises over 40 commercial banks. Denizbank had 751 branches, of which 708 were in Turkey and the rest spread over Austria, Germany, Bahrain, Russia and northern Cyprus.

Emirates NBD and Sberbank announced revised terms for the deal in April this year. According to The Banker magazine, this entailed reducing the price by about 20% to TL14.6 bn. Neither bank gave an explanation for the price revision, but it is assumed that the depreciation of the Turkish lira enabled Emirates NBD to renegotiate.

In July, Emirates NBD received regulatory approval to add 20 new branches in Saudi Arabia to its existing four. This will give it by far the biggest branch network of a foreign bank.

Also in July, the bank announced plans to open 14 more branches in Egypt. Emirates NBD bought the Egyptian operations of BNP Paribas in 2012, acquiring a significant local branch network in the process. The additional 14 branches will take the bank's network in Egypt to 74.

Emirates NBD has had a branch in London for 30 years. It also has branches in Singapore and India, and representative offices in China and Indonesia.

Emirates NBD was created in 2007 through the merger of two Dubai-based banks that were majority-owned by the Dubai authorities, Emirates International Bank and National Bank of Dubai. The government of Dubai currently owns 56% of the bank through the Dubai Investment Corporation. Emirates NBD positions itself, quite reasonably, as the flagship bank for the Government of Dubai. With equity of $17.4 bn at the end of 2018, it is significantly larger than the other Dubai-based banks and the only one with a material international presence. It was the fourth-biggest GCC bank at the end of 2018, ranked by equity.

MSCI to upgrade Kuwait exchange to Emerging Market status

MSCI announced in June that it would upgrade the Kuwait stock exchange to Emerging Market status, from Frontier status, with effect from May 2020. The exchange is already classified as Emerging Market in the FTSE Russell Index.

As part of the reclassification to Emerging Market status, the Kuwait exchange is expected to extend to overseas investors many of the facilities that are currently available only to local investors. The exchange is also expected to introduce omnibus accounts to enable brokers to protect the identity of their clients, under certain circumstances.

This year, MSCI completed the upgrade of the Saudi stock exchange to Emerging Market status. The Qatari and UAE markets were upgraded to Emerging Market status in 2014.

MSCI Classification of Middle East Stock Markets

Emerging Market Index	Frontier Markets Index	Stand-alone Index
Egypt	Bahrain	Palestine
Qatar	Kuwait*	
Saudi Arabia	Jordan	
Turkey	Lebanon	
United Arab Emirates	Morocco	
	Oman	
	Tunisia	

** Due to move to Emerging Markets in May 2020*
Source: MSCI.com, downloaded on 23 July 2019

Egypt's CIB sets up branch in Addis as part of African strategy

Egypt's Commercial International Bank planned to open a branch in Addis Ababa by the end of July as part of its efforts to strengthen its operations in Africa. The bank has recently created a new division dedicated to Africa and it has been building new correspondent banking relations in the region. In early July, the bank's sector head for Africa, Wagdy Dabbour, said that the office in Addis Ababa would be the first step in the bank's expansion in Africa.

State-owned National Bank of Egypt has branches in Addis Ababa, Khartoum and Johannesburg. Export Development Bank of Egypt has also been expanding its operations in Africa, although it does not have a physical presence.

President Sisi of Egypt assumed the Chairmanship of the African Union at a meeting of the Union's heads of state in Addis Ababa in January 2019. The Chairmanship is a one-year post that rotates around different regions of Africa. Egypt was suspended from the Union following the Egyptian military's overthrow of President Morsi in 2013, but was re-admitted a year later.

The Egyptian government is attaching importance to developing commercial ties in sub-Saharan Africa. This move is being driven partly by the desire to increase Egyptian exports in a region that might be easier to penetrate than more developed commercial markets in the West or in Asia. Egypt also has specific national interests related to the flow of Nile waters from countries that lie upstream, such as the two Sudans and Ethiopia. All are facing increased demand for water from rapidly expanding populations; but those that lie upstream have a natural negotiating advantage when consideration is given to how water should be distributed.

Yasser Ibrahim moves to ODDO-BHF; replaced at NBE (UK) by Yasser Hassan

Yasser Ibrahim has been appointed Managing Director, International Banking and Co-Head of International Banking Sales at ODDO-BHF. He was previously CEO and Managing Director of National Bank of Egypt (UK) in London. Mr. Ibrahim is now based in Frankfurt, but he expects to be a frequent visitor to London.

ODDO-BHF is a private Franco-German firm that is active in private wealth management, asset management and investment banking. ODDO acquired BHF-Bank in 2016 to become ODDO-BHF and a further acquisition of the Natixis broking and equity research activities in France was completed in 2018.

Mr. Ibrahim has been replaced at NBE (UK) by Dr. Yasser Hassan. Dr. Hassan spent 18 years with NBK, Egypt, most recently as its Managing Director and CEO. During his tenure at NBK, Egypt, Dr. Hassan held a number of board positions. He has also acted as a Senior Advisor to the Egyptian Capital Markets Authority and as a part-time faculty member teaching finance at the American University in Cairo.


Yasser Ibrahim


Dr. Yasser Hassan

New CEO at Abu Dhabi Islamic Bank


Mazin Manna

In February, Abu Dhabi Islamic Bank appointed Mazin Manna as its new CEO, ending a long period during which it had been led by its Vice Chairman, Khamis Buharoon, as acting-CEO. Tirad Murad, the previous CEO, took medical leave in 2017, and passed away the following year.

Mr. Manaa was previously the CEO for Middle East and North Africa at Credit Agricole CIB and the bank's Group Senior Country Officer for the UAE. He had held that position since July 2015. He had also been a member of the Extended Executive Committee of Credit Agricole CIB.

Mr. Manaa spent 24 years with Citibank and served as Citi's CEO for Bahrain from 2010 until 2015. Earlier, he had co-led Citigroup's corporate and investment banking business in the Middle East and held several other senior positions in Islamic banking and corporate finance, including being Managing Director of Citi Islamic Investment Bank.

Abu Dhabi Islamic Bank had equity of $4,830 mn at the end of 2018, assets of $34,090 mn, and net profits of $681 mn. The bank operates in the UK through ADIB (UK) Ltd.

Bank Audi expands in Egypt

Bank Audi's wholly-owned subsidiary in Egypt has acquired the assets and deposits of National Bank of Greece, Egypt. The agreement was reached in May 2019. National Bank of Greece, Egypt had 17 branches and nearly 250 employees.

Bank Audi bought Cairo Far East Bank in 2006 when the government of Egypt was disposing of its stakes in state-owned banks and its Egyptian operations have since become a significant proportion of the bank's overseas business. Prior to the acquisition, Bank Audi Egypt had 46 branches and 1,545 employees.

National Bank of Kuwait:
a bank for the next generation

National Bank of Kuwait (NBK) was the first locally-owned bank to be established in Kuwait and the first indigenous bank in the Gulf. For nearly 70 years it has maintained a leading position in Kuwait's financial market and beyond. But NBK does not rest on its laurels. The bank is investing heavily in technology and digital banking and strengthening its presence in some of the Middle East's most vibrant economies.

Arab Banker presents a profile of NBK and its priorities for the future.

NBK is part of the fabric of modern Kuwait.

In 1952, a group of Kuwaiti merchants asked the Emir of Kuwait for a license to set up a bank. It was a daring request. Local banking was dominated by British Bank of the Middle East, which had a network throughout the region; there was no local central bank; and few local citizens had any experience of managing commercial banks.

Yet NBK prospered, drawing on the loyalty and support of the big local merchants. When Kuwait became independent from the United Kingdom in 1961, NBK was given authority to manage the exchange of 'Gulf Rupees' – the currency introduced by the British in 1959 to replace Indian Rupees – for a new local currency, the Kuwaiti Dinar.

NBK's central role in the Kuwaiti economy continued through the 1960s and 70s, as the influx of oil wealth enabled Kuwait to lead Gulf financial markets in innovation and in overseas expansion.

NBK came to Kuwait's rescue in 1982 after a devastating stock market crash left other banks technically insolvent. And in 1990, NBK was the only local Kuwaiti bank that was able to maintain significant banking operations during the Iraqi occupation. It was able to re-establish management control in its London branch (as it then was) and permit customers to withdraw funds that had been deposited in Kuwait.

It is tribute to NBK's resilience that, unusually among the big GCC banks, it remains overwhelmingly privately owned. It has emerged from domestic, regional and international crises without the need for injections of capital from its host government. In fact, its core shareholder base of leading Kuwaiti merchant families has not changed since the bank's foundation.

Kuwait's Public Institution for Social Security holds 5.5% of the bank's capital and no other shareholder, public or private, owns more than 5%. The bank has been listed on the Kuwait Stock Exchange since 1984.

Looking to the future

But that is in the past. NBK is focussed on the future. Specifically, it is focussed on two strategic themes: defending and growing its leadership position in Kuwait; and diversifying its geographical presence, product offering and services. Cutting across both themes is a passion for digitalisation and technology.

Competition in the Kuwaiti banking system has been intensifying in recent years. There are now several other local commercial banks that boast strong balance sheets and profitability and they are eager to capture part of the rich business that NBK has enjoyed.

Yet NBK's market shares remain impressive. It is still significantly bigger than the second-biggest bank in terms of customer loans, customers deposits, total assets and net profit; and it is usually three or four times bigger than the next-ranking local banks.

One result is that large foreign companies operating in Kuwait often find that only NBK has the balance sheet size to manage their transactions. The bank currently serves more than 75% of foreign firms with business in Kuwait and it is the primary banker to the largest locally-owned companies. Its share of Kuwaiti trade finance currently exceeds 30%.

Consumer and private banking generate about one third of NBK's profits. The bank has long led in this area. It was the first to generate rigorous data on the profitability of individual retail customers, and then use that data to segment customers into different groups, who were offered different services tailored to their banking needs.

Looking ahead, NBK is now focussed on using technology to enhance its product offerings and customer experience, while maintaining a cost-of-funds that is the lowest among peer-group banks. The bank is also targeting the SME market with new financial products designed for the sector.

NBK's private-banking franchise draws on NBK Capital, its locally-based investment banking firm, and NBK Banque Privée which has been present in Geneva for 35 years.

NBK has also been building its market share in domestic Islamic banking. For a long time, Islamic banking in Kuwait was the preserve of Kuwait Finance House, a wholly-Islamic bank founded in the late 1970s; but now there is more competition. Half of Kuwait's locally-owned commercial banks are Islamic, and Shari'ah-compliant assets and deposits account for about 40% of aggregate assets and deposits in the banking system.

NBK has been building its market share through Boubyan Bank, a separately-licensed-and-branded subsidiary in which it now holds a 59.9% stake. Boubyan's home-grown management team is supplemented by experienced NBK

NBK: key figures 2015–2018

Key figures ($mn)	End-2018	End-2017	End-2016	End-2015
Total Assets	90,432	85,838	79,917	77,803
Loans and Islamic Financing	51,116	47,816	44,878	44,678
Customers' Deposits	47,441	45,432	41,570	39,760
Total Equity	12,203	11,741	11,226	10,521
Net profit	1,222	1,063	973	930
Key ratios (%)				
Net interest margin	2.69	2.61	2.47	2.42
Cost/income ratio	31.3	32.3	33.8	32.2
NPL ratio	1.38	1.42	1.28	1.34
Return on average equity	12.0	10.8	10.2	10.5
Tier 1 capital ratio	15.3	15.8	15.7	14.7
Total capital ratio	17.2	17.8	17.7	16.8

Source: National Bank of Kuwait

Operating income by business line, 2018

Consumer and private banking	32%
International	24%
Corporate	21%
Islamic banking	16%
Investment banking and asset management	3%
Other	4%

Source: National Bank of Kuwait

staff to ensure that Boubyan's culture and practices remain consistent with those of NBK. Boubyan is pursuing a strategy of differentiation from the other local Islamic banks, keeping its focus on the high-net-worth and affluent market, and on medium-sized and large companies.

The strategy has been working. Boubyan's market share of deposits has nearly doubled over the last five years, and now stands at around 8%.

International operations contribute about 30% to NBK's operating revenues and the bank is keen to increase that percentage. It sees international activity as one of its key differentiating factors over other local and regional banks.

NBK established itself in western markets early, with branches or subsidiaries in London, New York and Geneva operating profitably from the early 1980s. Paris was added in 1987.

A branch in Singapore has provided a window on Asia since 1984 and the bank marked out a place in China in 2005 with a branch in Shanghai.

In recent years, NBK's Middle Eastern operations have grown significantly.

In the 1980s and 90s, there were few opportunities to expand within the region. Like many GCC banks, NBK opened a branch in Bahrain in the 1980s, when it was the offshore banking centre for the GCC, and opened a subsidiary in Lebanon, as the Lebanese economy began to blossom in the years after the ending of the 15-year civil war.

In the 2000s, financial deregulation and healthy economic conditions, driven by higher oil prices, created new opportunities to build a Middle East franchise. In 2006, NBK was licensed to open a commercial banking branch in Saudi Arabia. In 2007, it bought a majority stake in Cairo-based Al-Watany Bank of Egypt and it signed an agreement to take a 40% stake in Istanbul-based Turkish Bank.

NBK moved quickly when the Iraqi banking market opened after the overthrow of Saddam Husain. In 2005, it took a majority stake in Credit Bank of Iraq, which has now become one of the country's leading private banks. Around the same time, it established branches in Jordan and in Dubai. A branch in Abu Dhabi followed in 2013.

The international network serves two purposes for NBK. Like other banks, it wants to follow its customers when their business takes them abroad. That is why the London subsidiary is so important, as are the operations in Paris, New York and in Asia. And as intra-regional business increases, the more recent Middle East network is enabling NBK to lead its domestic customers into rapidly-expanding regional economies.

The international network also serves to diversify NBK's banking portfolio. Its operations in Egypt and Turkey have a strong retail component and help to reduce the bank's vulnerability to cyclical oil prices. The international network as a whole greatly reduces the bank's dependence on its home market.

NBK is particularly excited about opportunities in Egypt and Saudi Arabia.

The Egyptian operation includes a strong retail element as well as corporate business. NBK Egypt has 49 branches. The bank's strategy in Egypt is focussed on developing the retail segment, which has considerable scope for new products, particularly if they are driven by new technology.

In Saudi Arabia, the bank has been given approval to open another two branches to complement the Jeddah branch that opened in 2006. NBK also has a wealth management business in the Kingdom, Al Watani Wealth Management, which is licensed by the Capital Market Authority.

Of course, good strategy counts for little if it does not generate strong financial performance. Here, NBK has a good story to tell.

Return on average equity rose to 12% in 2018 and return on average assets rose to 1.4%. Its net interest margin rose to 2.69%, while the cost-to-income ratio fell to 31.3%. As for

Distribution of gross credit exposures (before credit enhancements), End-2018

KD mn	MENA	North America	Europe	Asia	Other	Total
Total exposure	25,055	1,511	2,997	2,118	311	31,993
Including:						
Claims on corporates	*9,807*	*473*	*899*	*641*	*244*	*12,063*
Regulatory retail exposure	*5,344*	*1*	*9*	*–*	*–*	*5,354*
Claims on sovereigns	*4,757*	*656*	*183*	*76*	*–*	*5,673*
Claims on banks	*3,177*	*371*	*1,714*	*1,266*	*50*	*6,579*

Some totals do not add due to rounding. Source: National Bank of Kuwait.

NBK's International Operations

Middle East Region	Legal Structure	Branches	Date established or acquired
Bahrain	Branch	2	1987
Lebanon	Subsidiary	3	1996
Jordan	Branch	1	2004
Iraq	Subsidiary	5	2005
Saudi Arabia	Branch	1	2006
Egypt	Subsidiary	49	2007
Turkey	Associate	13	2007
UAE	Branch	2	2008
International	**Legal Structure**	**Branches**	**Date established or acquired**
London	Subsidiary	2	1983
New York	Branch	1	1984
Geneva	Subsidiary	1	1984
Singapore	Branch	1	1984
Paris	Subsidiary	1	1987
Shanghai	Branch	1	2005

Source: National Bank of Kuwait Investor Presentation dated January 2019.

balance sheet strength, its total capital ratio has been stable at around 17% in recent years (with a Tier 1 ratio of around 15%). Non-performing loans were 1.38% of the portfolio at the end of 2018.

NBK's strong strategic position and financial performance have been recognised by the international rating agencies. Moody's and Fitch rate the bank at AA-, and S&P rates it A+. These ratings are not only among the highest in the Middle East, but they have enabled the bank to feature among the 50 Safest Global Banks rankings, produced annually by Global Finance magazine.

Digital Transformation

Looking ahead, the bank is clearly focussed on digital transformation. In 2018, it appointed a Chief Data Officer and a Chief Digital Officer and launched a range of new-technology initiatives including a biometric card, android smart phone fingerprint, and a facility for customers to video chat on mobile phones. In Kuwait, the bank joined the Ripple network and became the first local bank to use blockchain technology for cross-border transfers.

NBK's digital transformation runs through all areas of the bank: across all of its geographic centres and through all of its products. Even more fundamentally, the bank is trying to change the culture of its staff so that they approach their work with a 'digital mindset'.

So how will the bank judge its progress?

It has a range of financial indicators, such as return on assets, equity and its cost-to-income ratio which are expected to gradually improve over the long term. The bank also wants to maintain its current proportions of interest income and non-interest income. In recent years, non-interest income has been around 22–24% of total operating income. It wants to increase the proportion of income generated by operations outside Kuwait.

There are also a series of non-financial indicators that the bank will use to judge itself. 'Customer perception' is one – NBK surveys its customers and non-customers to monitor how it is viewed. Being seen as the leading bank in Kuwait is a crucial performance indicator. It also wants to gradually improve its share of business among employed Kuwaitis and maintain its market share of corporate business.

Global banking is changing rapidly as customers demand faster and more convenient services, and as new financial institutions use technology to threaten the market share of incumbent banks. Middle Eastern banking is part of this trend: fintech is a huge subject in the region, with real progress being made to move customers onto digital platforms.

NBK has survived political and economic challenges in the past and has always emerged stronger. Today, the challenge is coming from technology, but NBK has already responded. It has a digital roadmap and it is determined to be a bank for the future. ■

Isam al-Sager: a life in Kuwaiti banking

For the last five years, Isam al-Sager has led National Bank of Kuwait (NBK), one of the Arab world's flagship financial institutions. *Arab Banker* asked Isam to reflect on his banking career, and to tell us something about himself and what he does when he is not working.

Isam al-Sager knew exactly what he was signing up to when, fresh out of college, he applied for a job in banking. His father and his uncle were both board members of banks and Isam remembers them telling stories about the big Kuwaiti trading families, the transformation of the Kuwaiti economy in the 1960s and 70s, and how Kuwait and its Gulf neighbours had acquired global significance in a world that was thirsty for oil.

"It was clear to me that banking could be a fulfilling career," he says. "The stories that I heard from my father and my uncle were not just about finance and economics, but also about politics, society and human relations. The social aspects of banking particularly attracted me: getting to know people, understanding their financial needs, using finance to help them meet their business goals."

Isam studied Business Administration at California State Polytechnic University and then returned to Kuwait and worked in NBK's Corporate Banking and Credit Department. It was a time of great excitement, but also a time when bankers had to maintain a strong focus on risks.

The year after Isam began at NBK, the Shah of Iran was overthrown and oil prices sky-rocketed. A year after that, Iran and Iraq began an eight-year war – much of which was played out just a few miles from Kuwait.

The vast increase in oil revenues brought even greater wealth to Kuwait and its neighbours, spurring financial innovation and creating huge opportunities for banks. But this new wealth also brought challenges.

As one of the most sophisticated financial markets in the Middle East, Kuwait already had a vibrant stock market. As government oil revenues made their way into the private economy, investment in the local stocks soared, aided by some banks' willingness to lend huge sums to citizens intent on buying stocks on the exchange and, more dangerously, speculating on a parallel exchange known as the Souk al-Manakh.

The inevitable crash came in 1982, bankrupting many who had funded their stock purchases with debt, and wiping out the equity of many of the local banks.

"We at National Bank of Kuwait had been watching the stock market, and in particular what was happening on the parallel Manakh exchange, with increasing concern," recalls Isam. "Very few people listened to us. They were all convinced that prices would go on rising for ever."

He continues the story: "After the crash, National Bank of Kuwait was the only big bank that was still solvent, so we stepped in to create a new clearing company. Many of the stock purchases had been made with post-dated cheques, and when we added them all up, they came to KD25 bn – that's nearly $100 bn, which was more than Kuwaiti GDP at the time. The new clearing company was able to reduce this to around KD8 bn, and at that level the government was able to work out a solution, recapitalise those banks that had got themselves into trouble, and get the economy moving again."

A few years later, Kuwait faced an even bigger challenge and, again, NBK played a crucial role in helping the Kuwaiti economy survive. This time, Isam was very personally involved.

On 2 August 1990, Saddam Husain's tanks rolled into Kuwait and a six-month Iraqi occupation began.

"In more than 30 years in banking, the Iraqi invasion was by far the most significant event to happen to me," says Isam. Most of NBK's Board Directors were abroad at the time of the invasion or were able to leave the country. They congregated in London, where the bank had a subsidiary.

Isam remained in Kuwait and, with some of his colleagues, continued to oversee the bank's operations. "Those of us who were Kuwaiti did not go into the bank, since the Iraqis would have arrested us," he says. "We relied on non-Kuwaitis to keep the bank going day to day. I, and a few of my colleagues, would meet them outside the bank, after working hours, to keep up with what had been happening, and we would speak to the managers in London on a satellite phone."

Isam also worked with the Kuwaiti merchant families to ensure that local people were able to buy food. He was part of a financial committee that met in different people's houses, collected money, and then distributed it. After a few weeks, Isam and his group were discovered and put in prison. "They didn't know that I was a banker, and that saved me," Isam says. After spending six weeks in prison, Isam was released. Some of his colleagues were not so fortunate.

"I am proud of what I did, both for our bank and as part of the resistance," he says, "but I don't harbour any bad feelings against Iraq or Iraqis today. It was Saddam Husain who invaded Kuwait. Iraq is very different now."

Soon after the liberation of Kuwait, Isam was made a General Manager of NBK, with responsibilities in the retail and wholesale banking group. A few years later he was promoted again to Deputy Chief Executive Officer, a post that brought with it much broader responsibilities that included overseeing Administration and the group's Human Resources.

Shortly after the Global Financial Crisis of 2008, Isam was given responsibilities for some of the bank's subsidiaries, including Boubyan Bank – a new Islamic lender in which NBK was (and remains) the majority shareholder – NBK Banque Privée and NBK Capital.

In 2014, Isam was appointed to his present position as Group Chief Executive. "It was a huge honour that the Board bestowed on me," he says. "Running an institution such as National Bank of Kuwait is a big responsibility – we were the first local bank to be licensed in Kuwait and we are the flagship for our country in global financial markets. Our bank is inextricably tied to the reputation of Kuwait and its success."

And what does Isam do when he is not at work?

"I am a very sociable person and I like going round the different diwaniyas in the evening." He explains: "Kuwait is different to other countries in the Gulf. We have this practice of 'diwaniyas', evening gatherings in private houses where people meet to discuss local issues and whatever is on their minds. Each diwaniya has a theme – there are those where politicians meet, others are centred around artists, and there are some for retired people. Of course, a lot of business gets done in diwaniyas, but they are also very social."

And when not touring the diwaniyas in the evenings?

"I'm a big football fan and I watch the English Premiership football every Saturday," he says. "Liverpool is my team and when I have an opportunity to visit Anfield (Liverpool's home ground) I do."

Family is also important. Isam has three children, all of whom work in Kuwait. One works in investment banking, another is an architect and the third is an interior designer. There are five grandchildren.

He is also involved in charity work, both with the bank and in a personal capacity. NBK has built two local hospitals which specialise in treating cancer in children. One was built in 1998 and the other opened two years ago. Isam is also a director of a charity that provides humanitarian aid outside Kuwait – in recent years it has been involved in Sudan, Somalia, the Philippines and Yemen.

Would Isam advise young people to go into banking, as he did 30 years ago? "Banking is a tough business these days – tougher than it used to be – so you have to be absolutely committed, or you will not succeed. The pace of change is getting faster and faster so we all have to work hard to keep up and to try to predict where the industry will be going in the next few years. And of course we also have to spend a lot more time dealing with regulation and compliance issues."

He concludes, "I do think banking is a good profession for the right people. You still need to spend time getting to know your clients and understanding their needs. However much banking changes, I think personal relationships will always be important." ■

Lebanese Government to prioritise administrative reforms as part of broader economic programme

When Lebanon's Government of National Unity was announced in January 2019, economic reforms were at the top of its agenda. Economic reforms retained their prominence when the government announced its draft budget at the end of May.

Arab Banker spoke to H.E. Mansour Bteish, the Minister of Economy and Trade, to understand the new government's economic priorities and the priorities that he will be pursuing within his own Ministry.

***ARAB BANKER:* What are the economic priorities of the new Lebanese government?**

H.E. MANSOUR BTEISH: The government's economic priorities include the improvement of the business environment, fiscal consolidation and public sector administrative reforms, in addition to sectoral reforms in health, education, youth and sports. Our focus is on creating a conducive environment for investments and businesses that will increase productivity, reduce unemployment and boost the economy.

The Ministry of Economy and Trade is currently working towards achieving these overarching objectives by closely following up on the anticipated implementation of the Lebanon Economic Vision, which was officially submitted by McKinsey & Co. on 29 March 2019 and sent to the Council of Ministers on 8 April. By 2025, the vision aims to achieve a real economic growth of 5–6%, create 370,000 jobs, improve competitiveness and empower high-value-added productive sectors such as agriculture, industry, tourism, financial services and the knowledge economy.

H.E. Mansour Bteish

H.E. Mansour Bteish was appointed Minister of Economy and Trade in the national unity government that was announced in January 2019. He had previously spent 45 years as a banker, serving most recently as the General Manager of Fransabank, one of Lebanon's biggest and oldest banks. He has also been involved in the Association of Banks in Lebanon and the Lebanese Economic and Social Council.

Setting up an action plan and institutionalisation mechanism for the vision implementation is crucial not only to facilitate its success but also to ensure that the vision is aligned with broader initiatives and goals, such as the reform commitments that are part of the CEDRE Capital Investment Plan, the national budget laws for 2019 and 2020, and the Sustainable Development Goals Agenda 2030.

Moreover, reforming the electricity sector and combatting tax evasion and corruption remain an ultimate and perpetual priority.

Why did it take so long to finalise the budget?

Lebanon's current position is difficult. We have a large 'twin deficit' comprising a $12.5 bn current account deficit which is the result of a $16 bn trade deficit. We also have a high public debt-to-GDP ratio of 151% and consumption-to-GDP ratio of 105%. These structural problems, which have been aggravated by the Syrian refugee crisis, are the impetus for diverse reforms, including a fiscal plan to progressively reduce public debt-to-GDP and the fiscal deficit-to-GDP by more than 1% annually over five years.

These reforms will be followed by the disbursement of $11 bn in funds that were pledged by international organisations and governments at the CEDRE conference. Taking account of these commitments from organisations and governments, we held 20 sessions to consider and agree on appropriate measures to decrease expenditures, grow revenues and reduce the fiscal deficit to 7.59% in 2019, down from 11.47% in 2018.

As Lebanon develops its programme of economic reform, do you plan to work with the IMF?

Lebanon's relations with the IMF remain strong and collaborative. Given the IMF's mandate to exercise surveillance over the economic, financial and exchange-rate policies of its members, the IMF's regular visits under Article IV and the resulting recommendations are of high importance to the Government of Lebanon.

The Statement by IMF staff, at the conclusion of their 2019 Article IV mission, stressed the need to implement reforms to rebalance Lebanon's economy, perform a substantial fiscal adjustment and improve Lebanon's business environment and governance. We will prioritise such recommendations as they enable the development of a sustainable economic model.

What administrative reforms does the government hope to achieve, for example through the rationalisation of government employment?

The Government must reduce its expenditure and particularly its wage bill, which accounts for 35% of the budget. Apart from rationalising employment in the public sector, we need to take measures to boost productivity, accountability and integrity. Such measures should include, for example, monitoring the collection mechanisms to decrease tax evasion, modernising and automating customs control, and increasing government inter-operability through e-government.

The reductions in the public wage bill will enable us to redirect public spending towards critical capital expenditures, such as spending on our heavily-depleted infrastructure and other much-needed public services, such as health and education.

What will your ministry be doing to tackle corruption in Lebanon?

Corruption in Lebanon has become endemic, and the fight against it is a high priority for the government. We have passed several pieces of legislation such as the access-to-information law, whistle-blower protection law, a law to establish a national anti-corruption commission and law on oil-and-gas-sector transparency.

Specifically, the Ministry of Economy and Trade will tackle corruption by:

1. pushing for the various pieces of legislation to be promptly and effectively implemented;
2. submitting a competition law which has been reviewed by the OECD, UNCTAD and the World Bank, and an SME law, to promote a fair, competitive and transparent business environment;
3. tackling any illegal activity taking place at the ports of Beirut and Tripoli, in collaboration with the relevant ministries, the Ministry of Interior, Municipalities and the customs authorities; and
4. automating services and simplifying administrative procedures, such as trademark on-line registration and the consumer-protection hotline facility.

Many governments in the Middle East are excited about economic opportunities related to the 'One Belt One Road' initiative being promoted by the Chinese government. What is the attitude of the Lebanese government towards this initiative?

Lebanon enjoys very strong economic and trade relations with China, as evidenced by the large trade flows and technical assistance provided by the Chinese government to Lebanon. During several bi-lateral meetings, our Chinese counterparts reiterated their willingness to forge strong ties with Lebanon and enhance mutual investments; and they invited Lebanese companies to participate in exhibitions in China.

The 'One Belt One Road' initiative presents a vital opportunity to increase Chinese investments in the country, whether in the industrial zones or in the framework of new CEDRE-related infrastructure projects.

These partnerships are mutually beneficial, especially given Lebanon's strategic geographical location, which serves as a gateway for China to Arab countries and Europe, and given our huge diaspora presence in Africa and the Americas.

What are the indicators of success by which you will judge your own ministry, and the government as a whole?

At the level of the Ministry of Economy and Trade, my aim is to spearhead initiatives that protect consumers' rights and promote a productive, competitive and export-driven economy, through the efficient and effective contribution of all units, from the Directorate of Consumer Protection, the Intellectual Property Rights Department, the Quality Department and others. This is a key success indicator, especially taking into consideration the Ministry's pivotal role in shaping the country's economic and trade policies.

Given its growing importance, I will also strive to modernise the insurance sector.

Results cannot be achieved overnight, but with the will and determination to work as a team, I trust that the Ministry and the Government will be able to positively contribute to the economy and society. ■

Building business for the good of the bank and for the wider community: an interview with the CEO of Riyad Bank

Riyad Bank is one of the largest financial institutions not only in Saudi Arabia but also in the Middle East. In April this year, the bank appointed a new Chief Executive Officer, Tarek al-Sadhan, to implement its Transformation Programme and take it to the next level of profitability and success.

Arab Banker asked Mr. Sadhan about the Transformation Programme, and about Riyad Bank's broader ambitions and its role in the Saudi economy.

***ARAB BANKER:* Why has Riyad Bank launched a 'Transformation Programme' and what are the key objectives of this programme?**

TAREK AL-SADHAN: In 2017, we began a five-year journey to turn ourselves into the number-one bank in Saudi Arabia. Specifically, our vision is to be the most innovative and trusted financial-solutions partner by 2022, while our mission is to help people, organisations and society achieve their aspirations by being their trusted and caring financial-solution partner.

An extensive focus has been placed on being a customer-centric entity with a robust plan in place to ensure our goals are achieved.

To achieve our goals, we will implement major internal transformations. Last year, we established several committees focused on creating a healthier working environment for our staff. For example, we have made it a goal for all our top management to ensure we work towards increasing our score within our Organisational Health Index, which we measure annually. We believe that by strengthening our internal environment, we will be better placed to recruit the best people in the market, and to retain them.

What is Riyad Bank doing to develop digital banking and respond to the new opportunities offered by fintech?

This is an important area for us and we are determined to align ourselves with the latest technological trends and with the innovations in the fintech industry that are leading to a major shift in the financial industry. We have already recognised the importance that digital banking can play for our customers and we have taken some significant steps to implement them.

We also believe that digital banking and fintech can help us improve our operational efficiency.

Across the Kingdom, Riyad Bank was the first bank that officially launched the Contactless Payment Service, Smart Wristband and Mobile Sticker. We also recently launched Apple pay and Riyad Wallet, in addition to a huge number of other products and features.

We will also be launching a digital branch that will provide all digital services and channels in one place to make our customers' experience unique and enjoyable.

What is Riyad Bank's strategy for its international operations?

As a leading Saudi bank we offer innovative and high-class financial solutions through our huge domestic network, but some of our customers are intent on global expansion. We have a long-standing branch in London and offices in Houston and Singapore to support those clients' international banking needs. Furthermore, we have launched a new mobile application called EZ transfer that enables clients to instantly transfer money to any beneficiary in over 200 countries around the world and more than 400,000 authorised agents.

How has Riyad Bank been contributing to the fulfilment of Saudi Arabia's Vision 2030?

We believe that Saudi Arabia's Vision 2030 is entirely consistent with Riyad Bank's long-standing goals. We will soon be launching an office within our bank that is dedicated to Vision 2030 that will ensure that the Key Performance Indicators of all our business divisions are aligned with the objectives of Vision 2030.

Specifically, we are supporting private-sector growth, contributing to the development of advanced capital markets in Saudi Arabia, promoting and enabling financial planning, and generating more high-paying jobs in the financial sector. We have also announced an ambitious Corporate Social Responsibility Strategy that we think will bring benefits both for us and for our community.

Tarek al-Sadhan

Tarek al-Sadhan was appointed CEO of Riyad Bank with effect from 1 April 2019. He worked as Riyad Bank's Chief Financial Officer for a year before taking on the CEO role. Mr. Sadhan's previous experience includes 18 years with KPMG Saudi Arabia, latterly as CEO and Chairman of the Advisory Committee. He has served as an advisor to the Chairman of the Saudi Development Fund's Board of Directors, the Director General of the General Authority of Zakat and Tax, and the Deputy Governor of the Saudi Arabian Monetary Agency. In addition to a degree in accounting, Mr. Sadhan has a master's degree in Executive Business Administration from École des Ponts in France.

What is Riyad Bank doing to promote employment and small and medium-sized enterprises in Saudi Arabia?

We offer a range of financing options and solutions to support small and medium-sized enterprises as part of a clear vision and comprehensive strategy.

As a result, I would point out that Riyad Bank is the number-one bank in terms of the total number of financed enterprises and the number-one bank in terms of financing volume to small and medium-sized enterprises through the state-sponsored Kafala programme, which is specifically targeted at SMEs. Riyad Bank currently finances 39% of small and medium-sized enterprises in the Kafala programme.

As for promoting employment, we are taking direct steps within the bank to enhance employment for Saudi citizens and for women. Riyad Bank is considered one of the leading banks when it comes to recruiting young Saudi nationals and we are now proud to say that 94% of our staff are Saudi. We also have more than 1,350 women employees. We pay particular attention to ensuring that our employment packages for staff are aligned with market standards, and that we build a strong feedback and coaching culture within the bank.

What are the key financial indicators that you are using to measure Riyad Bank's success?

We have a large customer base and a vast network of branches throughout the kingdom and an intensive resource base of exceptional human capital. All these are keys to our success.

We have been able to show impressive growth in recent years. For example, when we announced our net profits for the first quarter of 2019 we showed a net profit with an increase of 44.7% compared to the same period of last year.

We also are proud that our bank achieved the highest increase among the 50 most valuable and strongest of Saudi Arabia's brands, ranking 8th place in Saudi Arabia, and 26th in the Middle East according to the business valuation consultancy Brand Finance.

Is Riyad Bank going to pursue a merger with National Commercial Bank?

We are confident that we will continue to acquire a larger and larger market share. As for the merger negotiations, they are continuing, and we will announce any updates when the time is right. ■

Saudi Arabia's financial system moves forward cautiously, but on a strong foundation

The Saudi economy and Saudi financial markets are becoming more sophisticated as the kingdom addresses long-term fiscal imbalances and seeks to attract investment and expertise from Western financial institutions. In July 2019, the IMF's Executive Board welcomed "the continuing resilience of the financial sector and ongoing capital market reforms".

Arab Banker's editor, Andrew Cunningham, reviews recent developments, and considers the role that Saudi banks are playing in the kingdom's economic and financial development.

The IMF Executive Board's most recent statement on the Saudi economy, published on 19 July, was couched in the cautious language in which the Fund always hedges its opinions. The Board welcomed the economic reforms taken by the Saudi authorities, noted positive results and, as it always does, urged the authorities to take further steps.

However, lying underneath the Fund's standard wording, a broad picture can be discerned. Some significant policy measures, such as the introduction of Value Added Tax (VAT), have been successfully implemented; but the budgetary effect has been offset by cost-of-living allowances introduced by Royal Decree in January 2018. (The IMF recommends that these allowances should be allowed to expire at the end of 2019.)

Important legal reforms have been introduced, such as a bankruptcy law, and efforts have been made to streamline the creation of new businesses and speed the clearing process for containers at the kingdoms' ports; but fundamental transformation into a broadly-based, inclusive and competitive economy will depend on deep social changes that would transform the nature of Saudi society.

Specifically, the IMF highlighted the need to reduce the availability and attractiveness of government work so that the burden of the government wage bill can be reduced and Saudis encouraged to put their skills at the service of the more-productive private sector. The Fund highlighted the need to increase the mobility of expatriate workers so that they can move freely between jobs. In a country where expatriates account for more than half the labour force and perform essential economic roles – everything from running banks to pouring concrete – loosening oversight of foreign workers would be a big step for the Saudi government to take.

The IMF also urges reviews of regulations that are impeding women's participation in the workforce. Although the IMF is too diplomatic to say so, this is more a political matter than a legal one. Granting women permission to drive cars (which was announced in September 2017) and allowing them to travel without the permission of a male guardian (which was announced in August 2019) can be implemented at the stroke of a pen, but the government needs to build a broad political consensus around such moves before moving forward.

Women can now work without first receiving permission from a male guardian, and there are high profile cases of Saudi women heading large organisations – such as Rania Nashar, the CEO of Samba Financial Group, and Sarah al-Suheimi, Chairperson of the Saudi Stock Exchange – but the kingdom is still a long way from a situation where women routinely hold senior professional positions, and men routinely report to them.

The kingdom is in a strong financial position

Nonetheless, Saudi Arabia is facing these challenges from a position of economic strength. GDP growth is positive, current account and budget deficits have remained within a manageable range in recent years, even in 2016 when the price of oil fell to around $30/b. The kingdom's credit ratings remain in the single A range (A+ from Fitch and Moody's, A- from S&P), and government reserves total hundreds of billions of dollars. The exchange rate is stable.

The reputation of the Saudi financial system was enhanced in June when Saudi Arabia was granted full membership of the Financial Action Task Force (FATF), the global standard setter on issues of international financial crime.

Key oil statistics for Saudi Arabia

		2019*	2018	2017	2016	2015	2014
Average price of oil (Brent ICE)	avg. $/barrel	65.91	71.70	54.74	45.13	53.59	98.97
Saudi oil production	avg. mn b/d	9.945	10.31	9.97	10.36	10.2	9.7

**avg. for year to 25 July for the price, and avg. for first five months for the production*
Source: Middle East Economic Survey, Nicosia

FATF membership came just months after the European Commission had tried to include the kingdom on a blacklist of countries that were failing to tackle money laundering.

The government's objective to eliminate its budgetary deficit by 2023, through vastly increased non-oil revenues, is almost certainly unachievable; and the raft of initiatives listed in the kingdom's Vision 2030, unveiled in 2016, may have been obviously unrealistic. But when viewed over the last decades of Saudi history, failure to meet all such objectives is unlikely to present immediate problems, as long as the kingdom continues to move in the right direction.

Those who have predicted the demise of the Saudi economy and of the kingdom itself have always been wrong. Every time the price of crude oil enters one of its cyclical downswings, the kingdom's detractors foresee the evaporation of its foreign exchange reserves and the breaking of the Riyal-Dollar foreign exchange peg. Certainly, during times of low oil prices, economic conditions are difficult as liquidity dries up and government payments to contractors are delayed, but Saudi Arabia has always been able to emerge from those crises with the structure of its economy and its financial system intact.

International banks are competing for Saudi mandates

Appetite for Saudi business among international banks is higher than it has ever been. Bankers have their sights on the Aramco IPO – postponed in 2018 and supposedly taking place by the end of 2019 – and on other privatisations that they believe the government is considering. In the meantime, they burnish their credentials by bidding for mandates for the Saudi government's debt issues.

Saudi Arabia raised its first sovereign bonds in 2016 with a $17.5 bn issue – the largest-ever by an emerging market country. The following year, the kingdom raised $9 bn through its first global sukuk offering and a further $9 bn was raised through a conventional bond issue in 2018. In April this year, Saudi Aramco raised $12 bn (after receiving bids of over $100 bn) to fund the purchase of a stake in SABIC from another government entity, the Public Investment Fund.

The Saudi Ministry of Finance has stepped up issuance of local-currency sukuk over the past two years, raising tens of billions of Riyals from local and overseas investors, and developing a local-currency yield curve which will aid the pricing and issuance of corporate sukuk.

Foreign interest in the Saudi debt issues comes despite levels of fees that that are considered unacceptable in other markets and pricing so tight that many Western banks are losing money on what they retain. But retain it they must: bankers know that the Saudi authorities will find out if they have sold their holdings in the secondary debt market and will assign a black mark against them when future opportunities arise.

Amid all these changes, Saudi Arabia's domestic financial markets are also taking some steps to develop and open to the global financial community. Most obviously, the Saudi stock exchange was included in the MSCI's Emerging Market index from June this year, as a result of regulatory changes that make the exchange more accessible for foreign investors.

Significant changes have been taking place in the banking sector, with Saudi British Bank and Al-Awwal Bank completing their merger, Bahrain-based Gulf International Bank being granted a domestic banking licence, several foreign banks being licensed to open branches or expand existing branch networks, and even talk of a merger between the kingdom's biggest and fourth biggest banks, National Commercial Bank and Riyad Bank. (See pages 35–37 for more on GCC banking and bank mergers.)

Saudi banks are profitable, and most have cost-to-income ratios between 30–40%. They are well capitalised – all have total capital ratios above 17%, and most have ratios greater than 20%. Lending to the private sector is picking up after turning negative in 2017, when liquidity was particularly tight after months of low oil prices. New regulations on how Saudi banks calculate their loan-to-deposit ratios – the authorities now allow a lower weighting for longer-term deposits – have effectively raised the lending ceiling and enabled banks to deploy more of their funds in domestic lending.

The Saudi Arabian Monetary Agency (SAMA) licensed 21 fintech companies in the first half of 2019, having launched

Profile of the Saudi banking system, 2014–May 2019

Figures in $ bn unless stated	May-2019	End-2018	End-2017	End-2016	End-2015	End-2014
Total Assets	642	630	615	602	589	569
Private Sector Credit	393	383	372	375	366	335
Credit to Govmnt/quasi Govmnt	107	94	80	61	33	26
Foreign assets	54	59	65	60	84	67
*Real Estate Loans**	*67*	*64*	*56*	*53*	*49*	*42*
*Consumer Loans**	*86*	*86*	*85*	*85*	*82*	*79*
Deposits	445	443	432	431	428	420
Growth in private sector credit (%)	2.6**	3.0	-0.8	2.4	9.2	11.8
Loans % deposits	79.0	77.4	80.1	80.4	80.0	74.8
Non-performing loans % gross loans	1.9*	2	1.6	1.4	1.2	1.1

** 2019 figure is for 31 March. ** Five months only*
Source: SAMA reports. Original figures in Saudi Riyals have been converted to dollars at $1=SR3.75

Summary Financial statements of domestic Saudi commercial banks, End-2017/End-2018

Bank	Year	Equity	Assets	Net Loans	Customers' Deposits	Net Profit	Net profit % avg. assets	Operating expenses % operating income	Loans % deposits	Total Capital Ratio (Basel)
		$mn					%			
National Commercial Bank	2018	17,526.9	121,009.5	70,813.1	85,060.5	2,890.5	2.41	34.06	83.25	20.6
	2017	17,157.6	118,732.1	66,530.2	82,468.6	2,660.0	2.25	35.02	80.67	20.0
Al-Rajhi Bank	2018	12,959.0	97,419.3	62,471.2	78,444.2	2,748.2	2.91	31.71	79.64	20.2
	2017	14,882.1	91,591.0	62,339.7	72,889.3	2,434.7	2.67	32.92	85.53	23.3
Samba Financial Group	2018	11,292.1	61,370.4	30,348.8	45,418.3	1,475.6	2.42	30.31	66.82	22.7
	2017	11,927.4	60,758.2	31,414.6	44,842.4	1,341.2	2.19	32.70	70.06	21.1
Riyad Bank	2018	9,815.0	61,360.1	40,308.4	45,325.4	1,258.7	2.11	37.33	88.93	18.1
	2017	10,310.0	57,734.1	37,061.1	41,206.1	1,053.3	1.82	36.61	89.94	19.6
Saudi British Bank	2018	8,664.4	46,591.1	29,445.9	34,832.1	1,315.6	2.72	30.56	84.54	21.3
	2017	8,934.6	50,081.8	31,233.4	37,435.3	1,055.6	2.12	30.74	83.43	21.0
Banque Saudi Fransi	2018	8,223.8	50,764.5	32,196.5	39,599.3	882.7	1.73	33.70	81.31	19.8
	2017	8,451.6	51,500.2	32,550.6	40,295.5	942.8	1.78	36.30	80.78	19.4
Arab National Bank	2018	7,070.8	47,585.6	32,305.0	37,608.6	883.9	1.89	34.29	85.90	18.1
	2017	6,691.1	45,833.8	30,575.9	36,316.5	809.9	1.78	34.80	84.19	17.6
Alinma Bank	2018	5,684.3	32,383.8	22,335.5	24,055.1	671.9	2.13	38.30	92.85	21.0
	2017	5,430.5	30,631.7	21,104.9	23,774.8	536.9	1.83	39.90	88.77	21.0
Saudi Investment Bank	2018	3,586.8	25,641.0	15,857.2	16,998.8	389.3	1.54	41.77	93.28	19.4
	2017	3,811.6	25,037.8	15,906.4	17,869.6	376.6	1.50	39.83	89.01	20.4
Al Awwal (Formerly Saudi Hollandi Bank)	2018	3,699.3	21,893.3	15,418.0	17,234.4	301.7	1.24	35.87	89.46	20.6
	2017	3,630.3	26,659.1	16,987.8	20,894.6	356.5	1.30	34.10	81.30	20.3
Bank Al Jazira	2018	3,001.2	19,484.5	10,915.4	13,826.5	267.0	1.42	59.82	78.95	27.5
	2017	2,356.7	18,228.6	10,621.4	13,421.2	228.9	1.27	56.82	79.14	20.9
Bank Albilad	2018	2,090.6	19,653.4	13,503.2	15,260.1	296.4	1.62	53.14	88.49	17.3
	2017	2,025.7	16,872.6	11,597.8	12,755.1	249.9	1.60	55.58	90.93	18.5

Original figures in Saudi Riyals have been converted to Dollars at a rate of \$1=SR3.74673 for 2018 and \$1 = SR 3.74618 for 2017.
Source: Publicly available financial statements of Saudi banks

a Regulatory Sandbox in February. Several of the companies licensed are developing payment technologies as part of the authorities' policy objective to develop 'agency banking', whereby financial transactions can be conducted through non-bank agents, such as a post office, rather than through banks.

Mortgage lending is increasing as a result of legal and regulatory changes implemented in recent years, and in response to greater affordability of housing, following recent falls in real estate prices. Salary assignments and government incentive programmes make mortgage lending exceptionally safe for banks.

The most surprising feature of Saudi banking is its small international footprint. Some Saudi banks are themselves part of bigger international groups and so do not need international networks: three have strategic investors (Saudi British Bank, HSBC; Saudi French Bank, Crédit Agricole; and Arab National Bank, Arab Bank) and JPMorgan Chase has a sizable but largely passive stake in Saudi Investment Bank.

Only two Saudi banks are present in London – Riyad Bank and Arab National Bank. Samba Financial Group withdrew in mid-2016. Several have been present in Bahrain and Lebanon for decades, but the Central Bank of the UAE lists only Samba Financial Group among the foreign banks that it has licensed.

NCB has a significant subsidiary in Turkey, and al-Rajhi began operations there in 2017; but no Saudi banks bought into the Egyptian banking system as the Egyptian government sold its stakes in joint-venture banks over the past 15 years.

This conservative international profile contrasts sharply with the well-developed international networks of large commercial banks from other GCC states, such as National Bank of Kuwait, Qatar National Bank, First Abu Dhabi Bank and, increasingly, Emirates NBD.

Perhaps this year's FATF ruling will encourage Saudi banks to be more ambitious in their overseas strategies. ■

Bahrain's FinTech Bay: moving to the next generation of banking

Bahrain has been a successful banking centre for decades, but technology is changing the financial landscape and transforming customers' expectations from their financial providers.

Determined to retain its key position in regional finance, Bahrain is incubating new technology-based financial services in its FinTech Bay. *Arab Banker* asked David Parker, a Board Member of Bahrain FinTech Bay, to describe Bahrain's fintech infrastructure and explain what has been achieved so far.

ARAB BANKER: What happens in Bahrain FinTech Bay?

DAVID PARKER: Bahrain FinTech Bay (BFB) is dedicated to enabling, fostering and ultimately building a complete fintech ecosystem. We have partnered with governmental bodies, financial institutions, corporates, consultancies, universities, associations and start-ups to bring the full spectrum of stakeholders together. In 2018, our year of launch, we were internationally recognised as "MENA FinTech Hub of the Year".

We champion the region's most cutting-edge fintech companies and promising entrepreneurs. Our co-working space is home to a vibrant fintech ecosystem, strategically located to be the ideal platform to base regional headquarters.

We are based in the Arcapita Building in the centre of Manama, close to the Central Bank of Bahrain (CBB) and many of the leading banks and businesses. We are currently hosting over 40 companies.

There is much more to it than the physical space. BFB is integrated into Bahrain's economic development plans and for that reason the Government of Bahrain, through various programmes, is actively supporting businesses that operate out of BFB.

What is the profile of the companies who are working in Bahrain FinTech Bay?

We are proud to call ourselves home to over 40 of the most innovative fintech companies in the MENA region from diverse fields including big data, cryptocurrency exchanges and cryptoassets, robo advisors, payments and more. The companies range from large traditional financial services firms who are developing the fintech side of their business – American Express is an example – to new cryptocurrency start-ups like 'Rain' and the crowd-funding technology developer Beehive.

The current residents are from a wide variety of countries – 68% are from the GCC, 22% European, and 6% Asian, with a small percentage from North America and South Africa. Additionally, 13 companies based in BFB are currently in the CBB's Regulatory Sandbox, including four regional headquarters and two innovation labs.

Who owns Bahrain FinTech Bay?

BFB is a public-private partnership between the Bahrain

Economic Development Board (EDB) and FinTech Consortium. BFB's founding partners represent a broad cross-section of Bahraini and global financial services and technology industry leaders like Al Baraka, American Express and Microsoft. The site itself is operated by FinTech Consortium, which is a Singapore-based group that manages FinTech Bays in Silicon Valley and Detroit, as well as Bahrain and Singapore.

Bahrain FinTech Bay is governed by a Board of Directors led by Khalid al-Rumaihi, who is the Chief Executive of the Bahrain EDB. Other Board members include Maissan al-Maskati, who is the CEO of the FinTech Consortium in Detroit and Silicon Valley; and Gerben Visser, who founded the FinTech Consortium and is also the Managing Partner of InQvest Partners, a venture capital firm dedicated to fintech. Khalid Saad, who previously worked as a manager in Business Development, Financial Services, at the EDB, is currently the CEO of BFB.

How does FinTech Bay fit into Bahrain's broader economic strategy?

That is a very important question that goes to the heart of why we set up BFB and also why we think it is going to be a great success.

Bahrain pioneered oil production in the Middle East but, in contrast to most of our neighbours, our reserves were smaller. As a result, Bahrain diversified its economy into other sectors, especially those in which Bahrain has a competitive advantage. One result was that Bahrain established itself as a regional financial centre.

In the 1970s, we developed a thriving offshore banking industry, hosting some of the biggest banks in the Middle East and offering a well-regulated environment through which some of the biggest banks in the world conducted their regional business.

As financial markets in other Gulf countries opened up, the need for an offshore centre declined, so Bahrain moved into new areas, such as Islamic finance and insurance. We built first-class infrastructure – such as you see in the area around our own building and further down the Corniche at Bahrain Financial Harbour. We also ensured that financial sector regulation, led by the Central Bank of Bahrain, kept up with international banking standards through initiatives such as the Personal Data Protection Law and the Model Law on Electronic Transferable Records.

Bahrain's fintech strategy has been led by Team Bahrain, which is a unified effort by the government, and is part of a package of initiatives in other sectors such as logistics or tourism, as well as hotels and mixed-use real estate projects.

What can Bahrain FinTech Bay offer that other fintech initiatives in the GCC and beyond cannot?

First of all, it is very easy to set up a business in Bahrain. Bahrain has always had a 'pro-business' approach and this is very evident in our attitude to innovators, entrepreneurs and fintech. If someone is interested in basing themselves in Bahrain FinTech Bay in order to develop a new idea, then they can seek help from the EDB. Our Team Bahrain approach ensures that Bahrain's agile government comes together to solve problems and support the business environment to ensure that companies thrive. The EDB also supports companies through three stages. The first stage is guidance, which offers advice and information to support the decision-making process. The second is facilitation, which provides access to grants and assistance with registration. The third stage is aftercare, which entails ongoing support for business expansion.

The Bahrain government is also putting its money where its mouth is when it comes to supporting young technology firms. Tamkeen, the Labour Fund, has several funding programmes through which it can subsidise companies that want to up-skill their workers, and it offers subsidised access to cloud services, which underpin many of the new fintech products and services.

Another factor that differentiates Bahrain is that Amazon Web Services chose Bahrain to open their first regional data hyperscale centre to service the wider MENA region. This is a big vote of confidence in Bahrain, from one of the world's biggest and most successful technology firms, and it will have an impact on the growth of entrepreneurship in Bahrain.

What is the role of the Central Bank of Bahrain in overseeing new financial service products that originate in the FinTech Bay?

The role of the Central Bank should not be under-estimated. The CBB has created a new fintech unit to oversee the fintech sector and, as part of this, it has developed a Regulatory Sandbox. The CBB was also highly supportive in the launch of BFB, and its fintech unit works closely with BFB. This includes having a staff member present at BFB to support and nurture emerging businesses that are looking to innovate and test their products.

The CBB recognises the importance of striking the right balance between protecting the financial system and individual customers, and encouraging innovation and growth. It has responded by publishing regulations on new areas of financial activity so that they can be offered and used in Bahrain, but in a properly supervised environment. For example, in February this year, the CBB published a directive concerning trading, dealing, advisory services and portfolio management of cryptoassets. Last year it published rules on open banking, and in 2017 it published rules on crowdfunding (which were updated last year).

How does Bahrain's Regulatory Sandbox work?

The Central Bank established the region's first on-shore Regulatory Sandbox in 2017. The Sandbox provides a regulatory framework within which new financial products can be developed and then tested under tightly controlled regulatory conditions.

At the time of writing, the CBB listed 31 firms that had received authorisation to join the Sandbox.

Some firms have already graduated from the Sandbox. For example, the first graduate was Tarabut Gateway, which developed an open banking platform to enable customers to safely share their account information and payment history with other banks and institutions. As a result, those customers will be able to view all of their financial information on a single mobile application or on-line banking service. Tarabut is now a licensed provider of open banking technology in Bahrain and it recently signed an agreement to install that technology at National Bank of Bahrain.

'Rain', which is developing the region's first Shari'ah-compliant cryptocurrency exchange graduated from the Sandbox earlier this year and, as I am speaking, it is in the final stages of its application process for a full license to operate. This is a very exciting development and not just for Bahrain – we will have a cryptocurrency exchange that is not only Shari'ah-compliant, but that has also been reviewed by the Central Bank of Bahrain and so will be subject to the capital standards, cybersecurity standards, and banking compliance standards of one of the most respected central banks in the Middle East.

If you look ten years into the future, what do you think will be happening in Bahrain's FinTech Bay?

The challenge for all fintech centres is to attract people with good ideas and provide them with an environment in which they can develop those ideas and turn them into profitable products. It's early days for us, but so far we've been meeting those challenges. Local, regional and international firms are basing themselves here, and a reasonable number are transitioning into commercial activity.

The products that will be developed in our FinTech Bay will be driven by how the fintech business develops globally in the years ahead. Right now, there is a big focus on cryptoassets and crowdfunding. In a few years' time, it might be something else, but whatever that 'something' is, Bahrain will be providing a business-friendly environment, international-standard financial regulations , and financial support for ideas that will strengthen the local labour market, either through creating jobs or 'up-skilling' existing workers.

Bahrain is not embracing fintech because it's trendy, or a hot topic for investors right now. We've been a successful financial centre for decades and we intend to remain a successful financial centre. Financial firms, and their customers, want to transition from old-style banking into new financial services that are rooted in the latest technology and based on open, decentralised platforms. Bahrain FinTech Bay is not just providing a venue where innovators can develop those financial services for the future, we are actively promoting those financial services through our Central Bank, our Economic Development Board and our Labour Fund.

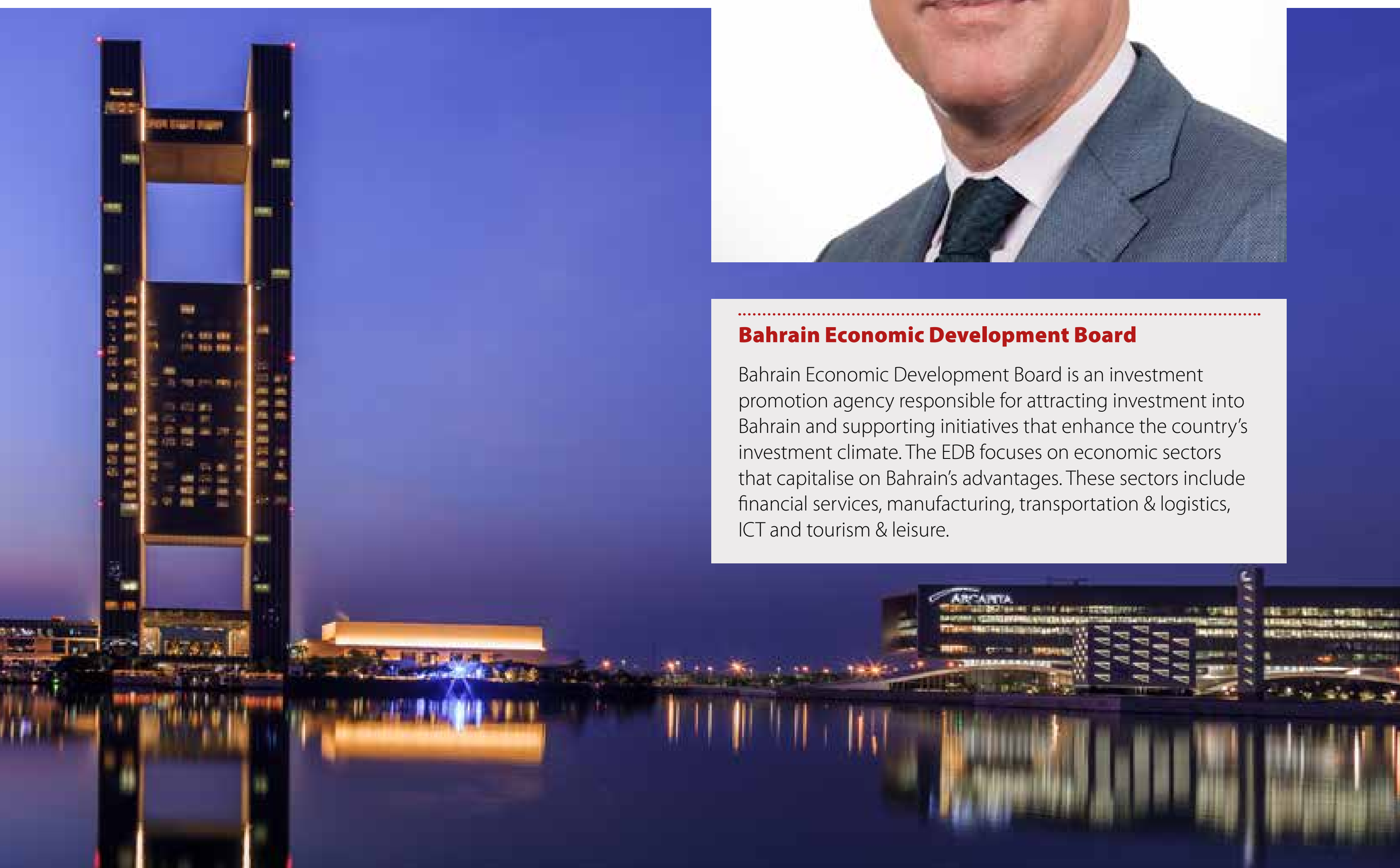
So, in ten years' time, I expect to see a lot more firms operating out of BFB but, more importantly, I expect to see a lot of firms outside the Bay – in Manama, in the Gulf, in Singapore, the US – who have tried and tested their products or services in Bahrain and are profitably selling to the international financial community. ■

David Parker

David Parker is the Executive Director of International Offices and Financial Services at the Bahrain Economic Development Board. He is also a Board Member of Bahrain FinTech Bay. He is responsible for driving economic growth in Bahrain through attracting investment via a network of 16 international offices. He and his team work closely with the financial sector, from fintech start-ups to global financial institutions.

Bahrain Economic Development Board

Bahrain Economic Development Board is an investment promotion agency responsible for attracting investment into Bahrain and supporting initiatives that enhance the country's investment climate. The EDB focuses on economic sectors that capitalise on Bahrain's advantages. These sectors include financial services, manufacturing, transportation & logistics, ICT and tourism & leisure.



KUWAIT BANKING EVENING RECEPTION

18 October 2019

On the occasion of the IMF-World Bank Annual Meeting

Kuwait Banking Association will be hosting its reception during the IMF and World Bank Annual Meeting in Washington, D.C.

The reception will bring together senior bankers from Kuwait & the Middle East as well as international bankers & business people attending the IMF meetings.

Join us and meet other regional & international bankers and find out what's happening in the GCC & International region.

Date: 18 October 2019 | Time: 6:00 pm - 8:00 pm
Venue: Four Seasons Hotel, Seasons Hall, Washington, D.C.

Spaces are limited. Those interested are requested to register via www.kba.com.kw

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Putting digital at the heart of all we do: an interview with Sael Al Waary of Bank ABC

Arab Banking Corporation has been a pillar of Middle East banking since the early 1980s and embraces digital banking and Fintech with a strong focus on financial inclusion. The bank promotes and develops digital banking for the MENA region.

Arab Banker spoke to Sael Al Waary, Bank ABC's Deputy Group Chief Executive, about the bank's digital and Fintech strategy.

'Fatema' is Bank ABC's digital employee

ARAB BANKER: What are the main initiatives that Bank ABC is taking in respect of digital banking and Fintech?

SAEL AL WAARY: Digital is a core part of our Group corporate strategy and it encompasses three key elements – modernise, evolve and disrupt.

First, we are modernising and investing in our existing platforms to drive operational efficiencies and deliver more effective customer service.

Second, we are evolving new and existing products such as digitising cash management and trade finance to address the evolving needs of our clients. This also includes the introduction of the Group Innovation function to drive our enterprise innovation agenda. The function is working on a number of initiatives and one of them the region's first Digital Employee – Fatema.

Third is the disruption of traditional banking to transform customer experience and drive frictionless services and financial inclusion, and one way of achieving this is through our mobile-only bank. This also includes fostering public and private collaboration to accelerate the adoption of Fintech regionally, a cause which is at the heart of our annual conference, the Middle East and Africa Fintech Forum.

My passion is financial inclusion. In a world where more than 1.7 bn people are un-banked, digital provides the tools for access to financial services. This is a key challenge for our region, and one that we must, as bankers, address quickly.

Could you say more about your 'Digital Employee'?

Fatema is an example of leading edge technology. She is able to respond to your questions is a human way. She looks as close to human as possible. However, the more challenging aspect has been the development of the conversational Artificial Intelligence (AI) capabilities of the digital employee. She needs to talk to our customers and interact in the same way as a 'real human'.

Therefore, Fatema will provide latest news and updates about our digital bank via social media and she will be available to customers who will be able to chat with her about their finances.

How is Bank ABC exploiting AI and robotics in its operations?

We are collaborating with leading organisations to leverage biometrics and machine learning, a subset of AI and Robotics, for example, by using facial recognition to enable customers to open a bank account remotely. Simply put, we can compare a selfie photo to their ID and confirm whether the person is indeed who they claim to be when opening a bank account.

The other area is of course the digital employee, which is using natural language processing, a core AI capability. In addition, we are exploring the use of AI in solving business problems, first by identifying where improvement or transformation is required and then leveraging AI to streamline those processes and tasks in the bank.

Bank ABC has launched a 'Cloud only' strategy. What does that mean, and how is it benefiting clients?

We believe that Cloud technology is a great enabler of digital and time-to-market agility. It enables organisations to build digital functions and can help bring a lot of automation to IT infrastructure. Cloud technology also provides many value-added services beyond hosting data and servers. We are trying to leverage that as much as possible.

Also, the integrity of our client data is critical to our reputation: banking is after all about trust. Cloud provides greater information security and a more robust data protection infrastructure.

How can Bank ABC benefit from 'open banking' and how will your customers benefit?

Open banking comes from the concept of open data and is an enabler of an open economy. Application Program Interfaces (APIs – 'apps') are the cornerstone for enabling open banking and are the mechanism for sharing data digitally and securely. Open banking enables customers to see their bank accounts in one place. This allows greater transparency so clients can compare services, interest rates and products. Financial regulators throughout the world recognise the importance of open banking and many countries – including Bahrain – are encouraging it.

So, we are seeing a huge change in the 'value' of banking as banks become platforms or digital ecosystems. Open banking gives customers a clear view of their own financial health. It also enables third parties to initiate payments directly from a person's account as a bank transfer which facilitates money movements.

How do these initiatives fit within the broader strategy of Bank ABC as a leading Middle East bank, based in Bahrain?

We are fortunate that the Central Bank of Bahrain (CBB) is a very progressive and pro-innovation central bank. This is pushing banks to innovate. We are working very closely with the CBB, including its Fintech and Innovation Unit, to provide innovative services to clients in Bahrain.

After the launch of our mobile only bank in Bahrain, our ambition is to introduce it to our other MENA locations starting with Egypt and then Jordan. In Egypt, for instance only one in ten entrepreneurs has access to a bank account. We want to change this and focus on micro finance for entrepreneurs. This will help businesses to grow, employ staff and generate economic benefits for all.

Do you see 'challenger banks' as a threat to Bank ABC or an opportunity?

We see challenger banks as an opportunity to collaborate. We have been a traditional bank and we can learn from the new fintech companies. However, we offer an established customer base across five continents. Therefore, our mind-set is about collaboration, as that will enable greater opportunities for all.

How do you think Bank ABC's digital strategy will change the bank's underlying profitability ratios and other financial indicators?

Digital is changing our industry. There has been a lot of discussion about disruption and the possibility that AI will lead to a loss of jobs. Yet we are seeing that jobs are being created that 10 years ago did not exist.

Banking is becoming more of a 'service' industry focused less on short term profits driven from interest rates, deposits or transaction fees. Instead, banks will increasingly deliver longer-term value and growth through trusted financial 'ecosystems'. Banking will be about relationships and less about transactions.

How is Bank ABC promoting fintech and digital financial services in the Bahraini and Middle Eastern banking system as a whole?

One of our key initiatives is the Middle East and Africa Fintech Forum, which has become the most significant Fintech event in the region, attracting top industry leaders, regulators and innovators and world-leading experts. The Forum brings Fintech, big-techs, banks and regulators to discuss, learn and debate the challenges arising from digital disruption. We focus on key themes of financial inclusion and innovation so that we can find opportunities to collaborate and build the financial sector for tomorrow.

Arab Financial Services, our subsidiary, has released the most successful digital wallet in Bahrain, which was recently launched in Oman. Our mobile-only bank, which will be launching towards the end of the year, will be delivering a unique and exciting banking experience. We are also looking into new ventures that will help to drive financial inclusion for the unbanked. ■

Sael Al Waary

Sael Al Waary is the Deputy Group Chief Executive Officer of Bank ABC and Chairman of Arab Financial Services. He has spent 35 years in senior management and leadership positions in London and Bahrain. In addition to his position as Deputy Group Chief Executive Officer, he is the Chairman of Arab Banking Corporation Jordan and Vice Chairman of Arab Banking Corporation Egypt. He has a BSc in Computer Sciences from the University of Reading.

Believe the hype: How fintech and new banking technology provide new solutions to traditional banking needs

Fintech, blockchain and many other aspects of new banking technology are attracting enormous attention; but practical examples of how banks are using that technology for the benefits of clients and themselves are harder to find. While small start-ups are frequently the focus of interest, it is often the big players with huge resources to deploy that are taking advantage of the opportunities that new technology has to offer.

Gareth Thomas, HSBC's Managing Director, Head of Global Banking for MENAT, explains why, and how, his bank has been investing heavily in new banking technology in the region.

When we look at the big picture of new banking technology, we believe that banks in the Middle East, North Africa and Turkey (MENAT) region have three ways to move forward: build new digital technology in-house; buy it from a third party; or partner with a specialised technology firm to jointly develop digital technology.

Some core technology, such as back-end payment processing, can be built in-house or in collaboration with a well-established vendor. However, we are noticing an increasing number of banks seeing advantages in partnering with specialised firms such as fintechs.

This approach is being encouraged by the 'open banking' regulations that some countries in MENAT are introducing, following the example of new regulations in the European Union. The objective of such regulations is to give third-party payment services access to customer accounts, increasing competition in the payments market while also protecting customer data and ensuring that transactions remain secure.

For example, in November 2018 the Central Bank of Bahrain introduced a regulation that required all banking in the kingdom to adopt open banking by 30 June 2019. In other countries, such as the UAE, open banking is not mandated by regulation, but the authorities are making big efforts to support it through initiatives such as fintech accelerators. As a result of these central bank initiatives and the general rising interest in fintech and banking technology, the number of technology start-ups in the Middle East is increasing rapidly and, with them, new digital financial products and services.

At HSBC, we have been quick to spot opportunities. Customer-account openings is an area that is very important to us and similarly it has been targeted by fintechs as a space that could be vastly improved. With this focus in mind, in the UAE we partnered with a fintech, and now our UAE retail customers can open an account and receive all account materials in just 15 minutes.

We have also partnered with a fintech company called Symphony to distribute our research on its messaging

Gareth Thomas

Gareth Thomas is Managing Director, Head of Global Banking, Middle East, North Africa and Turkey (MENAT). Based in Dubai, he currently leads HSBC's Global Banking and Global Liquidity and Cash Management businesses for the MENAT region. Prior to taking on this role, Mr. Thomas was HSBC's Co-Head of Public Sector Banking. Before joining HSBC in 2012, he had worked for Barclays, ABN AMRO and Royal Bank of Scotland.

platform. Specifically, the partnership is between Symphony and HSBC Global Research, which is an independent research house that has a strong focus on emerging markets, including MENAT. HSBC customers can access the content through the HSBC application, which is now one of the most popular apps on the Symphony platform.

HSBC has also been actively involved in fostering fintech hubs and regulatory sandboxes in MENAT. For example, we have been participating in the Dubai International Financial Centre's (DIFC's) FinTech Hive accelerator platform for the past three years. More recently we have been participating in Dubai's Startupbootcamp fintech accelerator programme that DIFC has joined and which helps fintech start-ups to scale up their businesses.

For both programmes, start-ups are given on-site residency at DIFC FinTech Hive and from there HSBC offers a three-month in-house mentorship programme at our recently-launched Innovation Lab. For example, for the DIFC FinTech Hive accelerator program, the mentorship revolves around helping young companies to understand how to fit products to their target market and the regulations that will govern their activities. The programme has also been an ideal platform for HSBC to develop commercial partnerships with start-ups that may have solutions which can be adopted by the bank's businesses.

Within the MENAT region, some of the first institutions to seize the benefits that new banking technology can bring in terms of reduced costs, automated processing and lower operational risks, have been large companies and government bodies. More specifically, we are seeing a demand to automate treasury management platforms by drawing on our banking and treasury experience, as well as cloud technology provided by third parties.

For example, the Government of Sharjah's Finance Department was keen to migrate its payment and cash management activities, which were distributed across several departments, into a single treasury system. This would not only be more efficient and cost-effective, but it would also lead to stronger financial controls in what is a key government department.

We worked with a cloud-based treasury management system (TMS) provider to help the Finance Department move its entire payment system to a digital format and a cloud-based system. HSBC provided business process analysis as well as technical consulting to build a comprehensive bespoke solution in partnership with the TMS provider.

The Sharjah Finance Department has implemented HSBCnet, a digital banking platform, for viewing its balances across different banks and HSBC Connect, a host-to-host platform, which provides secure connectivity between the bank, the new TMS and Finance Department. This enables the Finance Department to receive consolidated electronic statements from all of its banks.

As a result, about 70% of the Sharjah Finance Department's transactions are being processed electronically and its treasury management team now has clear visibility over all the department's cash and financial transactions. Processing times have come down significantly and the reduction in the department's operational costs have been significant enough to more than cover the system's implementation costs.

HSBC has also been exploring ways to use distributed ledger technology – including, but not limited to, blockchain – to enable customers to conduct trade transactions more quickly, more cheaply and with greater security. In May 2018, we were the first bank to execute a trade finance transaction using blockchain technology when we arranged a transaction with ING for Cargill, the food and agricultural group. We have since undertaken several more blockchain-based transactions.

However, if blockchain is to become a widely-used tool in international trade, it needs to move beyond what is known as the 'simplest-use case', where all participants to a transaction are using the same distributed ledger or blockchain. There is a danger with distributed ledger technology that 'digital islands' will emerge which facilitate transactions to only a narrow group of participants.

We moved beyond the 'simplest-use case' in June this year when we arranged payments for Hong Kong's Bee Dee Industries to a Landmark Group-owned retail outlet in Dubai. The transaction comprised a letter of credit that was processed by HSBC on the Voltron blockchain trade finance platform and was then linked into ReChainME, which is a permission blockchain platform created by Landmark. ReChainME tracked the logistics side of the letter of credit.

The effect of using this distributed-ledger technology was that all participants to the transaction could view documents and track the progress of the transaction as it happened. For this type of cross-border transaction, distributed ledger technology can reduce the time taken to complete all stages by 12 days – a 40% equivalent.

Reducing transaction time in this way not only accelerates the pace of business, it also frees working capital and enables all participants to track the transaction minute by minute.

Globally, HSBC has already spent $2.3 bn on developing artificial intelligence and digital capabilities and we are planning to invest a minimum $15 bn more in new banking technology. We believe that a combination of in-house development and partnerships with fintechs in specific areas will enable us to move faster and to provide the greatest benefits to our clients, while also supporting the development of fintech start-ups. ■

Mergers dominate the agenda as GCC banks continue strong performance

One quarter of all GCC commercial banks have been engaged in merger discussions over the past two years, and most of those discussions have ended successfully, with larger and more powerful institutions being created. Underlying this corporate activity has been strong financial performance among the leading players.

Arab Banker's Editor, Andrew Cunningham, reviews recent developments and looks for explanations for the recent increase in merger activity.

In one sense, GCC banking is remarkably stable. This year's listing of the biggest GCC commercial banks, based on end-2018 shareholders' equity, contains the same 50 banks as it did last year, with only one exception: International Bank of Qatar falls out of the list because it did not publish full-year financial statements for 2018, pending its merger with Barwa Bank, which was completed in April this year.

The rank order of the biggest GCC banks has changed, but not by much, and hardly at all among the bigger banks. Dubai Islamic Bank pushed Saudi British Bank out of the top 10, but there were no other changes at the top of the table.

Among the biggest 50, 43 reported higher net profits in 2018 than in 2017. Only one reported a net loss – Gulf International Bank.

Among the smaller banks, Sharjah-based Investbank reported a large net loss and has since been recapitalised by the Government of Sharjah, which injected Dh1.12 bn ($305 mn) for a 50.1% stake and appointed a new chairman. Even after the re-capitalisation, rumours continued of a possible merger between Investbank and two of the other three Sharjah-based banks, Bank of Sharjah and United Arab Bank. (The fourth is Sharjah Islamic Bank.)

Sharjah's need for four domestic banks has been questioned for decades, although mergers have always been resisted. The emirate of Abu Dhabi, whose economy is many times bigger than Sharjah's, has only three domestic banks, following recent merger activity, although Abu Dhabi's banks are much bigger. Even Dubai only has five locally-

Mergers and possible mergers of GCC commercial banks*

UAE: Abu Dhabi	Merger of National Bank of Abu Dhabi and First Gulf Bank to form First Abu Dhabi Bank	Legal merger completed in April 2017.
Qatar	Merger of Barwa Bank and International Bank of Qatar	Legal merger completed on 21 April 2019.
UAE: Abu Dhabi	Merger of Abu Dhabi Commercial Bank and Union National Bank, with the combined entity then acquiring Al-Hilal Bank.	Legal agreement completed on 1 May 2019.
Saudi Arabia	Merger of Saudi British Bank and AlAwwal Bank (formerly Saudi Hollandi Bank)	Legal merger completed on 16 June 2019.
UAE: Dubai	Possible acquisition by Dubai Islamic Bank (DIB) of Noor Bank	DIB's board approved the acquisition in June 2019. Noor Bank is much smaller than DIB.
Bahrain and Kuwait	Possible merger of Kuwait Finance House and Ahli United Bank of Bahrain	KFH stock exchange disclosure on 13 February 2019 reports Central Bank approval to conduct due diligence studies. Ahli United Bank made several stock exchange disclosures during H1 2019 confirming that it was engaged in due-diligence studies.
Oman	Possible merger of Oman Arab Bank and alizz bank	OAB's majority shareholder (Ominvest, 51%) said in May 2019 that merger talks were going well.
Saudi Arabia	Possible merger of National Commercial Bank and Riyad Bank	The banks announced in December 2018 that they were considering a merger, but since then no further public announcements have been made.
Oman	Merger abandoned, March 2019: National Bank of Oman (NBO) and Bank Dhofar	Press reports suggest that NBO's largest shareholder, Commercial Bank of Qatar, did not support the merger.

** The list includes only mergers, or possible mergers, between commercial banks that are licensed by their central bank.*

Largest 50 GCC commercial banks, ranked by equity size (end-2018)*

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

	Bank	Country	Equity	Assets	Net Loans	Customers' Deposits	Net Profit	Total Capital Ratio (Basel)**
1	First Abu Dhabi Bank	UAE (Abu Dhabi)	27,767.3	202,625.9	96,178.0	126,749.4	3,285.7	15.7
2	Qatar National Bank	Qatar	24,252.9	236,883.1	168,282.2	169,452.2	3,814.3	19.0
3	National Commercial Bank	Saudi Arabia	17,526.9	121,009.5	70,813.1	85,060.5	2,890.5	20.6
4	Emirates NBD	UAE (Dubai)	17,433.9	136,243.7	89,295.7	94,724.2	2,734.3	20.9
5	Al-Rajhi Bank	Saudi Arabia	12,959.0	97,419.3	62,471.2	78,444.2	2,748.2	20.2
6	Samba Financial Group	Saudi Arabia	11,292.1	61,370.4	30,348.8	45,418.3	1,475.6	22.7
7	National Bank of Kuwait	Kuwait	12,217.9	90,539.1	51,176.5	47,497.2	1,300.3	17.2
8	Riyad Bank	Saudi Arabia	9,815.0	61,360.1	40,308.4	45,325.4	1,258.7	18.1
9	Dubai Islamic Bank	UAE (Dubai)	9,292.7	60,908.8	39,412.4	42,385.6	1,362.5	17.5
10	Abu Dhabi Commercial Bank	UAE (Abu Dhabi)	8,933.0	76,198.0	45,317.9	48,103.0	1,317.9	17.3
11	Saudi British Bank	Saudi Arabia	8,664.4	46,591.1	29,445.9	34,832.1	1,315.6	21.3
12	Banque Saudi Fransi	Saudi Arabia	8,223.8	50,764.5	32,196.5	39,599.3	882.7	19.8
13	Arab National Bank	Saudi Arabia	7,070.8	47,585.6	32,305.0	37,608.6	883.9	18.1
14	Kuwait Finance House	Kuwait	6,846.9	58,659.5	41,704.3	38,886.6	869.8	17.5
15	Qatar Islamic Bank	Qatar	5,698.0	42,099.6	28,081.5	27,638.6	725.5	18.8
16	Alinma Bank	Saudi Arabia	5,684.3	32,383.8	22,335.5	24,055.1	671.9	21.0
17	Mashreqbank	UAE (Dubai)	5,654.5	38,103.5	18,862.2	22,660.5	562.4	16.5
18	Commercial Bank of Qatar	Qatar	5,494.7	37,109.8	22,996.5	19,595.1	457.0	15.5
19	Union National Bank	UAE (Abu Dhabi)	5,161.8	29,133.2	19,695.8	21,086.9	322.8	18.9
20	Bank Muscat	Oman	5,019.9	31,999.2	23,277.8	22,037.7	467.7	19.4
21	Ahli United Bank	Bahrain	4,972.0	35,507.6	19,504.0	23,660.0	752.4	16.9
22	Abu Dhabi Islamic Bank	UAE (Abu Dhabi)	4,829.7	34,090.4	21,423.7	27,340.0	681.0	17.2
23	Bank-ABC	Bahrain	4,316.0	29,549.0	14,884.0	16,425.0	248.0	18.8
24	Masraf Al Rayyan	Qatar	3,701.8	26,730.9	19,826.5	16,915.6	587.8	19.2
25	Al Awwal Bank	Saudi Arabia	3,699.3	21,893.3	15,418.0	17,234.4	301.7	20.6
26	Saudi Investment Bank	Saudi Arabia	3,586.8	25,641.0	15,857.2	16,998.8	389.3	19.4
27	Doha Bank	Qatar	3,498.4	26,409.3	16,429.2	15,237.2	228.1	17.0
28	Burgan Bank	Kuwait	3,127.7	24,137.1	14,071.1	12,436.5	276.3	17.4
29	Bank Al Jazira	Saudi Arabia	3,001.2	19,484.5	10,915.4	13,826.5	267.0	27.5
30	Commercial Bank of Dubai	UAE (Dubai)	2,510.3	20,177.9	13,872.3	14,476.9	316.4	14.6
31	Commercial Bank of Kuwait	Kuwait	2,409.4	14,747.1	7,437.4	7,565.5	210.6	18.7
32	Al Ahli Bank of Kuwait	Kuwait	2,232.8	15,014.2	9,988.8	10,280.9	139.3	19.2
33	Gulf International Bank	Bahrain	2,196.2	27,546.1	9,817.8	18,322.4	-227.0	14.5
34	Bank AlBilad	Saudi Arabia	2,090.6	19,653.4	13,503.2	15,260.1	296.4	17.3
35	Gulf Bank	Kuwait	2,075.3	19,859.7	13,039.2	12,328.5	187.2	17.5
36	National Bank of Ras Al Khaimah	UAE (Ras Al Khaimah)	1,949.7	14,345.9	8,948.0	9,296.3	249.8	17.2
37	Qatar International Islamic Bank	Qatar	1,889.9	13,906.9	7,599.1	8,613.6	244.1	16.4
38	Barwa Bank	Qatar	1,854.5	12,188.0	7,626.0	7,152.5	210.2	16.7
39	Bank Dhofar	Oman	1,818.2	10,972.4	8,225.8	7,615.7	131.0	17.3
40	Al Khaliji Commercial Bank	Qatar	1,806.9	14,314.8	8,602.1	7,858.0	167.2	16.9
41	Noor Bank	UAE (Dubai)	1,636.7	13,810.9	8,713.2	9,627.9	163.7	16.0
42	Ahli United Bank (Kuwait)	Kuwait	1,622.1	12,919.1	9,242.4	8,002.6	169.3	16.6
43	Boubyan Bank	Kuwait	1,604.3	14,342.1	10,768.8	12,282.6	185.5	18.2
44	Ahli Bank of Qatar	Qatar	1,511.3	11,100.4	7,500.7	5,932.9	182.9	18.2
45	Al Hilal Bank	UAE (Abu Dhabi)	1,494.8	11,884.8	7,643.1	8,529.5	28.8	17.3
46	Sharjah Islamic Bank	UAE (Sharjah)	1,467.0	12,184.2	6,568.9	7,199.2	139.0	17.0
47	National Bank of Oman	Oman	1,397.1	9,304.2	7,316.7	6,386.3	131.8	16.3
48	National Bank of Fujairah	UAE (Fujairah)	1,394.7	10,833.0	7,134.9	8,297.7	167.5	15.2
49	Bank of Bahrain and Kuwait	Bahrain	1,332.8	9,540.0	4,721.1	6,324.6	180.3	19.6
50	National Bank of Bahrain	Bahrain	1,267.3	8,511.3	3,169.9	5,834.8	186.4	33.8

** See box on page XX for information on merged banks. ** Some total capital ratios may not be directly comparable between banks due to differences in presentation and different regulatory schedules for the implementation of Basel III. However, any differences are unlikely to be significant. Source for data: publicly available financial statements. Figures in local currency have been converted to $s using exchange rates on 31 December 2018.*

Biggest 50 GCC banks: methodology

Our ranking of the 50 biggest GCC banks is based on end-2018 shareholders equity and includes all banks that published figures for 2018, even if they have since merged. (For example, Saudi British Bank, at number 11, and AlAwwal Bank, at 25, are listed, even though AlAwwal has now been merged into Saudi British and no longer publishes separate accounts.) International Bank of Qatar (IBQ) has not published end-2018 results (to be precise: it had not done so as Arab Banker went to press) even though it was a separate legal entity at that time. In last year's rankings, it appeared as number 50.

There are approximately 73 active commercial banks in the GCC. This number refers to banks that are licenced by their central banks it and does not include those that are licensed by 'offshore' or other non-central banking regulators, such as the Qatar Financial Centre Regulatory Authority or the Dubai Financial Services Authority. Banks licensed by these non-central banking entities have restrictions on the types of business that they may undertake. (Typically, they may not undertake retail banking business.) Our ranking of commercial banks does not include financial institutions whose business lies primarily in private equity investment, even if they hold a commercial banking license.

incorporated banks that are licensed by the Central Bank of the UAE. (Commercial Bank International is registered in Ras al-Khaimah but headquartered in Dubai.)

Bahrain Middle East Bank was suspended from the Bahrain Stock Exchange in November 2018, pending publication of financial results, and it remained suspended as *Arab Banker* was being prepared. At the request of the Central Bank of Bahrain, all Board members resigned, and a new Board was elected in early 2019.

GCC banks remain well capitalised by international standards, with all but two of the biggest 50 banks reporting total capital ratios in excess of 15%. (The other two had ratios of more than 14%.) Historically, GCC banks' capital funds have been composed almost solely of core capital – what Basel III calls Common Equity Tier 1. As a result, their published total capital ratios have been even stronger than they appear when compared to international banks, who have been issuing Additional Tier 1 or Tier 2 capital. However, issuance of Tier 1 capital notes or Tier 2 instruments has been increasing, especially in the UAE and Oman, and often by Islamic banks, who have found a way to issue Shari'ah-compliant Tier 1 sukuk. This increased capital flexibility should be seen as a strength and is a welcome development; but it does mean that analysis of GCC banks' capital ratios needs to become more careful, and a distinction made between CET 1, Tier 1 and Total Capital Ratios.

Against this positive background, merger activity has been dominating the news on Gulf banks in recent months.

Some of this merger activity has been driven by government-owned investment bodies consolidating their holdings. For example, the Abu Dhabi Investment Council held a majority stake in Abu Dhabi Commercial Bank and Union National Bank, and it held 100% of Al-Hilal Bank. Saudi Arabia's Public Investment Fund and the Saudi General Organisation for Social Security both hold significant stakes in many Saudi banks, including potential merger candidates National Commercial Bank and Riyad Bank.

But it would be a mistake to see GCC bank mergers solely in terms of government-driven transactions. The merger of Barwa Bank and International Bank of Qatar represents a sensible recognition that Qatar's economy, though large, is not large enough to enable ten commercial banks to operate effectively, especially given the dominant position of Qatar National Bank, and the ability of banks operating out of the Qatar Financial Centre to compete for corporate clients and high-value private banking.

The proposed merger of Oman Arab Bank and Shari'ah-compliant alizz has much of the same logic. In 2018, alizz reported its first net profit; but, after six years of operations, it is unrealistic to think that the bank will be able to achieve the scale needed to compete against the other eight domestic Omani banks, most of whom now have significant Shari'ah-compliant subsidiaries.

The most interesting merger being discussed is that of Bahrain's Ahli United Bank and Kuwait Finance House (KFH). This is the only cross-border merger being considered. Even the mergers in the UAE are confined within individual emirates.

KFH is one of the world's biggest Islamic banks, the second biggest bank in Kuwait, and it has long-standing operations in Turkey and Malaysia. Ahli United has a Middle Eastern network and a long-standing subsidiary in London. Geographically, the merger is an excellent fit.

Ahli United already has a presence in Kuwait through its majority ownership of Ahli United Bank (Kuwait), a Shari'ah-compliant bank. Forty-eight per cent of the bank's loan portfolio was based in Kuwait at the end of 2018. Ahli United's biggest shareholder is Kuwait's Public Institution for Social Security, with 19%.

Looking ahead, there is clearly scope for more merger activity in the GCC, particularly in Oman and Qatar, where a large number of banks remain despite a relatively small economy (in Oman) and a relatively small geography (in Qatar). Mergers seem unlikely in Kuwait, due to the desire of private-sector shareholders to retain their independence, although a merger of two medium-sized banks would be the only way to challenge the dominance of National Bank of Kuwait.

If political conditions stabilise in Syria and Iraq and, over the long-term, in Libya, the strategic focus of Gulf bankers is likely to extend beyond their home region to these shattered but potentially-rich economies. Banks that entered these markets early have little to show for their optimism, but they at least have a legal structure, in the form of branches or subsidiaries, that can quickly be scaled up when business opportunities emerge.

Looking beyond the Middle East, Arab banks have been reviewing their operations in Europe in advance of the UK's departure from the European Union ('Brexit'). London has historically been the main centre for European business and there have been no signs yet of London branches and subsidiaries being scaled back. However, operating a European network out of London is likely to become impractical after Brexit, even if regulators are able to agree some form of 'equivalence' arrangements. Several Arab Banks have already upgraded their Paris offices to take a wider regional role. In the years ahead, the diversity of Asia, with its growing population and modernising economies, will offer more opportunities for overseas expansion than a Europe beset with policy divisions and low growth. ■

Egypt receives warm reception from international investors

After two successful bond issues during the first half of 2019, the Government of Egypt is planning further capital-raising exercises in the months ahead, taking advantage of recent rating upgrades and the success of its IMF-sponsored economic reform programme.

Arab Banker spoke to Ghada El-Bialy, the Head of Treasury, Foreign Relations and International Financial Services at Egypt's biggest bank, National Bank of Egypt, to find out more about the Egyptian Government's issuance strategy.

Ghada El-Bialy

Ghada El-Bialy is National Bank of Egypt's Chief Executive Officer for Treasury, Foreign Relations and International Financial Services. She has held this post since November 2016. Since October 2018, she has also been in charge of the bank's Front Office Custody. She also provides support to the heads of NBE's branches and representative offices. Before joining NBE in 2013, Ms El-Bialy worked for Citibank in various positions.

National Bank of Egypt is a full-service commercial bank which is owned by Egypt's Ministry of Finance. It is the largest bank in Egypt, with assets of LE 1,543 bn and equity of LE 92 bn at the end of June 2018.

ARAB BANKER: Egypt has been active in international bond markets during the first half of 2019. How were its issues received?

GHADA EL-BIALY: Egypt tapped the international capital markets with a $4 bn issue in February 2019. The order book totalled $21.5 bn, making it five times oversubscribed. It attracted about 250 investors, of whom 46% came from Europe, 37% from North America, 13% from the Middle East and North Africa and 4% from Asia.

The issue comprised $750 mn in five-year bonds, with a yield of 6.2%, $1.75 bn of ten-year bonds with a yield of 7.6%, and $1.5 bn of 30-year bonds at 8.7%. The ten-year and 30-year bonds attracted the highest number of bids.

The high level of demand enabled the government to tighten the yield by about 40 basis points across all tranches during the book-building process.

The success of the February issue enabled the government to issue €2 bn during April. This was more than four times oversubscribed and attracted more than 450 investors. It comprised €750 mn for six years at 4.75%, and €1.25 bn for 12 years at 6.375%.

How do this year's issues fit into the broader pattern of debt issuance by Egypt in recent years?

After the 2011 events, Egypt first returned to international capital markets in June 2015 with a 144A/Reg S issue of ten-year bonds. The government sold $1.5 bn at a coupon of 5.875%.

The next issue was in 2017, through a $7 bn issue of five, ten and 30-year notes. In 2018, the government raised two issues. In February that year, it sold $4 bn in five, ten and 30-year bonds, and in April it issued its first Euro-denominated bond: €2 bn, with eight-year and 12-year maturities.

What are the Egyptian government's plans for new bond issues in the next two or three years?

According to the Ministry of Finance's Medium-Term Debt Management Strategy for the fiscal years 2018/19 to 2020/21, the plan is to issue bonds internationally in a range of $5 bn-$8 bn on an annual basis.

These issuances will be done under the two existing programmes: a Eurobond medium-term note (MTN) programme of up to $30 bn, and a Euro MTN programme of up to $12 bn.

How has Egypt's profile in international capital markets been changing?

The bond issuance programme needs to be seen in the broader context of Egypt's macro-economic development over the last few years.

Egypt had put together a very clear and ambitious reform strategy that began in November 2016 and was supported by the IMF through a three-year $12 bn Extended Fund Facility.

The successful implementation of prudent monetary and fiscal policy measures has resulted in an improvement in Egypt's macro-economic fundamentals.

We have seen a lot of positive developments: a better functioning of the foreign exchange markets, an increase in the foreign currency reserve levels, a higher GDP growth rate, a lower budget deficit and a reduction in debt/GDP ratios. Additionally, we have a stronger financial safety net that protects the most vulnerable citizens in our society.

The measures that we have taken have been recognised by the IMF, and our successful implementation has enabled the IMF to disburse all four financial tranches, totalling $10 bn, of the EFF on time.

With the continued improvement in macro-economic fundamentals on the back of the application of the policy reforms endorsed by the IMF, we have seen greater interest and commitment from the international financial community. This has been seen most obviously in the strong demand for government Eurobonds, and has also been evident in foreign investors' holdings of government treasuries. For example, foreign holdings of Egypt's T-bills rose to $17.4 bn in April 2019, compared to $10.74 bn in December 2018.

How have the rating agencies reacted to economic developments in Egypt?

The ratings have been on a clear upward path.

Standard and Poor's upgraded Egypt to B- in November 2013 and then to B in May 2018.

Moody's upgraded to B3 in April 2015 and B2 in April this year. Fitch upgraded to B in December 2015 and then to B+ in March this year.

Although the outlook on all three ratings is 'Stable' we are confident that over the medium term we will be able to move towards the BB rating range.

How important are bond issuances going to be in meeting Egypt's total funding needs in the years ahead?

Bond issuance will be one of the important sources of financing in the years ahead, but the government will continue to diversify. The government has made clear that it wants to lengthen the average tenor of its debt, so as to reduce refinancing risk. It will also work on diversifying the investor base.

Repeat issuance, and more varied tenors, also facilitate the creation of a yield curve that can be used to price future debt issues by Government-Related Entities and local companies, and set a pricing benchmark.

However, the government does not rely solely on Eurobond issuance to raise financing externally. Borrowing from multilateral institutions remains an alternative that could be used to diversify sources of financing and lower the cost of debt.

Who is responsible for debt-raising strategies?

Within the Ministry of Finance, Mr Ahmed Kouchouk is the Vice Minister of Finance for Fiscal Policies. He assumed his role in March 2016. He is a professional economist and policy advisor with more than 13 years of applied experience. Before assuming his current post, Mr Kouchouk worked for the World Bank from June 2013 to March 2016 as a Senior Economist based in Cairo.

Towards the end of last year Ms Yomna Akram Khattab was appointed Assistant Minister of Finance for fiscal policy. She was previously senior economist and deputy director of the macro-fiscal policy division at the Finance Ministry.

Mr Khaled Abdel Rahman overlooks the DMU unit in his capacity as the Deputy Minister of Finance for Capital Markets Operations. Mr Abdel Rahman joined the Ministry of Finance in early 2018 with a strong track record in the capital markets field.

The Macro-Fiscal Policy Unit and DMU coordinate in setting Egypt's debt-raising strategy covering domestic and external debt-financing needs which is ultimately approved by the Minister of Finance.

Additionally, the Ministry of Finance has put together a medium-term debt Management Strategy covering the fiscal years 2018/19 till 2020/21 with the aim of identifying the best strategy to manage debt in the medium term, while taking into consideration the government's debt-management goals.

Representatives from the Ministry of Finance, Central Bank of Egypt, Ministry of Investment and International Cooperation, in collaboration with the Prime Minister's office, set the debt strategy, aiming to reduce the country's debt-to-GDP ratio by 2022.

It is worth noting that the debt-to-GDP ratio fell to 97% in June 2018, down from 108% a year earlier. We know it has fallen further over the past months and we are expecting it to reach 80% by 2022.

Do you think there is scope to develop a corporate bond market in Egypt?

Yes, there is. Consistent, successful issuance by the Government of Egypt is creating a series of benchmarks that can be used by the corporate sector to price corporate bond issues.

There is definitely scope which is likely to develop as benchmark rates start easing, making corporate borrowing through bond issuance a cost-efficient option.

On the corporate side, since 2015, the fixed income market has been dominated by securitised bonds; but as interest rates drop, I would expect some local corporates to issue plain vanilla debt at rates which are both affordable for the issuer and attractive to the lenders. Our belief is that such issuances would attract foreign investors who are having growing confidence in the Egyptian economy and the government's commitment to reform. This is confirmed by their level of holding of Egyptian Treasuries.

What role has NBE been playing in the Egyptian government's debt programme and in the domestic corporate finance market?

National Bank of Egypt has played the role of co-lead manager in the majority of the sovereign issues that have come to the market since 2015. On the corporate finance side, NBE's corporate banking portfolio has been growing at a healthy pace over the past years, standing at LE 530 bn as at end of April 2019, with the corporate financing portfolio reaching roughly LE 400 bn. We have a market share of about 28% on the loans side and are targeting an annual growth rate of about 10%. On the syndication side, NBE plays a key role in the syndication market and has worked closely with major banks in arranging financing to clients in diversified sectors of the economy.

On the securitisation front, NBE has partnered with prominent financial institutions as financial advisor, arranger and underwriter on a number of key securitisation transactions in the areas of leasing, real estate and car loans since 2014. We have noticed increased demand for securitised bonds since early this year, with some larger deals in the pipeline. ■


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Ending on a high note: Egypt's economy strengthens as it nears the end of the IMF programme

As *Arab Banker* went to press, Egypt and the IMF were preparing to announce the successful conclusion of their three-year Extended Fund Facility. Our editor, Andrew Cunningham, considers what has been achieved over the past three years and looks ahead to the next chapter in Egypt's economic development.

When Egypt signed its Extended Fund Facility (EFF) with the IMF in November 2016, few believed that the government would be able to implement all the policy reforms that the Fund had set as a condition for disbursing $12 bn over the three-year life of the programme.

Yet with only weeks to go until the Fund's final programme review, Egypt has successfully implemented most of the policy measures that the IMF demanded, and the Fund's public statements are expressing confidence that all the programme's objectives are achievable before the Facility closes in November.

The 2016 agreement focussed on three areas: the exchange rate and monetary policy; structural reforms such as increasing transparency of state-owned enterprises, liberalising investment laws and improving competition; and fiscal policies such as reducing the budget and balance of payments deficits. The fiscal package also contained 'Social Protection' measures to alleviate the impact of higher fuel prices and new taxes through a system of more-targeted welfare payments for low-income families.

The programme's most striking policy measure was taken even before the EFF took effect. Just days before the agreement was signed in November 2016, the Central Bank of Egypt devalued the local currency by 100%. Since then it has remained stable at around 18 Egyptian pounds to the dollar.

The programme committed Egypt to eliminate subsidies on fuel products and then index their price to keep them in line with economic cost over the long term.

By early 2019, the average price of fuel in Egypt had reached 85% of its cost, and in March an automatic price-adjustment mechanism was introduced on the key Octane 95 gasoline. Indexation of other fuel types was introduced in June, with the first price adjustment taking effect in September (though it should be noted that not all 'price adjustment' decisions lead to price increases – the March price adjustment for Octane 95 was zero).

The impact of these policy changes on living standards was severe. The combination of higher import costs (due to the devaluation), implementation of a new Value Added Tax (which is charged at a higher rate than the sales tax which it replaced), and the slow reduction in fuel subsidies pushed headline inflation to more than 30% in 2017, with food-price inflation exceeding 40%.

In the absence of the popular protests which greeted similar economic restructuring programmes in the past, the Egyptian government was easily able to keep its nerve. Slippage in hitting the EFF's targets has arisen due to bureaucratic constraints rather than political cold feet. For example, the IMF attributed the delay in forming a working group on industrial land allocation to a cabinet reshuffle. The Fund also noted that the submission of a law to reform the Egyptian Competition Authority had occurred in January 2019 rather than in September 2018 – a bureaucratic delay, not a refusal to implement a previously-agreed measure.

The Fund's fourth review, whose results were published in April 2019, noted all performance measures except one (reducing public debt) had been met and that the objectives related to structural reforms (such as increasing the availability of land, and reforming the Competition Authority) were achievable before the programme's end.

Rating Upgrades

The broad improvement in Egypt's economic position has been endorsed by rating agencies Moody's and Fitch, both of which upgraded the country's sovereign rating earlier this year. Fitch moved first, raising its rating to B+ in March. Moody's followed in April raising its rating to B2. Standard and Poors had upgraded Egypt to B in May 2018. All three agencies have stable outlooks on their ratings, indicating that further upgrades are unlikely over the medium term.

Announcing its rating upgrade, Fitch forecast average inflation of 12% in 2019, declining current account and budgetary deficits, and a continuing reduction in wage and subsidy costs. Fitch noted that the Central Bank of Egypt's international reserves had increased to $42 bn at the end of 2018, which was nearly double the amount recorded two years before.

Egypt's economy has been helped over the past two years by higher transit fees from the Suez Canal, a rebound in tourism revenues, and gas production from Egypt's giant Zor field, which has reduced the foreign currency that the government has to spend on energy imports.

These three sources of revenue are considered particularly significant because they are indigenous to Egypt. "It's our own money, not money that someone else is lending us or giving us," was how one banker described it during an Arab Bankers Association mission to Egypt in late March.

Suez Canal revenues increased by 13% to $5.6bn in the year to 30 June 2018 and have remained around the same level since then. Tourism receipts were $9.8bn in the year to 30

Banks eager to engage once monetary conditions permit

Egypt's banks are hoping that two factors will enable them to increase lending to the private sector in the years ahead. The first is a resumption of business confidence: as economic conditions stabilise and improve, businesses are able to make plans to expand; and when businesses expand, they ask the banks for loans. The second factor will be a reduction in interest rates. The Central Bank reduced its Discount Rate by 1% to 16.25% in February as part of its strategy to achieve inflation of around 9% by the end of 2020 and further reductions are expected.

The banking system as a whole had a Tier 1 capital ratio of 13.2% at the end of December 2018, and a total capital ratio of 16.2%. This is well ahead of international standards and implies that Egyptian banks have plenty of spare capacity to make more loans to the private sector when the time is right. Yet the banks' ratios are flattered by their large holdings of their own government's treasury bills, which are zero-risk weighted when calculating risk-adjusted capital. The Basel Committee, which sets international capital standards, is preparing recommendations that would place positive risk weights on some sovereign exposures. If local currency exposures to home governments were to receive even a modest positive risk weight, capital ratios of banks in Egypt (and several other Middle Eastern countries) would fall significantly.

Profile of the Egyptian Banking System

Summary of Assets and Liabilities	End 2018	End 2018	End 2017	End 2016	End 2015
	$bn*	Billions of Egyptian Pounds			
Treasury bills	100.8	1,901.5	1,698.3	1,590.5	1,105.7
Loans to customers	96.2	1,814.6	1,463.4	1,300.2	791.5
Balances with banks in Egypt	62.0	1,169.5	1,023.3	723.5	363.9
Assets/Liabilities	288.1	5,432.7	4,813.3	3,962.6	2,485.5
Deposits	201.6	3,802.6	3,314.1	2,754.2	1,908.7
Capital and reserves	18.7	353.4	321.1	127.9	141.2
Direction of bank credit		**End 2018**	**End 2017**	**End 2016**	**End 2015**
		% of Loans to Customers			
Credit to government		31.4	25.5	22.8	12.7
Pvt sector local currency		51.4	52.0	47.5	64.4
Pvt sector foreign currency		17.1	22.5	29.7	22.9
Yeild on 91 day Treasury bill	**28/02/2019**	**28/06/2018**	**29/06/2017**	**30/06/2016**	**25/06/2015**
	17.66	19.36	20.38	13.96	12.25

** Exchange rate used: $1 = LE18.8581 Source: Central Bank of Egypt*

June 2018, more than double the figures for the two previous years and comparable to the levels seen prior to the army takeover in 2013.

Egypt's total budget revenues in the year to 30 June 2018 have been estimated by the IMF at $45bn, rising to $56bn for 2018/19.

The Egyptian government expresses commitment to continuing economic reform

There is little appetite in Cairo for a new IMF arrangement after November. Conditionality is the key constraint. The Egyptian government expresses its commitment to continuing economic reform, but it wants a free hand to decide the specific measures that it will address and the timescale over which they will be implemented. The result is that no one in Cairo is expecting a radical change in policy stance after November, but it is reasonable to assume that any sense of urgency to tackle unfinished IMF business will dissipate quickly once the fifth and final disbursement of $2 bn has been made. Privatisation of state-owned enterprises is likely to be the first casualty.

Looking ahead, the health of the Egyptian economy will be heavily dependent on factors that it cannot control. When investor sentiment turned against emerging markets in mid-2018, billions of dollars of portfolio investments left Egypt and forced yields on Treasury Bills 3%–4% higher.

Revenues from the Suez Canal are heavily dependent on the volumes of world trade – a reduction in Chinese exports would, on its own, result in a significant reduction in transit fees. Tourism receipts are hostage to the perceptions of personal safety not only in Egypt but in the region as a whole. Armed conflict between the US and Iran or a major terrorist incident in Cairo would quickly cut billions of dollars from the tourism revenues that Egypt is expecting in the next few years.

There is also a more fundamental question of how economic performance and prosperity will be affected by the increasing role that the army is playing in the economy. Some complain that the army's involvement in large construction projects, such as the planned new capital city to the east of Cairo, is reducing opportunities and profits for privately-owned enterprises; but others simply point to the new highways that have been built in recent years – often by the army – and argue that the ends justify the means.

There is no doubting that the Egyptian economy is far stronger today than it was three years ago, but the challenges that Egypt has faced for decades remain. Many of these are economic and budgetary, such as the need to spend scarce resources ensuring that the most vulnerable Egyptians are properly fed, clothed and able to stay warm in winter; or the constant strain of interest payments on domestic and foreign debt. Others are more fundamental, such as population growth that dilutes the impact of economic gains, and an education system that is unable to create the pre-conditions for an inclusive modern economy.

Only the most myopic of observers would argue that the successful conclusion of the IMF's Facility represents a turning point, but, equally, there is no doubting that it is a significant achievement that has enabled Egypt to move beyond the immediate economic and monetary threats that it faced in the years following the revolution of 2011, and to chart a more measured course for the years ahead. ■

Over-banked, but under-served: Iraq struggles to modernise its banking system

Iraq's efforts to build a modern banking system have been compromised by political instability, terrorist threats and economic volatility, but as conditions improve the time has come to reform and restructure the banking sector. Despite the challenges which banks are facing, there is considerable optimism among Iraqi bankers.

In the following pages we assess the current state and future prospects for Iraqi banks. First, our editor Andrew Cunningham, provides an overview of the size and structure of the Iraqi banking system, and then Christophe Michels of the Iraq Britain Business Council provides guidance on how businesses can engage with Iraqi banks. On pages 47–49 Ayşegül Özge Özgür, Head of Research at the Baghdad-based broker, Rabee Securities, brings us up to date on latest developments in the banking system.

Iraq is both over-banked and under-banked, depending on which statistics you use.

At the end of 2017, there were 69 banks in Iraq, which is roughly the same as the number of active commercial banks in all six GCC states combined. Yet, the GCC's population of 54 mn was nearly double that of Iraq. As for economic activity, the combined GDP of the six GCC states, at $1,342 bn – was seven times more than that of Iraq in 2017, according to the World Bank.

Saudi Arabia, with a population of 33 mn and a GDP of $687 bn seems to fulfil its citizens' banking needs with only 12 domestic banks and 16 branches of foreign banks.

One does have to be careful with such figures: a large economy that is based on oil and gas may require fewer banks than a smaller but more diverse economy that has a bigger population. For example, Kuwait's economy is more than three times bigger than Iraq's, but it has far fewer banks.

Care also has to be taken when comparing the size of different countries' banking systems, since aggregate figures inevitably involve some double-counting. This happens when one bank controls another bank and consolidates its subsidiary into its own financial statements.

However, even after taking account of this important qualification – which applies equally to both the GCC and to Iraq – the relative size of the banking systems is extraordinary, given that they have a roughly equal number of banks. The aggregate assets of all 69 Iraqi banks was $133 bn at the end of 2017, compared to about $2,100 bn for the GCC.

Despite their numbers, Iraq's banks have limited

penetration in the economy. Only 23% of Iraqis over the age of 15 have bank accounts, according to World Bank figures. That is one of the lowest percentages in the Middle East. The country remains heavily reliant on cash, with many people being paid wages, pensions or other benefits in cash – and often having to stand for hours in bank branches to get it.

Iraq licensed its first domestic banks in the 1930s and 1940s. All those were, and still are, state-owned. For years, Rafidain Bank, founded in 1941, dominated the banking scene. It remains the bank with the most branches and the most employees, according to Central Bank of Iraq figures, although Rashid Bank, founded in 1988 and also state-owned, is now twice its size.

Trade Bank of Iraq, which was created by the US authorities after their invasion of 2003 and initially managed by JPMorgan, is the third-biggest bank.

Together, these three account for 80% of banking assets, a little more than 40% of bank branches (nearly all of them belonging to Rashid and Rafidain) and nearly 60% of bank employees (again, nearly all at Rashid and Rafidain).

In the early 1990s, Saddam Husain's regime allowed the creation of 'private' banks. In practice they were owned by regime cronies – 'private' economic activity of any kind was something of a misnomer in a country where the regime's oversight penetrated into even the most obscure activities and transactions.

Forty-seven of Iraq's 69 banks have been licensed since the fall of the Saddam Husain regime in 2003. This includes all 19 foreign branches, but it also includes 17 Islamic banks, 11 of which were created in 2016.

Seven new domestic conventional private banks (as opposed to the Islamic private banks) have been licensed since 2003, and many of the older private banks have been completely restructured under new shareholders.

Licenses for foreign banks have increased steadily since 2015. At the end of 2017, ten of the 19 were from Lebanon, four were from Turkey, two from Iran and two from the GCC. One western bank, Standard Chartered, had a branch. Of course, some domestic Iraqi banks have overseas shareholders: National Bank of Iraq is majority-owned by Jordan's Capital Bank and Qatar National Bank owns Mansoor Bank.

Despite the difficulties that Iraqi banks have been facing, the number of new licences granted indicates that local investors see a banking license as something worth having.

In many cases, the value lies in being able to finance other business interests. Related party lending is rife in Iraq and is understandable, however inappropriate it may be in the context of corporate governance standards.

In a country where the legal system is slow and the ability to enforce a judgement is compromised by corruption and the presence of armed militias, banks only want to lend to people they know, and over whom they have some personal leverage. In that context, it may be difficult to get someone else's bank to lend to you; so you set up your own.

Rashid and Rafidain are focussed on public sector business and are a long way from developing a customer-focussed employee culture that can drive an expansion in private sector credit. Reform and restructuring of these two banks have been a perennial priority for the development agencies for over ten years.

Despite the enormous challenges that the banking system faces, there has been a feeling of optimism in the sector this year. This is part of the wider sense of relief that ISIS has been largely defeated, personal safety improved, and government control reasserted throughout the country. Rising oil prices and improved relations with Kurdistan over the transit of oil from northern Iraq are improving government liquidity and, with it, private sector prosperity. There is cautious optimism that the formation of a new government will lead to some economic development and the award of major contracts.

These domestic factors make the prospects for Iraqi banks better than they have been for many years. The biggest threat to the future development may lie in regional dynamics. Even without armed conflict between Iran and the US, Iraq's deepening economic ties with Iran will require the Central Bank to keep a watchful eye on some of the banks' activities. ■

Profile of the Iraqi banking system, End 2017*

	Number of banks	Assets ($mn)	Employees	Branches in Iraq	Avg. employees per bank	Avg. employees per branch
State-owned banks, of which	7	111,507	20,792	430	2,970	48
Rafidain Bank	*1*	*31,895*	*8,879*	*170*	*8,879*	*52*
Rashid Bank	*1*	*53,523*	*7,257*	*162*	*7,257*	*45*
Trade Bank of Iraq	*1*	*21,256*	*1,256*	*24*	*1,256*	*52*
Other state-owned banks	*4*	*4,832*	*3,400*	*74*	*850*	*46*
Privately owned domestic banks	43	18,690	9,110	368	212	25
Foreign banks	19	2,818	605	45	32	13
Total	**69**	**133,015**	**30,507**	**843**		

Source: Central Bank of Iraq Annual Report

Engaging with Iraq: strategies for success in a difficult market

The Iraq Britain Business Council has been working since 2009 to help companies and banks from around the world navigate the complexities of the Iraqi business environment. *Arab Banker* asked the Council's Managing Director, Christophe Michels, to describe the ways in which foreign firms can engage with the Iraqi financial system.

Christophe Michels has been helping companies win business in Iraq for more than ten years and he is realistic about the challenges that they face when it comes to developing relationships with the Iraqi banking system and for major projects looking for finance.

"The Iraqi banking system is developing quickly in some ways," he says, "But in others it remains rudimentary. Most obviously, the two big banks, Rashid and Rafidain, which dominate the local market, are focussed on government business and basic retail banking. There's been a lot of talk of restructuring and reforming these two banks, but for the moment, they are not looking outwards at the international business community."

He adds, "There are a lot of Iraqi banks, but most of them are not interested in dealing with foreign companies, so if you're going into Iraq as a business, large or small, it's important to find a bank that has the capability and the willingness to engage with overseas clients."

Trade Bank of Iraq (TBI) issues a lot of letters of credit and is an obvious place for foreign companies to go when they need payment services. JP Morgan established TBI shortly after the American invasion of 2003 and remains in a strong and active relationship with it, and the bank has always had an international focus.

Michels mentions two commercial banks in particular that he has been working with: National Bank of Iraq, which is owned by Capital Bank of Jordan, and International Islamic Bank, both of which are developing regional and international business.

In the past, many foreign companies have worked with banks in Kurdistan that have had national branch networks. The security situation has generally been less dangerous in Erbil than in the south and centre of Iraq, making it easier to interact with and visit a bank in Kurdistan than to deal with banks in Baghdad and Basra.

Michels is cautious about recommending such an approach. "If you are doing business in Kurdistan then working with a local bank makes sense, but if you need your Kurdish bank to provide services beyond Kurdistan you are going to be dependent on good political relations between Baghdad and Erbil. Those relationships are good right now, but they have not always been." Michels also warns that when the Kurdish government faced financial difficulties a few years ago, it temporarily froze the money in local banks.

Another route is to approach a foreign bank that has operations in Iraq. There are 19 foreign banks operating in Iraq, according to the Central Bank of Iraq figures, and these include all of the major Lebanese banks and some of the big Turkish banks. Standard Chartered Bank is the only European bank to be licensed as a foreign bank and it is focussed on serving its corporate clients outside Iraq who have business in the country.

The safest way to get to know the Iraqi business environment is to work with the International Oil Companies. "You will work under strong contracts and you know you will get paid," says Michels. "You'll get to see how business is done, and then you can branch out to work with local banks and financial institutions, and local companies."

Local lawyers, accountants and even security firms can provide helpful information on which banks to deal with. Michels stresses the importance of assessing the public profile and reputation of the Chairman of a bank, or its CEO. "In this market, reputation is extremely important," he says. "The real value of a bank or a business lies in its reputation more than its balance sheet."

There are a few things to be careful of. Michels warns firms selling to Iraq not to deliver goods before getting payment, and to beware of fake 'Letters of Credit' supposedly issued by Iraqi government ministries. The best approach is to sell goods at the factory gate, or deliver to a UK port or airport, or maybe Dubai or Amman, for onward transit to Iraq, and to get paid before the goods are dispatched.

Despite the difficulties of working in Iraq, many British and European firms are conducting profitable business there. "We supported a UK Department for International Trade (DIT) roadshow about Iraq in Birmingham, Leeds, Manchester, Belfast and Glasgow and we found that a lot of the engineering firms and specialist product suppliers were already in Iraq, sometimes doing business well outside the major cities of Baghdad and Basra."

UK Export Finance is supporting £1 bn of bank lending for Iraqi government projects – that is, projects which have been specifically named in the state Budget and which are therefore assured of state funding. The DIT has recently strengthened its presence in the British Embassy in Baghdad and the FCO from Ambassador downwards has a business promotion mandate.

"It's not just about 'potential'," says Michels, "although the potential is of course huge: Iraq produces approximately 4.6 mn b/d, exports around 3.8 mn b/d and has the third-largest oil reserves in the world; and it has a population of 42 mn comprising a largely middle class and consuming cohesive national workforce growing at the rate of a million people per year. A scheme to bring 800 Iraqi students to the UK to study for Masters Degrees or Doctorates will begin later this year.

"Iraq has huge needs – not just consumer goods but also education and medical services," he says. "There are a lot of signs that Iraqis are getting richer and have more disposable income – Kareem, a ride-hailing service like Uber, is expanding, and there is a huge increase in delivery services, very much like we've been seeing in the UK with companies such as Deliveroo."

The poor quality of the state education system is pushing middle class Iraqis to send their children to private schools where they will be taught in English, and the poor quality of the state medical services is resulting in a boom in private medical facilities.

Some new transportation infrastructure has been built, such as the new private airport in Najaf which is servicing the Shi'ite pilgrim trade and of course one should not forget the post-war reconstruction requirements estimated at something in the order of $100 bn, plus remedying the huge electricity deficit across the country and the need to supply clean drinking water and sanitation systems again across the whole country.

The Iraq Britain Business Council

The Iraq Britain Business Council (IBBC) is a member-based non-profit organisation that connects business, trade and investment from the UK, Iraq and international companies, for the benefit of the Republic of Iraq and its members. In addition to an active programme of events, the Council also offers advice to firms navigating the Iraqi business environment and assistance when contractual disputes occur or there are problems with payments.

Christophe Michels is IBBC's Managing Director. He previously worked in the European Parliament in the political office of Baroness Nicholson and was heavily involved in the activities of the Parliament's Foreign Affairs Committee.

Central Bank of Iraq leads reform of the banking system with raft of new measures

Iraqi banks have faced enormous challenges in recent years, but an improved security situation, a new government and rising oil prices are enabling them to think more positively about the future. Furthermore, the Central Bank of Iraq (CBI) has been taking a wide range of initiatives to strengthen the banking sector, encourage banks to grant credit and support the growth of the economy, and increase the role of banks in daily transactions.

Arab Banker asked Ayşegül Özge Özgür, Senior Vice President and Head of Research at Baghdad-based Rabee Securities, to bring us up to date with latest developments.

***ARAB BANKER:* What type of business do Iraqi banks do?**

AYŞEGÜL ÖZGE ÖZGÜR: This is a very important question right now, because the way in which Iraqi banks make money is changing.

Some Iraqi banks made a lot of money from the foreign-exchange trade – buying dollars from the Central Bank of Iraq (CBI) and then selling them in the open market – but the spread between that official buying rate and the open-market selling rate has shrunk from 6.2% in early 2018 to a little over 1% in early 2019. As a result, those banks who were reliant on that type of business have seen their profits fall.

However, not all banks were reliant on arbitraging the foreign exchange rate. Most of the private banks have been making money mainly from money transfers and letters of credit and guarantee, as well as from investing in local treasury instruments and depositing money in CBI facilities. The banks also started to invest in international bonds issued by Iraq.

The three big state-owned banks, Rafidain, Rasheed and Trade Bank of Iraq (TBI) handle government business. State institutions, such as ministries and state-owned companies, can only deal with state-owned banks: state institutions are forbidden from placing deposits with the private banks or receiving loans from private banks. Bear in mind that in Iraq most of the big industries and companies are held by the government, and government spending accounts for a huge amount of liquidity in the economy. This is a huge benefit to the state-owned banks, and a big impediment for private banks that want to expand and develop new business.

Due to the importance of government spending and state-owned industries in Iraq, Rafidain, Rasheed and TBI accounted for 73% of all disbursed credit in Iraq at the end of 2017 (39% for Rafidain, 15% for Rasheed and 19% for TBI). TBI accounted for 61% of letters of credit and letters of guarantee, and Rafidain accounted for 7%. Rasheed's share of this business was minimal.

It is important to remember that 90% of Iraqi currency circulates outside the banking system. Iraq is a heavily cash-based economy, and this is hampering the development of the banking system. It is fair to say that there is a low level of trust in banks among the Iraqi population. In some areas, the security situation still makes it difficult for people to get to bank branches or even ATMs, and on-line banking is not well developed. As a result, almost all payments are done in cash, including government salary payments, tax and custom payments.

What can be done to reduce the volumes of cash circulating outside the banking system?

The CBI is working on three levels to solve this problem.

First, in October 2017, the CBI began a project that entails paying the salaries of state employees through banks rather than in cash. They are even allowing private banks to be part of this scheme to pay the salaries of public employees. The CBI's aim is to have three million employees being paid in this way within three years of the start of the project. By the summer of 2019, 600,000 state employees had been enrolled into the system.

Payments to government employees – salaries, pensions and social security payments – are budgeted at $52 bn in 2019, which is about half of the total government budget. So, moving a large proportion of state employees to a cashless payment system will have a big impact on the level of cash circulating in the economy and, correspondingly, to the level of deposits in the banking system. However, I would add that we at Rabee Securities have done some calculations and we believe that the number of bank branches and ATMs in the country will have to increase for this target of three million to be practicable.

The second CBI initiative is to develop electronic payment channels for tax and customs payments. The immigration, traffic and electricity ministries will be the first to use this new system, and then it will be extended to others. This again will have a big impact on the amount of cash in circulation and the level of bank deposits.

The third initiative is called the 'traveller card project'. The CBI has noted that 20% of the foreign currency demand at its foreign exchange auctions is for travellers' funds. (The other 80% is for imports.) The CBI therefore plans to provide travellers with a card, onto which dollars will be loaded, up to a maximum amount.

Ayşegül Özge Özgür

After graduating from the Economics Department of Marmara University in Turkey in 2006, Ms. Özgür worked in the research department of the Istanbul-based brokerage house Alternative Investment, and afterwards at Fortis Securities. She joined Rabee in 2009 to head the Research Department. She holds an advanced-level Capital Markets Board licence awarded by the financial regulatory and supervisory agency of Turkey, SPK, and a Master of Science in Finance degree from Koç University in Turkey.

Rabee Securities is licensed and regulated as a Securities Brokerage Company by the Iraq Stock Exchange and is one of the premier Iraqi brokerage houses.

Furthermore, on 3 July the CBI announced the creation of a Deposit Guarantee Company that will cover 100% of deposits up to a value of IQD 25 mn (about $21,000) and then partial coverage on a sliding scale up to IQD 150 mn (about $125,000). Nearly all conventional banks, both private and state-owned, have signed up to the Deposit Guarantee Company, as have the branches of foreign banks. The next phase will entail bringing the Islamic banks into the Company.

It is also worth mentioning that the central bank is planning to develop an interbank foreign exchange market using a Reuters system. Initially, ten local banks will participate in the scheme, and some international banks. Through this system, banks will be able to trade foreign exchange electronically among themselves.

How can Iraqi banks be persuaded to lend more money to the private sector?

Iraqi banks have had a lot of bad experiences lending both to retail and corporate customers. There is no credit bureau in Iraq, so there is no formal system for checking people's payment history. The legal system works very slowly if a bank takes a debtor to court. As a result, banks tend to lend only to big corporate clients and to individuals within those corporate clients. They also mitigate their high risk by charging high rates of interest. For example, in March 2019, the average interest rate on short-term bank loans was 12.5%, even though inflation was running at 1.4%.

However, the CBI is taking some initiatives to make it easier for banks to lend to the private sector.

First of all, there are now plans to create a Credit Bureau that will keep records of customers' loans and repayments. To complement this, the Ministry of Justice is trying to develop the legal system in a way that will make it easier for banks to recover unpaid debts.

The CBI is also trying to encourage banks to keep their money in Iraq. The first step came in February this year, when the CBI began to offer US-dollar deposit facilities and issue US-dollar treasury bills, as a way of giving banks an alternative to placing their money abroad. The central bank is currently offering 90-day, 180-day and 365-day bills.

Then, on 12 June, the CBI introduced measures to limit banks' investments outside Iraq. Under the new rules, banks will not be allowed to place more than 20% of their total capital and reserves outside Iraq, or 30% of their foreign currency deposits.

On 8 July, the CBI announced that it was increasing to IQ 5.0 bn (about $4.1 mn) the ceiling for loans to small and medium-sized enterprises (SMEs) under an existing programme, whereby CBI funds are disbursed through commercial banks to SMEs. The banks are responsible for repayment of the loans, and they keep the interest paid by customers. The programme began in May 2015, with IQ 1,000 bn (about $840 mn) allocated for financing SMEs in Iraq. However, in the first four years of the programme only about IQD100 bn was actually disbursed.

By increasing the ceiling, the CBI hopes to increase the number of viable projects that become eligible for funding under the programme. The CBI's July announcement also broadened the range of sectors that may be included under the programme. Effectively, loans may be extended to companies in any sector except the housing sector.

Iraq has a lot of small banks. Do you think we will see mergers in the banking sector?

One reason why there are so many small banks is that, a few years ago, a lot of money-transfer companies converted into Islamic banks. The CBI believed that the money-transfer companies were manipulating the foreign exchange market and wanted to be able to regulate them: so the CBI encouraged this process of conversion to banks.

A few years ago, the CBI tried to encourage bank mergers by raising the minimum capital requirement for banks to IQD 250 bn (about $210 mn). Many banks had capital levels below IQD 250 bn, but most of them were able to meet the new requirement without resorting to bank mergers. A few banks still have capital below the new requirement, but they are being allowed to continue operating.

The culture of shareholders and managers in Iraq is quite antithetical to mergers. Shareholders and managers want to be able to control 'their' bank and they do not want to have their positions diluted by mergers – it is a common problem in emerging-market banking systems.

What is being done to strengthen Rasheed and Rafidain banks?

Reform of these two big banks has been part of the financial-policy agenda for many years, and bodies such as the World Bank have been keen to help. However, progress has been slow. The biggest problem that the two banks face is that they do not have a core banking system that connects all of the branches electronically with the head office and among themselves. Rafidain is due to start installing a core banking system before the end of 2019, starting with a pilot project with one of its branches; but it might take four years to bring all of the bank's branches into the system. Rasheed Bank has not announced any plans to install a core banking system.

What is being done to increase the transparency of banks' financial statements?

One of the big problems here is the recognition of non-performing loans. According to official figures, about 11% of bank loans are past due or doubtful. That is a high percentage, but it is likely that the true percentage of loans that are unlikely to be repaid is even higher.

One problem has been that many of the credit facilities that banks extend do not have regular re-payment schedules, so customers do not get into the habit of making regular repayments. The CBI is hoping to address this problem by getting banks to collect interest payments on a monthly or quarterly basis, and so introduce some payment discipline among customers, and give banks earlier notice that a customer is facing difficulties.

The CBI has been trying to get banks to present their annual financial results using International Financial Reporting Standards (IFRS). In principle, banks should have been reporting under IFRS since 2016.

The CBI has required banks to apply IFRS 9 from the start of 2019. Implementation of IFRS 9 forces banks to take a realistic, long-term view of likely losses on their loan portfolio. Conversion to IFRS 9 is a major task and the CBI is expected to show some flexibility on the timing, but when banks do convert, their balance sheets should become more transparent.

The CBI is also tightening up auditing procedures. The large international auditing firms have until early 2020 to get a licence if they want to continue operating in Iraq. The CBI is planning to require banks to be audited both by an international firm and by a local firm. We expect this will make the banks' published financial statements more reliable. ■

Payment cards, financial inclusion and the changing face of banking: an interview with Marwan Kaddoura of CSCBank

Many countries in the Middle East, and in emerging markets more generally, have depressingly low levels of financial inclusion, and bringing the poorest sectors of society into the official financial system is a top policy aim for politicians and regulators. Historically, policy initiatives have focused on increasing the proportion of the population that has a bank account, but increasingly attention is being given to digital and technological solutions that circumvent the traditional banking system.

CSCBank is a Beirut-based bank that is pioneering payment technology in both emerging and developed markets. *Arab Banker* asked CSC's Chairman, Marwan Kaddoura, to explain the role that payment cards can play to increase financial inclusion in emerging markets, and to comment on broader trends that will shape the payment market in the years ahead.

***ARAB BANKER:* What type of organisation is CSC? Are you a bank or a payment provider?**

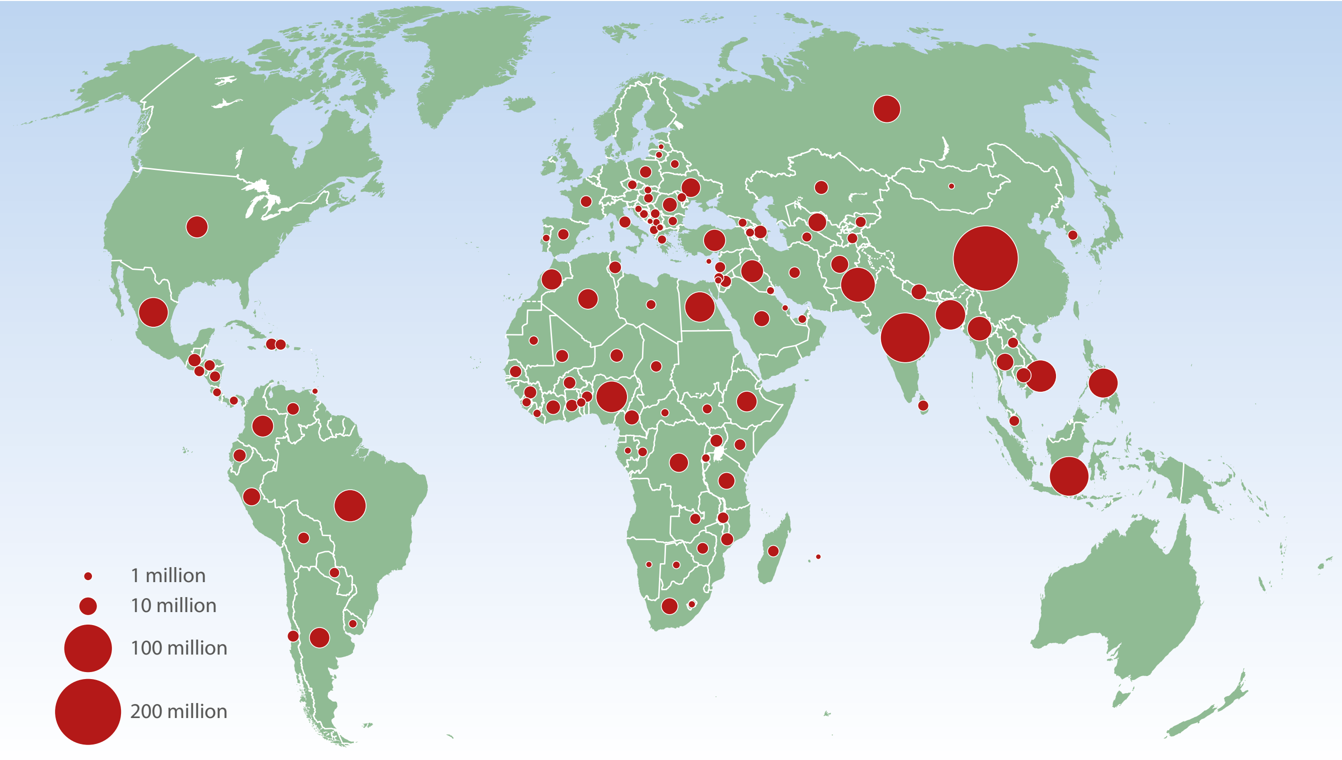
MARWAN KADDOURA: We are a specialised bank that was incorporated in 1992 with the intention of servicing the card needs of banks in an efficient, dedicated and cost-effective manner. In a way, CSC is a hybrid between a regulated financial institution and a Payment Service Provider (PSP). We are regulated by the Central Bank of Lebanon, Lebanon's Banking Control Commission and Lebanon's Special Investigation Committee.

CSC offers financial institutions a turnkey solution that spans the entire electronic business spectrum, including issuing and managing payment cards; driving, monitoring and switching of ATMs; face-to-face merchant acquiring and management (including the driving of the Point Of Sale devices); web-based transactions and secure e-commerce acquiring; and mobile payment solutions. Our service offerings go beyond what conventional PSPs usually offer their clients because we have an 'A-to-Z' approach that is adapted to provide medium-to-small-sized banks the opportunity to fully outsource their payments business.

How can companies such as CSC contribute to financial inclusion in developing economies?

Traditional banking can be very expensive, both for banks and for customers, in developing economies. For banks, it is not only a question of the cost of setting up brick-and-mortar branches, but also the challenges presented by poor infrastructure such as electricity and road networks. These factors have deterred banks from pursuing a financial-inclusion agenda that targets rural areas and low-wage clients. Customers face similar problems. Unreliable roads and public transport discourage people from engaging with physical bank branches.

Two-thirds of unbanked adults have a mobile phone. Red dots indicate adults without an account who do have a mobile phoine



Source: The Global Findex Index. World Bank Group. Data is not displayed where the share of adults without an account is 5% or less.

Technology offers a solution for both banks and customers. Even in remote regions, many people use mobile phones and have access to basic technologies such as television. This can be harnessed by both the bank and the customer to bring the customer into the formal banking sector.

Ever since inception, CSC has always been a strong advocate of financial inclusion in developing economies, both in terms of helping financial institutions improve their understanding of financial products (which has been positively correlated with financial inclusion through various economic research) and in terms of providing unbanked individuals with payment products and tools through CSC's client banks. CSC has partnered with over 100 local banks in over 30 jurisdictions covering the geographic area from Afghanistan in the east to the United Kingdom in the west and as far south as Zimbabwe.

CSC played a major role in introducing cards into Lebanon, a country now considered among the regional leaders in financial services and with very high rates of financial inclusion. Regionally and internationally, CSC, in partnership with its local client banks, was an innovator in introducing the concept of cards and card acceptance (ATMs and POS machines) to the mass market. Cards act as a simple and effective method of solving the difficulties of possessing a trusted method of payment other than cash, and they relieve users of burdens such as travelling with large sums of cash on their person and the inability to conduct online purchasing. With the introduction of ATMs, POS devices and e-commerce capabilities, CSC has also been helping banks find ways to meet their customers' needs that are cheaper than opening fully-operational physical branches.

We are currently developing several web and mobile applications based on solutions that should also prove to be a major addition to our product offering, for example by reducing the costs for merchants who offer card services.

Who are the partners that you work with when you are developing payment services in emerging markets?

When developing payment services for a specific market our main partners are the card associations (such as Visa and Mastercard) and the local banks in the country concerned.

Usually, the card associations provide us with the structural framework through which issuing (cards) and acquiring (ATM, POS and e-commerce) products will be presented to the market, especially in terms of associated costs and services provided. Local banks also play a vital role in this exercise, since it is the banks that provide the first-hand insight into market needs and requirements, such as local licencing, local knowledge and marketing. After the general white-label product and services are set, each bank can then bring its individual touch to create niches for their clients.

How do you see payment cards and digital wallets developing in the years ahead? What's the 'next big thing'?

Throughout the years, global trends in the payments industry have been moving away from the orthodox payment methods, namely plastic cards, towards a 'card-less' environment. Card associations such as Visa and Mastercard have been pushing their research and development teams to come up with products and services that can keep up with trends such as increased activity on social media, online shopping and online games on the one hand, and the technological innovations witnessed in smartphones and telecommunications on the other.

One of these developments is the Host Card Emulation Service or simply HCE. With HCE, a card user will have the ability to digitise their payment cards on a downloaded payment application on their smartphones, enabling them to effect quick and secure payments on any contactless POS terminal.

Another development, which has been around for some time, is virtual cards. Simply put, virtual cards are online cards that are not physically issued and are solely used for non-cash, non-face-to-face transactions such as online payments.

Looking at the industry further ahead, I believe that the 'next big thing' will be when we include all the citizens of the world in a seamless, user-friendly, interconnected global payments network that enables them to perform all their financial transactions through a single network from the comfort of their own home (or even their car!). Let's remember that cash is on the road to extinction!

What role do you think the big technology companies, such as Apple, Google and Alibaba, will play in the payment market in the years ahead?

Big technology companies such as Apple, Google and Alibaba have revolutionised the means of doing business in their own industries. These companies have had their share of success in penetrating the payment services industry, but their success has always been confined to a certain geographical area, social demographic or a limited period of time. In terms of the payments market, these companies have yet to have the 'landslide' success that companies such as Visa and Mastercard have had in recent decades.

The threat from such companies competing in the payments market is always present, but one must not forget that the existing players in the industry have years of experience and are themselves constantly changing – and are backed up by billions of dollars of investment in research and development. Nonetheless, it is clear that that the big technology companies are here to stay when it comes to the payment market, and they are playing a vital role in keeping companies such as Visa and Mastercard on high alert, especially on the product development side.

The best-case scenario for the big technology companies to grow exponentially in this field would be to join forces with the major payment service giants, rather than trying to make it on their own. I believe that if this happens, customers will reap the benefits in terms of a globally-linked, highly-developed payment medium. ■

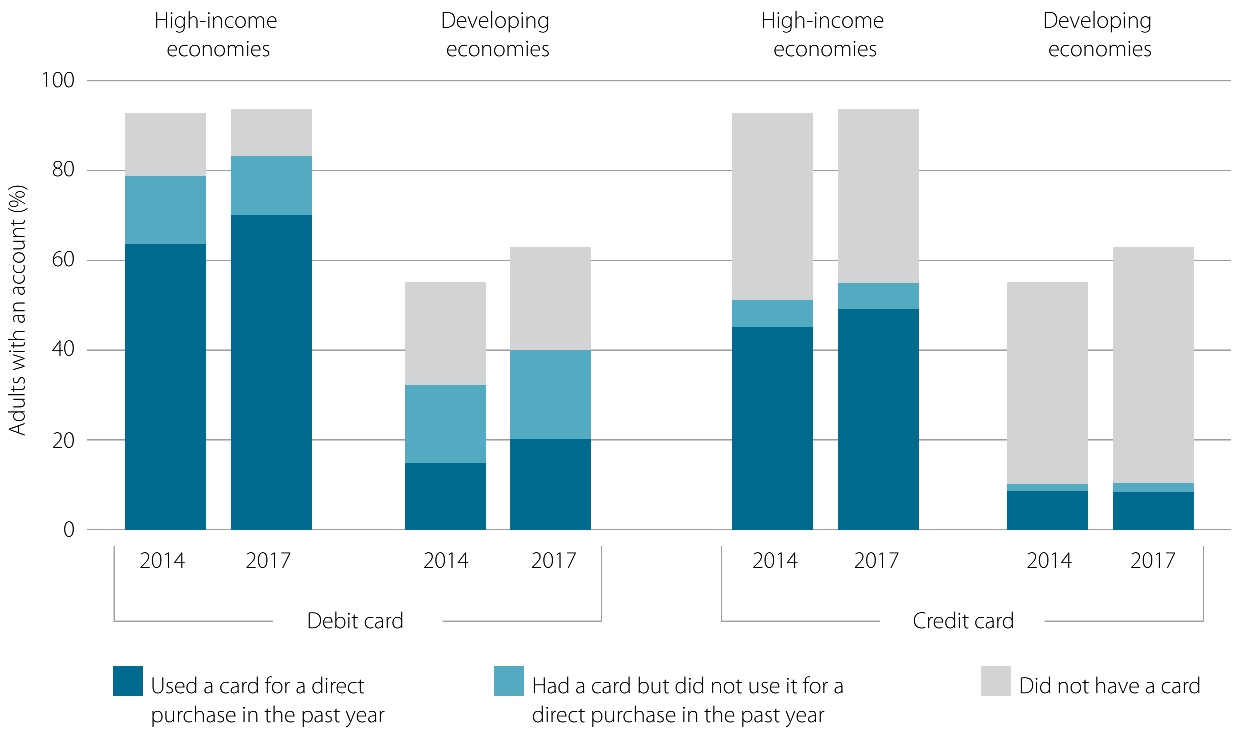
Marwan Kaddoura

Marwan Kaddoura is the Founder, Chairman and CEO of CSCBank SAL in Beirut, which he incorporated in 1992. Between 1997 and 2001, Mr. Kaddoura served as Board Member of MasterCard Worldwide (Middle East & Africa Region) and he also served on the Fraud Advisory Council to the Global Board of Directors of MasterCard International between 2005 and 2009. Since 1993, Mr. Kaddoura has also founded and/or served on the boards of various start-up companies in the Middle East and in the United States involved in the fields of investment banking, real estate development and construction, as well as in the fields of wireless data transmission, Internet services and Voice-over Internet Protocols.

CSCBank SAL has more than 25 years' experience, employs around 350 dedicated employees, and uses state-of-the-art technology. The firm is considered a regional leader in the card and electronic payment processing industry, with operations in more than 30 countries in the Middle East, Africa and Europe.

CSC is a principal member of MasterCard International, Visa International Inc., JCB and UnionPay International, with authorisation both to issue and to acquire these brands. In addition, CSC also acquires Amex, Diners, Discover and AFFN.

Debit card ownership and use have grown in developing economies, though slowly



Source: The Global Findex Index. World Bank Group.

Algeria's banking system struggles in the face of political upheavals

Six months after a series of demonstrations on the streets of Algeria forced the resignation of former President Bouteflika, the country remains in crisis. Some of Algeria's most prominent politicians and businessmen have been arrested, opposition groups struggle to present a unified front, and economic activity is slowing. Meanwhile, the army, led by General Gaid Saleh, monitors and tries to direct events from above.

Algeria's archaic banking and financial system is not well placed to cope with this upheaval and uncertainty. In the following article, *Arab Banker's* Editor, Andrew Cunningham, presents a profile of the Algerian banking system and considers the challenges that it will face if the political crisis continues.

According to official figures, Algeria's banks are well placed to cope with the political upheavals that began in February this year and look set to continue well after this edition of *Arab Banke*r is published.

Across the system as a whole, capital adequacy ratios averaged nearly 20%, of which about 16% was Tier 1. Return on assets was running at 2–3% and return on equity around 18%. The public-sector banks were showing non-performing loan (NPL) ratios of 13% and the private banks were showing 8%. Those are high NPL ratios, but the picture improves when provisions and the high levels of capital are taken into account.

Furthermore, those estimates, which come from the Banque d'Algérie (the central bank), are for 2017, three years after the Algerian economy had begun to slow down in response to lower oil and gas prices.

However, it would be unwise to take those official figures at face value. In economies such as Algeria's, NPLs are routinely understated, especially when they are due from public-sector companies; and loans to the public sector account for about 50% of all loans made by banks. (See Table 1.)

Equity-to-net loan ratios provide some perspective on this issue: if Banque Extérieure d'Algérie and Crédit Populaire d'Algérie were understating their NPLs by 12% at the end of

Table 1: Agregate balance sheet indicators of deposit taking banks, 2014–September 2018

In Billions of Algerian Dinars	Sep 18	End 2017	End 2016	End 2015	End 2014
Assets	15,362.4	14,098.4	12,881.0	12,506.7	11,976.4
Credit to domestic private sector	*4,861.9*	*4,565.5*	*3,954.5*	*3,586.1*	*3,119.7*
Credit to state-owned companies (non-financial)	*4,769.5*	*4,153.6*	*3,794.5*	*3,530.2*	*3,224.6*
*Placements with Government**	*2,057.4*	*2,105.8*	*2,641.8*	*1,929.9*	*1,472.0*
Deposits from demestic private sector	5,483.8	5,121.7	4,884.2	4,667.3	4,376.3
Deposits from the public sector	3,945.6	3,448.2	2,741.4	3,037.6	3,197.9
Capital and reserves	1,161.1	1,059.9	963.4	863.9	744.4
Memo item: Assets in $bn, using end of period exchange rate	133.7	122.7	112.1	108.9	104.2

** includes government bonds, placements with the Treasury, and other placements*
Source: Banque d'Algérie, Bulletin Statistique Trimestriel

2017 then, with realistic accounting treatment, they would not be able to show any capital funds. The equivalent figure for Banque Nationale d'Algérie was 13.6%. (See Table 2.)

Looking beyond NPLs, capital ratios of Algerian banks are flattered by the zero risk weighting that is applied to government-related entities. Although consistent with current international standards – and routine practice in emerging markets – such zero risk weights hardly reflect the true likelihood that interest and principal will be repaid on the due dates.

The sharp fall in oil prices, which began in the second half of 2014, greatly reduced the Algerian government's revenues. Hydrocarbon revenues (which include sales of gas, whose price is linked to that of oil) halved from 2014 to 2016. Initially, the government relied on exchange rate depreciation, and on the drawdown of financial reserves that had reached high levels during the previous years of high oil prices; but as reserves dwindled, the government changed course and moved to stimulate the economy through increased spending that was funded by monetary operations. Simply put, during 2017 the Banque d'Algérie paid dividends to the government, and when that became untenable it lent money to the government.

By early 2017, the Oil Stabilisation Fund (which accumulates funds during good times with the aim of using them during bad times) had been run down to zero, having stood at $56bn at the end of 2014. International reserves had been cut in half, although at around $80 bn at the end of 2018 they were still equivalent to 16 months of imports, according to IMF figures.

It is in this uncertain fiscal and budgetary environment that Algerian banks have faced the political upheavals that began in February with protests against the candidacy of President Bouteflika in the elections that had been scheduled for 18 April.

Bouteflika's candidacy was withdrawn on 11 March and his office announced that he would resign the Presidency by 28 April. In late May, Presidential elections that had been rescheduled to 4 July were postponed *sine die* by the Constitutional Council. As *Arab Banker* was going to press, Abdel Kader Bensaleh remained in place as a caretaker President, and Nouredin Bedoui the caretaker Prime Minister.

Throughout the summer, senior officials from the Bouteflika era and prominent businessmen were arrested as army and security forces fought for influence and settled old scores and grievances.

Those arrested and temporarily detained included the former President's younger brother, Said, who had been *de facto* ruler in recent years; and two former heads of the Direction du Renseignement et de la Sécurité (DRS – the internal intelligence service): Tewfiq Mediene; and the man who controversially replaced him in 2015, Bachir Tartag.

Two former Prime Ministers, Ahmed Ouyahia and Abdel Malik Sellal, and eight former cabinet ministers were arrested, along with Issad Rebrab, reputed to be Algeria's richest man, and Ali Haddad, the former head of the Algerian Business Leaders' Forum and owner of one of the country's biggest construction firms.

Table 2: Key financial figures for leading Algerian banks: end-2017*

$ mn	Banque Extérieure d'Algérie	Banque Nationale d'Algérie	Crédit Populaire d'Algérie
Assets	27,244	24,683	16,776
Loans to clients	15,930	14,155	10,528
Deposits from clients	21,877	16,007	11,615
Capital and reserves	1,905	1,925	1,261
Net profit	501	262	287
Capital and reserves % assets (unweighted)	7.0	7.8	7.5
Capital and reserves % net loans to clients	12.0	13.6	12.0

** Recent figures for Algerian banks are hard to find from publicly available information, such as banks' own websites. The three banks cited here were the only large local banks to have published their 2017 financial statements on their websites at the time this article was being prepared. Original figures in Algerian Dirhams have been converted to US$ at the end-2017 exchange rate: $1 = AD 114.6*

Financial soundness indicators of Algerian banks, preliminary for 2017*

Total capital ratio	
Public banks	19.8
Private Banks	18.7
NPLs/Total loans	
Public banks	12.9
Private Banks	7.9
NPLs net of provisions/regulatory capital	
Public banks	38.2
Private banks	16.2
Return on assets	
Public banks	1.9
Private Banks	2.6
Return on equity	
Public banks	18.7
Private Banks	14.7

** Source: Bank of Algeria, cited in IMF Article IV report, July 2018*

In June, local press reported that Aboud Achour, the head of Banque Nationale d'Algérie and of the Association of Banks and Financial Institutions, had been taken into detention alongside Omar Boudib, the former head of Crédit Populaire d'Algérie.

Boudib was reportedly investigated for extending loans "without due care" and for abuse of power. Such charges have implications for the future of Algeria's banking system that go beyond the high-level political vendettas that were being played out over the summer.

If bankers are afraid that their credit decisions will be used by political rivals to frame charges against them, they will stop lending.

It is hard to doubt that some loans made by banks, and particularly by state-owned banks, to those close to the Bouteflika regime were not made with the sole intention of financing business activities and stimulating economic growth; but business does depend on credit and working capital facilities, and when banks do not lend, economic activity stagnates.

In the short term, credit demand is likely to be subdued as businesses postpone investment decisions, but over the medium term, bank lending will be essential to re-start economic activity.

The longer-term issue is that of the modernisation of the banking sector. State-owned banks dominate the system: at the end of 2017, they accounted for 99.8% of loans to the public sector and 74.5% of loans to the private sector, according to IMF figures. These banks are essentially arms of the government and are used to fund government projects. Commitment to the broader community – ordinary Algerians who want to deposit money, borrow to buy a car or a house – is not part of their ethos, and as other emerging market banking systems have shown, that is something that takes many years to change.

The private banks provide better service – both to corporate and to retail clients – but they are focussed on the most profitable customer segments and are hemmed in by regulations that favour the state-owned banks.

Some progress has been made. Steps have been taken to improve governance at the state-owned banks, although the practical effects of this are hard to discern. Banque d'Algérie has strengthened banking supervision and required banks to conform to the Basel II standards.

Once a new political regime is established in Algeria, it will have to decide whether it wishes to maintain a banking system that exists to finance government projects or whether it wants to create a more open and competitive banking system that can stimulate private-sector growth, including small and medium-sized enterprises, and improve the lives of ordinary Algerians by enabling them to conduct their financial transactions efficiently and quickly.

For decades, Algeria has been ruled by a group of people whose instincts have always been to retain control of economic activity, to take advantage of cyclical phases of high oil and gas revenue to boost spending and reserves, and to use political and security institutions to depress popular dissatisfaction during times of economic strain.

If Algeria is to move beyond this model, a radically different group of leaders will have to emerge from the current upheavals. Whether that will happen is unlikely to be known for some time. ■

Banks listed on the website of Banque d'Algérie, July 2019

State-owned banks
Banque Extérieure d'Algérie
Banque Nationale d'Algérie
Banque de l'Agriculture et du Développement Rural
Banque de Développement Local
Crédit Populaire d'Algérie
Caisse Nationale d'Epargne et de Prévoyance

Foreign banks
Banque Al Baraka
Arab Banking Corporation
Natixis
Société Générale
BNP Paribas
Trust Bank
Gulf Bank
The Housing Bank for Trade and Finance
Fransabank
Crédit Agricole Corporate & Investissement Bank
Al Salam Bank

Foreign branches
Arab Bank Algeria
Citibank Algeria
HSBC

Interpreting the present and looking to the future: understanding Libya eight years after the fall of Qadhafi.

After years of conflict, the future of Libya remains uncertain as rival groups vie for control of key towns and territories and foreign sponsors try to influence the outcome with weapons and money.

Arab Banker spoke to Peter Millett, who was Britain's Ambassador to Libya from 2015 to 2018 and now runs his own advisory business, to understand the factors and forces that have been shaping recent developments, and prospects for peace over the short and medium term.

***ARAB BANKER:* Earlier this year, it looked as if agreement had been reached between Fayez al-Sarraj, who heads the UN-recognised Government of National Accord (GNA) in Tripoli and General Haftar, who heads the Libyan National Army (LNA) in the east. What was the basis of that proposed agreement and why did it fail?**

PETER MILLETT: The details of the agreement reached in Abu Dhabi in March were never published. The people I have spoken to who are close to this process believe that the agreement would have confirmed General Haftar as the Commander-in-Chief of the Libyan Armed Forces and given him control of the military budget as de facto Minister of Defence. Prime Minister Sarraj would have continued as Prime Minister for a transitional period, subject to a clear timetable for elections. This deal would have been endorsed at the National Conference which was set to take place on 14–16 April.

It failed because General Haftar decided that, rather than stick to the deal – which would have given him about 85% of his demands – he could take over the government in Tripoli, including control of the Central Bank and National Oil Corporation (NOC). With a remarkable sense of bravado, he launched his military campaign on the very day that the United Nations Secretary General António Guterres arrived in Tripoli, thereby thumbing his nose at the UN's peace process and the National Conference. He probably had reassurances from some of the militias in Tripoli that they would come over to his side and that the citizens of the capital would welcome him with open arms. But these militias are fickle and driven by money; they did not switch sides.

Do you think General Haftar is capable of capturing Tripoli militarily?

The front line to the south of the city has hardly moved since he launched the attack in April. Those defending the city, reinforced with experienced fighters from Misrata, have resisted the offensive successfully. Support and sympathy for Haftar from the citizens of Tripoli has diminished because of reports of indiscriminate artillery fire, bombing of Mitiga Airport and attacks against hospitals and schools.

But Haftar's sponsors cannot afford to let him lose. It is therefore unlikely that his forces will be defeated. Nor is he likely to withdraw. So the military stalemate has hardened; and the citizens of Libya are the ones who suffer.

A ceasefire would be a logical step. But the Government of National Accord in Tripoli does not want to allow Haftar's forces to consolidate their positions around the city, reinforce and rearm and launch another attack once they are stronger. I am afraid that the most likely scenario in the short-to-medium term is continued military and political stalemate.

What is General Haftar's background? How does he see himself?

Haftar was part of Qadhafi's revolution in 1969. But Qadhafi disowned him after a Libyan force led by Haftar was defeated in Chad in 1986. Haftar then moved to the United

Peter Millett

Peter Millett, CMG, served as Ambassador to Libya from 2015–18. During his diplomatic career he also served as Ambassador to Jordan from 2011 to 2015 and as High Commissioner in Cyprus from 2005 to 2010. He now lives in London where he runs his own consulting firm, advising clients on political and security issues, and on business development and market entry. pjmillett@hotmail.co.uk.

States, where he lived in Langley, Virginia, for over 20 years. He returned to Libya with the revolution that overthrew Qadhafi in 2011.

Haftar created his Libyan National Army in 2012–14. It is important to note that this is not really a 'national army' in the true sense of the term; it is just another hotchpotch of militias under a loose command structure. In 2014, he launched Operation Dignity in an attempt to take control of the country; that effort failed. Over the last five years he has succeeded in bringing security to the East of Libya after prolonged fighting in Benghazi and Derna. He took control of the oil crescent and oil fields in the south by co-opting militias and buying off tribes.

From my meetings with him, I believe that Haftar sees himself as the man who can bring security to the whole of Libya, remove the influence of the Muslim Brotherhood and act as the central power in a united country. His emphasis is always on security and fighting terrorism, rather than political or social reconciliation. If he took power, he would be an autocratic ruler and there would be no further moves to a Libyan form of democracy. His argument that the aim of his attack on Tripoli is to fight terrorism is false: it is a naked power-grab.

Haftar sees himself as the saviour of his nation, a role modelled on the way Gamal Abdel Nasser was seen as the saviour of the Arab World in the 1950s. Haftar's belief in his own ability to unite and rescue the country is actually a self-delusion: he is a very divisive figure. For example, when I met the municipal council of Misrata in 2017, they said forcefully that they had defeated Qadhafi in 2011; and they would fight to prevent another military man from taking over as dictator.

Is there anyone who could unite Libya in the present circumstances?

This is a question I used to ask frequently during my time in Libya and is raised by my clients on a regular basis. No one has come up with a name that could unite the divided tribes, towns and regions and generate a sense of the common good of the Libyan people. There are of course many talented politicians, technocrats and academics, but there is usually a reason, either tribal or historical, why they would be unacceptable to one group or another.

There has often been talk of restoring the monarchy, not as a controlling central power but as a symbol of national unity as a constitutional monarch. This is an interesting idea, but it would need a unified call from a wide range of Libyans to make it work.

There is also talk of Saif al-Islam and a possible return of the Qadhafi clan to power. I doubt that this could work. Firstly, Saif has not been seen or heard from since his so-called 'release' three years ago. Secondly his role in defending his father during the 2011 revolution has not been forgotten. And, of course, he is wanted by the International Criminal Court for crimes against humanity.

How are the GNA under Sarraj and the LNA under Haftar funding themselves?

The GNA has an annual budget funded by the Central Bank of Libya drawing on the sale of oil, which makes up the vast majority of the government's revenue. Indeed, the success of the National Oil Corporation in increasing oil production to around 1.2 mn b/d is one of the very few good news stories in Libya over the last 18 months.

The funding of institutions in the East is more opaque. The Central Bank in Tripoli funds some civil servants and military officers in the East. But other funding comes from loans from banks in the East and from counterfeit Libyan dinar notes printed in Russia. These loans have built up huge liabilities for the future.

There are also reports and rumours of funding for the LNA from the Emiratis and Saudis, but there is no firm estimate of what this funding might involve.

Why does General Haftar continue to allow oil to be exported from territory that he controls, even though the proceeds of those exports go to his rivals in Tripoli?

Under Security Council Resolutions, the NOC in Tripoli is the only entity authorised to export oil from Libya. Any vessel lifting oil from other entities, including the so-called NOC in Benghazi, will be blacklisted by the UN Sanctions Committee. Efforts by these fake entities pose a real threat to the unity of Libya and must be resisted.

In the past Haftar has tried but failed to export oil from the ports he controls in the oil crescent. I suspect that he allowed the NOC in Tripoli to continue to export from the ports

that he controls because he always planned to take control of Tripoli and did not want to damage what he anticipated would be his potential source of revenue.

The current political and military stalemate makes the risk of Haftar politicising Libya's oil exports a real possibility. He could shut down the ports he controls and reduce the revenue flowing into the Central Bank in Tripoli. This step would in turn have an impact on world oil prices.

What advantages do Fayez al-Sarraj and the GNA have in this conflict?

Sarraj has international recognition. The Libya Political Agreement (LPA) signed in Skhirat Morocco on 17 December 2015 established the Presidency Council (PC) as the central political and executive power in Libya. The agreement was endorsed by the UN Security Council Resolution 2359, which noted that the Government of National Accord was the sole legitimate authority in Libya. The LPA, including the list of nine PC members, was endorsed by the House of Representatives (HoR) in January 2016. The HoR did not however endorse the list of GNA Ministers submitted by the PC and has continued to back an internationally unrecognised government in the East.

Sarraj and the GNA also benefit from all the international support and development programmes offered and delivered by the international community, particularly to build capacity in central institutions and municipalities, and to help the Libyan authorities deal with terrorism, migration and other major issues.

How motivated are foreign powers to see an end to the conflict?

The countries that are actively involved in Libya have different motivations and objectives. Most share the objective of preventing Libya becoming a failed state but differ over the means of achieving that aim and the risks involved in backing people like Haftar. Oil and gas are also major factors, especially for countries that import from Libya, such as Italy.

Some want to remove the risk of the Muslim Brotherhood taking control. Others want to stop the threat of terrorism spreading to neighbouring countries. The Europeans want to prevent the influx of illegal migrants into Europe and stop the horror of migrants being drowned in the Mediterranean.

Do you think Libya can survive as a single territorial and legal entity? Could it split into two or three separate states?

The history of Libya as a single territory is fairly recent. Until the First World War it was part of the Ottoman Empire. It was then occupied by the Italians. There was a monarchy for 18 years prior to the 1969 revolution. For 42 years the nation was represented by Qadhafi who played the tribes off against each other and favoured those regions close to him, like Sirte, and deliberately excluded regions like Benghazi. With his departure, the country fragmented into tribal and regional rivalries.

The question of identity is a fascinating one. In the many meetings I had with senior politicians and contacts with citizens during my time in Libya I found little sense of national identity. The concept of compromise for the greater good of the nation is therefore lacking. Nonetheless, the oil wealth is a unifying factor. The hydrocarbon resources are unevenly spread around the country, but they are the glue that unites the country. Most of the major fields are in the south and the pipeline and export facilities are in the East and West. The National Oil Corporation needs the co-operation of all three regions to be able to generate the revenue that the country needs.

I therefore think that pressures for partition, while significant, are unlikely to prevail.

In the short term, what could stabilise the situation in Libya?

The first step has to be a ceasefire and a withdrawal of Haftar's forces from the immediate vicinity of Tripoli. There will then have to be a return to a political process. It will have to involve the buy-in of a much wider group of key actors – political, military, economic and social – than the Sarraj/Haftar deal in Abu Dhabi. It will have to revive UN envoy Ghassan Salamé's plan for some sort of National Conference that would secure broad acceptance of a political, security and economic programme with a precise timetable for implementation.

Key elements would be a plan for elections, a united hierarchy for the military under civilian authority and an economic reform programme based on the unification of the key economic institutions, especially the Central Bank. There must also be a process to disband the militias in Tripoli whose role in the capital has been negative and has largely undermined the legitimacy of the GNA. Full respect for human rights and the rule of law – and accountability for those who abuse these principles – will be essential.

As we're speaking now, in August, many people are looking to the UN General Assembly that will take place in September where I hope there will be a platform for agreeing to return to dialogue and negotiation rather than the use of force.

In the long term, what are the preconditions for an end to the conflict?

The key Libyan players must recognise that they have to compromise for the benefit of the people of Libya. A common mantra that I hear a lot is that there is no military solution. This is true: Haftar will not take the city, but nor will the GNA forces defeat him. So a return to the negotiating table is essential.

In doing so, they must bear in mind that their unwillingness to compromise means that the ordinary Libyan citizen suffers. The saddest sights in Libyan cities are the queues of citizens outside banks trying to get cash, the piles of rubbish in the streets, the blackouts and water shortages, all made worse now by the fighting in the city and the indiscriminate shelling of civilian areas.

Yet Libya is potentially a wealthy country. It has the largest oil reserves in Africa and a population of just six million. Sharing this wealth means that all Libyans should be able to benefit. It is a tragedy that the actions of a dictator for 42 years created divisions that will be hard to heal. And these divisions will not be healed by Haftar's actions in Tripoli.

We also need to see the unity of purpose in the international community. They need to come together again to back Ghassan Salamé and the UN's efforts to unite the country and plot a way forward. Unity in the UN Security Council must no longer mean paying lip service to the political process, but then taking actions on the ground that undermine it. ■

Gulf states face uncertain energy future

During 2019, tensions in the Gulf rose as the US and its allies hardened their rhetoric against Iran. Over the summer, tankers were attacked just outside the Strait of Hormuz, and there were reports of drone attacks on Saudi pipelines. Meanwhile, civil war continued in Yemen.

Arab Banker asked Gerald Butt, Middle East Editor of Petroleum Economist magazine and a consultant on the region, to explain how political events in and around the Gulf could affect the flow of oil and gas to the global economy, and to describe the most important 'choke points' that could lead to a serious disruption to supply.

ARAB BANKER: How important is the Strait of Hormuz to global energy supplies?

GERALD BUTT: Very important, is the short answer. The International Energy Agency (IEA) describes the waterway as "a vital maritime transit route" for world energy trade. That is because 20 mn barrels a day (b/d) of crude oil pass through this strait which, at its narrowest point, is only 24 miles wide. So, about 20% of global oil supply comes from the Gulf via this narrow outlet to the Indian Ocean. A quarter of the global liquefied natural gas (LNG) trade passes through the strait as well.

Clearly, then, any development that meant tankers could no longer pass through the Strait of Hormuz would have considerable impact. But having said that, the picture would be less catastrophic than it might have been a few years back – largely because of the surge of oil production in North America and rising output in Russia.

The IEA in July pointed out that the global oil market is well supplied, with OECD commercial stocks totalling nearly 3 bn barrels, not counting emergency stocks that many countries hold. In other words, to quote the IEA, the oil reserves are "large enough to cover any disruptions in oil supply from the Strait of Hormuz for an extended period."

For individual Gulf states, though, the closure of the waterway would have varying effects. Kuwait, for example, relies on the strait being open to market all of its 2 mn b/d of exports. Nearly all of Iraq's 3.9 mn b/d is exported the same way. So, the immediate economic impact on those two countries would be devastating.

For Saudi Arabia and the UAE the impact would be less severe. The Saudis are able to export around 5 mn b/d – out of a total of 7.4 mn b/d – through an east-west pipeline to the Red Sea. Plans to expand the pipeline's capacity to 7 mn b/d are being considered.

The UAE can shift about 60% of its exports (totalling 2.3 mn b/d in 2018) via a pipeline that connects Abu Dhabi with the port of Fujairah on the Indian Ocean. So, both Saudi Arabia and the UAE have ways of partly circumventing the Strait of Hormuz and keeping a good proportion of their oil flowing to markets, provided, of course, they can keep their pipelines safe from drone or other attacks.

Is the war in Yemen affecting oil supplies through the Bab el-Mandeb?

The Bab el-Mandeb Strait, the waterway at the southern entrance to the Red Sea, is only 16 miles wide at the narrowest point. So again, it is potentially vulnerable to disruption. With a war raging for the past four years in Yemen, which borders the eastern side of the strait, there have been fears of possible impact on tanker traffic. In July 2018, Saudi Arabia said that two of its oil tankers had been targeted by Houthi rebels in Yemen and for a time the kingdom suspended shipping through the strait. But there has been no major incident leading to long-term effects on oil shipments.

Has the dispute between Qatar and some of its Gulf neighbours affected Qatar's ability to export oil and gas?

Remarkably, no it has not. Perhaps even more strange is that there has been no disruption to the export of Qatari gas via the Dolphin pipeline under the waters of the Gulf to the UAE – even though the UAE, with Saudi Arabia, is a driving force behind the economic and diplomatic blockade of Qatar that was imposed in June 2017.

Qatar is not a major oil producer – and it even decided to end its membership of OPEC. But it remains a natural gas giant. During 2018, it maintained its position as the largest exporter of LNG, with 28% of global market share. While Australia has now overtaken Qatar as the biggest producer, it will be nudged out of that spot when huge expansion plans at Ras Laffan, Qatar's LNG hub, take shape.

Qatar announced in 2017, after the blockade was imposed, that it planned to increase LNG output capacity from 77mn tons a year (t/y) to 100mn t/y, by producing more gas from the vast offshore North field. The following year it unveiled even more ambitious plans – to target capacity of 110mn t/y. Despite the fact that there is no end to the political dispute, Qatar is not looking back.

Has the Federal Government of Iraq been able to resolve its dispute with the regional government in Kurdistan on the issue of oil exports through Kurdistan?

The two sides are holding numerous rounds of talks to try to resolve a whole host of matters relating to disputed territory, different interpretations of the federal constitution, as well as the hotly-disputed issue of oil. Up to 2014, when Islamic State (IS) forces took control of vast areas of northern and central Iraq, the government exported around 1.5 mn b/d of oil from northern fields to the Turkish Mediterranean port of Ceyhan. In the fighting, the section of pipeline on Iraqi soil was badly damaged and has not been repaired.

The government has been able to export very small quantities of crude oil via infrastructure set up by the Kurdistan Regional Government (KRG) that links up with the undamaged part of the pipeline to Turkey. The Iraqi authorities hope eventually to repair their own direct link to Ceyhan.

In the meantime, Baghdad and Erbil continue to thrash out differences over budget details. According to the federal constitution, 17% of national revenue should be paid to the KRG. The two sides came to an arrangement whereby, in the 2019 budget, the Kurds would deliver 250,000 b/d of oil to Baghdad in return for around 13% of federal revenue. However by the third quarter of the year, the KRG had failed to hand over the oil, and Baghdad was threatening to withhold payments. So, there are still a lot of issues that need sorting out.

If there were to be open hostilities between the US and Iran, how would Iran's ability to export oil and gas be affected?

Almost all Iran's oil exports are loaded onto tankers at three terminals in the Gulf. As a result, Iran is as dependent as some of its Arab neighbours on the free passage of tankers through the Strait of Hormuz. Aware of this, the Iranians might think twice before closing the Strait, despite their frequent threats to do so. And, like some of their Arab neighbours, they are drawing up plans to find an export route that avoids the Strait of Hormuz – developing an export terminal on the Gulf of Oman, to the east of the Strait.

The other point to make is that Iran's exports have dropped sharply since the re-imposition of US sanctions in 2018. Iran's total export capacity – when there are no sanctions and all is going well – is around 2.5 mn b/d. According to OPEC figures, exports for 2018 as a whole averaged only 1.8 mn b/d, collapsing to less than 300,000 b/d by July this year.

We have heard a lot recently about gas finds in Egypt and in the Eastern Mediterranean. Will these finds reduce Western dependence on the Gulf for its gas supplies?

If you listen to what the governments in the Eastern Mediterranean are saying you might be convinced that Europe will never need to worry about gas supplies again because the East Med will be on hand to provide it. The reality is somewhat different. True, Egypt has become a major producer of gas, with significant new finds being made – offshore and onshore – on almost a daily basis. Egypt also has two LNG plants which are starting to export gas once more after a lull of several years. So Egypt is a gas exporter. But because of its geographical position, the likelihood is that Egyptian LNG will find more markets in the Far East than in the West.

Israel and Cyprus have both found significant reserves of natural gas. Greece is confident of major finds in the years ahead, and there is talk of an Eastern Mediterranean gas pipeline that would carry all these reserves to Europe. But the fact is that building a pipeline would be expensive, and by the time gas had been transported to Europe its price would not be anywhere near competitive with that of gas being imported from Russia – and quite likely from the US as well.

Political tensions aside, is OPEC still able to control the global oil market, in terms of desired supply or desired price?

OPEC alone is finding it harder and harder. Of the member states, only Saudi Arabia has sufficient spare capacity to be what is called a 'swing producer' – adjusting the supply of oil to markets to influence price. Saudi Arabia is no longer happy playing this role alone, fearing that it could lose market share if it reduced its own output too much. And it is significant that the Saudis have been cooperating closely with non-OPEC Russia in seeking to control prices. In a way, the new unofficial OPEC is really a Saudi-Russian partnership. But they have no way of influencing the US, the new mega-player on the oil and gas stage. And anyway Washington has no control over private American operators and how much they choose to produce. So, while OPEC still functions, it no longer has the power it once enjoyed. ■

Gerald Butt

Gerald Butt, a former BBC Middle East correspondent and editor of Middle East Economic Survey (MEES), writes on the region for Petroleum Economist. He also advises Oxford Analytica think tank and is the author of several books on the Middle East.

Navigating sanctions and client relationships in the age of Brexit and GDPR

Banks have invested huge amounts of time and money complying with international sanctions, but the UK's departure from the EU is going to require them to undertake more work to navigate potential gaps between EU and UK requirements.

Shaistah Akhtar, a partner in Mishcon de Reya's Dispute Resolution Group, advises clients on sanctions violation issues and broader matters of regulatory compliance. *Arab Banker* asked her to explain the issues that banks will need to address in the year ahead.

ARAB BANKER: **Sanctions have been part of the international banking landscape for many years now. Are there any new developments in the UK or further afield?**

SHAISTAH AKHTAR: The main development is Brexit and how the UK's departure arrangements will affect its sanctions laws.

Currently, all EU regulations, including those imposing sanctions on persons, entities or sectors, are directly effective in UK law. Further, UN Security Council resolutions imposing sanctions are implemented in the UK through EU regulations. The UK's sanctions laws and its compliance with its international obligations are therefore currently mainly derived from a number of EU regulations affecting around 25 countries and groups. If the UK is no longer an EU member, then those EU regulations will have no effect in UK law.

The UK has prepared for the scenario that it leaves the EU without any transitional or new arrangements (a 'no deal' Brexit) by enacting the Sanctions and Anti-Money Laundering Act 2018. This Act enables the UK Government to impose, update and lift sanctions in its own right post-Brexit.

In the meantime, the UK Government is planning to carry over all EU sanctions at the time of its departure by passing new UK regulations made under the Act. So far, such regulations have been passed for the following countries/groups:

Burma
Belarus
Democratic People's Republic of Korea
Democratic Republic of the Congo
Guinea-Bissau
Iran (Human Rights)
Iran (Nuclear)
ISIL (Da'esh) and Al-Qaida

Russia
South Sudan
Syria
Venezuela
Zimbabwe

Any sanctions regimes not addressed through UK regulations under the 2018 Act would continue as retained EU law under the EU (Withdrawal) Act 2018.

This means that there will be no gaps in implementing existing sanctions regimes if the UK leaves the EU without a deal.

Therefore, in the short term at least, there is unlikely to be any major change in the UK's sanctions regime, which is expected to closely mirror the EU regulations it currently has in place. The UK Government has stated that, post-Brexit, the UK will continue to work closely with the EU and other international partners on sanctions where it is in their mutual interest to do so.

The 2018 Act does, however, give the UK Government wider powers in relation to sanctions than it currently has. It provides the UK with a broader scope to impose sanctions – for example, to further a UK foreign policy objective, or to address human rights violations – unfettered by the unanimity currently required in agreeing sanctions with 27 other member states.

In the medium to longer term, this is likely to result in an increased compliance burden for banks in the following ways:

1. There will be a need for separate screening and monitoring to cover UK sanctions legislation, in addition to the current EU and US checks.
2. In the event of a divergence in rules between the UK, EU and US, it will be necessary to analyse the jurisdictional nexus with the relevant authorities in order to determine whether a particular client/transaction is compliant.
3. It will be necessary to put in place procedures to ensure that the potential enhanced reporting obligations under the 2018 Act are addressed. That is, the UK Government has the power pursuant to the Act to pass regulations which require, "persons of a prescribed description" – which, it is presumed, includes banks as well as their clients – to retain records and provide information to the authorities. Banks will already be familiar with their existing reporting obligations in relation to sanctions. The UK Government may however use its new independent powers under the Act to increase these obligations further on individuals and businesses than is currently the case in UK law.

Much depends on the nature of the UK's exit from the EU, and the detail to be published in the UK regulations pursuant to the 2018 Act.

How might UK and EU rules diverge in the months and years after the UK leaves the EU?

Once the UK leaves the EU, and assuming it leaves with no deal, it will no longer be bound by EU regulations and will be free to implement its own sanctions policy as enabled under the Act.

The approach the UK takes to sanctions will depend on the political climate and the policy objectives of the Government of the day.

Two immediate issues which are likely to arise in the next six months are the following:

Shaistah Akhtar

Shaistah Akhtar is a Partner in Mishcon de Reya's Dispute Resolution group where she specialises in complex commercial litigation, fraud investigations and regulatory compliance. She is an expert on sanctions law and leads Mishcon's team in this area.

Shaistah's work has included advising on compliance with the UK Bribery Act and the US Foreign Corrupt Practices Act. She has advised on sanctions involving Russia, Iran, the Middle East and North Africa, and other jurisdictions. She has represented senior individuals in the Central Bank of Bahrain investigation as part of the Saad vs Al-Gosaibi dispute. Shaistah is a regular speaker at the Cambridge Economic Crime Symposium and is Co-Editor of *Dispute Resolution in the Gulf: GCC Approaches and Egyptian Influences*.

Iran: will the EU reimpose sanctions in the wake of Iran's recent nuclear activities?

Russia: will the EU renew sanctions in June 2020 (as has been the case every six months since 2014) without the UK driving the agenda? It is widely reported that a number of EU member states, including Germany and Italy, have no real incentive in maintaining the sanctions against Russia, which interfere with their much-needed gas supplies. The UK, however, has been the main agitator for sanctions against Russia following the annexation of Crimea in 2014 and the Skripal poisonings.

Following the UK's departure from the EU, the British Government will need to decide whether it wishes to align itself more closely with the US or with the EU in respect of their different approaches to sanctions. Given the extra-territorial jurisdiction of US sanctions, the all-pervasiveness of the US banking system, and the pressure to conclude a trade deal, US influence on UK sanctions policy may be difficult to ignore.

However, currently, according to a recent report by the House of Commons Foreign Affairs Committee, very little strategic thought appears to have gone into what the UK intends to do in terms of its international sanctions policy and how it might utilise its position as one of the world's leading financial centres. A wholly independent sanctions policy is likely to make the UK economically more vulnerable and diplomatically less influential. However, the reality will probably be more complex, given the close co-operation between the UK and the rest of the EU over many years and sharing of intelligence and know-how.

If there is a divergence in sanctions regulations between the UK and EU, banks with subsidiaries or branches in London and in EU member states will need to consider both sets of rules. If, for example, the EU lifts sanctions against Russia, then the French subsidiary of a Middle Eastern bank which does business with Russia, will need to look at the UK rules to see if its London branch brings it within the UK's jurisdiction and whether those rules have accordingly been violated.

Banks already spend a huge amount of time trying to stay on the right side of sanctions and AML rules. Can they sometimes be over-zealous?

I certainly would not advise anyone to do the bare minimum when it comes to sanctions and AML compliance. However, as a result of the General Data Protection Regulations (GDPR), which came into effect in 2018, banks do have to be much more careful about the reasons they cite for rejecting clients or terminating client relationships.

GDPR enables individuals to inspect and obtain copies of personal data from banks and other processors of personal data. Similar to the sanctions regulations, if the UK leaves the EU without a deal, the UK data rules will largely mirror the EU rules – currently implemented in the form of the Data Protection Act 2018 and more recent "exit" regulations.

Individuals can now ask to see data kept on them by banks. A bank's failure to comply with such requests or failure in the way in which the bank manages such data could see it reported to and fined by the Information Commissioner's Office (up to €20 mn or 4% of global turnover, whichever is greater), or sued under the Data Protection Act with the consequence of an order being made to provide the data.

Such data requests are now regularly being used by aggrieved clients, forcing banks into a position where they are obliged to disclose internal notes. Banks therefore need to be mindful about the way in which they manage the content of their documents. They should treat internal documents as though they could one day be produced in court.

How can banks strike the right balance between complying with laws and regulations while still providing good service to their clients?

The criminal regulatory compliance burden has clearly become heavier for banks over the past few years with the UK Bribery Act, various sanctions regulations, AML rules and GDPR.

The thread that runs through this regulatory framework is the need to have a transparent culture, proper systems and controls, and living policies and procedures that are actively understood (through training and practical steps) and are consistently implemented by banks. This includes an escalation process if certain red flags are raised.

I often advise banks to think about what they would produce in response to enquiries when regulators visit. This would include contemporaneous file notes documenting why certain decisions were taken, evidence supporting the rationale for taking certain risks, and keeping an audit trail generally to corroborate the rationale of what might later need to be justified.

Detailed guidance has been published by the British Bankers' Association in this regard.

Which enforcement body is taking the lead on these issues?

Depending on the nature of the case, enforcement action for violation of sanctions rules can be taken in the UK by the Office of Financial Sanctions Implementation (OFSI), which is a part of HM Treasury, or the Serious Fraud Office (SFO) or the Financial Conduct Authority (FCA).

Whilst OFSI was established relatively recently and has a modest enforcement record so far of imposing financial penalties on sanctions busters, the SFO has historically investigated and prosecuted cases involving violations of Iraqi sanctions, and the FCA has fined banks for having inadequate systems and controls in place to prevent breaches of UK sanctions.

The FCA, not being bound by the SFO's criminal burden of proof, has been known to levy multi-million-pound fines against firms which have been found to have systemic weaknesses in their compliance function. There may be no evidence of actual violations or wrongdoing, but the FCA has simply disapproved of inconsistent practices, or a compliance policy which is not practically implemented, or a lack of rationale in certain transactions. For this reason, it is important to establish an audit trail, as mentioned above. ■

Mishcon de Reya

Mishcon de Reya is based in London and has offices in New York. It employs more than 900 people, including more than 500 lawyers offering a wide range of legal services to companies and individuals. Their work is cross-border, multi-jurisdictional and complex. The firm publishes a regular review of financial enforcement issues, *Enforcement Watch*, which is publicly available on its website..

Screening out the noise: understanding the factors that really drive the price of gold

In the first half of 2019, the price of gold hit its highest level for six years and, as an asset class, outperformed the S&P 500, the Nasdaq and many other international equity markets. In US dollars, the price of gold was up 9% in the first six months, while in Australian dollars the price was at an all-time high.

But gold prices can be volatile, and some observers were warning that the second half of the year might see prices recede as investors sold and took profits.

The World Gold Council is the global authority on the gold market, so *Arab Banker* asked Alistair Hewitt, the Council's Head of Market Intelligence, to identify the key factors that consistently drive the gold price, and to explain the recent rise in prices.

Media noise around the price of gold can often cause confusion. Geopolitical tensions, interest rates, exchange rate movements and financial-market volatility all play a role in determining the price at which gold trades.

However, investors need to take a rigorous approach and base their decisions on a comprehensive analysis. At the World Gold Council, we tend to think of the drivers of the gold price as falling into four categories:

- Economic expansion: when economies expand, people in those economies buy more jewellery, invest more in technology and add to their long-term savings.
- Risk and uncertainty: market downturns often boost investment demand for gold because it is seen as a safe haven.
- Opportunity cost: the price of competing assets, such as bonds (through interest rates), currencies and other assets, influences investor attitudes towards gold.
- Momentum: capital flows and price trends can enhance or dampen gold's performance.

Opportunity cost played a big role in the surge in the gold price in the first half of 2019. Between September 2018 and June 2019, the Federal Reserve Bank of the United Sates moved from a tight monetary stance to a looser stance. Those investors who were closely following interest rates had already taken account of the Bank's July 2019 interest rate cut, and they were expecting two further cuts before the end of the year. When the gold price rose above the psychologically significant $1,350/oz technical level this encouraged momentum-driven capital flows to invest in gold and support the price rally.

This recent series of events helps to explain how investors should think about the opportunity cost and momentum factors: they are often short-term, tactical drivers of the gold price.

But when thinking about gold as a long-term strategic asset, economic expansion and risk and uncertainty are more important factors. They underpin gold's role as a portfolio diversifier and also explain its long-term price performance.

Taken together, the four factors determining the gold price have, over the long term, delivered consistent results for investors. If we track the price of gold over different time-scales, we can see that the average annual returns on gold investing compare favourably to the returns shown by other asset classes.

Central banks have been driving increased demand

Over the past 18 months, the purchases by central banks have become a significant new factor driving the price of gold. In 2018, gold purchases by 'official' buyers – essentially, central banks – rose to 656 tonnes, which was valued at around $27 bn. That was the highest level of gold demand by official buyers since President Nixon took the US off the gold standard in 1971, severing the automatic link between the US dollar and the price of gold.

Central banks' purchases increased during the first months of 2019. By the end of May, they had bought an additional 247.2 tonnes, according to the International Monetary Fund, up 74% year-on-year.

Russia, China, Turkey and Kazakhstan have been dominating central-bank purchases in recent years. In 2018, they accounted for 60% of total net purchases and they remained the biggest buyers during the first half of 2019.

But they are not alone. A total of ten emerging-market central banks had seen gold reserves grow by a tonne or more by the end of May 2019 – with reserves rising by a combined 260 tonnes. This contrasts favourably with only three who had decreased reserves by a tonne or more over the same period (for a total of 6.5 tonnes).

Central banks invest in gold for many reasons. Most obviously, they use gold as a safe-haven asset and an effective portfolio diversifier.

We recently commissioned a survey of 22 central banks to identify the full range of reasons why they have been investing so heavily in gold. Seventy-one per cent of central banks surveyed said that gold's ability to improve risk-adjusted returns and its use as collateral was a relevant factor

Gold market opens up to Shari'ah-compliant investors

Middle Eastern investors have historically accounted for a significant share of the world gold demand; but the uncertainty over the religious acceptability of gold trading limited the opportunities for asset managers and banks to develop new products for their customers. Where gold-based investment products could be created, the process of getting approval from Shari'ah scholars was often cumbersome and time-consuming.

In 2016, the Arab Accounting Organisation for Islamic Financial Institutions (AAOIFI), which sets accounting and financial standards for Islamic finance, introduced clarity to the Islamic gold market when it published a standard on the use of gold in Shari'ah-compliant transactions. AAOIFI's standards are approved by some of the world's most prominent Shari'ah scholars; so when the standard on gold trading was published, the road was open for religiously-inclined investors to move into gold for the first time.

Limitations on Shari'ah-compliant investing have kept Islamic portfolios more narrowly based than conventional portfolios, and they still do. Equities and sukuk predominate. As a result, the effect of adding a new asset class to a Shari'ah-compliant portfolio is much greater than for a conventional portfolio, which typically is far more diversified.

At the World Gold Council, we have calculated the effects of adding gold to US-dollar-denominated portfolios that did not previously include gold. We constructed hypothetical portfolios of Shari'ah-compliant equities and sukuk that are quoted on the Dow Jones Islamic indices and US dollar cash. We monitored returns since 2005. Each of the portfolios we constructed showed higher returns after adding gold, without increasing volatility. So, to be clear, adding gold not only reduces the risk of a portfolio, it also increases returns.

The graph below shows the results of the two portfolios.

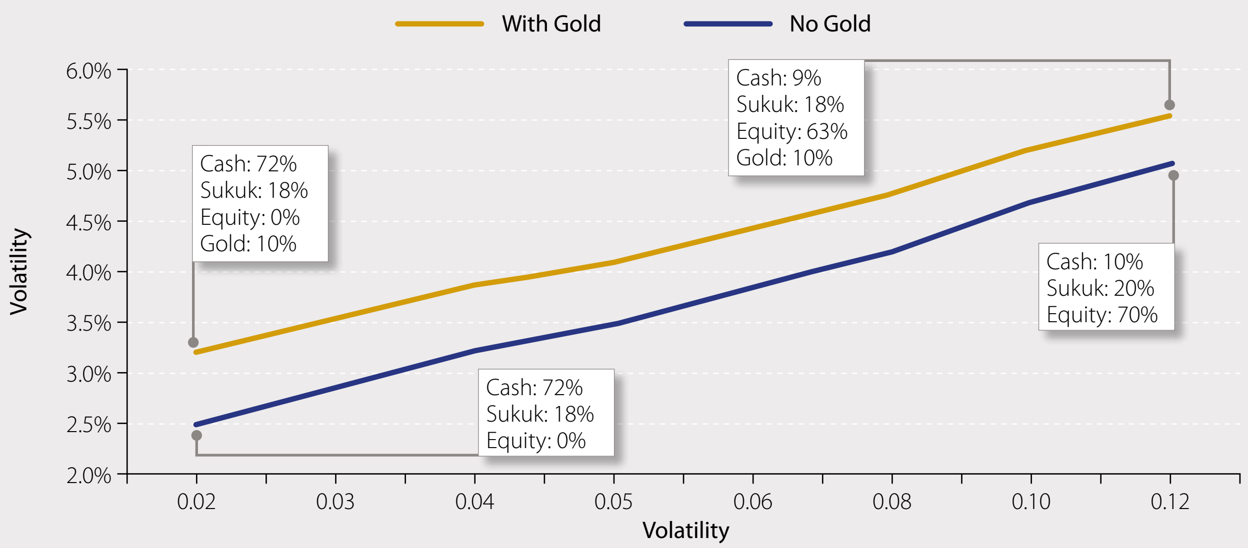
Gold investing also offers a solution to the problem of liquidity, which looms large in Islamic finance because the size of some asset classes is small in relation to the pool of potential investors. For example, all outstanding sukuk amounted to $435 bn at the end of 2017, according to one regional database. In contrast, the value of traded gold currently stands at around $7.5 tn. Investors can execute large gold trades easily without drawing attention to themselves in the market or moving the price.

Wahed, a US-based automated investing service, recently told the World Gold Council that it now usually allocates up to 10% of its investment portfolios to gold. Wahed's Global Head of Portfolios, Samim Abedi, told us that gold is uncorrelated and sometimes negatively correlated with other assets in their Shari'ah-compliant portfolios.

Earlier this year, the World Gold Council commissioned a survey of investors in Malaysia, Saudi Arabia, Turkey and the United Arab Emirates. The results showed that young investors – those under the age of 35 – are more likely to prefer Shari'ah-compliant investments than older investors, and that there is a strong interest in physical gold – bars and coins – among investors of all ages. Even those who are interested in gold-backed ETFs want to have the option to receive physical gold when they redeem.

As a result of all of these points, we are expecting to see a big increase in gold investing in Muslim countries.

Portfolio risk and return trade-off



Source: Bloomberg, ICE Benchmark Administration, World Gold Council.

in their investment decisions. Sixty-five highlighted political risk as being relevant to their investment decision.

Given the challenging political landscape in Europe, the uncertain relationship between the US and China, and the tensions between the US and Iran, political risk is likely to become more relevant in the months ahead. Russia has been quite explicit about its de-dollarisation programme in response to the evolving political landscape. In April, Sergey Shvetsov, the First Deputy Governor of the Central Bank of Russia, said that it was necessary for Russia to "increase forex and gold reserves even more" in the face of "persisting sanction risks".

Investments in European gold-backed ETFs have hit record levels

Looking beyond central bank purchases, private institutional investors have been active in the gold market in recent months. For example, European gold-backed exchange-traded funds (ETFs) have seen rapid growth since 2016 and, in 2019, have hit several record-high levels.

This growth in gold-backed assets under management in Europe has been driven by several factors; but we believe that political uncertainty across the continent is at the front of investors' minds. The recent re-emergence of nationalist and populist sentiment in several European countries has sown fears that this might destabilise the European Union (EU). Far-right and anti-EU parties have made substantial gains since 2016 and they now command significant influence over politics in Germany, while holding power in Italy and Hungary. Continuing uncertainty over when and how the UK will leave the EU (uncertainty that continued as this article was being prepared), and the effect that this is having on British domestic politics, have spooked investors across Europe.

Furthermore, investors in Europe also have to contend with negative interest rates. Yields at the front end of the curve for many European sovereign bonds are below zero, with only longer-dated bonds in positive territory. German ten-year yields, which dropped below zero for the first time in 2016, dipped into negative territory once again late in the first quarter of 2019 and again in early April, as fears over the global outlook intensified. At the time of writing, ten-year German bunds were trading at a record low of -0.36%. It is even possible that rates may fall further: the European Central Bank recently announced that it was ready to extend its bond purchases, or even cut rates, in response to slowing economic conditions.

But retail demand is soft

Not every part of the gold market has been strong during 2019. In contrast to the strength of investment demand, the physical market was relatively soft in the first six months of the year. The rapid upturn in the gold price from May prompted many retail investors in Europe and the US to take profits on their gold investments. In China, the world's largest gold market, demand has been weak as economic growth has slowed.

Nonetheless, prospects for both China and India, which together account for 40% of gold demand, remain strong. As people become richer, they buy more gold – that is a trend that we have observed time and again across emerging markets – and the growing middle classes in China and India are no exceptions.

Looking ahead, we think that central bank gold purchases will continue, and that institutional investment demand is likely to remain strong. Retail demand may be soft until the end of the year but, as mentioned above, long-term economic and demographic changes in the big emerging markets underpin healthy demand in future. ■

Alistair Hewitt

Alistair is a Director at the World Gold Council and leads the Market Intelligence Group, which is responsible for producing gold market insights. Prior to this, Alistair managed the Bank of England's Market Intelligence programme, ensuring financial market insights informed policymakers on the Monetary and Financial Policy Committees.

The World Gold Council

The World Gold Council is the market development organisation for the gold industry. It provides industry leadership and is the global authority on the gold market. It has offices in the US, UK, India, China and Singapore, but its activities are global.

The gold market has undergone significant change over the past two decades, becoming larger, stronger and more widely understood. The World Gold Council has been a key player in many of the initiatives that have driven that change, such as the liberalisation of the gold market in China and the rapid rise of demand in the East. In 2018, the Council launched a new website, Goldhub, to give investors access to the data, insight and tools to make informed gold investment decisions. www.goldhub.org

A vintage year for the Arab Bankers Association

We have increased the number and range of our events that we provide, and the number of our corporate members has risen to its highest level in more than ten years.

Here is a review of the Association's achievements over the past year.

The Arab Bankers Association is in excellent health. We are financially secure, corporate membership is up and we are diversifying into new types of activities.

Our year revolves around four types of activities: technical seminars; meetings with regulators and other officials; corporate-member lunches; and social events.

We held two technical seminars during the first half of 2019. The first was led by Mishcon de Reya and FTI Consulting and addressed cyber security and financial crime. The second was our annual real estate seminar which, as always, drew a huge crowd. Differing views on the effect that Brexit is having on London property prices gave this year's real estate seminar a particularly sharp edge.

We continued to act as a forum in which UK financial regulators can engage with the Arab banking community. At the end of November 2018, six executives from the Prudential Regulation Authority came to our offices for an open exchange of views. A meeting with the Financial Conduct Authority was being planned for mid-September, as *Arab Banker* was going to press.

In June, we did something new when we invited officials from Her Majesty's Revenue and Customs (HMRC – the UK tax office) to speak to our members about issues affecting medium-sized firms – which is how most London branches and subsidiaries of Arab banks are classified. Both the Arab banks and the HMRC officials deemed the meeting a success and another is being planned before the end of the year.

Another new initiative has been the provision of tutorials on technical subjects. In December 2018, FTI Consulting delivered a tutorial on Compliance Management; and in June this year we partnered with Protect, the UK's leading whistleblowing organisation, to offer a full-morning tutorial on the requirements placed on UK firms to provide whistleblowing options for their staff.

We held four corporate-member lunches during the first half of the year. Two were hosted by PwC. The first described the new benchmarks that will be replacing Libor, and the second considered how firms can build their operational resilience. VG, the Jersey-based trust and service firm, hosted a lunch on Jersey trust structures; and the World Gold Council hosted a lunch on the gold market, with particular reference to the new opportunities that are opening up for Shari'ah-compliant gold investing.

Our social events were as popular as ever, with big attendances at our Christmas Party in December 2018, our post-Ramadan Eid Party in June this year and our Summer Fete in July. Our annual gala dinner was held on 18 October 2018. This year's event is scheduled for 23 October.

At the end of July 2019, we had 38 corporate members, comprising the branches and subsidiaries in London of Arab banks, Middle Eastern banks who subscribe directly from their head offices and a range of financial services firms who work with Arab banks in London and beyond. Individual membership and 'young professional' membership continue to be popular and numbers are steady.

Our website has continued to attract interest and provide a platform on which to showcase the work of our members as well as our own events, and to highlight significant developments in Middle Eastern banking and finance. We are currently working with one of our members to enhance the website's coverage of legal and regulatory issues in the GCC.

This edition of *Arab Banker* is the seventh since its re-launch in 2013. Each of the new-style *Arab Banker* magazines has appeared at the end of September and each has produced a small profit for the Association, except for the first edition, which broke even.

The Arab Bankers Association is led by George Kanaan, the Chief Executive Officer. He is assisted in London by Hanan Almasood, who manages Business Development and Press Relations. Lama al-Osta, whom we welcomed in June, manages Accounts and Administration. Talar Joulhajian, whom we welcomed in February, manages Business Development in Beirut. Andrew Cunningham is the Editor in Chief, overseeing and writing content for our website, producing brochures and leaflets and editing *Arab Banker* magazine. ■


Lama El-Osta


Hanan Almasood

Board of Directors

The ABA's Board of Directors is elected at the Annual General Meeting, which is usually held in September. A list of serving Board members, as of August 2019, is given below.

Abdulaziz Al-Khereiji (ABA Chairman. Board member since 2012)
Abdulaziz has been working within London's financial services sector for over 30 years. He joined Riyad Bank's London branch in 1996 and is now its Chief Manager. He is also Riyad Bank's Senior Vice President for Overseas Units, and in this capacity, he manages the bank's international offices in the United States and Asia, focusing on clients' business activities in the Kingdom of Saudi Arabia and the GCC as a whole.

Fawzi Dajani (ABA Vice Chairman. 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.

Hani Salem (ABA Treasurer. Board member since 2016)
Hani is a Senior Manager in PwC's Banking and Capital Markets assurance practice. He has more than 10 years' experience auditing and advising international banks, sovereign wealth funds and other financial services firms in the UK and the Middle East. He is currently providing audit and other assurance services to one of the largest European banking and financial services organisations. Hani is a Certified Public Accountant from the New Hampshire Board of Accountancy.

George Kanaan (ABA CEO. Board member since 2009)
George was appointed Chief Executive Officer of the Arab Bankers' Association in August 2009. He 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.

Stephen Blyth (Board member since 2016)
Stephen is the General Manager of Arab National Bank's (ANB) London branch. He was appointed to this role in October 2016 having previously been acting General Manager and Deputy General Manager. He is a seasoned banker with more than 40 years' experience, much of which is in the Gulf region. He has been with ANB in various senior roles since 1991 and between 1994 and 2004 was based in the bank's head office in Riyadh, Saudi Arabia. Stephen has held a variety of roles during his banking career, and for the last 14 years, in addition to jointly running ANB's London branch, much of his time has been focused on regulatory change.

Vivien Davies (Board member since 2012)
Vivien is a partner in the international law firm Fieldfisher, which is headquartered in London and has received two Law Firm of the Year Awards in the last 12 months. Vivien is an Arabic speaker and is the head of the MENA Group at Fieldfisher. During her career she has specialised in company, banking and commercial disputes, including complex cross-border disputes and international arbitration. In addition to general commercial clients, Vivien regularly acts for foreign banks and enterprises from the hospitality, construction and healthcare sectors, together with media organisations.

Paul Garbutt (Board member since 2018)
Paul leads the financial (prudential) regulatory practice at Grant Thornton and specialises in prudential regulatory advice and assurance to banks and investment firms. He has more than 25 years' experience in financial services and extensive experience working with firms and the UK's Prudential Regulation Authority and the Financial Conduct Authority. He is a Fellow of the Institute of Chartered Accountants of England and Wales and a Fellow of the Royal Society for the encouragement of Art, Manufactures and Commerce.

Yasser Ibrahim (Board member since 2018)
Yasser Ibrahim is Managing Director, International Banking and Co-Head of International Banking Sales at ODDO BHF, based in Frankfurt. Prior to his appointment he had been Chief Executive Officer and Managing Director of National Bank of Egypt (UK) since January 2017. He had previously served as Senior Representative in Egypt and head of Commerzbank's Representative Office in Cairo. Yasser joined Commerzbank in 1991 as an apprentice in Germany following completion of service as an Officer in the Reserve Army of the German armed forces. From May 2012 until November 2014, Yasser also served as Non-executive Chairman of the Board of Directors of Mercedes-Benz Egypt.

Paul Jennings (Board member since 2016)
Paul is Managing Director and CEO of ABC International Bank plc. Previously, he was Deputy CEO of ABC International Bank plc and Group Head, Global Trade Finance, of Arab Banking Corporation (B.S.C.). Paul joined ABC International Bank plc in September 1999 and has over 35 years' experience in the international wholesale banking sector. He also represents Bank ABC as a Director of Banco ABC Brasil S.A.

Hani Kablawi (Board member since 2010)
Hani is a Senior Executive Vice President at BNY Mellon. He serves as the bank's Chairman for Europe, Middle East and Africa and as CEO of its Global Asset Servicing Division, which accounts for over a third of revenues and earnings. He is based in London. Hani was previously head of EMEA investment services and has held a number of business, country and client management roles in New York, Abu Dhabi, Dubai and London.

Charbel Khazen (Board member since 2014)
Charbel 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 focused on corporate and institutional banking, with an emphasis on relationship management and business development.

Ralph Al Raheb (Board member since 2016)
Ralph Al Raheb is a Managing Director of Morgan Stanley and is Head of Emerging Markets Onshore Coverage for the CEEMEA Region. He is a member of the Morgan Stanley MENA Management Committee. Ralph joined Morgan Stanley Paris in 2003 as an analyst in fixed income sales covering French Financial Institutions. Ralph transferred from Paris to London in July 2004 to cover the MENA region, and in 2010, he became head of fixed income sales for MENA. In 2014, Ralph became head of fixed income for MENA. In 2018, he became Head of Emerging Markets Onshore Coverage for CEEMEA. He was named Vice President in December 2007, Executive Director in December 2009 and Managing Director in January 2015.

Sami Tamim (Board member since 2018)
Sami serves as the CEO and member of the board of Ahli United Bank (UK) plc which he joined in 2014. He began his career in banking in 1985 with Banque de la Méditerranée in his native Lebanon, before moving to the UK where he led Corporate Banking at Banque de la Méditerranée (UK) Ltd. He subsequently joined Saudi American Bank (Samba) in London where he led the Private Banking team and then joined Coutts Bank in Geneva before returning to London in 2005 to join Citibank as a Director in its Private Banking division followed by UBS in a similar role. Sami has broad banking experience which includes commercial banking, trade finance, private banking and, in his current capacity at AUB UK, corporate governance and senior managerial oversight.

Amr Turk (Board member since 2010)
Amr is the General Manager of the London branch of BLOM Bank France. He is based in London. A graduate of the University of Oxford, Amr joined the Planning and Administration Division of Saudi Oger in Riyadh in 1983. In 1984, he joined BLOM Bank France and was among the first staff to be involved in setting up the London branch that was, and continues to be, focused on providing private banking services, property finance and documentary credits. With over 30 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.

ABA Gala Dinner: Nemeh Sabbagh receives ABA Award for Distinguished Service to Arab Banking

Our annual Gala Dinner for 2018 retained its position as the premier social event for the London Arab banking community and included as its keynote speaker H.E. Fuad Seniora, the former Prime Minister of Lebanon.

The Association's CEO, George Kanaan (L) and Chairman, Abdulaziz El-Khereiji (R), present the annual Award for Distinguished Service to Arab Banking to Nemeh Sabbagh

Our annual Gala Dinner was held on 18 October 2018 at the Jumeirah Carlton Tower Hotel in London's Knightsbridge. Nearly 300 members, guests and visitors attended the event.

The highlights of the evening were the presentation of our annual award for Distinguished Service to Arab Banking to Nemeh Sabbagh, the CEO of Arab Bank; and the keynote address by H.E. Fuad Seniora, the former Prime Minister and Finance Minister of Lebanon. The evening also included magicians Spencer Wood and Stephen James, who toured the room making objects disappear and then re-appear in odd places; and Donimo, an award-winning entertainer.

The evening was introduced by the Association's CEO, George Kanaan, who gave an upbeat assessment of recent developments in the Middle East and noted that the Arab banking community in London was continuing to prosper despite the uncertainties around Brexit.

The Association's Chairman, Abdulaziz al-Khereiji, who is Riyad Bank's Chief Manager in London, then joined George on the stage to present the award to Nemeh Sabbagh.

Mr. Sabbagh headed National Bank of Kuwait's international operations and led Arab National Bank and BankMed before becoming CEO of Arab Bank in 2011. Among his many achievements, he spearheaded the battle against spurious legal claims made against Arab Bank in the US. The successful outcome of those court cases in mid-2018 was a landmark for the Arab banking community as a whole, and not only for Arab Bank.

In his acceptance speech, Mr. Sabbagh stressed the importance of bankers taking a long-term view, and of

Lord Magan of Castletown and H.E. Rami Murtada, Lebanese Ambassador in London

H.E. Fuad Seniora, former Prime Minister of Lebanon, delivers the Keynote Address

gaining and keeping the trust of their customers.

In his keynote address, Fuad Seniora gave an overview of the political environment in the Middle East and highlighted the efforts of the Iranian government to fill the gaps in the region that were created by the collapse of the Iraqi state. He also spoke about the continuing sore of the Palestinian issue and the need for western powers to engage constructively in the Middle East.

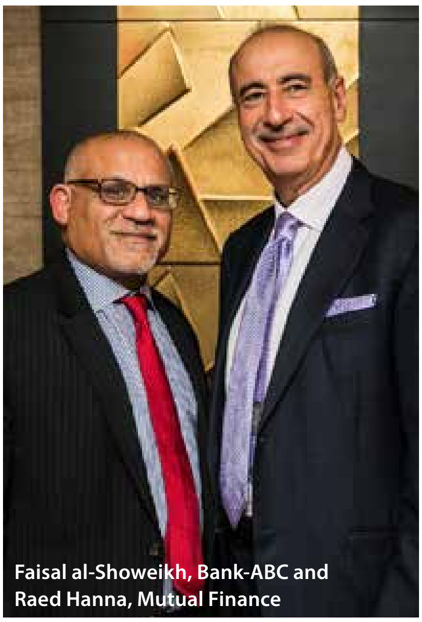
The following banks and companies bought corporate tables at the dinner: Arab National Bank, Bank-ABC, BB Energy, Byblos Bank, Europe Arab Bank, First Abu Dhabi Bank, HSBC, Janes Solicitors, Jordan International Bank, National Bank of Egypt (UK), National Bank of Kuwait International and Riyad Bank. ■


Mrs Soulaf Kanaan, Mr David Dao, Mr and Mrs Mounir Hamza


Donimo the clown performed for the whole room

The Riyad Bank table


Toastmaster Richard Birtchnell


Faisal al-Showeikh, Bank-ABC and Raed Hanna, Mutual Finance

The magicians kept everyone amused


Joe Hancock, Michson de Reya; Carina Yazbek, Morgan Stanley; Adam Epstein Mishcon de Reya; Laurence Roberts, Morgan Stanley


Keith Howlett, Qatar National Bank


Oliver Brind, Aperio Intelligence


Paul Henninger, FTI Consulting


Simon Hills, UK Finance, and Lina al-Khaleel, Unibin Group


Malcolm Bodey, Standard Chartered

Cyber security and protecting against financial crime

We assembled a team of experts for a seminar on cyber security and financial crime on 14 March.

Cyber security and the fight against financial crime have moved to the top of the risk management agenda and are now key issues during supervisory inspections.

We assembled a team of experts to brief members and guests on techniques to protect against cyber attacks and financial criminals. The panellists also addressed the dangers posed by late detection of cyber attacks and the need for banks to be able to recover quickly after an attack has taken place.

Adam Epstein, a partner with Mishcon de Reya, outlined the issues that UK supervisors are raising during their inspections.

Joe Hancock, Mishcon's Head of Cyber, gave examples of how banks are responding to increasingly sophisticated cyber attacks and stressed the need to ensure that staff are well trained to spot threats and suspicious emails.

Paul Herringer, Senior Managing Director at FTI Consulting, suggested strategies that are particularly appropriate for medium-sized banks and specialised banks that are trying to protect themselves against cyber and financial-crime risks.

Malcolm Bodey, Assistant Director at Standard Chartered, described the interface between cyber security and the fight against financial crime.

The presentations and question-and-answer session were followed by a buffet dinner, during which participants were able to mix informally with the speakers.

The seminar was sponsored by Mishcon de Reya and FTI Consulting. ■

Corporate Lunch series continues, with briefings on Brexit, Gold, Operational Resilience and Trust Structures

We held four Corporate Lunches during the first half of 2019.

Our Corporate Lunches are invitation-only events that enable professional service firms and others to speak directly to corporate members about issues that are relevant to their business objectives. Attendance is limited to about 15 people, with invitations sent both to bank CEOs and line managers whose responsibilities are relevant to the subject matter being discussed.

On 4 April, VG, the trust and administration services firm, fielded three of their senior executives to explain how Jersey-based trust structures have been evolving to reflect new international standards and regulations. The presentation included a briefing on Shari'ah-compliant trust structures and how these can be integrated into conventional transactions.

On 3 May, senior PwC executives briefed our Corporate Members on the latest developments in the replacement of Libor and other interest-rate benchmarks with new and more reliable instruments. Nassim Daneshzadeh, a Partner at PwC and the firm's co-lead on Libor Transition, and Sergen Djemal, a Manager in the Banking and Capital Markets practice, outlined the timescale for abolishing Libor and described the current status of plans to introduce replacement benchmarks. Their presentation identified near-term priorities for banks that have been using Libor and gave examples of tools that banks can use to discover, and then remediate, contracts that will be affected by the transition.

PwC hosted another lunch on 26 June, during which two of their executives described how issues related to operational resilience are moving up the regulators' agenda and gave some examples of firms that have been faced with operational crises.

The World Gold Council hosted a lunch on 13 June to brief Corporate Members on recent developments in the gold market and, in particular, on new Shari'ah-compliant gold investment products that have recently been developed.

As *Arab Banker* was going to press, more Corporate Lunches, for the final quarter of the year, were being planned. ■

Nassim Daneshzadeh (centre), a Partner in PwC's Libor transition team, briefs corporate members on the new financial benchmarks that will replace Libor.

Reception for Iraq's Deputy Prime Minister and Finance Minister

On 9 April, we held a reception for a senior delegation of Iraqi bankers and financiers, led by the country's Deputy Prime Minister and Finance Minister, Dr. Fuad Hussein.


Fawzi Dajani, National Bank of Kuwait; George Kanaan, ABA; Alexander Yakovenko, Russian Ambassador to London; H.E. Dr. Fuad Hussein, Deputy Prime Minister of Iraq; Sami Tamim, Ahli United Bank


Sir Nadhmi Auchi, General Mediterranean Holding; Louis Taylor, UK Export Finance Agency


Raed Hanna, Mutual Finance


Jon Wilks, British Ambassador to Iraq; George Kanaan, ABA; Andrew Cunningham, ABA; Ralph al-Raheb, Morgan Stanley

The Arab Bankers Association was asked by the UK Government's Department for International Trade to participate in events surrounding the visit to London of a senior financial delegation from Iraq. The delegation was led by Dr. Fuad Hussein, the Deputy Prime Minister and Finance Minister, and accompanied by the British Ambassador to Iraq, Jon Wilks.

The Iraqi delegation included senior officials from the Central Bank of Iraq and the Chairman and CEO of the Iraq Private Banks League. The ABA invited senior executives from the London Arab banking community to meet the delegation, as well as representatives of the London diplomatic community.

The reception was sponsored by Mutual Finance, the London-based boutique property financing house, which is led by Raed Hanna. ■


Gabi Fadel, Byblos Bank


Ashley Goodall, Iraq Britain Business Council

Eid Dinner draws full house at Noura Restaurant

Our annual Eid Dinner was held at Noura, Belgravia, on 11 June.

Our Eid Dinner is one of our four annual social events. (The other three are the Christmas Party, the Summer Fete and the Gala Dinner.)

The Eid dinner celebrates the end of the month of Ramadan, when Muslims fast from sunrise to sunset. It is an occasion that brings together both our Muslim members and friends, and those who are not Muslims but want to celebrate the occasion.

This year, we held the dinner at Noura, the Lebanese restaurant on Hobart Street in Belgravia. (Noura also has outlets in Mayfair and Knightsbridge.) Guests were treated to a full range of Lebanese starters and main courses, and entertainment from a jazz duo.

The dinner was sponsored by Bank-ABC, First Abu Dhabi Bank, National Bank of Kuwait and QIB (UK). ■

Richard Fagan, VG and Fuad Shakshir, QIB (UK)

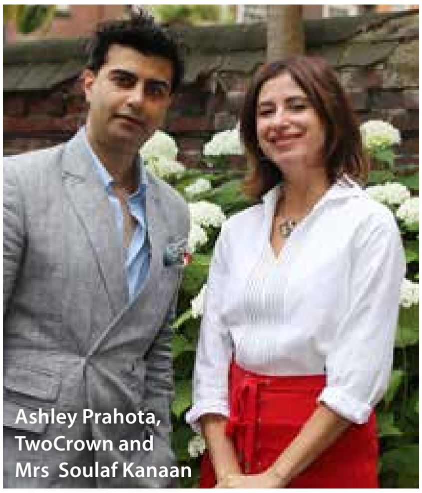
Bank-ABC and Grant Thornton

Ayman Zuheiri, Ahmad Ben Halim and Mrs Soulaf Kanaan

Farid Barakat

The National Bank of Kuwait table


Sami Tamim, Ahli United Bank; Maz Osman, Berkeley Landsdown and Nick Marshall, DAC Beach Croft


Ashley Prahota, TwoCrown and Mrs Soulaf Kanaan


Ayda Habboush, Trowers & Hamlins


L–R: Andrew Jones, Liam Bailey, George Kanaan, Nathan Williams, Bassam Khazen and Trevor Norman


Vivien Davies, Fieldfisher and Jessica Morris, Carey Trustees

Panellists upbeat on prospects for London property, despite headwinds

Our annual real-estate seminar was held on 10 July with the title, "Real Estate in the Time of Brexit".

The annual real-estate seminar is one of our most popular events and this year we had to turn away many applicants after our maximum capacity of 120 attendees was reached.

Liam Bailey, Knight Frank's Global Head of Research, opened proceedings with a review of trends in the London property market. While recognising that the London property market is affected by Brexit and domestic political uncertainty, he noted that other global property centres, such as Hong Kong and New York, have also been facing challenges, either from political events or new tax regulations. Knight Frank's research indicates that there is considerable investment money waiting for the right time to buy London property.

Bassam Khazen of National Bank of Kuwait International then described how the financial returns available to investors differ between London and non-London property, and Nathan Williams of Trowers and Hamlins explained how the recently-introduced Non-Resident Capital Gains Tax will affect the profitability of UK property investing for overseas buyers. Trevor Norman of Jersey-based VG explained how Jersey legal structures can easily be adapted to conform to Shari'ah requirements.

Finally, Andrew Jones gave an update on the Battersea Power Station development project, which is transforming the south bank of the Thames opposite Chelsea and Knightsbridge.

The questions and discussion after the presentations were particularly lively, with several real-estate experts in the audience giving their views on the health of the London property market, and in particular the prime and super-prime segment.

The event was sponsored by National Bank of Kuwait, VG, Trowers and Hamlins and Battersea Power Station. ■

Summer Party draws members and friends

We held our second annual Summer Party on 18 July at our offices in Mayfair.


Leila Zaied, Grant Thornton, receives good news from the fortune teller!


Kathryn Whinney; and Mohammed Khamisa, Mishcon de Reya


Nigel Harrison, Middle East Capital; Michele Aubertin, Stephenson Harwood; and Leena Payyappily, Foot Anstey


George Kanaan with Stephen Blyth and Israa Abed, both of Arab National Bank


Everyone likes ice cream!

Last year's Summer Party was an experiment, and it was a success. This year, the Summer Party has become a fixture within the Association's social programme. The atmosphere is relaxed, with guests spreading out onto the terrace – heavy rain earlier in the day cleared the air, and then departed in time for our event! – and snacking on a variety of Lebanese and western hors d'oeuvres.

One of the highlights of last year's party was the fortune telling, so we repeated it this year, with two Tarot Card readers helping guests predict their futures, both professional and personal.

The Summer Party capped a particularly hectic time for the Association. In previous weeks, we had held several meetings and lunches on technical subjects, so we were pleased to send our members away for the summer with a social event. ■

Galleries and Exhibitions Take Their Place As Part of the Gulf's Cultural Landscape

The GCC arts scene is undergoing a rapid transformation and a cultural renaissance. This is not only as a result of investment by Gulf governments, but also due to the efforts of a new generation of private citizens who are establishing their own galleries and artistic spaces. *Arab Banker* asked Maram Ahmad to explore some of the latest initiatives.

After almost ten years of preparation, Louvre Abu Dhabi opened its doors in 2017 in a star-studded event. President Macron was on hand to officiate at the opening of the museum in Abu Dhabi that carries the Louvre's name.

At an estimated cost of $1.3 bn, Louvre Abu Dhabi exhibits collections mainly based on loans of Western art from French museums. But Abu Dhabi did not just stop with the Louvre.

Abu Dhabi has been working to build a branch of the Guggenheim on Saadiyat Island, just outside the city centre. The new museum's collection is expected to focus on modern work – in line with the Guggenheim in New York – and also work from the Middle East.

In Doha, the Museum of Islamic Art opened over ten years ago and houses an extraordinary collection of objects that trace the history of craftsmanship and painting in the Islamic world from medieval times to the present day.

Modelled on the Ibn Tulun Mosque in Cairo and designed by the celebrity architect I.M. Pei, the Doha museum quickly became an icon throughout the art world, and a pathfinder for similar initiatives in the GCC. Showcasing objects from Islamic Spain to central Asia, the museum takes in the entire cultural history of the Muslim world.

Sultan Qaboos of Oman caused a surprise in 1985 when he created the Royal Oman Symphony Orchestra, complete with a concert hall to which leading international ensembles were invited to play. He went one better in 2011 when he built an opera house, and more recently the House of Musical Arts.

In his musical patronage the Sultan was ahead of his time. Dubai opened an opera house in 2016, and, in the same year, Kuwait opened a modern cultural centre that combines a concert hall, theatre space and exhibition areas.

Saudi Arabia is also broadening its cultural horizons. The Kingdom's Vision 2030 called for the promotion of cultural activities. Under the recently-created Ministry of Culture, Saudi Arabia returned to the Venice Biennale with an all-female cast after an eight-year absence. A poem by ancient Arab poet Zuhayr bin Abi Sulma was the inspiration behind the pavilion "after an illusion" – exploring the role of art in times of change.

Crown Prince Muhammed bin Sultan launched the MiSK Art Institute in 2017 as the artistic arm of his MiSK Foundation. The Institute's mission is to promote Saudi and Arab art and in particular to nurture what it terms, 'Grassroots art production' in the Kingdom.

In the UAE, a host of foundations sponsor and promote local artists and international exhibitions, while also financing the participation of Emirati artists in international forums such as the Venice Biennale.

In Ras al-Khaimah, through the Sheikh Saud bin Saqr

Maram Ahmed

Maram Ahmed is a researcher and author who teaches at the School of Oriental and African Studies (SOAS), University of London. Her current research interests include philanthropy, sustainable development, humanitarian financing and governance.

Al Qasimi Foundation, a number of artistic initiatives are funded. The Foundation held its sixth annual Ras al-Khaimah Arts Festival in 2018.

With a long-standing reputation for backing cultural activities, Sharjah ruler Dr Sultan Al Qasimi founded the city's first Biennale held in 1993. Since then, the Biennale has come under the Sharjah Arts Foundation, headed by art enthusiast Hoor Al Qasimi – who is also the ruler's youngest daughter. Established in 2009, the foundation is an umbrella organisation that oversees a number of exhibitions and other cultural pursuits.

Private Initiatives

It would be a mistake to think the development of the arts in the GCC is being driven solely through large government-financed projects or foundations.

In 2003, Art Jameel was founded by the family of Saudi businessman Abdul Latif Jameel as part of the broader philanthropic initiatives taken under the Community Jameel umbrella. Art Jameel has created a project space in Jeddah that has become a centre for artisanship, architectural collaboration and heritage preservation.

Art Jameel is active beyond Saudi Arabia. The Jameel Arts Centre Dubai opened in November 2018, with a focus on contemporary art. In Egypt, the Jameel House of Traditional Arts in Cairo opened in 2009 and was soon followed by Atelier Cairo Art Jameel. As in Dubai, the focus in Egypt is on providing exhibition space and learning opportunities for contemporary artists.

Art Jameel has even extended its activities outside the Middle East, with exhibition spaces in Dumfries, in Scotland, and a long history of support for London's Victoria and Albert Museum.

In Dubai, local businessman Abdel Monem Bin Eisa Alserkal created Alserkal Avenue, a 500,000-square-foot cultural district of contemporary art galleries in the Al-Quoz District – the area of the city which once housed the Serkal family's marble factory and warehouses. Alserkal has transformed the industrial complex into a vibrant cultural hub.

The blossoming of private art spaces in the Gulf has become one of the most striking features of the region's development in the early 21st century, but there is much more to come. ■

Maram Ahmad asked Suheyla Takesh, the curator of the Barjeel Art Foundation in Sharjah, about the role of contemporary art in the Gulf.

What is the Barjeel Art Foundation and the main concept behind it?

Barjeel Art Foundation is a private initiative, established in Sharjah in 2009 by Sultan Sooud Al Qasimi to promote the study and increased public access to modern and contemporary art from the Arab world. The foundation holds an extensive collection of 20th and 21st-century art from North Africa and West Asia, which we strive to make accessible through local and international exhibitions, illustrated publications and the foundation's website. Barjeel's work aims at fostering an open-ended conversation about the region's complex histories that goes beyond the borders of geography, linear chronology and established narratives.

What are the misconceptions of 'Modern Middle Eastern' art? How has it evolved in recent years?

There has almost always been a crisis of terminology when it comes to studying art from the region. The terms 'Middle Eastern', 'Arab' or 'Islamic' all have points of contention in their approaches towards identifying the region, and each carries inherent misconceptions about the area, its histories, demographics and so on. Some of the common debates about the region's modern art specifically have been linked to claims that it is either derivative of its European contemporaries or that, on the other hand, it is excessively insular. Framing regional art histories and situating them within the global context is a challenge. However, in recent years, scholarship and research on art from the Arab world, Iran and Turkey has been steadily growing, more international conferences are beginning to focus on the region, international museums are showing and/or acquiring more 'Middle Eastern' art, and increasingly, more dissertations are being written on related subjects.

How can more artists from the region be integrated into the wider art world and how can philanthropy support this?

Exposure is important, and I would urge private collectors in the region to make artworks from their collections available for viewing online – whether it is on a website, a personal blog, or social media – as this could become an important resource for scholars, researchers, and museum world practitioners. This is how a piece may end up in a show, or an image in a publication. Also, by investing in culture not only on an institutional level, but in supporting the education of individual artists, art historians and curators who are interested in working on the region can be immensely impactful in broadening the discourse on regional art and increasing its presence on global platforms. Philanthropic initiatives do not always need to be large-scale or public in order to be meaningful and effective.

Art is often seen as intimidating and reserved for the elite. What role can private philanthropic institutions such as Barjeel play in demystifying the art world to those not particularly involved?

Making private collections publicly accessible can certainly help to generate wider interest in the arts, and to encourage people to engage, ask questions, and to then share stories they've learned or artworks they've seen with others – be it on social media, through in-person conversations or by bringing their friends to see an exhibition. At Barjeel, we invest in producing illustrated catalogues to accompany each show and regularly give guided tours of the collection to visiting groups and students in order to provide audiences with background information on the artists, the historical context and the curatorial narrative behind our displays.

What role do you see the arts and the cultural sector playing in the wider economy?

Art and culture have already been recognised as significant areas of investment by Gulf states in the move towards diversifying their economies. Efforts are being channelled into building new museums and not-for-profit art centres; new private foundations are being established, like Ishara and Alserkal Arts Foundation, both in 2019. Visitor numbers to some of the region's venues are growing as well. The Sharjah Bienniale, for instance, had an estimated 120,000 local and international attendees in 2017. While it is difficult for me to speak to specific measurable contributions of cultural and creative industries to economic growth, particularly in the entire region, I think that there has been a general move towards increased investment in art institutions in the past decade. The cultural sector is also a dynamic ground for exchanging ideas, debating histories and challenging established narratives – and that is no small contribution to the advancement of any society.

Suheyla Takesh is a curator at the Barjeel Art Foundation, working on research, development of exhibitions, and the production of publications. She is currently co-curating an exhibition of abstract art from the Barjeel collection at the Grey Art Gallery in New York, scheduled to open in January 2020.

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:

☐ **Individual Membership** | Annual fee £200

☐ **Young Professional** (less than seven years' experience in the banking and financial sector) | Annual fee £75

☐ **Associate (corporate) Membership** | Annual fee £3,500

Family name .... DOB: ....

Nationality ....

Institution ....

Position/Title ....

Address ....

....

....

Telephone ....

Fax ....

E-mail ....

ABA Sponsor/Referee ....

☐ **I enclose payment**
(Cheques made payable to: *Arab Bankers Association*)

☐ **Please bill me**

☐ **Please debit my card**

Please debit my ☐ Amex ☐ Delta ☐ Electron ☐ Maestro ☐ Mastercard ☐ Solo ☐ Switch ☐ Visa credit/charge card

Card No: .... Expiry: ....

Signed: .... Date: ....

Post or fax to:

ABA
43 Upper Grosvenor Street
London W1K 2NJ

T +44 (0)20 7659 4889
F +44 (0)20 7659 4868

www.arab-bankers.co.uk

Arabs

Tim Mackintosh-Smith

630 pages Yale £25 (hardback)

This is a magnificent and beautifully-written book that deserves to be read by everyone with an interest in the history of the Middle East and the Arab world.

The book's central conceit is to begin the history of the Arabs with the first known reference to them, in 853 BC. Within the context of the 2,872 years that have passed since then, the birth of the Prophet Mohammed in AD 582 falls almost exactly at the mid-point. Most histories of the Arabs begin their narratives around this mid-point and trace the glories of Arab rule in Damascus, Baghdad and beyond. The problem with that approach, says Mackintosh-Smith, is that around AD 900, histories of the Arabs turn into histories of other peoples' empires as the Arab caliphate is usurped by foreigners. In those histories, he says, the Arabs all but disappear from the picture.

In contrast, this history keeps its focus firmly on the Arabs and on their language. It explains the Arab civilisations of South Arabia (modern Yemen) that shaped the religion and culture that would burst out of Mecca and Medina under the Prophet Mohammed's leadership. It describes the decree of Caliph Abd al-Malik in AD 700 that the Islamic empire should be administered in Arabic and not in local languages. Without this, the author says, Arabic based on the Quran and pre-Islamic poetry would have ossified into a dead language, much like Sanskrit. Arabic became the "sociolinguistic glue" to link Moroccans, Turks and Mongols across geography and across time.

A chapter entitled 'Masters of the Monsoon' describes the spread of Arab language and cultural references around the Indian Ocean and further east, demonstrating their enduring significance centuries after the Arab kingdoms of the Middle East had fallen. The author takes his story through the centuries of the Ottoman Empire and Western colonial rule, right up to the present day to consider the failure of the Arab Spring ("The spring that had no summer") and the reasons for seemingly endless repression and corruption that characterise the political process.

Mackintosh-Smith uses historical perspective to good effect when describing recent or contemporary events: he asserts that Saddam Husain's invasion of Kuwait in 1990 was as divisive in the region as any event in Arab history since the sixth-century wars between Mu'awiya and Ali. He wonders whether the Egyptian novelist, and Nobel Prize Laureate, Taha Husein, would escape prison today, as he did in the 1920s after questioning the authenticity of early Arabic poetry and the Quran.

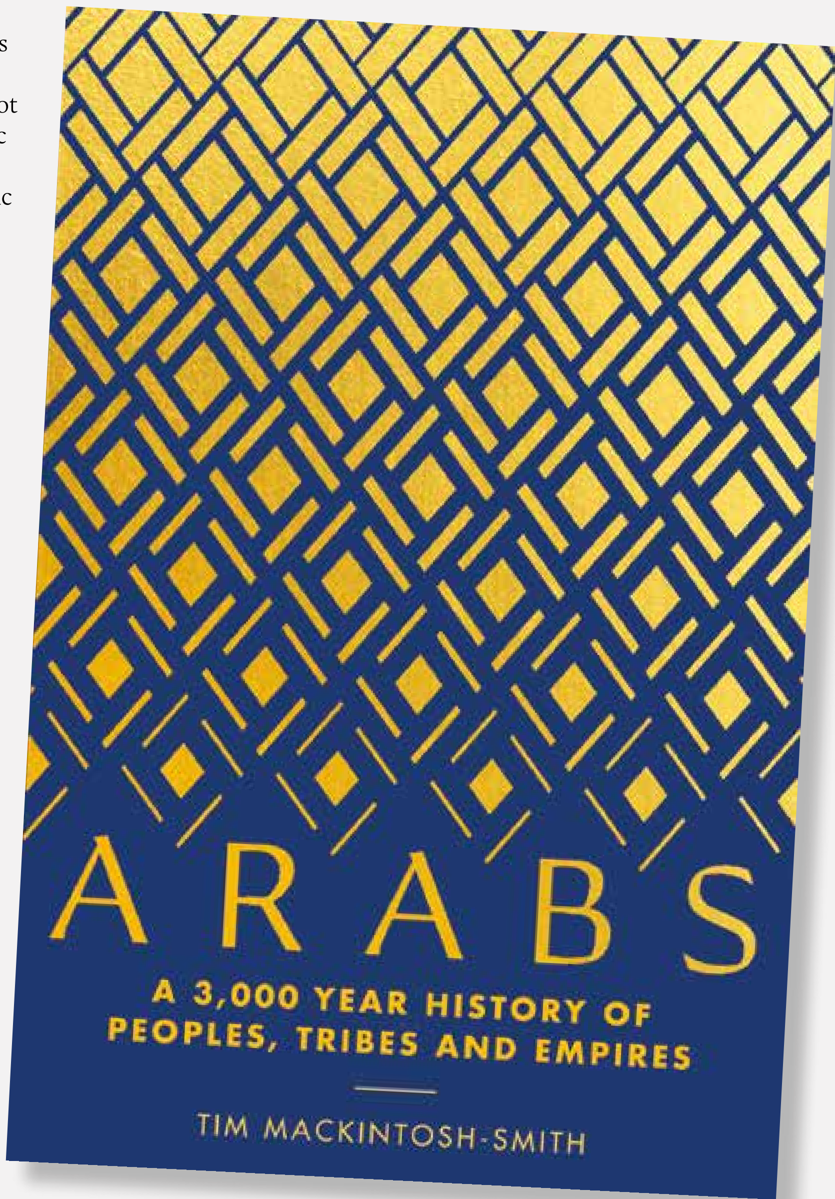
To interpret three millennia of Arab history is a supremely ambitious project, but Mackintosh-Smith is well qualified for the task. He has lived in Yemen for decades (and still does), and Yemen and the Arabic language were the subjects of his first book, 'Travels in Dictionary Land', in 1997. Since then he has written on the Moroccan geographer Ibn Battuta, following his steps around the medieval Muslim world. The notes at the back of this book display the encyclopaedic range of Mackintosh-Smith's reading, from the early Arab grammarians to contemporary poets. His witty translations of Arabic poetry display astonishing command of the language.

This is a long book – 536 pages of text, followed by a chronology and notes. For those who have time, it deserves to be read from cover to cover, but it is also accessible in smaller bites. The later chapters, covering very recent events, are sharply drawn and benefit from the author's deep knowledge of the region. As one would expect from such an accomplished linguist, nearly every page contains a bon mot or amusing aside.

This reviewer first studied Arabic in the early 1980s, and more recently has accumulated a collection of about 750 books on the Middle East. The criterion for including a book in the collection, and for it to remain, is a belief that someone will still want to read it 30 years from now. I sometimes play a game, in which I imagine that my house is burning down. As I flee the flames, I realise there is time to grab only five books, but which to grab?

Tim Mackintosh-Smith's 'Arabs' would certainly be among them. ■

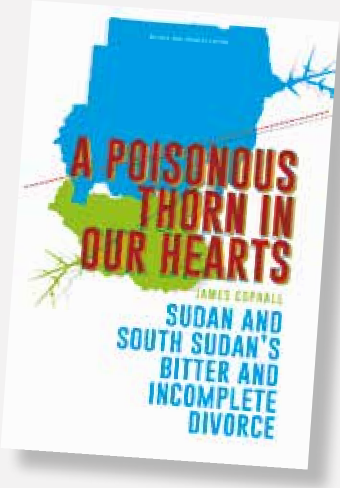
Andrew Cunningham



A Poisonous Thorn in our Hearts

James Copnall

317 pages. Hurst & Company £22 (paperback)



Sudan burst into the news earlier this year when a series of anti-government demonstrations led army leaders to replace President Omar al-Bashir, who had ruled Sudan since coming to power in an army-led coup in 1989.

In August, four months after Bashir was ousted, civilian groups and the ruling army council signed a constitutional agreement that foresaw a joint military-civilian ruling council taking power for a three-year 'transitional' period.

The agreement was hailed by the head of the army as "the agreement that the Sudanese people have been waiting for since independence (from Britain in 1956)", while a leader of the civilian groups described it as "a great step forward to establishing democracy in Sudan".

After reading James Copnall's detailed account of recent Sudanese history, it is hard to share the optimism of the new Sudanese leaders.

Copnall has reported from Sudan for the BBC for more than ten years and his account of the corruption, incompetence and never-ending violence is devastating. He has a detailed knowledge of events and of the key political personalities, but he has also spoken to Sudanese from every walk of life and from every region to understand how events have affected the lives of ordinary people trying to make a living, bring up their families and stay away from trouble.

Sudan split in 2011 after two long civil wars, the second of which ended in 2005 with the so-called 'Comprehensive Peace Agreement' (CPA) that gave the Sudan People's Liberation Army (SPLA) effective control of the south and nearly half of Sudan's oil revenue. Hopes that the CPA would be sufficient to ward off formal secession were dashed when John Garang, the SPLA leader, died in a helicopter crash just months later and was succeeded by Salva Kiir, who would settle for nothing less than complete independence.

For about two years after the split, South Sudan enjoyed relative stability – 'relative' to what had gone before – and then civil war broke out among the southern leaders, bringing yet more years of violence to a devastated region.

Meanwhile, in the north, Omar al-Bashir focussed his energies on clinging to power, constantly shuffling his top leaders, exiling allies and welcoming back former foes in response to each new crisis.

This book is not always easy to read. It sometimes seems to be written as a series of short vignettes, each of which stands alone for a couple of pages. The detail is impressive, and the vignette style facilitates the telling of personal stories of individual Sudanese people; but the book does lack a broad-sweeping perspective that is needed by non-specialist readers trying to understand the long-term trends.

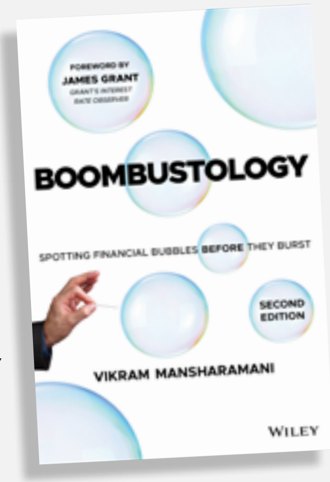
Nonetheless, the book succeeds in helping us understand the extent of violence, dislocation and political depravity that pervade both Sudans and, implicitly, cautions us against any optimism for the future of either country. ■

Andrew Cunningham

Boombustology

Vikram Mansharamani

360 pages Wiley £22.99 (hardback)



There is no shortage of books about economic booms and busts, and financial bubbles and crashes, but this one is well structured into easily digestible thematic chapters and covers a full range of factors that help to determine when and why economies and financial markets rise too high and then fall back to earth. It is a book worth reading.

The author, who teaches at Yale University, offers five lenses through which to view economic and financial trends: micro-economic, macro-economic, psychological, political and biological. So, for example, the chapter on biology considers how work to understand the spread of epidemics can inform our efforts to understand when a financial boom might be reaching its peak. The chapter on macro-economics describes the role of central banks in driving credit cycles and provides a short tutorial on the Austrian School of Economics – five well-written pages with a few charts, which is all most of us are going to need during a career in finance. The chapter on psychology is fun (and inevitably draws heavily on the pioneering work of Kanneman and Tversky) and includes some standard examples of how we all make decisions that, with a moment's thought, we can see are utterly irrational.

Mansharamani then uses these five lenses to consider six historical examples of booms and busts. The chapter on the US housing boom and bust that led to the global financial crisis of 2008 provides a solid account of what happened and includes numerous charts. For younger readers who did not experience the 2008 crisis, this chapter is an excellent overview. The chapter on the Japanese real-estate bubble of the 1980s is similarly clear and includes examples that illustrate the evident absurdity reached by Japanese asset prices by the end of the decade: in 1989, Japanese official figures estimated that Japan's property market was worth four times that of the US property market, even though it was one twenty-fifth of its size. Other historical examples include the Asian Financial Crisis of the late 1980s. Again, if you were not there at the time, the chapters in this book provide a good summary, complete with the warning signs that were missed. And if you were there, these chapters provide facts and details that you may have forgotten in the intervening years.

There is much more in this book, and it is all written clearly and concisely, and supported by statistics and footnotes for further reading. ■

Andrew Cunningham

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