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ARAB Banker

The Global Magazine of the Arab Bankers Association (ABA)

Arab Bankers Association
جمعية المصرفيين العرب

BANK AUDI A PREMIER REGIONAL BANK BUILT ON SOLID DOMESTIC FOUNDATIONS

NATIONAL BANK OF ABU DHABI IN PURSUIT OF EXCELLENCE

NATIONAL BANK OF KUWAIT SEIZING NEW OPPORTUNITIES AT HOME AND ABROAD

EGYPTIAN BANKS' POSITIVE CONTRIBUTION

BEYOND THE HEADLINES IN LIBYA

ARAB PHILANTHROPY

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Arab banking: still displaying robust good health

Despite political uncertainty in the region, Arab banks continue to prosper.

Last year I shared with you my confidence that Arab banking, which sailed through the storms of the 2008 global financial crisis and the regional turmoil of the "Arab Spring", would survive the continuing problems in the Arab World. My confidence was well placed. Arab banking not only survives but shows signs of vitality and robust good health. This, of course, is evident through the numbers and stories that we will be sharing with you in this issue of *Arab Banker*. Certain matters, however, are worthy of note.

First, we observe the remarkable managerial change that has been sweeping Arab banking. In just one year we have seen changes at the helm of many large Arab banks. A new generation of capable young leaders has taken over from long serving chief executives, many of whom were 'founding fathers'. Almost all happened without a hitch. This is a sign, if any is needed, of institutional maturity, good governance, and managerial depth and continuity. It is also a sign of vigour and a harbinger of renewal.

Second, we note the new strategic initiatives undertaken by many Arab banks. There is, of course, the ever expanding slate of financial products and services. This is spurred by ever increasing investment in technology as well as by competition. However, more impressive is the continuing geographical diversification, both within the region, and particularly towards the rising East... and beyond. I expect Africa will not be far behind.

Third, we witness the continuing good performance of the banks in the discharge of their legal obligations, particularly as to fighting financial crime. Regulatory compliance amongst Arab banks remains exemplary by comparison with their peers elsewhere, particularly given the difficulties that they face in their immediate neighbourhood.

The Arab Bankers Association continues its support of Arab banking. Our seminars over the past year have addressed the needs of the Arab banking community in London and beyond by focusing on topics of immediate, as well as long term, interest. Regulation, taxation, employment, immigration, energy, real estate, gold, currencies, and capital markets are but some of the topics covered. Seminars and discussions were led by the most eminent specialists in their respective fields, and where appropriate, officials of Her Majesty's Government participated actively. Sponsorship was generously and readily available from our membership, and the events were extremely well attended.

Last year we gave our second 'Banker of the Year' award to Dr. Naaman Azhari, chairman of BLOM Group. This award was a celebration of a lifetime of achievement that culminated in transforming BLOM bank into a giant of Arab banking. BLOM bank prospered under his leadership, which imbued the bank with a principled approach to banking and management. His set of principles remains at the core of what will always be considered 'best practice'.

At our forthcoming Gala we will be granting our third such award. This will be presented to Mr. Raymond Audi, chairman of Bank Audi, and one of the most celebrated bankers in the Arab world. Bank Audi is now an all-encompassing regional bank that enjoys significant presence in many Arab countries, with a recent impressive foray into Turkey. It also enjoys a solid reputation as one of the best-managed and most sophisticated banks in the region.

Mr. Audi has not only enriched Bank Audi but also the cultural life of Lebanon and beyond. In all that he does, Mr. Audi strives for a quality of achievement that approaches perfection.

As for *Arab Banker*, its revival had a brilliant start with last year's issue. We hope that this issue will continue the progress begun last year. We are keen to publish *Arab Banker* more frequently than once a year, but if we are to do this we need your support. Members of the Association and non members have been most generous in supporting this issue and the previous one, but to do more, we need wider sponsorship.

In the meantime, our website has been redesigned with a modern and practical layout. It now describes the activities of the Association in full. In addition, it carries exclusive interviews, original articles and covers what we hope is the most valuable output of our financial institutions in the area, and their most interesting news.

Enjoy the issue. Stay in touch. We appreciate your opinions and suggestions regarding all our activities.

George Kanaan
Chief Executive Officer
Arab Bankers Association

Building on our success

We had an excellent response to last year's edition of the re-launched *Arab Banker*. We hope the response to this year's edition will be even better, writes Editor Andrew Cunningham.

This time last year, we issued the first edition of a new-look *Arab Banker* with strong, up-to-date editorial content and sharp design. The magazine was well-received everywhere that it was distributed (and we quickly ran out of copies!).

Last year we printed 3,000 copies, distributing about half in the GCC, nearly a thousand in London and Europe, several hundred in the US and the remainder in non-GCC Middle East and Asia. This year, the print run is 5,000, enabling us to reach even more senior finance professionals in the GCC and Europe, but also to expand our distribution in North America and Asia.

The theme of this edition is, "New Horizons for Gulf Banks." We are honoured that in support of this theme, the most senior executives of National Bank of Abu Dhabi and National Bank of Kuwait have spoken to us about their plans to develop their banks' franchises over the long term, both at home and abroad (pages 20–25).

The magazine also includes a feature detailing the extraordinary growth of debt capital markets in the GCC over the last few years (pages 26–28). Michael Grifferty, the President of the Gulf Bond and Sukuk Association, presents both statistics and anecdotal evidence for the growing maturity of this important financial sector.

There are plenty of individual success stories outside the Gulf, too. On pages 12–15 we profile Bank Audi, a Lebanese bank whose franchise now extends throughout the Middle East, including Turkey, where the bank's start-up subsidiary, Odeabank, has already captured a significant market share. On pages 16–17 we also provide a personal profile of Raymond Audi, a banker who has been a key figure in Bank Audi's success but who is now equally known for his art collecting and philanthropic work.

In 2011, another Lebanese bank, Bank of Beirut, bought an Australian bank – an unusual move for a Middle Eastern bank. Last year, Beirut Hellenic was rebranded as Bank of Sydney. On pages 33–35, Bank of Beirut's Chairman, Salim Sfeir, explains how an Australian bank fits into a Lebanese bank's strategy and, specifically, his plans for Bank of Sydney.

On pages 36–38, Hisham Ezz al-Arab, the Chairman of the Federation of Egyptian Banks describes how Egyptian banks have not only survived the political turmoil in their country over the last three and a half years, but have been making a positive contribution to the local economy – through banking services – and to society as a whole – through their programmes of corporate social responsibility.

Libya is another Middle Eastern country that has faced political difficulties over the last three years – and on a far greater scale than Egypt. Yet, as Ahmed Ben Halim explains on pages 39–41, business is being done in Libya, and opportunities for investors exist, not least in the banking sector.

The magazine also contains an interview with Bahaeddine Bassatne, one of the Middle East's most successful energy traders (pages 44–45); on pages 50–52, Michael Rainey, from the law firm King & Spalding, describes how Islamic banks are trying to compete against conventional banks outside the Gulf; and on pages 56–57 Mark Estcourt from London & Capital explains how the UK's investor visa system works, and how it may be changing – to the benefit of investors. On pages 58–60 Raed Hanna of Mutual Finance describes how new entrants are changing the nature of the commercial property finance market in the UK.

Our magazine also includes hard data on Middle East and international finance. On page 31 you will find a list of the largest 50 GCC banks, ranked by equity; on pages 42–43 there is a description of recent changes to ratings assigned to Middle Eastern countries; and on pages 54–55, Stephen Timewell, Editor Emeritus of *The Banker* magazine, charts the rise of Chinese and other emerging-market banks within the global banking system.

I am pleased that again we have been able to provide space to profile non-financial organisations that do important work for the Middle East. The London-based Arab British Centre promotes an astounding array of authentic cultural events (pages 74–76). Alfanar is a charity that combines exceptional philanthropic work with the financial rigour of a fund manager (pages 78-80).

Finally, I would like to thank George Kanaan, the Chief Executive Officer of the Arab Bankers Association, for his support and practical help in getting this magazine published.

Particular thanks go to Martin Cox of JPS Print Consultants, who designed the magazine and again ensured a sharp and professional appearance, and to Jason Smith, of JPS, who printed it.

Andrew Cunningham
Editor

New appointments at ABC

Arab Banking Corporation (ABC) appointed a new Group Chief Financial Officer and a new Head of Group Compliance. Both positions are based in the bank's headquarters in Bahrain.

Brendon Hopkins joined the bank on 1 June as Group CFO. He has worked in financial services for more than 25 years, 18 of which were spent with Standard Chartered, including time as Chief Executive Officer of the bank's European operations.

Hopkins replaces Roy Gardener who has served as Group CFO since 2009 and is now retiring.

Sharon Craggs joined the bank on 1 August as Head of Group Compliance. She joined ABC from Standard Chartered where she had been based in Singapore as Head of Compliance for South East Asia. She had previously worked for the Monetary Authority of Singapore, JPMorgan Chase, and DBS Bank.

At the end of 2013 ABC had equity of $4,359mn and assets of $26,545mn.

Breish steps down as head of Libyan Investment Authority

The Libyan Investment Authority (LIA) – the organisation that manages Libya's overseas assets – announced in July that **Abdel Meguid Breish** had stepped down after he was investigated under a law that bans people from public office if they held a position in the regime of Muammer Gaddafi.

The LIA announcement added that Breish had appealed the decision of the investigation and that he was confident that the appeal would find in his favour.

Abdulrahman Benyezza, already a board member at the LIA and an advisor to the Libyan Oil and Gas Ministry, was appointed as acting head of the fund to replace Breish. Benyezza served as oil minister from November 2011 until November 2012, and was previously Chairman of Eni Oil Co, a joint venture between Italian oil company Eni and Libya's National Oil Company.

Mr Breish's appeal was still ongoing as *Arab Banker* went to press in late August.

Qatar Islamic Bank appoints new chief executive in London

Bert de Ruiter was appointed Chief Executive Officer of QIB (UK) with effect from March 2014. QIB (UK) is a 100%-owned subsidiary of Qatar Islamic Bank, established in 2008. Mr de Ruiter has previously worked for Qatar Islamic Bank as General Manager of the bank's wholesale banking group, based in Doha. Before working for Qatar Islamic Bank, Mr. de Ruiter held a wide range of senior banking positions at Lloyds Bank, including being CEO of the bank's operations in Dubai and country manager in the Netherlands. A Dutch national, Mr. de Ruiter began his banking career at ABN AMRO Bank.

QIB (UK) is a 100%-owned subsidiary of Qatar Islamic Bank.

ADIB appoints new chief executive in London

Stuart Taylor was appointed Chief Executive Officer at Abu Dhabi Islamic Bank (UK) with effect from February 2014. Mr. Taylor has previously worked for Ahli United Bank (UK) in London as Deputy CEO, Private Banking and Wealth Management. Prior to that he enjoyed a long career with HSBC, including time as Managing Director of HSBC Private Bank in the Channel Islands and Director of HSBC's Global MENA team.

Henry Thompson appointed new CEO at Gatehouse Bank

Gatehouse Bank, the London-based Islamic investment bank, announced the appointment of **Henry Thompson** as its new CEO in May. Thompson replaces Fahed Boodai, the bank's Chairman, who had acted as CEO over the previous year. Boodai continues in his role as Executive Chairman.

Before joining Gatehouse Bank, Thompson spent 17 years at Arcapita Bank, the Bahrain-based Islamic wholesale bank of which he was a founding executive.

New appointments at Kuwaiti banks

Four of Kuwait's nine commercial banks have changed – or have been in the process of changing – their CEOs in recent months.

Most obviously, Ibrahim Dabdoub stepped down as Group CEO of National Bank of Kuwait at the beginning of the year, being replaced by one of his deputies, **Isam Al Sager**.

At Al Ahli Bank of Kuwait, **Michel Accad** replaced Colin Plowman, who resigned from the bank in mid-April. Accad had been CEO of Kuwait's Gulf Bank until September 2013. Before going to Gulf Bank, Accad had held a senior position at Arab Bank in Jordan and before that held various positions at Citibank.

In March, Gulf Bank appointed **César Gonzalez-Bueno** to replace Accad. Gonzalez-Bueno had previously worked for the Spanish bank Novagalicia and before that for ING Bank.

Kuwait Finance House's CEO, **Mohammed Al Omar** stepped down on 1 May. He had led the bank since 2008. No replacement had been named by the end of July. In March, KFH appointed a new General Manager for its operations in Malaysia as part of strategic changes aimed at making a greater distinction between fund-based and fee-based income.

Separately, in March, Commercial Bank of Kuwait announced that it planned to convert into an Islamic bank, a move that has been granted shareholder approval.

New appointments at Omani banks

Alizz islamic bank announced a series of senior appointments in July, including the appointment of a Chief Executive Officer.

Mr. Salaam al-Shaksy joined Alizz as Chief Executive in June, having served as Chief Executive of National Bank of Oman since 2010. Mr. Shaksy began his banking career with Citibank in Dubai in 1992 and he subsequently held positions in Dubai and with Bank Dhofar. He is currently the Chairman of Oman's Investment Stabilisation Fund and a member of the Executive Committee of Oman's government-backed SME fund, Al-Rafd Fund.

Alizz also announced the appointment of **Saif Suleiman Al-Yarubi** as General Manager, Chief Operating Officer. Mr. Yarubi's previous positions included work with Ernst & Young in the UAE and as Finance Director of the Investment Corporation of Dubai.

Mr. Ghalib al-Busaidy, has been appointed Deputy General Manager, Chief Financial Officer; **Mr. Ehab Eleman Hashish** has been appointed Deputy General Manager, Head of Corporate Banking, and **Mr. Moosa Masoud al-Jadidi** has been appointed Deputy General Manager, Head of Retail Banking.

Alizz islamic bank was incorporated in November 2012 and launched on 30 September 2013. At the end of March 2014, the bank had assets of OR100mn ($260mn), nearly all of which was funded by equity. The bank's chairman is His Highness Sayyid Tamur Bin As'ad Bin Tarik Al Said. Sixty per cent of the bank's shares are held by the original promoters and 40% by public investors who participated in an IPO.

Mr. Shaksy has been succeeded as Chief Executive of National Bank of Oman by **Ahmed Al-Musaimi**, who had served as Deputy Chief Executive since 2011.

Commercial Bank of Qatar owns 35% of National Bank of Oman and the Suhail Bahwan Group holds 15%. Several state-owned pension funds hold about another 25%.

HSBC Bank Oman announced in June that **Abdul Qadar bin Ahmed al Sumaili** had been appointed General Manager and Head of Retail Banking and Wealth Management. **Suleiman al-Lamki** was appointed Chief Risk Officer. HSBC Oman was created in 2012 through the merger of HSBC's Oman operations with Oman International Bank. HSBC Bank holds 51% of the bank's shares.

Hisham EzzEldin appointed acting CEO of Qatar's Al Khaliji Bank

Hisham EzzEldin was appointed acting Group Chief Executive Officer of Qatar's Al-Khaliji Bank with effect from 22 July. He replaces Robin McCall, who resigned in May for personal reasons but stayed on at the bank until a replacement had been found.

EzzEldin was previously the Group Chief Operating Officer at Al-Khaliji.

Al Khaliji Bank was licensed in 2007 and had equity of $1.5bn at the end of 2013, making it the 37th biggest GCC commercial bank when ranked by equity and the seventh biggest in Qatar. It had assets of $11.3bn.

Qatar's Al Khaliji Bank should not be confused with Bahrain's Khaliji Commercial Bank.

First Gulf Bank opens office in Seoul

Abu Dhabi-based First Gulf Bank (FGB) announced in July that it will open a representative office in Seoul. The new office will be led by **Woojin Han**.

Han previously worked for ING as Director and Head of Financial Institutions in Korea and Mongolia.

First Gulf Bank already has a branch in Singapore and a representative office in Hong Kong. The bank's CEO, André Sayegh described the opening of a Seoul office as "a logical next step for our international expansion strategy."

At the end of 2013, FGB had equity of $8.7bn and assets of $53.1bn. It was the ninth biggest bank in the GCC, ranked by equity.

Citibank appoints new CEO in Qatar

Citibank announced in June that it has appointed **Carmen Haddad** to be its new Chief Executive Officer in Qatar. Before the appointment, Haddad led Citibank's private banking business in the GCC and Egypt. She will retain these responsibilities in her new position as CEO in Qatar.

Before joining Citibank, Haddad held senior wealth management positions in JPMorgan Chase, Lehman Brothers and Merrill Lynch.

Citibank established a branch in the Qatar Financial Centre in 2007.

New head of Middle East Private Banking at Société Générale

Société Générale Private Banking announced in June that **Gonzague de Cerval** had been appointed Chief Executive Officer and Commercial Director for its Middle East operations. He replaced Eddy Abramo who has worked at Société Générale Private Banking since 1996 when he joined as a discretionary portfolio manager.

Based in Dubai, de Cerval reports to Yves Thieffry, the CEO of Société Générale Private Banking (Suisse).

Société Générale Private Banking Middle East has two offices in the Gulf – Dubai and Abu Dhabi. De Cerval previously led the office in Abu Dhabi.

UK government Sukuk ten times oversubscribed

The UK government received offers of £2.3bn for its £200mn sukuk issue that was launched in June. The sukuk had a tenor of five years and a yield of 2.036% – the same yield as conventional five-year UK government bonds.

The possibility of a small premium against equivalent conventional bonds had been discussed before the deal closed, but the extent of demand made a premium unnecessary.

HSBC led the issue and acted as bookrunner, and was assisted by Barwa Bank, CIMB, National Bank of Abu Dhabi and Standard Chartered Bank.

The issue was the first sovereign sukuk by a western government. In 2004 the German state of Saxony-Anhalt issued €100mn in sukuk but Saxony-Anhalt is a regional authority in Germany and not the federal government. As such, the sukuk is not considered to have been a sovereign issue.

On 9 July, the Luxembourg Parliament approved a law to enable sale and buy-back of real estate assets. Successful passage of the law was a precondition for the issuance of a Luxembourg sovereign issue. Luxembourg has for some years been positioning itself as a centre for Islamic finance in Europe.

Saudi Arabia to allow foreign investment on its stock exchange from 2015

Saudi Arabia's Capital Market Authority (CMA) announced in late July that it would draw up regulations to permit foreign investment on the local stock exchange, the Tadawul. The CMA said that it would issue draft rules within a few weeks of its announcement, and that a 90 day public consultation period would follow, with a view to passing the necessary regulations in 2015.

Currently, non-Saudi GCC citizens may invest in the Tadawul. Investment by non-GCC citizens has been effected through funds and swaps but in practice such investment is difficult and volumes are not material.

The Tadawul is by far the Middle East's largest stock market. Figures published by the Arab Monetary Fund show that the Tadawul had a market capitalisation of $513bn at the end of March 2014. The Abu Dhabi Securities Market and the Qatar Exchange were the only other Middle Eastern markets with capitalisation in excess of $100mn at that time: $123bn and $179bn respectively.

In June, the UAE and Qatari exchanges were upgraded by MSCI to their 'Emerging Markets' index. They had previously been classed as 'Frontier Markets'. Egypt is the only other Arab stock exchange to be included in the 23-country Emerging Markets index.

Bahrain, Jordan, Kuwait, Lebanon, Morocco, Oman and Tunisia are included in the 24 member Frontier Index.

Market access and liquidity are among the key factors that determine whether MSCI includes a stock exchange in its Emerging Market and Frontier indices.

The Tadawul index rose by about 20% during the first seven months of this year, reaching about 10,000 points, its highest level since May 2008.

Clarification:

In the September 2013 issue of Arab Banker *we referred to David Manson as the lead representative of Qatar National Bank's UK operations. We would like to clarify that Simon Walker was, and remains, Regional General Manager, Europe, for the QNB Group.*


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Bank Audi: a premier regional bank based on solid domestic foundations

Bank Audi's objective is clear: to become the most diversified regional bank in the MENA region and Turkey in terms of business lines and geographic presence. The bank's track record, from its incorporation in 1962 to the present day, should leave no one in any doubt about its ability to achieve its goal.

Andrew Cunningham, Editor of *Arab Banker*, spoke to Samir Hanna, Bank Audi's Group Chief Executive Officer, about the bank's plans to become a premier regional bank in the Middle East.

Bank Audi has long had a leading – and often dominant – position in Lebanese banking. Increasingly, it is using that domestic strength to spread its wings overseas. Opportunities within Lebanon continue to be attractive, but it is overseas operations that will change the shape of the bank over the next few years.

Samir Hanna explains the bank's thinking behind its regional strategy. "There are a number of large banks in the Middle East but they are mainly domestic, focussing almost exclusively on their internal market. When you look at the regional banking universe, none of those big banks is involved in inter-regional banking, or selling across countries and business clients – there is a real need for big regional banks in the Middle East, and our strategy is to become one of them as soon as possible."

The bank currently has a presence in eight Middle Eastern countries, in addition to Lebanon, Turkey and a historical presence in Switzerland and France.

The Swiss and French subsidiaries are the oldest (established in 1976 and 1979, respectively) and were created shortly after the outbreak of the Lebanese civil war as a way to enable Audi to diversify its own risk and to provide continuous banking services to its clients. More recently, the European franchise has been enhanced through the addition of an asset management company, Audi Capital Gestion, in Monaco. (The

> "… there is a real need for big regional banks in the Middle East, and our strategy is to become one of them as soon as possible."

company results from the acquisition in 2010 of Dresdner Bank Monaco which was converted in 2012 into an asset management company with a more efficient structure.)

The expansion of the Middle Eastern franchise is a more recent phenomenon (starting in 2004) and is as much a reflection of financial market trends in the region as Bank Audi's own aspiration to diversify its sources of income. Until quite recently, bank regulators in the Middle East and elsewhere were reluctant to give out licenses to non-domestic firms or to allow foreign banks to buy stakes in local banks. As a result, significant regional expansion based on subsidiaries, branches and representative offices, was almost impossible. This began to change in the 1990s as regional financial markets matured.

In 2004, a long-term increase in oil prices began, bringing huge liquidity and economic growth to the GCC economies.

Taking advantage of the new opportunities

Bank Audi quickly took advantage of these new opportunities. It opened in Jordan in 2004, Syria in 2005, Egypt, Sudan and Saudi Arabia in 2006, and Qatar and the UAE in 2007. In 2012, the bank launched its wholly owned subsidiary, Odeabank, in Turkey.

As Samir Hanna surveys the bank's current network, he is clear that Lebanon, Turkey and Egypt are going to be the main growth drivers for the bank, along with the private banking/ wealth management business line.

When Audi received its license in October 2011 to establish a new bank in Turkey it was the first foreign bank to do so in more than 14 years. Audi had considered the usual route of buying into a local bank, but decided that the goodwill premium would be too great. Odeabank began operations in November 2012.

Samir Hanna notes that Bank Audi entered the Turkish market at exactly the right time. "We received the banking license after the outbreak of the Arab uprisings, so it came at a time when expansion into Turkey could compensate for any delays to our business plans arising from the Arab uprisings – and that is what has actually happened."

Odeabank has grown rapidly, becoming the fourteenth largest of Turkey's 33 operating commercial banks as at end-June 2014, with a market share of nearly 1%. A 1% market share may not sound like much (though

Bank Audi's Head Office in downtown Beirut

Financial Highlights: Bank Audi (Egypt) and Odeabank, end-June 2014 ($mn)

$mn, End June 2014	Bank Audi Egypt	Odeabank
Loans to Customers	1,594.3	6,727.3
Assets = Liabilities	3,621.0	9,558.9
Customers' Deposits	3,209.8	7,941.1
Equity	276.2	958.3*
Net Profit (six months)	29.8	–5.3

**Includes US$ 300 million of perpetual subordinated debt accounted as Tier one equity*

Bank Audi (Egypt) and Odeabank are cited by Bank Audi as its two "material subsidiaries." The net loss reported by Odeabank for the year 2013 and the first half of 2014 reflects the fact that the bank began operations as a start-up in November 2012 and the ensuing normal lag between setting up expenses and expected revenues.

Figures have been converted from local currency at the rates of $1=EGP 7.15 and TL 2.12.

remember that it has been built up from zero, in little more than a year), but Turkey's banking system is by far the largest in the region – nearly 40% larger than those of either Saudi Arabia or the UAE.

Futhermore, with a GDP of $827bn in 2013, Turkey easily has the largest economy in the region (Saudi Arabia's was $748bn) and its population of nearly 80mn dwarfs that of every other country apart from Egypt and Iran. Arab investments in Turkey exceed $10bn and nearly two and a half million Arabs visit Turkey every year.

Bank Audi's objective is that Odeabank will become second only to Audi's domestic Lebanese franchise in terms of size and earnings.

It is hardly a coincidence that Egypt is the other key focus for foreign growth – it is another of the region's large economies with a huge population and a rising middle class.

Audi entered Egypt in 2006 through the Egyptian government's sell-off of state-controlled banks that had begun two years before. The bank bought 100% of Cairo Far East Bank, in which the state-owned Banque du Caire had a 30% stake.

Bank Audi Egypt now has 34 branches and showed assets of $3.6bn at the end of June 2014. It declared net profits of $29.8mn for the six months to 30 June 2014, $49.1mn for the full year 2013 and US$ 38mn in the full year 2012.

Samir Hanna remains optimistic – and realistic – about short and long-term prospects in Egypt. "Despite all the uncertainties, Egypt remains a core growth market for us due to its size and its abundant resources. Egypt has the ability to sustain economic and financial growth over the long term, particularly in light of the determination of the Egyptian government to achieve the long-awaited financial and administrative reforms."

Beyond Egypt and Turkey, the bank's regional strategy is based on preserving franchise value and earnings in those countries facing political uncertainties while developing and expanding activities in other countries.

In Syria, Audi has significantly reduced operations – Syria now accounts for less than 1% of consolidated activity – but has no plans to withdraw completely. "We believe that, after the conflict is settled, banks that showed continuous commitment to Syria during difficult times will be rewarded, although the Group maintains full flexibility to address any adverse development," says Hanna.

Private banking and wealth management are key areas of focus

The wealth management franchise is an area of particular focus. With its network in Europe (Geneva, France and Monaco) and in the Middle East (Lebanon, Egypt, Saudi Arabia, Qatar and Jordan), the Group responds to the need of high net worth individuals through the offering of a wide spectrum of investment products. At the end of June 2014, the bank had $10,269mn in consolidated assets under management, of which $4,860mn were active assets under management.

In Switzerland, where wealth management has always been a central part of the bank's business, and is now based on more than 37 years of experience in the field, assets under management at the end of June 2014 reached $3,824mn, of which $2,708mn are actively managed. Banque Audi Suisse now has a growing share of non-Lebanese and non-Arab customers.

The addition in 2010 of Audi Capital Gestion, based in Monaco, has led to an expansion of the bank's wealth management capacity for clients managing their assets out of Europe. The new company enables Audi to expand its wealth management footprint into southern France and northern Italy.

In Saudi Arabia, Audi has $1,012mn in assets under management, of which $872mn are actively managed, with the remainder representing fiduciary deposits. In addition to Saudi Arabia, Qatar, where Audi has a subsidiary in the Qatar Financial Centre, and Abu Dhabi, where it has a representative office, are also being targeted a major growth prospects for wealth management.

In Europe, Audi has an important corporate banking and trade finance business managed out of Bank Audi France, whose main objective is to capitalise on both ends of the commercial trade corridors between Europe, the Middle East, Africa and Turkey.

But what about London, by far the biggest banking centre in Europe? Samir Hanna says that Audi is likely to request a license to operate in London, with a view not only to facilitate the expansion of the private banking business but also in order to support plans to expand into Sub-Saharan Africa and Latin America. Without having an on-the-ground presence in those regions, Audi already manages nearly $3.2 billion of turnover in corporate loans, deposits and assets under management of near-eastern customers living and established there.

The asset and earnings profile is changing

As result of this regional and international expansion, Bank Audi's asset and earnings profile has been changing significantly, and it will change even more in the years ahead.

Ten years ago, foreign operations accounted for only 5% of earnings and 12% of assets. By the end of June 2014, that had risen to 31% of earnings and 45% of assets. By the end of 2015, when Odeabank will have had two full years to build its business, Audi expects that foreign operations will account for 40% of earnings and 50% of assets.

Does this mean that Audi's home market is no longer important? Absolutely not. "There is plenty more that we can

Samir Hanna, Group CEO of Bank Audi

Banque Audi: Key Financial Indicators ($mn, unless otherwise stated)

	End-June 2014	End-2013	End-2012	End-2011	End-2010	End-2009
Total assets	39,262	36,191	31,304	28,737	28,688	26,486
Loans	16,034	14,713	10,428	8,594	8,548	6,747
Customers' deposits	33,960	31,095	26,805	24,798	24,848	22,985
Shareholders' equity	2,738	2,696	2,670	2,357	2,420	2,193
Net earnings*	190	305	384	365	352	289
Number of branches (in Lebanon and outside)	204	189	162	154	157	154
Number of staff	6,161	5,894	5,070	4,808	4,838	4,388
Capital adequacy**	12.26%	12.09%	13.67%	10.69%	11.42%	11.93%
Cost to income ratio	56.49%	56.07%	45.96%	44.71%	47.28%	48.41%
Return on average assets	1.02%	0.91%*	1.32%	1.27%	1.28%	1.23%
Return on average capital employed	15.87%	12.59%*	16.51%	16.73%	16.02%	14.77%

** Reflects the initial costs of launching Odea Bank, Audi's fully-owned start-up subsidiary in Turkey*

*** Ratio calculated in line with Basel II standards, and, for 2012 and 2013 taking account of additional Banque du Liban requirements).*

Source: Bank Audi

do in Lebanon," says Hanna, "Both in terms of developing new products for customers and in creating greater internal efficiencies."

Audi currently enjoys a leading position in its home market. At the end of June 2014, it was the biggest bank in Lebanon in terms of assets, loans, customers' deposits, equity and net profits. Its network of 80 local branches was one of the largest in Lebanon. The bank holds a Aa1.lb rating from Moody's – the highest national scale rating that Moody's has awarded in Lebanon. (The bank's global foreign currency ratings are capped at the B- level assigned to the Republic of Lebanon.)

A commanding domestic position

From that commanding position, the bank aims to enhance asset utilisation and operational efficiency from domestic business. A stronger focus on SME business will be one factor contributing to improved margins – SME loans have been growing at a compound average growth rate of 9% in recent years and at the end of June 2014 accounted for 23% of the total loan portfolio. (Corporate loans accounted for 42%.) The bank is also focused on reinforcing its retail business by concentrating on a customer-centric model supported by the latest banking technology and a diversified product and services offering. The average number of retail products cross-selling by customers in Lebanon is now 4.6, compared to 3.4 in 2010.

Across the group, capital, asset quality and liquidity remain high. At the end of June 2014, capital adequacy, calculated according to Basel III standards, was 12.3%. (The regulatory minimum, including the capital conservation buffer, is 11.5%.) The (unweighted) leverage ratio was 7%, well in excess of international norms.

Non-performing loans fell to 2.5% of gross loans in mid-2014, below the average for Lebanese banks, Middle Eastern banks, emerging markets banks and global banks.

About 93% of the bank's liabilities are in the form of equity and customers' deposits (and about 86% of those deposits are in the form of retail or individual accounts – historically the most stable form of deposits). The bank's internal calculations put its Liquidity Coverage Ratio at more than 100%.

Bank Audi's track record since it incorporated as a joint stock company in 1962 demonstrates its ability to grow and maintain a solid domestic franchise, even amid extra-ordinarily difficult conditions. The bank's track record over the last ten years has shown its ability to take advantage of regional opportunities as they become available. No one should doubt Audi's ability to execute its ambition to become one of the leading regional banks in the Middle East. ■

Bank Audi: Profile of business divisions

Commercial & Corporate Banking	Corporate loan portfolio of $10.4 bn (as at 30/6/14) – the largest of any Lebanese bank. Business ranges from large corporates to SMEs and includes loans, fee-based services and consulting.
Retail Banking	Bank Audi provides retail banking products to 29% of Lebanese households and cross-sells 4.6 products per customer. It has 80 branches in Lebanon and 124 abroad. All figures refer to 30/6/14.
Private Banking	Assets under management, custody accounts, and fiduciary deposits totalling $10.3bn (30/6/14). Individual deposits in excess of $1mn comprise more than 40% of Bank Audi's deposit base.
Investment Banking & Capital Markets	Bank Audi has a 38.8% share of trading volume by value on the Beirut Stock Exchange (2013). Trading volume in Lebanese Government Eurobonds and treasury notes exceeded $7.3bn in 2013.

Source: Bank Audi

Bank Audi: Institutional presence outside Lebanon

France	Bank Audi France sa, based in Paris
Monaco	Audi Capital Gestion
Switzerland	Banque Audi (Suisse) sa, which in turn owns Audi Capital Gestion
Egypt	Bank Audi sae, which in turn owns Arabeeya Online Brokerage
Iraq	Branches in Iraq, held under Bank Audi sal
Jordan	Branches in Jordan, held under Bank Audi sal
Qatar	Bank Audi llc (operating in the Qatar Financial Center)
Saudi Arabia	Audi Capital (KSA) cjsc
Sudan	National Bank of Sudan, based in Khartoum
Syria	Bank Audi Syria sa, which in turn owns Audi Capital Syria
Turkey	Odeabank AS, based in Istanbul
UAE	Representative office in Abu Dhabi of Bank Audi sal

Source: Bank Audi

Raymond Audi: international banker and artistic patron

For most of his career, Raymond Audi has been known as a banker. He was part of the family team that incorporated Bank Audi in 1962, ensured its survival during the Lebanese civil war, and oversaw the Bank's expansion in Europe and the Middle East.

But there is increasing recognition for Mr. Audi's work as a patron of the arts, collecting and exhibiting works that range from Roman mosaics to contemporary Lebanese paintings and sculptures.

In the following article, *Arab Banker* reviews both aspects of Mr. Raymond Audi's exceptional career.

The Audi family members are no strangers to banking and finance in Lebanon. Their involvement goes back to 1830, when the Ottoman authorities awarded a charter to conduct financial business from Sidon, the southern Lebanese town where the family was based.

Raymond Audi was born in 1932 and spent the first part of his career in Kuwait, working with the Kuwaiti businessman Hamad Homaizi on contracting and real estate projects. At that time, the Kuwaiti banking system was developing rapidly, reflecting the wealth accruing from Kuwait's early development of its oil fields. Homaizi founded Commercial Bank of Kuwait in 1960, and was interested in expanding his banking interests out into the Middle East. He saw a natural partner in Raymond Audi, the scion of a well-established Lebanese banking family.

In the early 1960s, banking was changing in Lebanon, with the creation of a Central Bank that would, for the first time, require firms offering banking services to be properly licensed and supervised.

The Audi family incorporated Bank Audi as a joint stock company with limited liability (a "société anonyme libanaise") with Hamad Homaizi among the founding shareholders. The Homaizi family remains the second largest shareholder in the bank, after the Audi family (excluding Deutsche Bank Trust Company Americas, in its capacity of depository for the bank's GDR programme). Hamad Homaizi's daughter, Suad, still sits on the Bank's Board of Directors.

Raymond Audi's years in Kuwait and the connections he made there also led to other Kuwaiti and Arab investors taking a share in the Bank, where they remain on the Board till this day.

In 1975, the Lebanese civil war broke out, engulfing much of the country in violence and disrupting commercial and banking business everywhere. Although Bank Audi continued to operate in Lebanon throughout the war, which lasted 17 years, the family had to diversify its interests beyond Lebanon.

The Bank began its international diversification in Switzerland, where it bought a small local bank. Soon after that, it expanded to France and the US.

The move to Switzerland was driven by business necessity, but for Raymond Audi, it turned out to have significant consequences beyond the family's banking business. Swiss law allowed companies to devote a certain amount of their revenues to purchase fine art and then deduct that amount from their taxable income.

What began as a tax efficient strategy for the family's Swiss banking operations has become Raymond Audi's passion. He began by purchasing old masters – Dutch and Flemish paintings from the Renaissance period. Later, he was persuaded by one of his sons, Paul, to develop an interest in more modern art.

In recent years, Audi has patronised Lebanese artists such as Paul Wakim, Jean Marc Nahhas and Amine El Basha.

The results of Audi's collecting can be seen in the Bank's buildings throughout the world and in all its branches in Lebanon – one of the ways that Mr. Audi encourages and supports local artists is through displaying local works of art in all of the bank's 80 branches.

The results of Mr. Audi's collection are particularly evident in the bank's head office building in Beirut's Central District, the area of downtown Beirut that was utterly destroyed during the civil war, and magnificently rebuilt afterwards.

That new head office building has a story of its own – it was designed by the Australian architect Kevin Dash, who designed the London headquarters of Robert Fleming Investment Bank in the City of London. It was Robert Fleming that launched Bank Audi's first GDR in 1995. (The GDR was also the first ever to be issued by a Lebanese bank.) While preparing to launch the GDR, Raymond Audi made several visits to Mr. John Manser, Chairman of Robert Fleming Investment Bank in London, and he began to take an interest in their building. Dash was invited to Beirut and quickly commissioned to provide designs for the new Audi headquarters. Some of the most spectacular modern works of art collected by Mr. Audi are now in the atrium of that head office, visible to all who pass by.

It was while in Switzerland that Raymond Audi began to collect mosaics. At first, the motivation was to provide decoration for the new branches that were being established in Lebanon, but soon the collection took on a life of its own. It now includes mosaics from a period that spans Roman times until the tenth century. The mosaics are now housed in Bank Audi's former management building in Beirut's Achrafieh area. The collection can be viewed by anyone with an interest in mosaics.

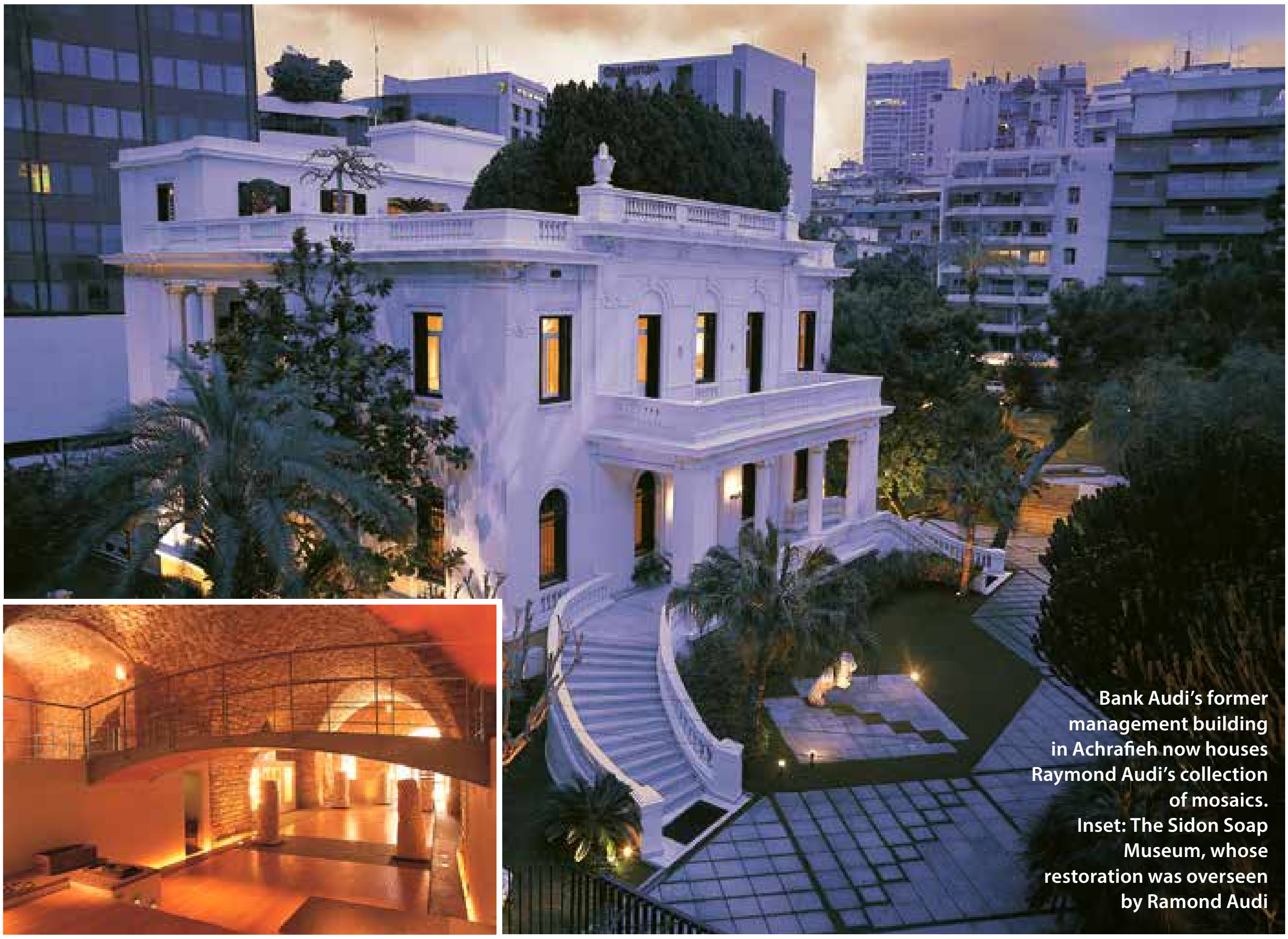
Outside Beirut, Raymond Audi has been involved in restoring the old family house which included an old soap factory in Sidon. The building was occupied during the civil war but the Audi Foundation was able to regain possession in the 1990s, after which Raymond Audi oversaw its restoration. The Sidon Soap Museum now offers visitors demonstrations of how olive oil soaps were made, as well as information on the region's 'hammam' (bathing) traditions.

So what are the new initiatives that are keeping Raymond Audi busy?

Lebanon lacks an opera house, and that is something that Mr. Audi – and some of his friends – want to put right. Audi is receiving advice and support from his son Pierre, who is the Artistic Director of the Amsterdam Opera. Locally, he is working with Myrna Bustani and Noura Joumblatt of the Al Bustan Festival and Beiteddine Festivals, respectively. Audi admits it is a long term project – government permits are involved – but he is confident that Lebanon will have its opera house within his lifetime.

That confidence reflects Raymond Audi's broad approach to everything he does. "I am known to be an optimistic man," he says. "It is easy to be pessimistic, but if you are pessimistic you are pushing a disease into everyone's heart." Audi is a firm believer in the cyclical nature of events, pointing out that both Christian and Moslem traditions include stories of seven good years, followed by seven bad years, again followed by seven good years, and so on. "If you believe that, then even in the darkest times, you know that better days will come," he says.

It is a philosophy that has served Raymond Audi well, and which continues to benefit his family's bank, artists, and art-lovers throughout the world. ■



Bank Audi's former management building in Achrafieh now houses Raymond Audi's collection of mosaics. Inset: The Sidon Soap Museum, whose restoration was overseen by Ramond Audi

New horizons for gulf banks

Gulf banks are profitable and well capitalised. They are operating in buoyant domestic economies with opportunities to expand into neighbouring countries and further afield into the broader Middle East. As for expansion beyond the Middle East, it is Asia rather than the older, heavily regulated markets of Europe and the US that are attracting the larger and more dynamic Gulf banks.

Andrew Cunningham, *Arab Banker's* Editor, reviews the state of Gulf banking and the opportunities for the region's banks to develop new business both at home and abroad.

There are approximately 75 active locally-incorporated commercial banks in the Gulf and all but five declared net profits in 2013. Banks are showing risk-adjusted capital ratios and unweighted leverage ratios that are the envy of those in advanced and emerging banking systems. Cost to income ratios remain strong for all of the region's leading banks.

Historically, when Gulf banks have faced problems, they have been due either to falling oil prices or inherent weaknesses within individual banks.

Falling oil prices is a systemic issue affecting all banks. As liquidity contracts, banks' customers face financial problems and the banks' non-performing loans increase. Contracting liquidity also leads to a fall in real estate prices, an asset class to which many Gulf banks are heavily exposed.

Predicting oil prices for the years ahead is dangerous but, with major producers such as Libya and Iraq facing problems maintaining supply, and Asian economies continuing to increase demand, the economic prospects for the region look good. Oil prices have remained around or above $100 per barrel for more than three years, enabling GCC governments to maintain public spending and financial liquidity in their economies. It is reasonable to expect that GCC economies, and their banks, will continue to benefit from robust oil prices.

Inherent weaknesses within individual banks arise when banks are created during boom years when capital is cheap, and opportunities for banking business (particularly in real estate finance) are plentiful. But during an economic downturn these new banks often pay the price for their lack of strong customer relationships and weak recurring earnings.

Many new banks were established in the GCC in the years before the global financial crisis of 2007–2009, when oil prices began their rise towards the current level of $100/barrel, but many of these were effectively private equity firms, funded by equity and debt (rather than customers' deposits) and deploying their assets in direct investments (rather than loans). Many have faced difficulties in recent years.

Gulf central banks have been sparing in their grants of new domestic licenses for commercial banks (although they have been more generous in respect of branches or representative offices for overseas banks).

Asset size of big GCC banks as % of home country GDP
(Two biggest banks in each GCC state)

Al Ahli United Bank	Bahrain	99.6
Arab Banking Corporation	Bahrain	81.0
National Bank of Kuwait	Kuwait	36.0
Kuwait Finance House	Kuwait	31.3
Bank Muscat	Oman	19.9
National Bank of Oman	Oman	9.4
Qatar National Bank	Qatar	60.2
Commercial Bank of Qatar	Qatar	15.4
National Commercial Bank	Saudi Arabia	13.5
Al-Rajhi	Saudi Arabia	10.0
Emirates NBD	UAE	24.3
National Bank of Abu Dhabi	UAE	23.1

International comparison
(Biggest bank in each of the eight biggest economies)

JPMorgan Chase & Co	United States	14.4
Industrial & Commercial Bank of China	China	33.5
Bank of Tokyo Mitsubishi UFJ	Japan	38.5
Deutsche Bank	Germany	6.1
BNP Paribas	France	90.8
HSBC Holdings	United Kingdom	105.9
Banco do Brasil	Brazil	23.7
Sberbank	Russia	24.8

Aggregate Equity and Assets of GCC banking systems, end-2013

	Equity ($bn)	Assets ($bn)
Bahrain	NA*	215.7
Kuwait	24.8	182.5
Oman	7.8	58.2
Qatar	30.5	250.0
Saudi Arabia	69.7	504.9
UAE	75.8	530.0

** Central Bank of Bahrain statistics do not provide a figure for equity of wholesale banks so it is not possible to give a figure for the system as a whole.*
Source: Central Bank reports

The total number of active commercial banks in the GCC has changed little in the last 20 years. Saudi Arabia continues to have only 12 (well-capitalised) banks – the most recently-licensed being Alinma which began operations in 2008. Kuwait has only nine commercial banks, the most recently licensed being Warba Bank, which began operations in 2010. The Central Bank of Qatar has been more open in granting new licenses – three of Qatar's ten domestic commercial banks have been licensed within the last ten years.

Bahrain is going through a phase of consolidation after many banks – most of them focussed on investment rather than commercial banking – were created in the years before the global financial crisis.

So if Gulf commercial banks are displaying strong financial fundamentals; are operating in robust domestic economies; have strong business franchises; and are benefiting from a sheltered regulatory environment, how are they exploiting that position? What's next on their horizons?

First, it is important to recognise that opportunities at home have not been exhausted. National Bank of Kuwait – one of the Middle East's premier financial institutions – is confident that it can expand revenues from local business, even as it increases the proportion that is generated abroad (see the interview with Isam Al Sager on page 23).

In Saudi Arabia, huge projects such as King Abdullah Economic City and the Sudair Industrial City have received budget allocations and will provide opportunities for local banks and their customers.

Gulf financial markets are deepening, with particularly exciting developments in debt capital markets, both conventional and Shari'a-compliant. Total debt issuance in the Middle East surged to $18bn in the second quarter of 2014 as new issuers came to market and existing issuers sought new investors through different structures, currencies and maturities. (Please refer to the article by Michael Grifferty, the President of the Gulf Bond and Sukuk Association on page 26–28.)

Many Gulf banks are keen to expand within the Middle East but the political difficulties that followed the 'Arab Spring' have stifled opportunities in many of the countries that, until recently, were seen as offering the best opportunities. Syria is engulfed in civil war, the economies of Egypt and Tunisia have been severely compromised by political uncertainty (though this may now be abating), and the political situation in Libya remains volatile (although opportunities in the banking sector certainly exist – please refer to the views of Ahmed Ben Halim on pages 39–41).

The troubles of the Eurozone economies, and a response to them from EU authorities that advocates the virtues of central planning and state intervention, has made European financial markets less attractive to outsiders. The US appears to be following a similar pattern in terms of the regulatory burden that is placed on financial institutions that wish to operate within its borders.

It is hardly surprising that Asia is seen as offering GCC banks the best prospects for growth and new business. Long-term economic growth, based on increasing population and greater disposable income, is undoubted. Asia is also hungry for oil and gas.

The Gulf's proximity to Asia is often underestimated by those with a Euro-centric or US-centric perspective. It takes half as long to fly from Dubai to Mumbai as it does from Dubai to Zurich. A flight from Dubai to Hong Kong, Seoul or Singapore takes no more than 30 minutes longer than flying from Dubai to London.

National Bank of Abu Dhabi (NBAD) has refocused its business strategy on a "West-East Corridor" dominated by Asia (please see the article on NBAD on pages 20–22). First Gulf bank has recently opened an office in Seoul to complement its existing Asian offices in Hong Kong and Singapore.

Do Gulf banks have the size to compete in Asian markets? Yes, they do. The leading Chinese banks are huge – several have assets in excess of $2,000bn – but they lack the expertise and flair of many Gulf banks. Outside China and Japan, the leading banks have assets of around $100 – 200bn, certainly larger than Gulf banks (Qatar National Bank is the largest with $122bn at the end of 2013) but not by much. Gulf banks will never have the capital to compete against the major international banks when underwriting deals or lending for major projects, but they are increasingly able to compete on skills and experience and to leverage that with their unrivalled access to the GCC corporate and investor community.

GCC banks stand on a solid domestic base and are well placed to exploit the new business opportunities that are developing overseas. The future is bright! ■

Spotlight on Bahrain

The Bahrain banking system comprises conventional retail and wholesale banks and Islamic retail and wholesale banks. (The "Offshore Banking Unit" (OBU) classification was abolished several years ago.) The Central Bank of Bahrain's Statistical Bulletins aggregate the figures for Islamic retail and Islamic wholesale banks.

	Total assets $bn)	% of total
Conventional Retail	75.7	35
Conventional Wholesale	116.7	54
Islamic banks (Retail and Wholesale	23.3	11
Total	215.7	100

Wholesale banks based in Bahrain raise more than 90% of their liabilities from outside Bahrain and place more than 90% of their assets outside Bahrain. By contrast, conventional retail banks raise 43% of their liabilities outside Bahrain and place 47% outside. Islamic banks raise about 39% of liabilities outside Bahrain, and place 42% of assets outside.

In pursuit of excellence

The National Bank of Abu Dhabi's (NBAD) mission is to be 'recognised as the world's best Arab bank.' To achieve this mission, NBAD has defined a clear strategy to solidify its strong position at home, deepen its wholesale and wealth management networks and build five new international bank franchises.

Fundamental to this strategy is NBAD's recognition of opportunities in the "West–East Corridor", a region encompassing the emerging markets stretching from West Africa to East Asia.

NBAD is building its strategy on robust fundamentals that few banks in the region can match. They include, among many things, a tier one capital ratio of 14.7% at the end of June 2014, which is more than double the international standard, while its unweighted leverage ratio of 10.3% is more than three times the international norm.

The bank's growing loan portfolio is comfortably funded by customers' deposits and the NBAD's cost-to-income ratio of 34.5% (end-2013) demonstrates considerable operational efficiency.

Since 2009, the prestigious Global Finance magazine has ranked NBAD as one of the World's 50 Safest Banks, and the Safest Bank in the Emerging Markets since 2013. When Standard & Poor's upgraded the Bank to AA- in October 2013, NBAD became the only Middle Eastern bank to hold AA-class ratings from all three of the major international credit rating agencies. (Fitch and Moody's already had AA- ratings for NBAD.)

"Economic growth and the emergence of new megacities are leading to an increase in the number of large companies across the West-East Corridor"

Streamlining the business

Alex Thursby became NBAD's Group Chief Executive Officer in July 2013, joining NBAD after holding senior positions at ANZ and Standard Chartered. Since his arrival, Thursby has re-energised the Group by defining the bank's strategy on the growth opportunities across the West–East Corridor.

Thursby re-organised the bank's seven business lines into three: Global Wholesale, Global Wealth and Gulf Retail & Commercial. He says, "We are continuing to improve our organisational structure to be even more customer-centric and scalable. In doing so, we are transforming ourselves from a domestic bank to a bank that competes across a diverse geography. We aim to be successful where we play, and where we play will be aligned to the needs of our core customers."

In the bank's West–East Corridor Strategy, the first area of focus is Gulf Retail and Commercial, where it aims to hold either the number one or number two position in these two segments. Once it gains the dominant position in this space within its home market, NBAD will expand across the Gulf.

NBAD already has one of the biggest networks in the UAE, with 126 branches and cash offices, and 588 ATMs. NBAD's total equity of US$9.8bn and assets of $94.9bn at the end of June 2014 place it among the biggest banks in the GCC and the MENA region as a whole.

The second pillar of the bank's strategy entails building the wholesale and wealth business in nine locations, of which five will be within the West–East Corridor.

Thirdly, the bank will leverage new business models that are being developed at home to build five new banking franchises within the West–East Corridor.

Mr. Thursby speaks passionately about the 'super region' that is the West–East Corridor, which extends from Lagos and Kinshasa in the West to Japan in the East. Its northern border brushes Istanbul and Beijing, while to the south it includes all of Indonesia. All of the Middle East falls into the corridor. Strategically, UAE sits right at the heart of this super region.

The economies of this region are growing faster than anywhere else in the world, outstripping other emerging markets and the developed countries. They possess large reserves of oil and other natural resources, and increasing volumes of agricultural produce.

The track record of these economies is already strong – they struggled less than other emerging markets, and much less than the developed markets, during the global financial crisis of 2007–2009.

Particularly significant is the growth of 'megacities' within the West–East Corridor. At the end of the last decade, there were globally 18 megacities, of which 10 were within the West-East Corridor. By 2025, many experts predict the rise of an additional 22 megacities worldwide, 20 within the West–East Corridor, including nine in China, and five in India. As a result, 30 of the world's 40 megacities will lie inside NBAD's geographic area of focus.

Economic growth and the emergence of new megacities

"By 2025, many experts predict the rise of an additional 22 megacities worldwide, 20 within the West–East Corridor …"

National Bank of Abu Dhabi: Key financial indicators, 2009–June 2014

	End June 2014*	End 2013	End 2012	End 2011	End 2010	End 2009
Loans and advances	49,519	50,085	44,850	43,466	37,284	36,038
Assets = Liabilities	94,948	88,573	81,907	69,664	57,610	53,626
Customers' deposits	64,697	57,520	51,854	41,367	33,551	33,026
Equity	9,811	9,449	8,483	7,190	6,570	5,570
Net interest margin	1.98	2.08	2.19	2.48	2.57	2.53
Cost/income ratio	32.7	34.5	33.1	32.5	30.5	29.7
Return on average equity	16.0	14.4	15.1	14.7	16.5	17.4
Loans to deposits	76.5	87.1	86.5	105.1	111.1	109.1
Tier 1 capital ratio	14.7	16.5	17.2	15.6	16.2	14.9
Equity/Assets (unweighted)	10.3	10.7	10.4	10.3	11.4	10.4

** Net interest margin and Return on average equity are annualised for End June 2014*
Balance sheet figures converted to dollars at $1=Dh3.67

"NBAD has the largest international network of any UAE-based bank, which spans 18 countries, across five continents from the Far East to the Americas."

is leading to an increase in the number of large companies across the West–East Corridor. Sixteen per cent of Fortune 500 companies were located within the corridor in 2003, but 10 years later that had risen to 22%. By 2025, half of all the world's medium-sized enterprises will be located in the West–East Corridor.

The strategic location of the UAE at the heart of the West–East Corridor positions UAE companies to benefit from the vast trade and investment flows across the Corridor.

How will more developed markets fit into this strategy? Thursby explains: "A fundamental part of our wholesale banking strategy is to integrate our existing European and North American platforms into the new network that we are building in the West–East Corridor. We have branches in Washington, London and Paris. This year our Representative Office in Brazil will start operations."

NBAD has the largest international network of any UAE-based bank, which spans 18 countries, across five continents from the Far East to the Americas.

The bank also owns NBAD Private Bank (Suisse) in Geneva and a trust Business in the Channel Islands and these play important roles in the global wealth business.

The new strategy will increase the contribution of revenues generated overseas from around 15% today, to about 25% over the next five years.

Other key targets include maintaining revenue and earnings growth in high single-digit to low double-digit percentages; further improving the cost/income ratio and achieving both Tier 1 capital ratios and returns on equity of around 15%.

"Being Core to Our Customer"

As he looks to the future, Alex Thursby is keen to recognise the contribution made by Michael Tomalin, his predecessor, who ran the bank for 14 years, growing NBAD more than tenfold while ensuring it maintained a sustainable growth path and propelling it to become one of the World's 50 Safest Banks.

If there is one theme that links the leadership of Tomalin and Thursby it is recognition of the centrality of the bank's customers. "Being Core to Our Customer" is how Thursby expresses it.

It is a proposition that encompasses maintaining the bank's safety, giving excellent customer service, offering insights to customers based on the bank's own experience, and ensuring that NBAD is positioned both geographically and by business line to provide customers with opportunities to grow.

NBAD's customers have much to look forward to. ■

National Bank of Kuwait: a regional leader with opportunities for growth, both at home and abroad

For decades, National Bank of Kuwait (NBK) has been the dominant bank in Kuwait, and one of the dominant banks in the GCC. Although it enjoys a leading market share in all business lines in Kuwait, the bank believes that good opportunities for growing in its home market still exist, even as it continues to expand its franchise in the wider region.

Isam Al Sager, NBK's Group Chief Executive Officer, spoke to *Arab Banker* about the NBK's business strategy, the quality of its assets and the pressure that all banks are under to comply with stricter regulations.

ARAB BANKER: NBK has long had a dominant market share in Kuwait. Do you expect to see significant growth in your domestic Kuwaiti business over the next few years, and if so, where will this growth come from?

ISAM AL SAGER: NBK has always held a leading position in the Kuwaiti market across all business segments. We have led the banking industry over the years, in good and in bad times, with a market share exceeding 30%. In recent years we have seen a slowdown in economic activity in Kuwait due to the lack of government spending, a trend that we believe has now reversed. NBK will grow over the next few years, with growth mainly driven by domestic operations. Economic activity is picking up in Kuwait, mainly as the government shows its determination to go ahead with the implementation of the development plan, increasing capital expenditure on infrastructure projects. With the size of our balance sheet and our regional and international presence and relationships, we will be the largest beneficiary of the growing government expenditure and opportunities in the project finance business in Kuwait.

NBK's head office building in Kuwait

What percentage of your operating profits do you generate from Kuwaiti business and how do you expect this figure to change in the next five years?

In recent years, we have generated 75% to 80% of our profits from Kuwait-related business. We generally target a growing contribution from our international operations as part of our income diversification strategy. Considering the strong growth outlook for the Kuwaiti business, it is more likely that these levels will remain unchanged in the near term. In the meantime we remain ambitious with our regional and international growth strategy. This is currently focused on organic growth through strengthening our market positions in the countries where NBK is present. We continue to focus our efforts on the GCC markets, where NBK has a very strong franchise and as these markets continue to offer exceptional growth opportunities.

Over the last ten years, NBK has expanded widely in the Middle East. You are now present in four of the other five GCC markets and you have branches or subsidiaries in Lebanon, Jordan, Iraq and Egypt. Is your Middle East strategy based on consolidating and expanding the assets that you already have in the Middle East, or are you looking for opportunities in new countries in the region?

NBK operates from a long term, strategic viewpoint that envisions the bank maintaining and growing its leadership within its domestic market while also leveraging NBK's solid reputation to build a premier regional franchise. The bank currently operates in 16 countries through subsidiaries, associates and branches. In recent years our strategy has focused on the MENA region, with significant emphasis on the GCC markets. Our main focus today is to continue strengthening our operations in the GCC countries. We allocate more attention and resources mainly to the Saudi and UAE markets where we see a significant opportunity for growth.

What is NBK's strategy for increasing its share of the global Islamic finance market? Will you use Boubyan Bank to spearhead this strategy?

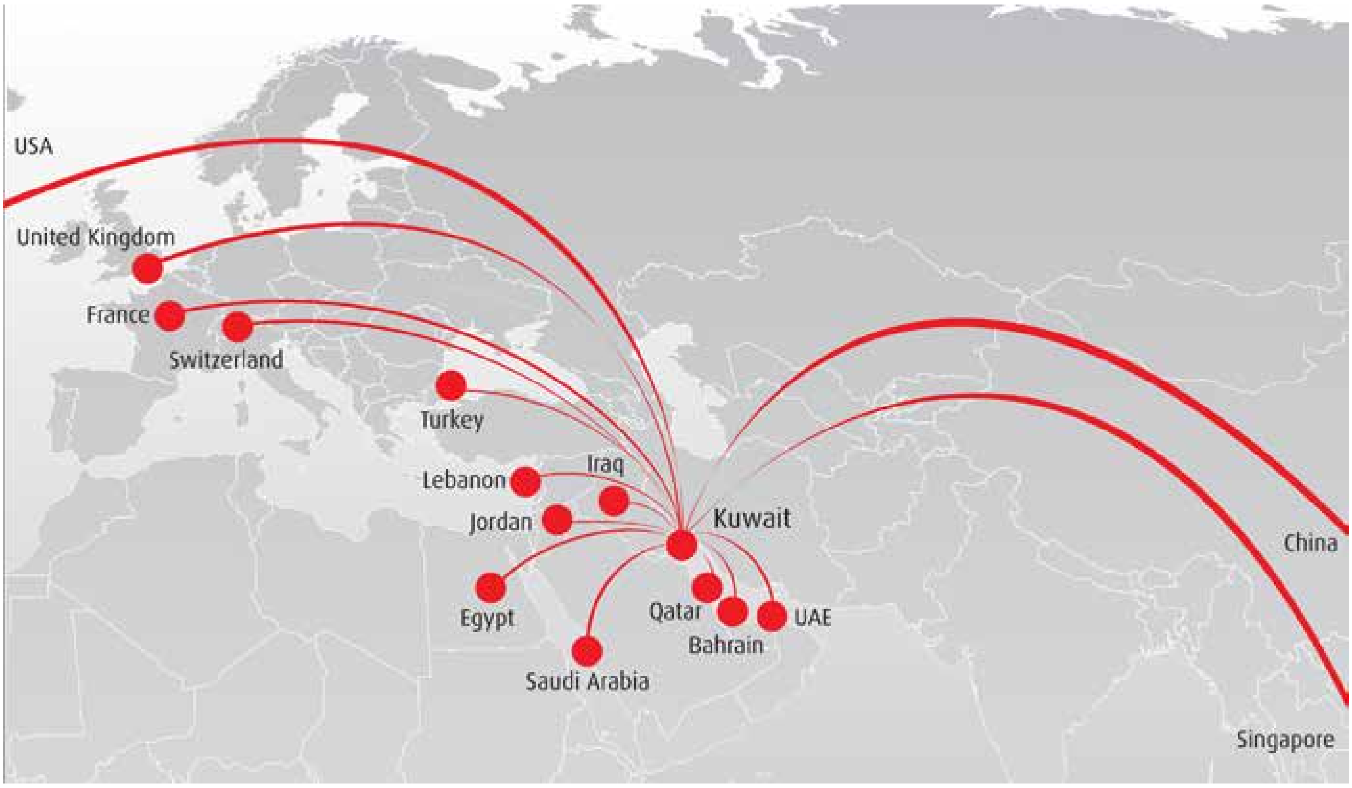
The acquisition of a 58.4% stake in Boubyan Bank in 2012 was a long-term strategic move by NBK to strengthen its domestic market position in Kuwait by offering both conventional and Islamic banking services in our home market. As Boubyan Bank's strategy continues to evolve and its domestic market share grows, international expansion in key Islamic financial centers becomes an aspiration. Boubyan Bank's strategy currently focuses on growing the bank's market share in Kuwait, focusing on core banking business, diversifying the product portfolio while maintaining our conservative culture and sound risk management practices. The strategy has recently proven successful, with Boubyan Bank's overall market share quadrupling in three years and its contribution to NBK group profits becoming more material.

The Kuwaiti banking system has faced an asset quality challenge following the global financial crisis which prompted significant amount of provisioning over the years. Do you see the provisioning cycle coming to an end and have the overall asset quality concerns lessened?

Asset quality was a concern among most Kuwaiti banks in recent times. We have seen NPL levels mounting to 15% for the system during some years. This negative trend was mainly a result of some bad practices in some specific

"We continue to focus our efforts on the GCC markets, where NBK has a very strong franchise and as these markets continue to offer exceptional growth opportunities."

NBK net profits 1953–2013 (USD million)



sectors during the boom years of 2006 and 2007. Investment companies' business models, along with speculation in the real estate segment and the stock market, were the origin of this negative cycle. NBK's banking model is relationship based with a core banking focus and this has saved us during the recent financial crisis as well as on several occasions in history when the whole system was affected. Our asset quality ratios have remained exceptionally strong over the years despite the general challenges facing the sector. We never had exposure to investment companies or participated in real estate or stock market speculation. Currently our NPL ratio is below 2% and our coverage ratio is 230%. The increase in our provisioning levels over the recent few years could be seen as penalising to us – considering our very strong asset quality position – but it has created a strong buffer for the system. This becomes even clearer considering the recent improvement we have seen in asset quality trends in most of the banks in Kuwait.

Banks are under increasing pressure from their regulators, and in recent years we have seen several big US and European banks receiving large fines for failing to comply with regulations on financial crime or standards of conduct. As an international bank, how has NBK responded to this pressure?

Banking regulations have recently been a challenge across the globe. We have similarly had our share of this in the region and NBK has dealt with several regulatory challenges across all the markets it operates in. That said, our conservative culture has always benefited the bank when it comes to regulation. NBK has always maintained the highest levels of governance, internal controls and quality standards in its operations across all regions. We have always maintained buffers and were the first to comply with newly introduced regulatory requirements. In Kuwait, the central bank has been active in its supervisory role positioning the Kuwaiti banking system ahead of some of its international peers in terms of regulatory requirements. The implementation of Basel III is a good example: Kuwaiti banks will be compliant with Basel III in 2014 and so will be among the first banking systems in the world to apply the new standards. ■

Isam Jassem Al Sager

Al Sager has extensive banking experience. He began his banking career in 1978 at NBK, rising from a Relationship Officer in the Corporate Banking Group to become the Head of Domestic Credit and Marketing in 1987, General Manager of Retail and Wholesale Banking Group in 1992, Deputy CEO of NBK Kuwait in 1998 and CEO of NBK Kuwait in 2008.

For over 35 years at NBK, Al Sager has played a major role in turning the bank into a leading regional institution, with more than USD 66bn in assets and a wide international presence in 16 countries. NBK has consistently been awarded the highest credit ratings by Moody's, Standard & Poor's and Fitch Ratings. The Bank has continuously ranked among the top 50 safest banks in the world since 2009.

Al Sager is the Chairman of NBK Capital and Al Watany Bank of Egypt. He is also a member of the Board of Directors of many NBK subsidiaries including NBK (International) PLC.

He also serves on the Board of Directors of Mastercard.

Al Sager Holds a Bachelor's Degree of Science in Business Administration from California State Polytechnic University.

Al Sager was born in Kuwait in 1955. He is married with three children.

GCC Debt Capital Markets: issuance volumes surge as markets deepen

At the beginning of this year, there were concerns that 2014 would prove disappointing for Arab debt markets but, by mid-year, as issuers were closing their last deals before Ramadan, it was clear that such concerns had been misplaced.

Michael Grifferty, the President of the Gulf Bond and Sukuk Association describes the recent – and exciting – developments in regional debt capital markets and looks ahead to the challenges for the future.

Global market conditions in 2013 and the first part of 2014 provided Middle East corporates and Government-related entities with exceptional opportunities to fund or refinance themselves. Demand for sukuk from the Middle East has grown as part of a Middle East bond market for sovereign, sovereign-related and, increasingly, corporate issues, that is now well established.

Middle Eastern debt issuance surged in the first half to $22 billion, of which a remarkable $18 billion was transacted in the second quarter alone. If this trend continues, the volume of debt raised in 2014 could easily eclipse previous records.

The attraction of GCC bonds and sukuk is underpinned by extremely strong sovereign balance sheets and a demonstrated willingness by governments to support key issuers. At a macro-level, regional economies have shown consistent growth through several global economic cycles, are becoming stronger as a result of diversification, and are building strong trade and financial linkages with Asia.

Debt Capital Markets in the Gulf have changed greatly over the last few years and are unrecognisable when compared to those of a decade ago. Issuers are more knowledgeable and confident and they are willing and able to take advantage of new structures and market opportunities. Late 2013 and early 2014 saw opportunistic issuance in Australian Dollars, Malaysian Ringgit and Japanese Yen. Many of the sophisticated issuers – most notably financial institutions – have raised debt several times before and there has been a steady stream of new entrants.

Market depth is increasing with the emergence of new instruments, such as sukuk with longer-term or perpetual tenors, amortising sukuk, and sukuk with equity-like features.

Gulf banks such as National Bank of Abu Dhabi, Qatar National Bank, Emirates-NBD and First Gulf Bank are playing leading roles in arranging bond deals not only in the Gulf but also further afield, and are now starting to compete with the large international banks.

Sukuk issuance goes from strength to strength

For sukuk, the breakthrough occurred in 2012, when issuance of Shari'a-compliant instruments first surpassed issuance of conventional bonds. All expectations are that sukuk issuance will continue to grow as Middle East capital markets mature and the volume of global Islamic assets increases.

Demand for sukuk is underpinned by a steady increase in Islamic banks' deposits – and the resulting need for those banks to place excess liquidity – as well as new pockets of investor demand, including demand from conventional bond buyers.

The sukuk market has a good track record, with familiar and high-quality counterparties behind transactions. There is innovation in the way deals are structured and this is proving good both for issuers and for global investors who are becoming increasingly familiar and comfortable with the distinct features of sukuk. With a broader investor base, issuers have been able to extend tenors from five years – which until recently was the industry standard – to ten years or even more.

The success of sukuk issues has led to a narrowing of spreads with some sukuk being priced more aggressively than comparably rated conventional bonds. Growing consensus around issuing standards and a reduction in the time needed to bring issues to market is also contributing to greater investor demand.

Islamic banks have been among the most prolific issuers of sukuk in recent years. Financial issuers accounted for 54% of debt capital market activity in Q1 2014, much of it in sukuk format. Issues have included innovative structures such as hybrid Tier 1 perpetuals issued by Abu Dhabi Islamic Bank in late 2012 and by Al Hilal Bank in June 2014.

There are also signs that corporates that have not issued before will use sukuk when they come to market, particularly in Saudi Arabia where there is a wide range of companies with strong cash generation.

The Gulf is supplying the lion's share of sukuk issuance, but issuers in oil importing countries are also making a positive contribution. Jordan, Tunisia, Morocco and Egypt have either adopted or are in the process of adopting legislation to facilitate Islamic finance and several have given notice of plans to issue sukuk within the next 12 months. With sovereign issuers paving the way, corporates and project finance deals can easily follow.

Regulation and issuing standards are being upgraded

The GBSA has been helping regulators in several GCC countries to improve regulation of conventional bonds and sukuk, and to move closer to international standards. The UAE's Securities and Commodities Authority recently adopted new regulations, Saudi Arabia's Capital Market Authority is expected to release a new sukuk strategy soon, Oman has released new sukuk regulations and is thinking of revising regulations on conventional bonds, and Kuwait's Capital Market Authority is believed to be close to issuing enhanced regulations for its fixed income market.

The Central Bank of Qatar has been issuing both conventional and Islamic instruments to its banks in increasing amounts and longer tenors.

Local and regional exchanges believe that they can add transparency and liquidity to fixed income markets in the region. GBSA member NASDAQ-Dubai is launching a sukuk trading platform that links to Euroclear, and bourses such as Saudi Tadawul, the Dubai Financial Market and the Abu Dhabi and Qatar exchanges list sukuk and are looking to improve trade execution.

Supporting infrastructural development and reconstruction

Bonds and sukuk have huge potential to support the social and physical infrastructure needs across the Middle East. The MENA region needs to invest about $100 billion annually on core infrastructure. Countries in transition or that are emerging from conflict will require massive infrastructure development or reconstruction, at the same time as they finance budget deficits. Both oil importers and exporters need to finance energy projects, including those involving renewables. Creating an asset class of 'Green Sukuk' – comparable to conventional climate-certified bonds – is already being considered as a way to channel ethical investment in the region.

It is already clear that European banks – who have historically been key funders of infrastructure projects – will not be able to meet all of the region's needs. Regional banks, although growing, face a more restrictive credit environment under the Basel III standards. The result will be increasingly difficult and costly access

The Gulf Bond and Sukuk Association

The Gulf Bond and Sukuk Association (GBSA) is the independent industry organisation that represents the fixed income business in the Gulf region. It is committed to growing and deepening the market in support of national development strategies. Effectively, it is a private organization with a public purpose. The Association consists of 57 market-leading and highly committed firms that are active as issuers, traders, investors, arrangers, ratings agencies and service providers. GBSA members are involved in virtually every notable transaction from the region.

The GBSA speaks for the industry, advocates its positions and strengthens the region's voice in the global arena. As a focal point for the bond and sukuk community, the Association helps to develop bond-related legislation and regulation, provides input to regulators and central banks, advises governments as issuers, sets market practices and conventions and raises awareness among the public about investing. It acts through its national chapters in the Gulf states and through standing committees (Regulatory Affairs, Government Issuance, Investor Relations, Investment Management) and working groups on Islamic Finance, Project Finance and Basel III. The GBSA enhances its effect by working closely with Arab Monetary Fund, Islamic Development Bank, IMF and EBRD by contributing to reforms not only in the GCC but in the larger Middle East region.

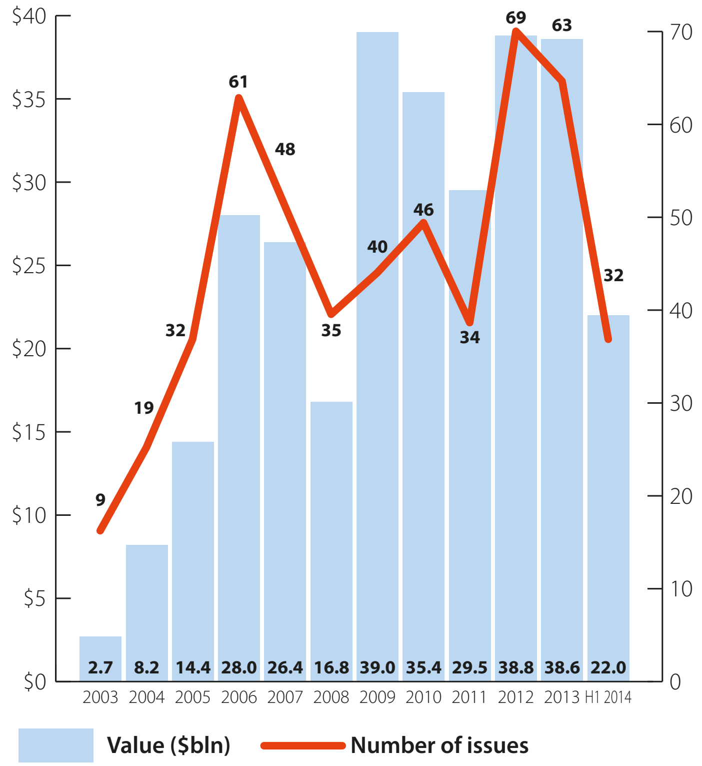
Direction is provided by a regional Steering Committee of 15 senior professionals, this year presided over by Stuart Anderson, MD and Regional Head of Standard & Poor's. The National Chapters and Committees are chaired by leaders in their respective fields. The GBSA team consists of an executive as well as legal, research and communications professionals.

GBSA provides its members with a window on relevant events, regulations and trends within the members' countries and in other countries as well as high-value networking and speaking opportunities that are reserved for members. Members have access to the GBSA professional staff for advice and referrals, and the GBSA takes a pro-active role in identifying and facilitating opportunities for its members.

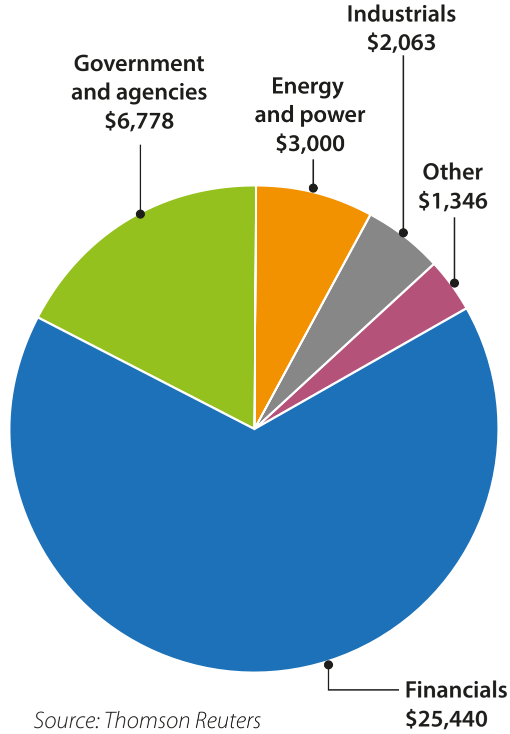
The GBSA has become an effective platform for the industry, giving direction to policy in the individual GCC states, across the GCC and beyond. The GBSA's advice and input is respected by and sought out by regulators, central banks and governments. The Association has affected the direction of securities legislation, companies' laws, investment management regulation and government issuance policies. Though the GBSA's focus remains on the Gulf, it has extended its involvement further afield, notably to Egypt and Turkey.

The GBSA holds specialised round-tables where members can discuss technical issues related to fixed-income issuance and investment.

Middle Eastern Debt Capital Markets: Annual



Middle Eastern Debt Capital Markets: Most Active Sectors (US$ mil)



Source: Thomson Reuters

to European credit and a reduction in bank credit from the Gulf itself.

For the first time in years, a true project bond was issued in 2013, when the Ruwais power project came to market.

Improving corporate governance

Gulf corporates have long been criticised for their lack of transparency and corporate governance shortcomings. Family companies continue to avoid capital markets and seek other means of financing so as to avoid the disclosure requirements of public issues.

But bond markets do have a role to play. A few years ago, issuers paid little attention to their investors after a deal had closed, but there is now a better appreciation of the importance of performing well in the secondary market. Some issuers have aligned their investor relations standards with guidelines issued by the GBSA.

More liquidity and price transparency is needed

Issuance in the primary market – both conventional and Islamic – is now big enough to justify expectations that a strong secondary market should develop. Nevertheless, both liquidity and price transparency need to be strengthened and there is a need for better indices to serve the investor community. Addressing these issues would be an important factor in drawing global investors to the regional market. It is something that the GBSA is working on with its partners.

We at the GBSA expect that the introduction of new products will continue to shape the market in late 2014 and beyond. The trend towards a greater variety of issuers should continue as smaller companies become more familiar with the market and the requirements for accessing it.

An expert panel at a joint event the GBSA held with the European Bank for Reconstruction and Development at the Bank's headquarters in London, November 2013

The single most important action needed to underpin the growth of debt capital markets is the development of yield curves in local currency government debt. More fundamentally, there is a need for a regional vision for the region's debt capital markets backed by organised official commitment starting with the organs of the Gulf Cooperation Council itself and involving national governments, central banks, capital market regulators, as well as the fixed income industry. ■

The biggest banks in the GCC: Saudi and Emirati banks continue to dominate

The GCC's leading banks are profitable and are growing, either organically or as a result of acquisition. At the end of 2013, 45 of the region's commercial banks showed shareholders' equity in excess of $1 billion.

Yet, as *Arab Banker's* list of the largest 50 GCC banks (ranked by equity) shows, most of the biggest banks are heavily concentrated in two countries, Saudi Arabia and the UAE. *Arab Banker*'s Editor, Andrew Cunningham, analyses the listing.

Qatar National Bank (QNB) is now by far the largest GCC bank (and the largest in the Middle East). Its end-2013 financials put it ahead not just in terms of equity and assets, but also in customers' deposits and net profits.

Four GCC banks showed shareholders' equity of more than $10 billion at the end of 2013: QNB, Dubai-based Emirates NBD, and National Commercial Bank (NCB) and al-Rajhi, both from Saudi Arabia. Two banks had assets of more than $100 billion: QNB and NCB.

The *Arab Banker's* list includes commercial banks that are based in the GCC but does not include investment banks or private equity firms, even if they hold banking licenses (as is the case with many such firms in Bahrain). This is why Investcorp – a prominent and well-established Gulf financial institution – is not included, despite showing equity of $936 million at the end of 2013.

The list includes only commercial banks that are incorporated in the GCC and excludes GCC-based subsidiaries of foreign firms, although it is unlikely that any such firms would have had the size to qualify for inclusion.

All 12 Saudi commercial banks are listed among the largest 50 GCC banks, as are all 10 Qatari commercial banks. Seven of Kuwait's nine commercial banks are included in the top 50 as are 15 of the UAE's 21 commercial banks. (Despite holding banking licenses in the UAE, Dubai Bank and Emirates Islamic Bank are not considered for inclusion since they are wholly-owned by Emirates NBD.)

Saudi Arabia and the UAE each contribute four of the biggest ten banks, with Kuwait and Qatar contributing one each. As for the biggest 20, Saudi Arabia and the UAE contribute eight and seven respectively, with Kuwait and Qatar each contributing two and Bahrain one.

None of the largest 50 GCC banks declared a net loss in 2013. In fact, very few Gulf banks – even the smaller ones who do not appear in the top 50 – declared net losses in 2013. Two small Bahraini banks and one small Kuwaiti bank showed losses.

For all the talk, globally, of the rise of 'shadow banking' (essentially, credit activity conducted by non-banks), commercial banks continue to dominate financial activity in the GCC. Boutique investment firms have, with a few exceptions, not fared well – partly as a result of the highly cyclical nature of capital market activity in the Gulf. Commercial banking groups generally have the balance sheet and recurring income streams to survive the lean years whereas boutiques sometimes do not.

Historically, the growth of Gulf banks has been driven by high oil prices which led to excess liquidity throughout the local economies. With banks dominating financial intermediation, increased liquidity led to bigger banks.

But in recent times, mergers and acquisitions (albeit financed by buoyant liquidity) have become a route to growth.

It is noticeable that the second biggest bank in Bahrain (and the 22nd largest in the GCC) is Al-Ahli United Bank, which started life as the product of a merger between Ahli Commercial Bank of Bahrain – a small domestic Bahraini bank – and United Bank of Kuwait – a London-based consortium bank that had outlived its usefulness to its shareholders. That merger, in 2001, was then followed by the acquisition of another domestic commercial bank, a capital increase and the acquisition of substantial stakes in Kuwaiti, Qatari, Egyptian and Omani banks.

Fifteen of the largest 50 Gulf banks are Islamic banks – that is, they conduct their business entirely on a Shari'a-compliant basis. That is roughly in line with the broader profile of Islamic banks in the GCC – there are approximately 75 active commercial banks in the Gulf and of these 25 are wholly Shari'a-compliant.

Of course, the level of Shari'a-compliant activity in the Gulf goes far beyond that conducted by banks that are wholly Shari'a-compliant. Most of the conventional GCC banks now also conduct Shari'a-compliant business (with the notable exception of conventional banks in Qatar, which were required by a Central Bank circular in 2011 to divest their Shari'a-compliant business).

So, will next year's ranking of the biggest 50 GCC banks look much different from this year's? No, it won't.

What about the rankings in the September 2019 edition of *Arab Banker* – five years from now? Yes, they will show changes. If the Qatari economy continues its prodigious growth, expect to see more Qatari banks in the top 20. Saudi banks will retain their leading positions, due to the size of their domestic market. Some Emirati banks will thrive and grow, while others will fall prey to acquisitive neighbours. ■

Largest 50 GCC commercial banks, ranked by equity size (end 2013)

All figures in $ million

			Equity	Assets	Net loans	Customers' deposits	Net profit
1	Qatar National Bank	Qatar	14,764.6	121,873.6	85,386.2	92,208.9	2,620.9
2	Emirates NBD	UAE	11,359.1	93,143.3	64,901.1	65,250.1	886.7
3	National Commercial Bank	Saudi Arabia	11,342.8	100,606.4	50,049.1	80,159.2	2,130.4
4	Al-Rajhi Bank	Saudi Arabia	10,241.1	74,631.0	49,816.1	61,756.1	1,983.4
5	National Bank of Kuwait	Kuwait	9,625.9	66,023.4	37,964.3	37,193.0	892.7
6	National Bank of Abu Dhabi	UAE	9,443.0	88,514.3	50,051.9	57,481.8	1,288.8
7	Samba Financial Group	Saudi Arabia	9,280.6	54,675.6	30,254.3	42,222.4	1,202.7
8	Riyad Bank	Saudi Arabia	9,031.9	54,731.5	34,983.6	40,852.7	1,052.5
9	First Gulf Bank	UAE	8,651.1	53,107.3	34,566.2	37,564.7	1,307.6
10	Abu Dhabi Commercial Bank	UAE	7,848.0	49,869.7	35,847.9	31,431.0	985.6
11	Kuwait Finance House	Kuwait	7,330.7	57,290.2	38,586.2	35,865.4	529.2
12	Banque Saudi Fransi	Saudi Arabia	6,191.0	45,347.7	29,679.2	35,093.1	641.5
13	Saudi British Bank	Saudi Arabia	6,088.6	47,279.8	28,296.9	37,055.8	1,006.3
14	Arab National Bank	Saudi Arabia	5,116.8	36,782.2	23,587.9	28,365.6	672.7
15	Commercial Bank of Qatar	Qatar	4,549.5	31,084.1	18,374.4	17,428.3	441.2
16	Alinma Bank	Saudi Arabia	4,488.4	16,800.1	11,979.4	11,403.2	267.9
17	Duabi Islamic Bank	UAE	4,450.0	30,848.4	15,267.9	21,528.2	467.8
18	Arab Banking Corporation	Bahrain	4,359.0	26,545.0	13,653.0	13,030.0	297.0
19	Union National Bank	UAE	4,176.4	23,838.8	16,351.2	17,723.4	475.9
20	Mashreq Bank	UAE	4,117.3	24,413.0	13,732.4	15,957.8	512.4
21	Qatar Islamic Bank	Qatar	3,757.4	21,257.6	12,954.3	13,840.2	364.3
22	Al-Ahli United Bank	Bahrain	3,565.1	32,651.9	17,305.7	22,028.5	624.2
23	Abu Dhabi Islamic Bank	UAE	3,560.0	28,090.6	16,813.9	20,565.1	394.9
24	Bank Muscat	Oman	3,158.3	22,108.9	16,003.1	14,466.3	396.5
25	Doha Bank	Qatar	3,097.3	18,403.9	11,297.1	11,685.5	360.7
26	Masraf al-Rayan	Qatar	2,941.7	18,287.8	11,388.1	13,281.8	477.9
27	Saudi Investment Bank	Saudi Arabia	2,734.0	21,465.1	12,684.3	15,211.4	343.1
28	Saudi Hollandi Bank	Saudi Arabia	2,507.0	21,457.9	14,307.1	16,499.8	400.4
29	Gulf International Bank	Bahrain	2,264.0	21,156.9	8,317.2	13,451.3	121.5
30	Burgan Bank	Kuwait	2,200.1	25,396.8	14,038.1	16,470.6	113.9
31	Commercial Bank of Kuwait	Kuwait	1,998.1	13,948.2	8,224.5	9,337.3	84.1
32	Commercial Bank of Dubai	UAE	1,965.0	12,110.9	8,247.3	8,425.7	275.1
33	Al Ahli Bank of Kuwait	Kuwait	1,919.6	11,334.3	7,771.5	6,912.2	125.7
34	National Bank of Ras Al Khaimeh	UAE	1,774.3	8,203.5	5,979.5	6,281.7	389.6
35	Gulf Bank	Kuwait	1,714.8	17,978.1	11,931.0	11,807.1	114.3
36	Barwa Bank	Qatar	1,575.5	9,241.0	5,316.7	5,834.3	138.5
37	Al Khalij Commercial Bank	Qatar	1,549.0	11,338.3	5,687.8	5,474.0	151.4
38	Bank Al Jazira	Saudi Arabia	1,527.6	15,993.5	9,331.8	12,821.8	173.5
39	Qatar International Islamic Bank	Qatar	1,460.3	9,459.3	5,227.1	6,785.0	206.2
40	Bank Albilad	Saudi Arabia	1,360.2	9,686.1	6,244.0	7,761.9	194.5
41	Sharjah Islamic Bank	UAE	1,235.1	5,917.6	3,409.0	3,240.6	83.6
42	International Bank of Qatar	Qatar	1,222.6	7,881.0	4,680.8	5,998.2	152.1
43	Bank of Sharjah	UAE	1,185.2	6,800.0	3,576.6	5,003.3	96.1
44	Al-Hilal Bank	UAE	1,071.1	10,539.5	7,380.2	7,673.0	120.3
45	National Bank of Umm al-Qaiwain	UAE	1,008.2	3,414.3	1,927.1	2,026.4	100.2
46	Ahli Bank of Qatar	Qatar	979.2	7,193.7	4,757.6	5,191.3	144.5
47	National Bank of Bahrain	Bahrain	971.3	7,354.1	2,298.9	5,573.4	137.5
48	Boubyan Bank	Kuwait	956.6	7,780.8	5,248.8	5,883.1	45.1
49	Bank of Bahrain and Kuwait	Bahrain	890.5	8,642.2	4,329.5	6,294.0	121.2
50	Arab Bank for Investment and Foreign Trade (Al Masraf)	UAE	872.1	3,447.1	1,451.7	1,697.1	70.8

Source for data: Darien Analytics Ltd, based on publicly available financial statements.

ليبيا القابضة
LIBYA HOLDINGS

UNIQUE INSIGHT EFFECTIVE CAPABILITY

Libya Holdings was established to locate, invest and partner with international companies in the best opportunities in the abundant commercial potential of Libya’s present transition environment.

Our experience and proven expertise combines strong local political and commercial connectivity in country with the knowledge and capability to operate across global markets.

With a substantial in-house team and an established office network, we reach across the country and across a wide variety of sectors.

We understand the terrain, the language, the culture and the challenges of doing business in a country that is moving into a new and exciting development phase.

At home in the deserts of Libya or the boardrooms of the world, we are best placed to either invest directly or assist international companies with their entry to this newly free and open economy.

Invest → Directly or as co-investors

Partner → International Companies

Build → Successful businesses

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Finding Value in Distant Markets: Bank of Beirut and its subsidiary Bank of Sydney

Under the leadership of Salim Sfeir, its Chairman and Chief Executive Officer, Bank of Beirut has grown from a small five-branch Lebanese bank into one of the market leaders, now boasting 59 local branches and a full range of banking products. But the bank has not been content with building its business at home: the last few years have seen expansion in the Middle East, Africa and in Europe.

In 2011, the bank's overseas expansion strategy continued with the acquisition of Beirut Hellenic Bank, based in Australia. *Arab Banker* spoke to Salim Sfeir, about the reasons for buying a bank in Australia and his decision last year to rebrand it.

Salim Sfeir

Salim Sfeir, the Chairman and Chief Executive Officer of Bank of Beirut, began his banking career more than 40 years ago and has held senior positions with banks in London, Switzerland and Beirut.

After working for Scotiabank in the 1970s, he joined BankMed (then known as Banque de la Méditerannée) in 1980 and then moved to Wedge Bank (Switzerland) as its General Manager and Chief Executive, later becoming the Managing Director and Vice Chairman of Wedge Bank Middle East in Beirut.

In 1993, Mr. Sfeir originated, led and executed a management buy-in at Bank of Beirut, becoming the bank's Chairman and Chief Executive Officer.

Outside his banking career, Mr. Sfeir holds several directorships, including the Vice Chairmanship of the Lebanese American University and the Vice Chairmanship of the American Friends of the Middle East (AMIDEAST).

ARAB BANKER: Last year you rebranded your Australian subsidiary 'Beirut Hellenic Bank' as 'Bank of Sydney'. What was the purpose of the rebranding?

SALIM SFEIR: In 2011, as a new acquisition, the Beirut Hellenic Bank brand perfectly reflected the bank's predominantly Greek and Lebanese clientele in Australia at that time. Bank of Beirut has a long tradition of serving Lebanese clients all over the world, wherever they may reside. We took the decision to rebrand in Australia very seriously.

There were a number of drivers leading us to reposition as Bank of Sydney. First, we saw that our core product and service offerings were attracting an increasingly broad customer base. Second, we recognized the importance of communicating stakeholder clarity.

Key stakeholders must of course include our employees. Our Australian banking team has a clear mandate to provide great banking services to the local market. Rebranding as Bank of Sydney brought improved clarity and a genuine alignment for both our employees and our customers. Bank of Beirut and Bank of Sydney share "Branding Purpose". Our rebranding in Australia is a perfect example of "thinking global and acting local".

We are used to seeing Lebanese banks expand in the Middle East, Europe and perhaps in Africa, but an expansion into Australia is unusual. Why did you decide to establish a physical presence in Australia?

Australia being an AA-rated investment grade country was of course a key factor when taking the decision at Group level. But there were many reasons why we chose to invest in Australia – including regional values, regional momentum, and a highly educated, skilled and multilingual workforce. Internally, the commercial environment is transparent and very well regulated. Australia is well positioned to be one of our principal platforms for growth

At the time of the re-branding, Bank of Sydney was showing a capital ratio of 23%. How do you expect the bank's capital ratio and balance sheet structure to evolve over the next few years?

Today, Bank of Sydney has one of the highest Capital Adequacy Ratios in the entire Australian banking sector. By combining excellent credit quality and an extremely low number of non-performing loans with our track record of steady and stable asset growth, Bank of Sydney's balance sheet and income stream are set to go from strength to strength.

In fact, in the not-too-distant future, more than 50% of the Group's balance sheet and income will originate in Australia.

How profitable is Bank of Sydney and how does its profitability compare to the other parts of the Bank of Beirut group?

Prior to our acquisition in 2011, the Australian bank's balance sheet was severely constrained for reasons relating to its main shareholder at that time. The acquisition offered acceptable profitability, an extremely clean credit portfolio, a talent pool, and an excellent network of ten branches.

We immediately invested in each strategic area, expanding our network, hiring and training key people and implementing enhanced technology. Those investments are already beginning to pay off with a 2014 income target of double the previous year. And to address the second part of your question, our objective during 2015 is to see Bank of Sydney become our number one overseas profit contributor.

How much of Bank of Sydney's business is domestic Australian business and how much is related to Lebanese clients?

We have many valued customers in Australia of Greek and Lebanese descent who are active in trade finance, construction, real estate and manufacturing.

But our transactional loan book and diversified product suite is not dependent on any single group. We know that Bank of Sydney's continued growth must be merit based and risk diversified.

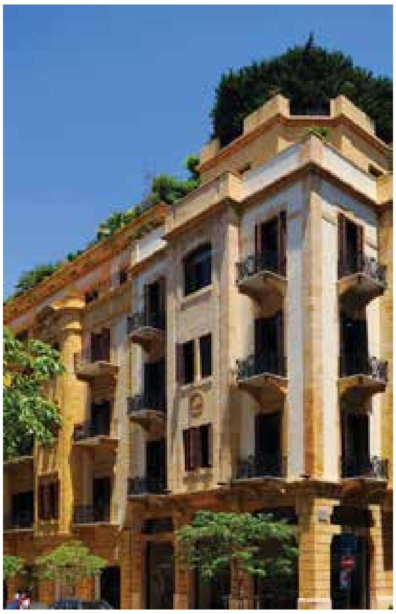
The great thing about being present and listening to our customers is knowing that we can grow with them by providing the right products and services in each local marketplace.

At the beginning of 2014, Bank of Beirut had a 92.5% stake in Bank of Sydney. Who owns the remainder?

During the second quarter of this year, the remaining 7.5% of Bank of Sydney was transferred to Bank of Beirut Group to become a 100% owned strategic business unit.

What is your view on the prospects for the Australian economy? Where are the key opportunities for Bank of Beirut/Bank of Sydney?

When we consider prospects for the Australian economy we can keep in mind the country's more than two decades of effectively continuous growth. At the macro level, in spite of both global and domestic challenges our forecasts are conservatively encouraging as the country transitions away from resource-investment led growth towards broader based growth. Foreign Direct Investment projections are also positive.



Bank of Beirut's head office in Beirut

A branch of Bank of Sydney

Bank of Beirut: Highlights of consolidated financial results, 2012–2013

	End 2013	End 2012	End 2013	End 2012
	LBP mn		$mn*	
Loans and advances	5,593,501	5,093,927	3,729	3,396
Financial assets (amortised cost)	6,783,780	5,345,493	4,523	3,564
Total assets = Total liabilities	20,527,430	17,423,521	13,685	11,616
Customers deposits	15,337,800	13,260,283	10,225	8,840
Equity	2,297,511	2,133,682	1,532	1,422
Operating income	534,534	489,779	356	327
Operating expenses	252,985	231,235	169	154
Net income	219,245	201,817	146	135

Exchange rate used: $1 = LBP 1,500
Source: Bank of Beirut website

The answer to your question is tied to how we target and manage our growth. Quality lending opportunities are in fact increasing. We also see increased cross-selling opportunities. On an absolute return level our expectations for Australia remain high, and on a relative level our long experience of successfully dealing with adversity in Lebanon will serve us well.

Do you plan to use Bank of Sydney to spearhead a broader Asian strategy?

Two cornerstones of Bank of Beirut's development and investment strategies are direct economic interests in – and between – the Middle East and Australia. For more than 20 years our Group has been steadily growing in Lebanon, Europe and Africa. Our shareholders were more than satisfied with the results in these legacy regions, but were also seeking the right opportunity in Australasia: and Bank of Sydney was the right opportunity. We have ambitious plans for our business in Australia and the priority right now is to implement those plans.

What advice would you give to Middle East banks interested in exploring the Australian market?

There are some universal lessons to be respected when entering any new market and experienced Middle East bankers will know these lessons well.

Australia is an innovative and agile environment. Success in Australia will be directly dependent on developing the appropriate local resources with sensitive cultural adaptability.

For some of your readers, strategic alliances with the right partners might offer the best of all worlds. ■

Making a positive contribution: the role of Egyptian banks in the Egyptian economy

Amid the political upheavals that have followed the overthrow of President Mubarak in January 2011, Egypt's banks have continued to grow and declare profits.

Arab Banker spoke to Hisham Ezz al-Arab, the Chairman of the Egyptian Federation of Banks, and the Managing Director of the Commercial International Bank, the country's largest privately owned bank, about the state of the Egyptian banking sector and the steps that banks are taking to promote economic growth and prosperity in Egypt.

ARAB BANKER: How was the Egyptian banking sector able to survive the political turmoil – and its economic repercussions – that followed the overthrow of President Mubarak?

HISHAM EZZ AL-ARAB: We all benefitted greatly from the banking reform programme that was begun by the Central Bank of Egypt in 2004. As a result of that programme – which included recapitalising some of the state-owned banks, privatising others, and forcing banks to take a robust approach to provisions and non-performing loans – we were in a strong position when the international financial crisis occurred in 2008 and later when the political change happened in 2011.

Over the last three years we've had good days and we've had bad days – like everyone else in Egypt – but I can honestly say that the banking system is stronger today than it was five years ago.

Stronger in which ways?

The latest loan loss provisioning figures published by the Central Bank show that the banking system is holding provisions of LE55bn and this covers 98% of non-performing loans in the system. This level of coverage gives us the ability to renegotiate or restructure our non-performing loans – I'm a firm believer that banks should use their loan loss provisions actively, rather than just sitting on them.

As for capital, Egyptian banks are in line with Basel III requirements. Our collective loan to deposit ratio is less than 50%, giving us plenty of scope to increase lending when opportunities arise.

What guidance are you getting from the Central Bank of Egypt?

The Central Bank has two priorities at the moment: SME finance and financial inclusion. Encouraging banks to lend more to SMEs is a long-standing policy objective and the Central Bank has been providing incentives in the form of reduced reserve requirements for SME loans.

As for financial inclusion, let me give you one statistic that demonstrates the scale of the challenge. Here in Egypt there are 52 million people who are eligible to vote, but only 10 million bank accounts. And remember that some people with bank accounts have more than one.

Increasing the number of people who have bank accounts is important for so many reasons. It's not just a question of ensuring that poorer people conduct their financial transactions through regulated banks, rather than through informal and perhaps unscrupulous moneylenders and deposit takers. The reform of the food and fuel subsidy system is one of the government's key economic and political priorities, but to implement major reform the government will need to be able to put money directly into the bank accounts of those who are eligible to receive support. Providing economic support to low-income people in that

"Over the last three years we've had good days and we've had bad days – like everyone else in Egypt – but I can honestly say that the banking system is stronger today than it was five years ago."

way is a far more targeted, efficient and cost-effective way of helping those on low incomes, rather than the present system of subsidising the production of food and fuel itself.

Housing Finance is a big social issue in Egypt. What are the banks doing to help lower-income Egyptians buy their own homes?

We are actively participating in a Central Bank scheme to provide long-term housing finance to people on low incomes. Specifically, the Central Bank is offering banks 20-year financing if the banks use the money to fund house purchases. There is certainly demand for housing finance. Let me give you an example – the cost of renting a two bedroom apartment, say 60-70 square metres, in a new industrial area is about 400-500 Egyptian pounds per month. The cost of servicing a mortgage on that apartment would be about 900 pounds a month, but we are finding that people are willing to bear the extra cost in order to get the equity stake in their homes.

I really think that finance is no longer an obstacle to greater home ownership by middle and lower income people in Egypt. The big problems lie with the land registry and the process for notarising ownership documents.

A few months ago, Egyptian banks launched a new Corporate Social Responsibility fund. How does this work?

Through the Federation of Banks we all decided to allocate 2% of net profits to a Corporate Social Responsibility Fund. It's up to each bank to decide when it pays into the fund, but I'd point out that even some banks whose profits have been quite low have still been contributing. A quarter of a billion Egyptian pounds ($36mn) has now been paid in. One of the projects that we are funding is in Helwan, the largest urban slum in Egypt. We are connecting every house to the main wastewater network and connecting houses to clean water supply. We are also removing dangerous high voltage electricity towers and connecting homes to the electricity network.

As the President of the Egyptian Bank Federation, I'm really proud of the role being played by banks in Egyptian society. In the West, banks had to be bailed out by their governments – and taxpayers – but here in Egypt the banks have been supporting ordinary people. We extended branch opening hours during the curfews to make sure that government workers could receive their salaries; we kept lending when people wanted credit; and we kept out of politics. During these difficult times, the Egyptian banking system has not been part of the problem; we've been part of the solution.

I would add that at Commercial International Bank, we have a policy of allocating 1.5% of our profits to our Foundation – this is in addition to our Corporate Social Responsibility Programme. Through the foundation we have been funding projects such as the Children's Cancer Hospital, the Children's Right to Sight Programme and the Magdi Yacoub Heart Foundation.

How did Commercial International Bank itself respond to the overthrow of President Mubarak and the political uncertainty that followed?

In March 2011 – a few weeks after the revolution – our Board made an assessment that the process of political change was likely to take three to four years. The Board has been proved correct. But we haven't sat still. Over the last three years we've increased our headcount to more than 5,000 and the number of branches to more than 150. We've also been working on our mobile banking system and we've upgraded our disaster recovery centre.

We are now showing a net interest margin of more than 5% and a return on average assets of 2.77%. Our consolidated return on average equity last year was 26%.

You recently called for Egypt to establish its own sovereign wealth fund. Isn't that a bit unrealistic for Egypt – the latest figures show that the Central Bank's reserves are only about $17 billion?

It is not a question of how much money Egypt has. It's about how Egypt manages its assets. All the government's assets – and there are a lot – should be put into a single company, like the Singapore government does with Tamasek or the Bahrain government does with Mumtalakat, and that company should be managed like a private sector company. In that way, not only will state assets be more efficiently managed, but it will be easier to dispose of those assets through stock exchange sales (and the sale of such assets on the exchange will have the benefit of bringing liquidity and depth to the exchange, quite apart from the financial benefits that will accrue to the state).

If state-owned assets are consolidated into a company in this way, you will also get a more rounded picture of Egypt's financial position. You will see that when measured by debt to assets, as opposed to debt to GDP, the Egyptian government is quite wealthy. ■

Hisham Ezz Al-Arab

Hisham Ezz Al-Arab is the chairman and Managing Director of Commercial International Bank (CIB), Egypt's largest privately-owned bank. He is also the Chairman of the Federation of Egyptian Banks, the first private sector banker to hold the position.

Mr. Ezz Al-Arab began his banking career with Arab African International Bank and then worked for Merrill Lynch, JP Morgan and Deutsche Bank before returning to Egypt in 1999 as Deputy Managing Director of CIB, responsible for leading its modernisation and restructuring programme. Mr. Ezz Al-Arab has been leading CIB as Chairman and Managing Director since 2002.

He is a director of MasterCard's Middle East & Africa Advisory Board, a Principal Member of the American Chamber of Commerce and a member of the Board of Trustees of the American University in Cairo.

Commercial International Bank had assets of LE113.8bn ($16.4 bn) and equity of LE12.1bn ($1.7bn) at the end of 2013. Its Tier 1 capital ratio was 12.5%.

Egyptian Banks: Key Financial Indicators (billion Egyptian Pounds)

	March 2014	Dec 2013	Dec 2012	Dec 2011	Dec 2010
Loans to customers	563	550	517	490	458
Total assets = liabilities	1,775	1,684	1,441	1,308	1,283
Customers deposits	1,357	1,312	1088	981	944
Capital and reserves	124	113	101	82	80
%					
Loans % Deposits	41.5	41.9	47.5	49.9	48.5
Capital & reserves % assets	7.0	6.7	7.0	6.3	6.2
Capital & reserves % loans	22.0	20.5	19.5	16.7	17.5

Exchange rate: $1 = Eg Pounds 6.8 (March 2014)

Source: Central Bank of Egypt

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Investment strategies for Libya: looking forward to better times ahead

The overthrow of Mu'ammer Gaddafi in 2011 was supposed to herald the emergence of a stable country whose economy would thrive through the support of western investors. Instead, Libya has suffered from acute political instability.

But is the picture all bad? No, it isn't. *Arab Banker*'s Editor, Andrew Cunningham, spoke to Ahmed Ben Halim, the founder of Libya Holdings and an investor in Libya, about strategies to engage with Libya and why it is worthwhile to do so.

There are some things about Libya that have not changed in the three years since the removal of Mu'ammer Gaddafi.

The country's proven oil reserves of 47 billion barrels remain the largest in Africa, equivalent to 80 years production at pre-2011 levels.

Libya has 1,800 kilometres of Mediterranean coastline, providing unimpeded access to international waters for oil and other exports. Furthermore, most of that coastline remains undeveloped, either industrially or with tourist facilities.

The country's population of around six million is modest, sparing Libya the demographic and urban planning challenges that undermine many of its neighbours.

Despite the mismanagement and depredations of the Gaddafi years, Libya's financial reserves remain surprisingly robust. According to IMF estimates, gross official reserves stood at $124.5 billion in 2012, equivalent to 39 months of imports. The World Bank describes Libya as an "Upper Middle Income" country.

But if Libya's potential is undoubted, the practicalities of unlocking that potential remain thorny. Reports of armed militias roaming the streets, and memories of the lethal attack on the US consulate in Benghazi, hardly provide the best incentive for foreigners to engage with Libyan businesses on the ground.

Business is being done in Tripoli

Ahmed Ben Halim tempers his remarks with caution, but believes that the security situation in Libya is not necessarily unprecedented and such an exceptional impediment to doing business in Libya. "I'm not a security expert, but I believe that the security risks in Libya are not exceptional. Multinationals have operated in difficult environments such as Nigeria and many others for years," he says. "If you go to Tripoli you can do business and operate. Other areas of Libya, such as Benghazi, are different."

Nonetheless, Libya remains a difficult market to penetrate. Ben Halim stresses the importance of having some sort of local presence, whether Libyan or not. "You have to have someone on the ground building contacts and developing relationships, and that person needs to have experience of how Libya works and how business is done. You cannot just fly in from London every few weeks and expect to be able to build the depth of relationships and knowledge that will lead to successful business relationships."

In some industries, foreign firms are legally obliged operate in Libya in partnership with a local agent or investor.

Big opportunities exist in oil and gas, infrastructure and banking

So where do the opportunities lie? Ben Halim explains his approach like this: "In some ways Libya is a large country – a big landmass, a big oil and gas producer – and in some ways it is a small country – a small population with limited purchasing power. At Libya Holdings we focus on the areas where Libya is 'big' and also where it is possible to build scalable businesses."

Specifically, Ben Halim and his colleagues are focussing on oil and gas, infrastructure development and the financial sector.

If the focus on the first two areas is easy to understand – developing oil and gas is key to the country's future and improving infrastructure long overdue after decades of misrule – the focus on the financial sector is less intuitive.

Ben Halim justifies his interest in the financial sector as follows: there are 17 banks in Libya but the four government-controlled banks dominate banking activity. "Effectively you

Libya Holdings Group

Libya Holdings Group was established in 2011 by a team of seasoned Libyan and non-Libyan professionals all of whom have investment and management experience in the Middle East and broader emerging markets. The aim of the Group is to act as the leading investment partner for major companies seeking to invest or do business in Libya.

Ahmed Ben Halim, who serves as Chairman and CEO of Libya Holdings, began his career with the Saudi Arabian Monetary Agency (the Saudi central bank) before moving into commercial banking and fund management. In 1998 Ben Halim and Ali Ojjeh, a former energy banker at Goldman Sachs and equities trader at Morgan Stanley, established The Capital Partnership, a London-based asset management firm providing investment advice to large institutions and ultra high net worth individuals.

Libya Holdings has offices and/or representatives in Tripoli, London and Dubai.

have four banks and 13 banking licenses," says Ben Halim. "There's an opportunity to build a real bank that doesn't just recycle its deposits into government T-Bills but actually engages in real lending and provides efficient financial services for customers."

Development of the banking system will depend, in part, on an improvement to the regulatory environment, but Ben Halim believes that the Central Bank of Libya will move ahead with the necessary changes.

The lack of a local merchant elite – the unfortunate legacy of Gaddafi's one-man rule – makes Libya fertile soil for foreign investors. Libya's laws may require foreigners to work with local partners when investing in key industrial sectors but, on the other hand, Libya needs to work with foreign partners if it is to get the experience and technical expertise that it will need to rebuild the country.

Ben Halim is in no doubt that whoever is in power in Libya will favour private sector led-growth over government control and that over the medium term, investment laws are likely to become more favourable to foreign involvement, not less favourable.

Positive signs in the political arena

Yet the big questions remain about the broad direction of Libyan society over the next few years. Will Libya become more stable or will it descend into anarchy or separatism? Ben Halim is pragmatic in his outlook. "I certainly have no crystal ball, but I can see that Libya is evolving. There are two processes at work, one related to politics and one related to security. On the political front we've recently had a good resolution of a dispute between two potential prime ministers."

In June, Prime Minister Ahmed Maiteg stepped down after the Supreme Court ruled that his election by the Parliament was unconstitutional.

More broadly, the National Transitional Council, established by anti-Gaddafi forces during the civil war, gave way in 2012 to an elected General National Congress; and in June 2014 the Congress gave way to an elected House of Representatives.

"Libya's laws may require foreigners to work with local partners when investing in key industrial sectors but, on the other hand, Libya needs to work with foreign partners if it is to get the experience and technical expertise that it will need to rebuild its country."

Libya: Key country and banking indicators

GDP (estimate for 2012)	$82 billion
Population (estimate for 2010)	6.36 million
GDP per capita (approximate)	$13,000
Gross official reserves (2012 estimate)	$124.5 billion
Reserves expressed as months of imports	39 months
Government revenue (2012 estimate)	$60 billion (of which 96% hydrocarbons)
Government expenditure	$43 billion (of which 36% wages)
Aggregate balance sheet of commercial banks (3/14)	$77 billion
Aggregate loans and advances of commercial banks (3/14)	$15 billion
Aggregate cash and placements with banks (3/14)	$54 billion
Aggregate customers' deposits of commercial banks (3/14)	$ 64 billion
Aggregate shareholders' equity of commercial banks (3/14)	$4 billion

Source for data is IMF Article IV report, May 2013, except banking data for which the source is the Central Bank of Libya

As for the issue of security, Ben Halim points out that it is unrealistic to expect a country that has lived under tyrannical rule for over 40 years to turn itself quickly into a peaceful society governed by the rule of law.

"This is a bumpy ride," says Ben Halim, "but overall the process of transition following a civil war and decades of dictatorship has been positive, so I remain optimistic." ■

Middle East sovereign rating update

Ratings on Middle Eastern governments reflect the widening division in the Middle East between the thriving modern economies – based primarily in the GCC – and those that are still coping with the effects of the Arab Spring and the legacy of economic policies based on state-control.

Arab Banker's Editor, Andrew Cunningham, reviews recent changes to sovereign ratings in the Middle East and beyond.

The division is stark. No Middle Eastern country outside the GCC holds a rating from any of the three major international credit rating agencies that is as high as any rated GCC government.

All GCC governments and sovereign entities that are rated hold investment grade ratings from the big three agencies. With the exception of Morocco, all non-GCC governments that are rated are sub-investment grade.

And the division appears set to continue. Over the last year, Saudi Arabia was upgraded by Fitch by one notch to AA. Bahrain was downgraded one notch by Standard and Poor's (S&P) to Baa2 b,ut that still left Bahrain two notches above sub-investment grade territory.

Outside the GCC, Tunisia was downgraded by all three agencies and Lebanon was downgraded one notch by S&P. Egypt bucked the trend, with a one-notch upgrade from S&P, taking it to B-.

S&P withdrew its rating on Tunisia in December at the request of the Tunisian Government. The agency had downgraded Tunisia by two notches in August, taking the rating to B. Downgrades in October and November by Fitch and Moody's took their ratings to BB-/Ba3. Removing a third rating that was materially lower than the other two was a logical decision for the Tunisian government to take.

All six of the GCC states are rated by at least one of the three major agencies. (The UAE is rated only by Moody's; Oman and Qatar by Moody's and S&P; and Bahrain, Kuwait and Saudi Arabia by all three.)

Five non-GCC countries are rated by at least two of the agencies: Egypt, Jordan, Lebanon, Morocco and Tunisia.

Unrated are Algeria, Iraq, Libya, the Palestinian Territories, Syria and Yemen. Libya was rated by Fitch and S&P before the overthrow of Mu'ammer Gaddafi, but S&P has now suspended its rating and Fitch as withdrawn its rating.

Recent changes to sovereign ratings in the Middle East

Upgrades:	
Egypt	S&P upgraded one notch to B- in November 2014
Saudi Arabia	Fitch upgraded by one notch to AA in March 2014
Downgrades:	
Bahrain	Moody's downgraded by one notch to Baa2 in September 2013
Lebanon	S&P downgraded by one notch to B- in November 2013
Tunisia	Moody's downgraded by one notch to Ba3 in November 2013 S&P downgraded by two notches to B in August 2013 and then withdrew the rating at the request of the Tunisian government in December 2013 Fitch downgraded by two notches to BB- in October 2013
New Ratings:	
Sharjah	Moody's assigned a first time rating of A3 in January 2014 S&P assigned a first time rating of A in January 2014

Recent changes to selected sovereign ratings outside the Middle East (Moody's ratings only)

Greece	Upgraded two notches to Caa3 in November 2014
Ireland	Upgraded one notch to Baa3 in January 2014 and then a further two notches to Baa1 in May 2014.
Mexico	Upgraded by one notch to A3 in February 2014
Spain	Upgraded by one notch to Baa2 in February 2014
Venezuela	Downgraded by two notches to Caa1 in December 2013

Three of the seven individual Emirates that comprise the United Arab Emirates are rated including, most recently, Sharjah, that received first time ratings from Moody's (at A3) and S&P (at A, one notch higher than Moody's) in January 2014.

Abu Dhabi holds AA ratings from all three agencies and Ras al-Kheimah is rated A by S&P and Fitch.

The Government of Dubai is not rated but some government-related entities do hold ratings (such as the Dubai Electricity and Water Authority, at Baa2). Ratings on Dubai-based property deals are 'structured' rather than 'fundamental' ratings and therefore reflect the creditworthiness of the specific issuing vehicle rather than the creditworthiness of government-controlled companies.

The Governments of Ajman, Fujeirah and Umm al-Qaiwain are not rated, and even National Bank of Ajman and National Bank of Umm al-Qaiwain are not rated. However, National Bank of Fujeirah is rated.

Looking beyond the Middle East, there have been some positive ratings actions in Europe over the last year. Greece, Ireland and Spain have been upgraded (with Ireland now receiving a Baa1 from Moody's).

The highest rated bank in the Middle East is National Bank of Abu Dhabi, which holds AA- ratings from all three agencies. National Bank of Kuwait follows closely behind with AA- ratings from Moody's and Fitch, and an A+ from S+P.

The ratings of Middle Eastern banks follow closely the ratings of their respective governments, reflecting on the one hand the constraints of the 'sovereign ceiling', and on the other the benefits arising from the likelihood of state support if a bank were to encounter difficulties.

The rating agencies take a more nuanced approach to the sovereign ceiling now than in the past, but in practice it is hard for any bank to be rated more highly than the government of the country in which it operates.

Looking ahead, it is hard to see much change to the current ratings occurring over the next year. The ratings of the GCC states have changed little during several years of buoyant oil prices. At the highest levels, ratings are increasingly constrained by issues of governance and transparency rather than by finance: if Abu Dhabi is not rated AA+ now, would another $100 billion in its sovereign wealth fund really make a difference, from a rating perspective?

Outside the GCC, continued political uncertainty is likely to prevent significant upgrades in most countries. ■

Comparison of Rating Notation

Fitch and S&P use the same notation for ratings above the 'CCC'. Moody's uses a different notation but one that can be directly mapped to the Fitch/S&P scale above the 'CCC' range.

Below the 'CCC" range there are differences between the Fitch and S&P scales and neither can be directly mapped to the Moody's scale. The 'CCC' range begins after the B-/B3 ratings and implies a very low level of creditworthiness, and, at its lower levels, actual default.

Fitch and S&P	Moody's
AAA	Aaa
AA+	Aa1
AA	Aa2
AA-	Aa3
A+	A1
A	A2
A-	A3
BBB+	Baa1
BBB	Baa2
BBB-	Baa3
BB+	Ba1
BB	Ba2
BB-	Ba3
B+	B1
B	B2
B-	B3

Credit Ratings on Sovereigns

	Middle East Sovereign Ratings			Ratings on 'Eurozone 17' (Moody's ratings)	Ratings on selected other sovereigns (Moody's ratings)
	Moody's	S&P	Fitch		
AAA				Austria, Germany, Finland, Luxembourg, Netherlands,	United States
AA+				France	Singapore, United Kingdom
AA	Abu Dhabi, Kuwait, Qatar, UAE	Abu Dhabi, Kuwait, Qatar	Abu Dhabi, Kuwait Saudi Arabia*		
AA-	Saudi Arabia	Saudi Arabia		Belgium	China, Japan
A+	Oman			Estonia	
A		Oman, Ras al-Kheimah, Sharjah**	Ras al-Kheimah	Slovakia	
A-	Sharjah**			Malta	Malaysia, Mexico*
BBB+				Ireland*	South Africa, Russia
BBB	Bahrain*	Bahrain	Bahrain	Italy, Spain*	Brazil
BBB-		Morocco	Morocco		Turkey
BB+	Morocco			Slovenia,	
BB					
BB-	Tunisia*	Jordan	Tunisia	Portugal	
B+	Lebanon, Jordan				
B			Lebanon		
B-		Lebanon*, Egypt*	Egypt		
CCC	Egypt			Cyprus, Greece*	Venezuela*
CC					
C					

** Indicates that the rating has changed within the last year (see separate table for details). ** First time rating assigned in January 2014.*
Ratings in the C category have been simplified. For ease of comparison, Moody's ratings have been cited using the S&P and Fitch notations. Ratings cited on 10 July 2014.

Expert View: Bahaeddine Bassatne discusses trends in the energy trading market

Bahaeddine Bassatne began trading energy products in the 1960s and is now Executive Chairman of a group of companies – BB Energy – whose operations span the globe.

Arab Banker spoke to Mr. Bassatne about the energy trading market, how it is evolving, and the differences between the large multinational traders and those that are privately owned.

ARAB BANKER: Which are the most important geographical centres for energy trading, and what advantages do these centres have over other cities? Are there new centres emerging to compete with those that are more established?

BAHAEDDINE BASSATNE: Houston, London, Geneva, Dubai, Singapore are still the main trading centres. The main elements behind the success of these centres are the presence of a pool of experienced professionals, support from the banking system and the existence of a commodities trading exchange. Houston and Singapore also benefit from strong logistical capability for the delivery of crude oil and products. Tax optimisation was the main driver for the growing role of Geneva as a trading centre, although this is less of an advantage than it once was. In the Far East, Shanghai and Shenzhen are establishing new exchanges that we think could be able to compete with Singapore.

How is the emergence of China and India as major global economies changing the energy trading market?

The emergence of China and India has had huge impact on the energy market. The growth of the population and of the GDP of these two countries has led to remarkable increase in the price of energy and of several other commodities. Chinese oil companies have greatly strengthened their trading activity by concentrating that activity in London, hiring very experienced traders and developing proprietary trading. It seems to me that the approach of the Indian refiners has been somewhat different: they have concentrated on supply to their own refineries mainly from their headquarters in India. However, we have seen some private Indian refiners like Reliance setting up trading offices in Singapore.

Have the events of the 'Arab Spring' changed the energy trading market in the Middle East and, if so, how has the Middle East market changed?

Trading in the Mediterranean continues to be a major part of the global energy trading market, even though oil production from Libya, previously a major OPEC producer, and to a much lesser extent Syria, has dried up. In addition to that, the financial situation of Egypt is a source of great concern since oil supplies to Egypt are still dependent on generous financial support from other Arab nations. Taking a big picture view, it is hard to deny that uncertainties and political instability in the Middle East has added a significant risk premium to the market. Some estimate this premium could be $5–10 per barrel.

Which are the most heavily traded energy products? Are these likely to remain the most heavily traded products over the next 5–10 years, or will the other products increase in importance?

I personally do not see big changes in the energy complex in the short term. Having said that, we predict that LNG is going to be more heavily traded especially in the Far East in the next few years. The Singapore government has built two LNG terminals and is trying to promote LNG spot trading in the

Far East. China is also starting to be more aware of clean fuel: its major cities are now heavily polluted and the government has no choice but to urgently try to contain this problem.

How do you expect the market for trading LNG to develop over the next few years?

In the past decades we have often heard optimistic scenarios for the development of LNG trading but so far it has failed to materialise. New discoveries of gas fields may favour a relative growth of the LNG market, given generally high energy prices. However, the prohibitive transportation costs and, in particular, the re-gasification costs, imply the need for security of supply with long term contracts and for this reason we are unlikely to see a noticeable increase in trading of LNG in the years to come. However, what the Singaporean government is trying to do will be interesting: it may shift the traditional long term trading to a shorter term period.

Do state-owned companies or large multinational companies still dominate the energy trading market or are smaller, privately-owned companies now able to compete?

It depends on how we look at things. There is no doubt that from the point of view of volume, some large oil producers, like Saudi Arabia or Russia or oil multinationals like ExxonMobil, just to take a few examples, dominate the oil market. However, from the point of view of the quality of the services and the sophistication of the instruments, some of the smaller trading companies are second to none.

What advantages do the privately owned or 'boutique' energy traders have over the large multinationals and state-owned companies?

Being accountable to their shareholders, oil majors and state companies have developed a sophisticated and sometimes somewhat heavy system of procedures and controls that can limit their risk appetite. Some of these models were borrowed from the banking system (for example the 'Value At Risk' method of predicting potential losses) but in practice these cannot always be adjusted to the reality of oil trading. So small trading houses can show more flexibility and be able to offer to the market the kind of services it needs. A small trading house can still support its counterparties since commercial relationships remain based at a human level and, for us, people come before models and computer algorithms. Nimbleness in the face of rapidly changing markets allows small traders to quickly take advantage of opportunities.

How is the relationship between private energy traders and banks developing? Are energy traders being affected by the banks' increased concerns about financial crime and 'compliance' with regulations?

Traders do need the support of the banks. Without them we would not exist. Credit is the lifeblood of oil trading, given the large sums of money involved. It is a bilateral relationship and the trader must understand the concerns of the banks, recognise that we live in troubled financial times, and comply with the banks' requirements.

What are the key attributes of a successful energy trader?

Apart from sound professionalism and long lasting experience, the main soft skill for an energy trader is to be totally focused on the achievement of her/his goals, while maintaining a great flexibility in adjusting to changing market conditions. A trader must be able to gather information, process it quickly with a rational mind, and be able to distinguish what is relevant to her/his activity and what would be its likely impact. Good interpersonal and communication skills are essential and the knowledge of additional foreign languages as well as English are advantageous. ■

Bahaeddine Bassatne

Bahaeddine Bassatne, the Executive Chairman of BB Energy Holdings, has spent more than 50 years trading oil and petroleum products. Initially, he imported, mixed and traded asphalt in his native Lebanon, and then began distributing petroleum products to local industries, hotels and residences.

By the late 1960s he was trading internationally and in 1973 his company opened an office in Athens and bought its first oil tanker. During the 1970s and 1980s the company opened offices in London, Singapore and Houston and expanded its range of activities both organically and through acquisitions.

Now a group of trading companies that encompasses shipping and exploration as well as commodities trading, BB Energy has begun appraising investment opportunities in power plants and the possibility of buying terminals for its own use.

Setting the standards for Islamic finance

Islamic finance is growing rapidly and will continue to grow in the years ahead. Shari'a-compliant banking assets have been increasing at an average of 16% per year since 2008 according to Ernst & Young. In the GCC, 80% of new banking licenses issued over the last ten years have been for the establishment of Islamic banks. In Saudi Arabia, Shari'a-compliant lending by banks, both conventional and wholly-Islamic, has been increasing by 14% per year.

But who is setting the standards under which Islamic finance operates? The collapse of the securitisation market during the global financial crisis – entailing multi-notch downgrades of assets that had been holding AAA ratings – demonstrates the dangers that can befall financial products that grow more quickly than the ability of markets, regulators and even participants to understand their risks.

In the following article, Andrew Cunningham, *Arab Banker*'s Editor, and a long-time observer of Islamic finance, describes the organisations that are setting the standards that – they hope – will govern the way in which Shari'a-compliant business is conducted.

The Arab Accounting Organization for Islamic Financial Institutions (Aaoifi) was the first-standard setter to be created by the Islamic finance industry. It aimed to provide common methods of accounting for Islamic financial instruments, and for institutions as a whole.

Although many Islamic financial instruments mimic the economic effects of conventional financial products, they usually differ in important respects such as the way in which income can be booked (both in terms of timing and amounts) and locus of risk (with the bank, or with the customer).

If international accounting methodologies are used to report income, cash flows and values of Islamic financial instruments, readers of the accounts will not receive a true impression of how the instrument is performing. The only alternative is to adjust the Shari'a-compliant instrument itself so that it can be conform to conventional reporting methodologies – but that would almost certainly render the instrument non-compliant with Shari'a standards.

Aaoifi began by publishing Islamic accounting standards, and in doing so provided a common basis for reporting on Islamic financial instruments and on broader issues such as investments in associates and consolidation, where treatment can differ when conducted under a Shari'a-compliant system.

Later, Aaoifi began to publish Shari'a standards (that address the extent to which instruments conform to the Shari'a rather than the way in which their value is accounted) and standards on governance and ethics.

Aaoifi was established by Professor Rifaat Abdel Karim with strong support from the Bahraini government and leading Islamic financial institutions and accounting organisations. Professor Rifaat later went on to found the Islamic Financial Services Board (IFSB) in Kuala Lumpur and now heads the International Islamic Liquidity Management Corporation (see box overleaf).

If the parallel for Aaoifi is the International Accounting Standards Board, then the IFSB's nearest parallel is the Basel Committee on Banking Supervision, although the IFSB also prepares standards that relate to Islamic insurance.

The IFSB was founded in Malaysia in 2002 with strong support from Bank Negara, the Malaysian central bank. It is primarily a body for bank regulators and has been able to attract as members not only regulators in countries where Islamic finance is already strong but also those that are in the early stages of building a domestic Islamic finance industry.

IFSB standards typically provide guidance to bank regulators on how to supervise aspects of Islamic financial activity. The subject matter usually mirrors the key work areas of the Basel Committee or the Financial Stability Board. For example, the IFSB has produced five standards on capital and liquidity that respond directly to the standards contained in Basel III. The IFSB's standards on capital adequacy take into account elements of capital and of risk that are not captured in the Basel standards. The IFSB has also produced guidance on the Supervisory Review process for Islamic financial institutions and on industry stability.

The standards are piloted to their final stages by a Technical Committee comprising senior officials from central banks with the expectation that central banks will incorporate the standards into their own supervisory processes.

Aaoifi's standards have been adopted by regulators

The big question for both Aaoifi and the IFSB is whether their standards are adopted by financial regulators (or, at a minimum, recognised by regulators as an acceptable way of conducting business). Aaoifi says that its standards have been adopted by regulators in Bahrain, Jordan, Lebanon, Qatar, Sudan and Syria, as well as by the Dubai International Financial Centre. It cites six other jurisdictions in which it says that relevant authorities have issued guidelines that are based on Aaoifi's standards and pronouncements.

The IFSB enjoys a good relationship with the Basel Committee and other international standards setters. Noting the difficulty that Islamic banks would have in conforming to the Basel standards on liquidity, the IFSB lobbied – successfully – for the Alternative Liquidity Arrangements framework, developed by the Basel Committee for jurisdictions with limited high-quality liquid assets, to be applied to markets in which Islamic finance plays a major role.

Islamic Financial Services Board (IFSB)

The IFSB is a standard-setting organisation. It drafts and publishes standards on subjects such as risk management, liquidity management, and governance for use by banks and financial regulators. It also produces guidance notes on technical subjects such as credit ratings and Islamic money markets.

The IFSB hopes that its standards will be incorporated into regulation by national supervisors and used by individual institutions to guide their policies and operations.

The subject matter addressed by the IFSB is closely aligned with the agenda of international standard setters such as the Basel Committee on Banking Supervision and the International Organisation of Securities Commissions (IOSCO) but the Board also initiates work on matters that are distinct to Islamic financial institutions, such as 'profit smoothing'.

Membership is institutional and comprises central banks/financial regulators. The IFSB's governing Council comprises governors of the central banks who are members of the IFSB.

Based in: Kuala Lumpur

Founded in 2002 and began work in 2003

Secretary General: Jaseem Ahmed (since 2011)

Website: www.ifsb.org

International Islamic Financial Market (IIFM)

The IIFM promotes stronger and more harmonised Islamic financial markets. It does this by drafting and publishing standard contracts for Islamic financial instruments such as hedges, 'profit rate' swaps (the Shari'a-compliant version of interest rate swaps) and interbank deposits.

The IIFM hopes that the adoption of standardised financial instruments will reduce transaction costs for those involved in Islamic finance, increase efficiency (because terms do not need to be re-negotiated every time), and so increase the usage of Islamic financial instruments.

The IIFM's standard instruments are produced after consultation with the industry. The organisation also stages events and conducts research.

The IIFM was created by a group of central banks and the Islamic Development Bank and this founding group has subsequently been joined by other central banks and financial regulators. Membership is open to financial institutions as well as regulators.

Based in: Bahrain

Founded in 2002

Chief Executive Officer: Ijlal Ahmed Alvi

Website: www.iifm.net

The Bahrain-based International Islamic Financial Market (IIFM) targets its activities at the practitioners of Islamic finance rather than the accountants or supervisors. It produces standard contracts for Shari'a-compliant financial instruments. Specifically, it tries to provide standard Shari'a-compliant contracts for economic transactions that have been difficult to align with Shari'a standards but which would be of great value to Islamic financial institutions if they could become commonplace.

For instance, the 'Unrestricted Master Investment Wakalah Agreement' replicates many of the features of interbank deposits. Because Islamic banks cannot accept or pay interest, most of the interbank market is closed to them (unless they are willing to place money for free) and this constrains their ability to manage their liquidity. By supplying the industry with a legally robust, Shari'a-compliant contract, the IIFM hopes to facilitate the growth of an Islamic interbank market.

The IIFM has also produced standard contracts on hedging – a commonplace practice in conventional finance but one which is problematic under Shari'a rules; and on 'profit rate swaps' – enabling Islamic banks to effect transactions that mirror the interest rate swaps conducted by conventional banks.

CIBAFI Is expected to become more active

The General Council for Islamic Banks and Financial Institutions (which goes by the acronym CIBAFI) advocates on behalf of the Islamic financial industry and helps the industry by sharing information. In recent years, CIBAFI has had a low profile, but the appointment of a new Secretary General in March 2014 is expected to lead to changes and a more active voice. CIBAFI's Board is drawn from a wide variety of Islamic financial institutions, and the organisation receives considerable support from the Jeddah-based Islamic Development Bank.

All of the organisations mentioned so far also organise conferences and other events to generate awareness of Islamic finance. Aaoifi and CIBAFI offer certification programmes and more general training programmes. Historically, this has been a significant part of their overall activities.

There are other important bodies shaping Islamic finance, although they are not involved in setting standards. The most recent arrival has been the International Islamic Liquidity Management Corporation, based in Kuala Lumpur. Established in 2010 by ten central banks and the Islamic Development Bank, the IILM's objective is to put into the market highly rated Shari'a-compliant short-term debt, with a view to increasing the volume of high-quality liquid assets available to Islamic financial institutions. After a slow start, the IILM began issuing debt (rated A-1) in September 2013. Since October 2012, the organisation has been led by Professor Rifaat Abdel Karim.

The Liquidity Management Centre was created in Bahrain in 2002 to perform much the same function as that now executed by the IILM, but it was created as a private company, owned by Bahrain Islamic Bank, Dubai Islamic Bank, the Islamic Development Bank and Kuwait Finance House Investment Company.

What's in a Name: 'Islamic' Finance or 'Shari'a-compliant' Finance?

'Shari'a-compliant' is perhaps a more exact description of the business than 'Islamic' finance, but for all practical purposes the two terms can be used interchangeably.

Islamic/Shari'a-compliant finance is a way of conducting financial transactions in compliance with the tenets of Islam. Most obviously, this involves eschewing the receipt or the payment of interest, and it also entails avoidance of certain industries, such as the alcoholic drinks industry or gambling, that are considered 'haram' (religiously unclean).

Beyond such specific prohibitions, Islamic/Shari'a-compliant finance must adhere to certain moral principles, such as fairness and transparency. A contract that entails one party taking unfair advantage of another is not valid and not-enforceable in Islamic finance, even if it is legally correct and both parties have signed it.

'Shari'a' is an Arabic word meaning 'the righteous path' and it consists of a framework of rules and norms that are applicable to all people and which govern all aspects of their life. (That's why it extends beyond the boundaries of legal codes and may transcend them.)

The two main sources of the Shari'a are the Quran and the Sunna. The Sunna comprises the teachings of the Prophet Muhammed. Over time, the rules contained in these two sources have been expanded by scholars using consensus ('Ijma'), analogical deduction ('Qiyas') and independent interpretation ('Ijtihad').

Islamic banks and financial institutions have 'Shari'a Boards' whose responsibility is to ensure that all the institution's operations conform to the Shari'a and to certify that it does (similar to the way in which auditors express a 'true and fair' opinion on the accounts). Some countries have Central Shari'a Boards which opine on financial instruments and business conduct and which can over-ride the opinions of an institution's own scholars.

Finally, there are many different spellings of 'Shari'a' reflecting the challenges of transliterating an Arabic word, spelt in Arabic script, into English. The apostrophe signifies an Arabic letter which is similar to a glottal stop but since this is rarely pronounced by non-Arabic speakers, it is often omitted when they write it: 'Sharia'. In Malaysia and other East Asian countries, an 'h' is often added at the end: 'Shariah'. All are acceptable. Which you use is a matter of personal or institutional preference. Capitalising the initial 'S' is also a matter of preference – Arabic doesn't have a distinction between small and capital letters.

The aim is to promote and foster the Islamic finance industry

All of these organisations share the aim of promoting and fostering the Islamic finance industry. Indeed, this is the primary driver of their activities. A prudential agenda can be seen as a secondary concern, based on an understanding that an unhealthy Islamic financial sector that includes failing financial institutions, is never going to grow.

Islamic standard setters, and organisations like them, are trying to minimise the disadvantages that Shari'a-compliant institutions face when operating in a conventional global financial system. They are doing this by ensuring that accounting practices and regulatory standards take into consideration the particular features of Islamic finance, and by providing the Islamic financial industry itself with new tools and instruments that will enable it to meet customers needs and compete with conventional institutions. ■

General Council for Islamic Banks and Financial Institutions (CIBAFI)

CIBAFI acts as an advocate for the Islamic finance industry and fosters co-operation among participants. It produces a newsletter for its members and provides information on the industry on its website.

CIBAFI offers a range of certification courses, covering areas such as banking, takaful, auditing and governance and a range of non-certified training courses.

Membership is institutional and comprises leading Islamic banks and financial institutions. A new Secretary General took over in March 2014 and is expected to add new dynamism and direction to the organisation.

CIBAFI's Board of Directors is chaired by Sheikh Saleh Kamal and comprises directors and senior officials from leading Islamic financial institutions.

Based in: Bahrain

Founded in 1999 by the Islamic Development Bank and established by Bahraini Amiri Decree in 2001

Secretary General: Abdelilah Belatik

Website: www.cibafi.org

Accounting and Auditing Organization for Islamic Financial Institutions (Aaoifi)

Aaoifi's mission is the, "standardization and harmonization of international Islamic finance practices and financial reporting in accordance with the Shari'a". Its core activity has been to produce accounting standards for Islamic financial institutions and it has expanded from there to produce other standards such as 'Shari'a standards' (that is, how certain Islamic financial instruments should work in order to comply with Shari'a standards), 'Auditing Standards' and 'Governance standards'.

Aaoifi also offers certification and training and holds conferences and awareness seminars.

Membership can be individual or institutional. Aaoifi is governed by a Board of Trustees comprising regulators, bankers, accountants and other industry experts.

Based in: Bahrain

Founded in 1990 and began work in 1991

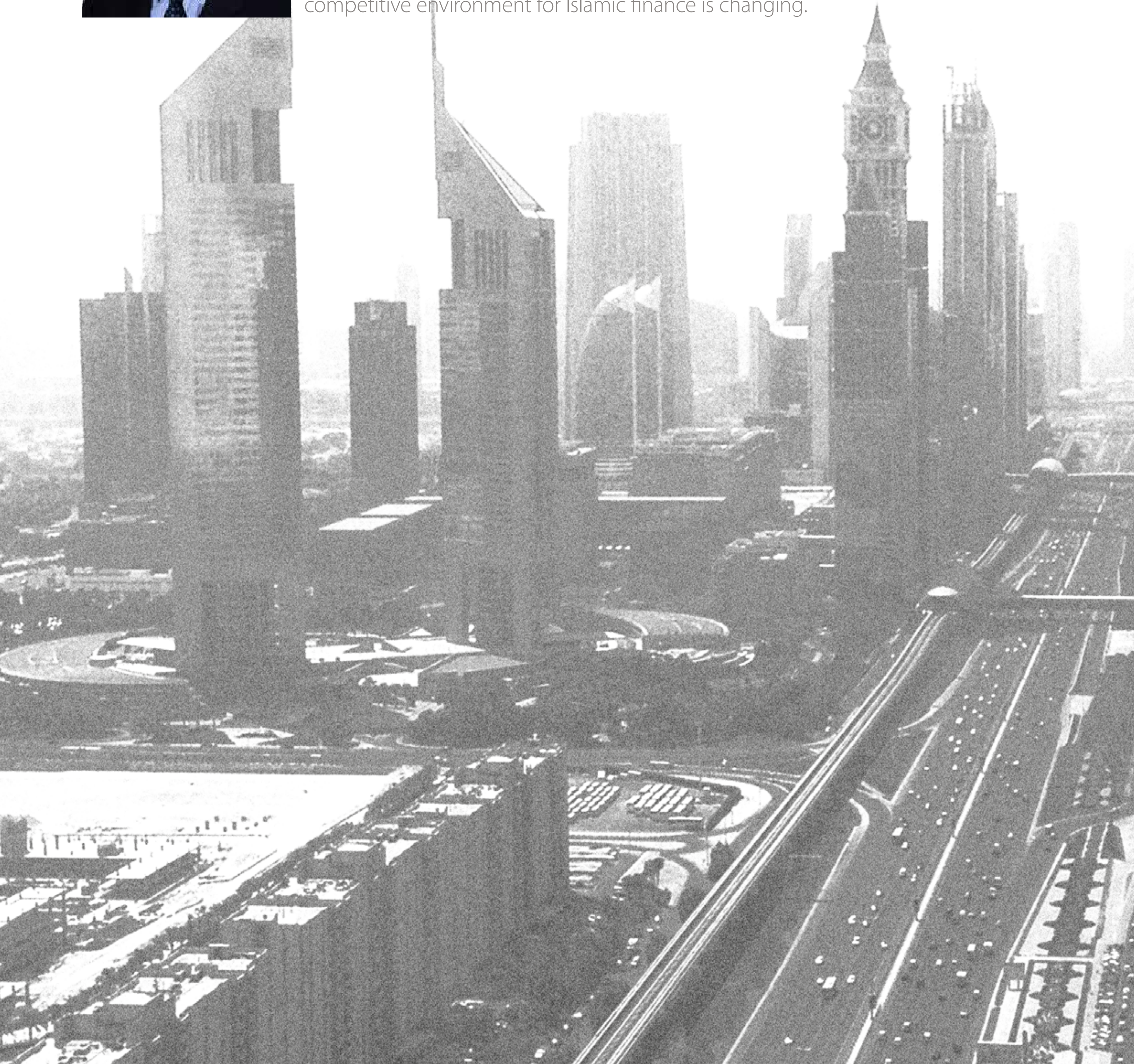
Secretary General: Deputy Secretary General, Khairul Nizam, overseeing operations pending appointment of new Secretary General

Website: www.aaoifi.com

Islamic Banking in the GCC, Europe, Turkey and the USA

Islamic banks have been competing against conventional banks in the GCC and Turkey for decades, but it is only more recently that they have started to compete directly against conventional banks in Europe and the US.

Michael Rainey, a partner in the London office of King & Spalding, and one of the firm's specialists in Islamic finance, considers how the competitive environment for Islamic finance is changing.



King & Spalding advises clients on Islamic Finance in the Middle East, Europe, the US and Asia

What does it mean to be an Islamic bank?

Islamic banks act as intermediaries between those who have money and those who need money. They raise funds from various sources such as shareholders, depositors, issuance of debt instruments and the Islamic money markets; and they use those funds to provide financial products to customers, for example through real estate financing, lease financing, working capital finance, acquisition finance and trade finance. The way in which an Islamic bank raises funds and provides financial products is different in form when compared a conventional bank.

An Islamic bank typically takes in deposits by entering into a wakala agreement with its customers and not by offering an interest bearing savings account. Under a wakala agreement, the role of the Islamic bank is similar to the role of an investment manager. The Islamic bank invests the funds deposited with it under the wakala agreement with a view to making a profit for the customer. The Islamic bank is able to charge a fee for its services – typically it is the profit earned over a pre agreed amount – and the funds are invested in the financial products offered by the Islamic bank. Although the investment activity is different, the objective of an Islamic bank is the same as a conventional bank: to make a return based on the difference between its cost of funds and the return on the financial products offered to its customers.

If the objective of Islamic banks and conventional banks are the same, what is the difference between Islamic finance and conventional finance?

The question can be answered by describing the way an Islamic bank raises funds and provides financing: for example, an Islamic bank may take in deposits under a wakala agreement and may provide real estate financing under a master murabaha facility. Having described a murabaha facility to the uninitiated, a discussion usually follows on the difference between the acquisition of real estate using murabaha financing versus an interest bearing loan. Once the commodity trade (which is a critical component of any murabaha financing – enabling the Islamic bank to charge a profit to its customer) has been stripped out of the murabaha financing, the differences between a murabaha financing and an interest bearing loan are not material. It is for this reason that murabaha financing is so popular with both shari'a compliant and conventional customers.

A better way to describe the difference between Islamic and conventional banks, in my view, (and this is an answer I heard given by the CFO of one of Islamic banks in the UK) is that Islamic banking is like conventional banking was 30 or 40 years ago: simple old fashioned banking using transparent forms of raising funds and providing financing to customers based on personal relationships.

What are Islamic banks doing in the GCC, Europe, Turkey and the USA?

To answer this question I will group Europe, Turkey and the USA together and compare what is happening in those countries with what is happening in the GCC.

Islamic banks in the GCC have access to a large retail deposit base. This is not something that is enjoyed by Islamic banks operating in Europe, Turkey and the USA. The potential deposit base may be there in the form of large Muslim populations, for example in Turkey, the UK, France and Germany – but it is not something that the Islamic banks outside of the GCC have been able to penetrate. Having access to such a deposit base means the GCC Islamic banks are much larger. For example, Al-Rajhi Bank, in Saudi Arabia, had assets of $75 billion at the end of 2013 and Kuwait Finance House, in Kuwait, had assets of $57 billion. Islamic banks also have a lower cost of funds, making it easier for them to compete with conventional banks.

Islamic banks in the GCC offer the full range of retail and commercial banking services. Many of the banks in the GCC also operate Islamic windows, whereby they offer both conventional and shari'a compliant products. Examples of banks operating Islamic windows include Samba Financial Group in Saudi Arabia and Arab Banking Corporation in Bahrain. The issues which confront Islamic banks operating outside of the GCC, such as the tax implications of certain shari'a compliant financing arrangements, do not impact Islamic banks in the GCC due to the GCC's less complicated tax regime. For example, as a general rule, the transferring of real estate by a customer to an Islamic bank in the GCC (in order to effect a lease financing) will not attract transfer duties.

King & Spalding

King & Spalding is a leader in Islamic finance and investment. Its work in the Middle East and its experience in Islamic finance dates back to the early 1980s. In 1995, it was the first law firm to establish a dedicated Islamic finance and investment practice group. The firm's offices in the Middle East, Europe, the US and Asia are staffed with an integrated group of 30 professionals who are dedicated to Islamic finance and investment, and they are supported by an international law firm with more than 800 lawyers located in 17 offices.

Chambers Global 2014 ranked King & Spalding as one of the top two firms for Islamic Finance. *Legal 500 EMEA 2014* ranked King & Spalding as a first tier firm in Islamic Finance. King & Spalding is ranked "Best of the Best" in *Euromoney*'s 2013 biennial list of the top legal practitioners in the world for Islamic Finance.

In contrast, in the UK, specific legislation had to be enacted to enable such financings to be implemented without real estate transfer taxes being triggered.

The access to retail deposits and the lighter tax and regulatory environment in the GCC enables GCC-based Islamic banks to compete on an equal footing with conventional banks.

Islamic banks have been established in Turkey and Europe but to date not in the USA. Some small conventional banks is the USA offer shari'a-compliant financing and investment products but so far the main activity of Islamic banks in the USA has been the sourcing and structuring of shari'a-compliant investment opportunities that are then placed with their clients in the GCC.

The Islamic banks established in Turkey and Europe typically have an anchor shareholder who is based in the GCC and has an Islamic banking track record. For example, the UK's Gatehouse Bank plc has an anchor shareholder in Kuwait, as does the Turkish participation bank Kuveyt Turk Katilim Bankasi. A standalone Islamic bank (i.e. set up independent of an existing Islamic bank) does not exist in Turkey or Europe, with perhaps the only exception being the Turkish participation bank Asya Katilim Bankasi.

The anchor shareholders of these Islamic banks provide a distribution channel for financial products and a stable source of funding. This is important given the difficulty that Islamic banks in Turkey and Europe have in tapping retail deposits at competitive rates. Islamic banks operating in Turkey and Europe are competing against conventional banks for customers: they are new entrants in what are very mature markets. Convincing a depositor to change banks is not easy. Since most depositors leave their money with the bank they have always banked with (perhaps the first bank they opened an account with), breaking into that deposit market is difficult. The UK's Bank of London and Middle East (BLME) has had some good success in raising deposits through its wakala product, but the product offers a good potential return for investors, which is a driver for investors putting their funds with BLME. Unlike conventional banks who receive deposits from customers almost by default, Islamic banks outside the GCC have to work a lot harder to attract deposits. Without the ready access to a retail deposit base, funding costs are pushed up, and this flows through to the rates charged on financial products, making it difficult to compete with conventional banks for market share.

The financing of, and investing in, real estate is a staple of many of the Islamic banks operating in Turkey and Europe. The Islamic banks established in the UK (e.g. BLME, Gatehouse Bank, QIB (UK) plc and European Islamic Investment Bank) and those with an Islamic window (e.g. Arab Banking Corporation) all have strong real estate offerings. Real estate can be funded on a shari'a-compliant basis and is an asset class that is understood by the anchor shareholders of these banks – two reasons why real estate financing and investment remains a focus for such banks.

The other sector which these Islamic banks are focusing on is wealth management or private banking. High net worth individuals from the GCC looking to deploy some of their wealth outside of the GCC are a particular focus for Islamic banks in London. Accessing these customers is also a way for the Islamic banks to build up their deposit base. Islamic banks in Europe in particular (with the exception of Islamic Bank of Britain) do not have a retail offering so are focusing on commercial clients and high net worth individuals.

The Participation Banks in Turkey (in Turkey, Islamic banks are called Participation Banks) have been operating for a much longer period of time and do have a larger retail offering, but these banks only account for around 5% of the Turkish banking market. The Turkish government is pushing one of the state-owned banks to establish a Participation Bank with a view to enlarging the sector. Without this government initiative it is likely the Participation Banks in Turkey will struggle to compete with the conventional banks due to the lack of retail depositors and distribution channels for financial products.

There are no Islamic banks in the USA but Islamic banks are active there. Typically, Islamic banks are structuring shari'a-compliant investment products for themselves and their clients. Examples include Arcapita Bank (prior to its restructuring), Kuwait Finance House and Gatehouse Bank plc. Islamic banks have just recently begun considering providing shari'a-compliant financing products to companies in the USA. For example Kuwait's Warba Bank recently provided a $20 million acquisition and construction facility to a New York City developer to finance the construction of an apartment development project. This was the first shari'a-compliant construction financing provided by an Islamic bank to a US developer.

Conclusion

Islamic banks in the GCC are competing against conventional banks. They have access to a retail deposit base and the tax and regulatory environment does not impede their operations.

Islamic banks in Turkey and Europe are at a competitive disadvantage to conventional banks principally due to their higher cost of funding. Islamic banks therefore have to be more nimble and distinguish themselves from conventional banks based on other attributes, such as being able to make decisions faster, close transactions more quickly, and focus on sectors, such as the SME market, neglected by the larger banks. Now is as good a time as any for Islamic banks to capture market share from conventional banks given the shrinking balance sheets of the conventional banks, but the market remains competitive with many other players, such as insurance companies and hedge funds, also looking to fill the space left by the retreat of the conventional banks. ■

Asian Banks continue to grow as European banks decline

Asian banks are accounting for a greater and greater proportion of the world's biggest banks while the share of European banks continues to decline. Meanwhile, profits declared by the world's largest banks as a whole have finally surpassed their previous peak, recorded in 2007.

Stephen Timewell, Editor Emeritus of *The Banker*, provides a detailed description of trends among the world's biggest banks, and predicts that the significance of Asian banks will continue to grow.

In 2013, global banking profits at last surpassed their previous peak recorded in 2007, just before the global financial crisis. Pre-tax profits of the Top 1000 banks reached $920 billion in 2013, according to *The Banker*'s Top 1000 World Banks list published in July 2014.

The ranking by *The Banker*, the authoritative global banking magazine of the Financial Times Group, shows that pre-tax profits of the Top 1000 world banks in 2013 grew 23% during the year to pass the $786bn recorded in 2007. Other key banking indicators also showed healthy improvements and were heading in a positive direction.

The Banker identifies the Top 1000 world banks based on their Tier 1 capital.

While the impact of the 2008–2009 global financial crisis still weighs heavily on many banking sectors, 2013 results represent a turning point.

The aggregate return on capital of the Top 1000 rose to 13.9% in the 2014 listing, well ahead of the 12.36% aggregate return of the previous year but still well below the pre-crisis return on capital in 2007 of 23.37%.

As was the case with the 2013 ranking, the 2014 listing again reflects the changing new order in global banking with Asian banks taking an increasing share of the global banking pie: Asian banks account for 261 of the Top 1000 banks and 355 when Japan's 94 banks are included. Asia-Pacific banks totalled 216 in 1990 and 266 in 2000 and have risen steadily to 350 in 2013 and 355 in 2014.

It is important to note that, like last year, China's Industrial and Commercial Bank of China (ICBC) was the largest bank in the world in terms of both capital and assets, achieving 29.2% growth in Tier 1 capital to reach $207.6bn and 11.2% growth in assets to reach $3,100bn.

Not only were ICBC and China Construction Bank the two largest banks in the world but four Chinese banks were in the global Top 10 banks, indicating the growing importance of China's banks on the global stage where they now have 111 banks in the Top 1000 compared to just nine banks in 2000.

Just as the Chinese and Asian banks grow in importance the declining role of so-called 'Western' banks (comprising those in Europe, the US and Japan) continues to be shown in the aggregate figures. While these 'Western' banks dominated the listing in 1990 with 778 banks and still accounted for 703 in in 2000, 'Western' banks only account for 529 banks in the 2014 listing and this total looks as though it will continue to decline as European banks melt away. There were 444 European banks in *The Banker*'s 1990

The banker's top 1000 world banks 1990–2030*

	1990	2000	2010	2013	2014	2020*	2030*
WEST	778	703	586	532	529	470	450
Europe	444	388	319	283	286	260	250
US	222	199	168	152	149	140	135
Japan	112	116	99	97	94	70	65
Mid- East	58	77	89	92	91	90	95
Latin Am.	40	50	44	73	74	70	75
Rest/World	20	20	57	50	45	50	50
ASIA	104	150	224	253	261	320	330
BRICs	33	43	146	172	191	220	250
Brazil	18	18	11	19	19	23	25
Russia	-	4	21	24	29	32	35
India	7	12	30	33	32	45	50
China	8	9	84	96	111	120	140

*Forecasts by author

Source: The Banker

survey, but only 286 in 2014, a decline of 158 or over a third in almost 25 years.

Looking at this global structure through the share of global Tier 1 bank capital in the Top 1000 shows the new trends in a different way. *The Banker*'s figures in 2014 suggest that the 355 Asia-Pacific banks (including the 94 Japanese banks) account for 35.96% of global Tier 1 capital, up from 34.94% last year, while Western European banks' share has slipped to 33.78% from 34.63% the previous year. Meanwhile, North American banks maintained their position with a 20.12% share in 2014 compared to 20.34% the previous year. Middle East banks improved marginally from a 3.69% share last year to a 3.77% share in 2014. Middle East banks, led by Saudi Arabia's National Commercial Bank and Riyad Bank, provide 91 banks in the Top 1000, down by one from 2013.

In examining other regions, the number of banks in central and eastern Europe in the Top 1000 rose marginally to 53 in 2014 from 50 in 2013, while its share of global Tier 1 capital rose from 2.07% to 2.21% in 2014. Africa, however, has tended to decline with its share of global Tier 1 capital falling to 0.94% in 2014 from 1.04% the previous year.

It is important to add that while the Top 1000 is an important indicator of the world's major banks it does not include all the world's banks: the lowest level of capital in the list is $391m and there are many important banks in many regions of the world that do not reach this $391m level.

The data in the 2014 list not only show the rebound in aggregate pre-tax profits but also show important expansion in other areas. Aggregate Tier 1 capital in the 2014 list showed a 7.48% growth to reach $6,623.9bn, representing stronger capital growth in recent years and global efforts to increase capital levels. It is interesting to note that aggregate Tier 1 capital in 2014 – $3,399.4bn – is almost double that of 2008, reflecting the changes that have taken place since the crisis.

In terms of aggregate assets the Top 1000 set a new high in 2014 of $113,100bn, marginally up on the previous year and well up on the aggregate assets figure of 2008 of $92,300bn. When reflecting on the changes in the capital-to-assets ratio, significant improvement can be seen since the low point of 2008 when the ratio fell to 4.32%. Since then the ratio has shown a strong and steady improvement with the capital-to-assets ratio reaching 5.86% in 2014.

In terms of other aggregates, *The Banker* data for 2014 throws up some curious comparisons between key regions. While the Tier 1 capital levels in the Eurozone area, China and the US are relatively similar at $1,368bn, $1,192bn and $1,164bn respectively, the assets and pre-tax profits levels of these three areas show marked differences. In asset terms, the Eurozone (with $29,324bn) has more than twice the volume of assets of US banks ($14,095bn) and significantly more than those of China ($19,354bn). In comparison, UK banks have Tier 1 capital of $472bn and assets of $9,272bn reflecting the vastly different banking structures in these areas.

The sharpest differences can be seen in the pre-tax profits arena where profits at Eurozone banks of $28bn are less than 10% of those at China's banks of $292bn and only around 15% of those at US banks of $183bn. These figures clearly reflect the improving fortunes at US banks and the continuing problems in Europe where *The Banker* notes that Italian banks account for four of the largest five losses in the world. Nevertheless, European banks taken as a whole (as opposed to considering only Eurozone banks) appear to be making a significant improvement in the latest list. Western European banks in 2014 accounted for 11.05% of global profits, compared to just 1.6% of the global total last year.

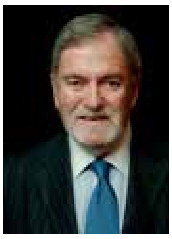
In terms of the highest disclosed non-performing loans (NPLs) Cypriot and Greek banks lead the way with Bank of Cyprus' NPL ratio standing at 47.0% and Greece's Piraeus Bank Group following on with 36.6%. As for cost-to-income ratios, Chinese banks continue to dominate with Industrial Bank leading nine Chinese banks in the Top 50 with a cost-to-income ratio of 26.31%.

Looking ahead, forecasting the structure of global banks in 2020 and 2030 is a perilous task with a huge number of variables at play and unknown and uncertain political developments to be accounted for. But general trends over the past 20 years indicate certain directions and it seems clear that not only are Asian banks expanding rapidly but the bloc of 'Western' banks built around European, US and Japanese institutions is in slow terminal decline. Other areas, especially the emerging markets and the BRICs (Brazil, Russia, India and China) are ascending.

Looking ahead to 2020, the global structure will change and while forecasts are difficult the decline of 'Western' banks seems ominous. Just as they have fallen from 703 in 2000 to 586 in 2010 it seems this trend will continue with 'Western' banks slipping to around 470 in 2020, mainly due to slippage in Europe but with US banks also declining, albeit as a much slower rate.

In contrast, banks in Asia are on the rise. The number of banks in the Top 1000 is likely to double from 150 in 2000 to 320 in 2020 as Chinese banks assert themselves globally and rise to 120 in 2020 from 9 in 2000 and 84 in 2010. With the Middle East remaining volatile, banks in that region will be fortunate to maintain their level of around 90 banks in the Top 1000 by 2020. There is little reason to see much more growth in the Latin American banks which are forecast to continue to account for about 70 of the Top 1000 in 2020.

Extrapolating these trends to 2030 is again dangerous but 'Western' banks look to be the losers in the long term with Chinese and other BRICs being the winners with marginal improvements in the Middle East and Latin America. 'Western' banks will certainly not disappear but other regions will become more important players in the overall banking structure going forward. ■



Stephen Timewell

Stephen Timewell is Editor Emeritus of *The Banker*, the global monthly banking magazine of the Financial Times Group. He was the magazine's Editor from 1992–2003 and Editor-in-Chief from 2003–2009 when he retired. In his 23 years at *The Banker* he has written about banks in all corners of the world and in particular on the Middle East.

Before joining *The Banker*, Stephen had been Editor of *Arab Banker* from 1988–90. In the 1980s he worked for First Chicago and for *Middle East Economic Digest* (MEED). He has a Bachelor of Economics from Monash University in Melbourne, Australia, and a Masters in Islamic History and Arabic from University of Chicago.

UK Investor Visas: understanding the rules, optimising the investments

Britain's many business opportunities, rich cultural life and enviable education system continue to make it an attractive country for residency for wealthy international citizens. Demand for UK residency is spreading from Russia, the CIS states, China and to other countries, most notably citizens from Middle Eastern countries.

Many wealthy people use the Tier 1 Investor Visa system to gain residence in the UK. Although perceived as straightforward, the process of attaining an Investor Visa contains some pitfalls for ill-prepared and poorly advised applicants.

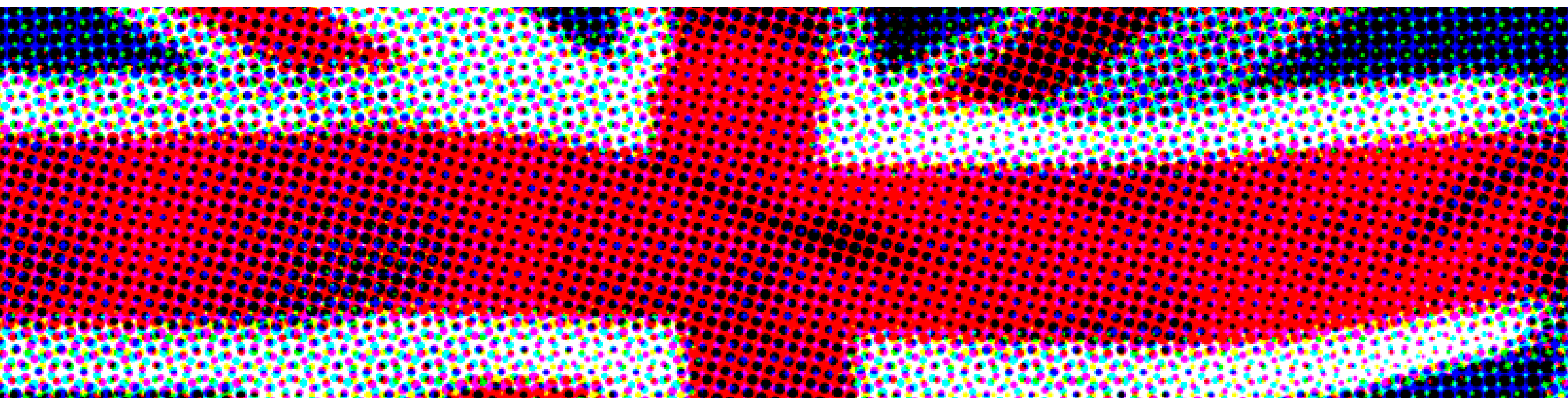
In view of the increasing number of Middle Eastern citizens that are now seeking Investor Visas, London & Capital, a global wealth management firm, is launching a dedicated service for Middle Eastern citizens who want to take up residency in the UK. Mark Estcourt, Executive Director and Head of International Wealth and Immigration at London & Capital, describes the investment implications of applying for an Investor Visa, and possible new opportunities to enhance returns on the investment portfolio while conforming to the Visa's requirements.

A Tier 1 Investor Visa is available for those willing to invest £1mn in the UK economy in exchange for residency and possible citizenship. The money must be invested according to specific rules. At the moment, it must be invested in a combination of UK gilts, UK bonds and UK equities and must not drop below the £1mn initial investment at any stage. In return for this investment, an initial three years and four month residency is granted, with the possibility of an extension up to five years if certain criteria are met. There are also currently programmes available for £5mn and £10mn, each with progressively shorter investment terms.

The Investor Visa system has many advantages as a route to residency. Providing the investment rules are met, there are relatively few obligations for applicants: there is no necessity to speak English, for example. There is no requirement to work. An applicant may also bring dependents and make use of British education and healthcare. Equally, the terms of residency are relatively generous, with investors having to stay in the country for at least half the year. Also, the Visa moves applicants substantially closer to the residency criteria for full citizenship in the UK, which currently sits at five or six years, depending on circumstances.

However, the investment needs to be enacted correctly. If the assets are not invested properly, or if they fall below the minimum threshold, the whole Visa application process needs to be started again. This is hugely disruptive - families must relocate back to their homeland, uprooting children from schools, and possibly incurring considerable costs. At London & Capital, we have lengthy experience in dealing with the needs of international clients. We have an ongoing dialogue with the Home Office and Immigration Officials. This allows for the anticipation and speedy resolution of issues as they arise.

Once the residency application has been made, there are a whole host of other considerations for those moving to



Britain. They must negotiate the property market, deciding where to live and whether to rent or buy. For those who are bringing families, children will need to be settled into schools. Those planning to exploit business opportunities in the UK will need a network of advisers to help them navigate the tax and legal systems.

At London & Capital, we aim to ensure that the process of moving to a new country is seamless. We sit at the heart of a network of tried and tested experts, co-ordinating all aspects of our clients' move to the UK. In addition to ensuring the Visa application runs smoothly and setting up the investment account, we can recommend private banking services, property services and advice on location and schooling. We also offer a range of trust and offshore services.

We recognise that different investors will have different needs. As part of this, we recently launched a specific service for Chinese citizens moving to the UK called IWI-China. This has reassured our clients that they have a partner well-versed in China/UK relocation and an unparalleled network in both countries to ensure the transition goes smoothly. This has proved a great success.

As demand for UK residency from the Middle East increases, we are now building a similar offering for citizens in the Middle East, teaming up with a range of trusted partners for whom we can provide a safe pair of hands to negotiate this complex area. In particular we are looking to build links with Arab banks without in-house wealth management expertise, for whom we can fulfil that function.

At all stages, we are looking to build long-standing relationships with other professionals that share our values. We have lengthy experience in bringing together different sources of expertise to find the perfect solution for each individual. We want to forge partnerships with advisers who are similarly client-focused and committed to providing service excellence.

Structuring an investment portfolio under Investor Visa programmes

- The Investor Visa programme places considerable restrictions on how assets can be invested. It must be in UK Gilts, bonds or equities, but the key restriction is that the investment portfolio must not drop below the £1mn originally invested. In practice, this restricts investment to low risk government and corporate bonds.
- Getting the portfolio mix right can bring considerable upside: the ideal scenario is that the investment portfolio will meet all the compliance requirements and demonstrate steady growth over the term.
- The key risks are that a portfolio either takes too much risk and falls below the minimum threshold, or takes too little risk and ends up as a pool of underperforming assets that do nothing to progress an investor's overall portfolio planning.
- We believe that investors need to look beyond a purely Gilt-based portfolio, given the current level of income available from UK government bonds. We also believe that a portfolio needs to be dynamically managed, rather than simply 'buy and hold' to ensure that investors make the most of the opportunities available to them.

New rules may offer opportunities for more active investment strategies

There is a strong possibility that the Investor Visa may soon become an even more attractive option for international citizens. There are proposed plans to change the investment rules. The investment criteria are currently onerous and the requirement to maintain a balance of £1mn means that relatively little risk can be taken with invested assets. However, under the new rules, the minimum investment threshold may increase to £2mn, but the investment criteria may become more flexible. Notably, the requirement that the investment does not reduce significantly in value at any point could be waived.

If the new rules are implemented, there are widespread implications for the investment of Investor Visa portfolios. The changes will allow a broader range of asset classes to be included. The restrictions on the Visa portfolio have forced wealth managers to maintain a low-risk, low-return profile with many portfolios exclusively invested in Gilts. Given the current yield on UK Gilts, this has not produced good returns for investors. At London & Capital, we have sought to diversify into corporate bonds, but have still been forced by the rules to predominately hold low-risk assets.

The new rules allow us to take more risk, incorporating alternative asset classes such as equities, higher-yielding bonds and commercial property. London is one of the world's leading financial centres and the new rules would allow investors to take advantage of the expertise available during a temporary or permanent period of residency.

This means clients can use the Investor Visa programme in a more strategic manner. Instead of it being a pool of 'dead' assets, it can be used to generate an income for capital growth and as part of an investor's wider strategic financial planning. With this in mind, we would urge investors to ensure that they are with a wealth manager who can take advantage of that new flexibility when it arrives. At London & Capital, we have been managing money on behalf of wealthy international citizens for over twenty-five years and aim to fully understand their needs. ■

Mark Estcourt – Executive Director and Head of International Wealth & Immigration

Mark founded London & Capital's International Wealth and Immigration Division which provides strategic wealth planning for international clients and their families, as well as the Tier 1 Investor Visa. He has many years of private client experience since starting his career in 1992 and has also successfully built and sold two wealth management businesses. Mark oversees and manages the affairs of high net worth clients including the portfolio management and the provision of complementary services to ensure that the firm's clients receive appropriate advice and can access a wide range of services from its strategic partners. After considerable work within the Investor Visa community, including advising the Home Office, Mark was recently awarded the 'Chairman's Award' for his work in Immigration at the 2013 'High Value Immigration Awards'. Mark has also won several other industry-related awards for his service and performance.

Revival of UK property finance brings opportunities for new entrants

The property finance market in the UK is being transformed as new entrants emerge to compete with the commercial banks that have historically dominated this sector.

Raed Hanna, the Managing Director of Mutual Finance, one of the UK's largest financial intermediaries, charts the rise of the new entrants, and describes in detail how Mutual Finance has been able to provide tailored financial solutions to meet clients' needs.

A new breed of alternative lenders is replacing the large banks in the UK property finance market. Insurance companies, debt funds, asset managers and even private individuals are taking an increasing share of the market for commercial property finance and their confidence – and willingness to take on the large banks – is growing.

Many of the banks that were previously active in this sector have now closed their doors to new business or are scaling back their activity. Not everyone has suffered to the extent of the Co-op Bank – whose disastrous acquisition of the Britannia Building Society, with its large portfolio of commercial real estate loans, has been well documented – but the pain inflicted by the global financial crisis of 2007–2009, particularly on those banks that took aggressive positions in UK commercial property, still haunts the market.

Ironically, the banks' withdrawal is leading to an increase in competition – which is good news for customers. There are now more alternative lenders in the market than ever before and some – particularly the debt funds – are offering quite aggressive terms.

These alternative lenders are able to take advantage of the fact that they are not subject to the increasingly restrictive regulation and supervision that governs the operations of commercial banks. As a result, in the competition to finance big commercial property deals, the UK playing field can be quite uneven.

The inflow of these alternative lenders, whose business strategies are not conditioned by 'legacy issues' from the past, has been a major factor in boosting deal flow in the commercial property market. Asset values are now showing real increases after five years of near stagnation.

These alternative lenders also benefit the market by helping banks to unwind and restructure their legacy lending, so enabling those that want to re-engage with the market to do so more easily.

Meeting the hedging requirements of lenders

Early in 2014, Mutual Finance advised a large client on their hedging requirements. The client's objective was to refinance a debt of £180 million and the transaction was particularly complicated as the security comprised the borrower's underlying property holdings, and these were large. Initially, the client had concerns about whether hedging was the right thing for them and, even if it was the right thing, what type of hedging would be suitable.

Mutual Finance's Head of Treasury, Mayad Rassam, met the client to understand their strategy from a property investor's perspective. He then analysed their facility agreement, modelled various hedging structures, analysing them for cash flow and mark-to-market movement through the life of the loan. These structures were then incorporated into the client's own investment analysis models.

Working with the client, Mutual Finance then refined the structures to provide the client with an exact fit for what they were looking for.

To facilitate this process, Rassam then spoke directly to the treasury department of the client's bank to agree the documentation and negotiate the bank's rate of return. He even did a 'dry run' of the trade. When the client was ready, the trade was executed.

As a result, this borrower had the peace of mind of knowing that the hedging trade that it had entered into was right for its business over the long term and that there will be no unpleasant surprises to deal with in later years.

Residential property development is also back in favour

But it is not just in the commercial property finance sector that changes are being seen. New entrants are taking a significant share of the residential development market although, in contrast to commercial property finance, all the mainstream banks are now back in the market and lending to house builders in all areas of the UK and for all project sizes.

Typically, residential schemes start around the £2mn mark, but we have seen other much bigger deals being done – sometimes in the range of £150mn. Residential development remains an attractive area for banks as lending is typically quite short term (say 12–36 months) and banks are able to charge high fees and recycle the loan book quickly.

Yet here too, new entrants are making their mark, often with debt funds providing the financing.

As a result, the residential development sector has become more competitive, with lenders willing to look beyond the traditional 65% 'loan to cost' ratio that has in the past acted as a brake on highly geared lending. Now, lenders are more focussed on 'Gross Development Values' (GDVs) with lenders seeking an exit position of around 55% of GDV. This means that facilities with a 'loan to cost' of 90% can now be secured by sponsors that have the right track record and pedigree.

Mutual Finance arranged the refinancing of Standard Chartered Bank's London offices, and the firm also arranges financing for high-end residential developments.

More complex debt structures can help borrowers achieve higher loan-to-value

As lenders' loan to value ratios have been pared back in recent years, there has been a greater desire from borrowers to increase debt leverage via junior debt and mezzanine tranches, in addition to senior debt that has always been available.

The table below illustrates how pricing varies across the capital structure – as would be expected, the reward profile increases significantly with the risk taken.

100%	Equity	?
90%	Mezzanine	25.0%
80%	Junior	10.0%
70%	Stretched Senior	6.0%
60%	Senior	3.5%
50%		
40%		
30%	Junior	2.5%
20%		
10%		

The wide variety of risks and anticipated returns in these structures enables arrangers to place the lower tranches with those funds and lenders chasing enhanced returns while leaving the senior debt to those that are more risk averse.

However, it is important to recognise that senior debt providers are not all the same – which is why we are seeing new tranches such as 'stretched senior' debt emerging to cater for those willing to accept a degree of extra risk, while still avoiding the junior and equity levels.

The market for mezzanine and equity tranches is now beginning to mature and many of the players in this space are starting to work together. As a result, we are now seeing syndications or club deals at these levels, rather than one lender taking on the whole facility, as in the past.

Mutual Finance recently completed a transaction that provides a good example of how commercial property finance can be 'stacked' to enable lenders to achieve a wide variety of risk/return objectives.

Mutual Finance's client had for many years owned a distribution warehouse that it let out to Sainsbury's, a well-established UK food retailer. The facility that had financed the client's purchase of the warehouse had been arranged about seven years previously and was due to expire. There was very little prospect of the facility being refinanced by a single bank at the current debt level. The facility was valued at £52mn and at the time had debt of £38.5mn.

The initial funding tranche was an amortising facility of £27mn with a five-year term, carrying a fixed margin spread of 2.75% over the five year swap rate. The senior lender was a mainstream European retail bank and the loan structure gave it a 52% loan to value ratio.

In order to redeem the existing senior facility, additional junior debt was put in place. In this instance, the junior lender was a fund that had been created by a large insurance company. The junior lender provided an interest-only facility of £11.5mn to take the total lending to £38.5mn, increasing the loan to value ratio to 74%. The junior lender received a fixed coupon of 7.5% over the five year swap rate.

The securitisation market is recovering

Historically, many lenders would use a commercial mortgage backed securitisation (CMBS) platform to enhance lending margins and returns, but the global financial crisis effectively destroyed this market.

There are now signs that the CMBS market is recovering and some strong transactions have been completed for residential housing projects, an example being the Principality Building Society's recent second securitisation, valued at £475mn.

At Mutual Finance, we expect that increased investor confidence and appetite will put pressure on margins and reduce the cost of financing further.

In summary, we see clear improvements in the market for real estate finance with increased competition coupled with a reduced amount of stock leading to stronger returns for investors. ■

Mutual Finance is a progressive and innovative financial intermediary specialised in structuring and raising leveraged debt for real estate development. Based in London's Mayfair district, the firm is one of the UK's largest financial intermediaries, financing more than £700mn of asset-backed and real estate transactions during 2013.

Gaining in strength; spreading our wings

The Arab Bankers Association is gaining in strength, with more members, more and better-attended events, and a new website.

The Association's mission is to foster improved relations, information sharing and understanding between the private and public financial sectors of the Arab World and the United Kingdom. The Association is increasingly able to fulfil its mission for the benefit not only of its members but also of the wider financial community in London.

The Arab Bankers Association (ABA) held four expert seminars during the first half of 2014, focussing on the Gold/FX Markets, Immigration and Citizenship Opportunities, Financial Regulation and the UK Property Market.

These seminars are held in the evening at the ABA's offices in the Arab British Chamber of Commerce Building in London's Mayfair. The formal presentations are followed by a discussion session and then a buffet dinner where participants can mingle with the speakers.

The presentations are of the highest quality and provide tremendous value to both members and friends. Slides and PowerPoint presentations are always posted on the Association's website following the event.

Two technical seminars were held in October and December 2013, focussing on the geopolitics of energy and on new issues in financial regulation.

In addition to technical seminars, the Association holds three social events during the year: the annual Gala Dinner, an Iftar and a Christmas Party.

More details of the ABA's seminars and social events are given in the pages that follow, along with a selection of photos from each event.

The Gala Dinner, held in October or November, is the Association's flagship event, attracting about 250 people from London and abroad. In 2013, the Association honoured Dr. Naaman Azhari, the Chairman of the Blom Group, and in 2012 it honoured Michael Tomalin, the outgoing Chief Executive of the National Bank of Abu Dhabi.

The 2014 Iftar was jointly sponsored by QIB (UK) and Abu Dhabi Islamic Bank, and was held at Maroush Gardens.

In February 2014, the Association launched its new website. The site is now being regularly updated with reports on ABA events (including presentations from those events), interviews with leading Arab bankers, and news about Middle Eastern finance that will be of interest to Arab bankers and those who work with Arab financial institutions.

The new site also enables members and non-members to register for ABA events and, if necessary, pay on-line.

The ABA is led by George Kanaan, the Chief Executive Officer. George is assisted by Houda Lahiani, Accounting and Administration, and Joumana Karam, Membership Secretary, both of whom work in the Association's offices at 43 Upper Grosvenor Street. Carol Hovsepian assists George from Beirut. Andrew Cunningham, the Association's Editor in Chief, oversees and provides content for the website, and produces *Arab Banker* magazine.

The ABA's Board comprises senior executives from the leading Arab banks that are represented in London and from financial service and legal firms that conduct business with Arab banks.

The Association's Annual General Meeting is usually held in September.

George Kanaan, Chief Executive of the Arab Bankers Association

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 July 2014, is given below.

Abdulaziz Al-Khereiji (ABA Chairman. Board member since 2012)
Abdulaziz has been working within London's financial services sector for over 25 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 corporate relationships in the United States, Europe and Asia, focusing on clients' business activities in the Kingdom of Saudi Arabia and the GCC as a whole.

Samer Hijazi (ABA Treasurer. Board member since 2012)
Samer is a Director in KPMG's Financial Services Audit practice. He is currently responsible for a portfolio of UK and international banks, sovereign wealth funds and other asset managers where he provides audit and advisory services. Samer joined KPMG's London office in 2000, coming from another Big Four firm in the United Arab Emirates, where his clients included leading local and international financial institutions.

Vivien Davies (ABA Company Secretary. Board member since 2012)
Vivien is a partner in the London law firm Edwin Coe LLP. She specialises in company, banking and commercial disputes, including complex cross-boarder disputes and international arbitration. In addition to general commercial clients, she regularly acts for foreign banks and enterprises from the hospitality, construction, and healthcare sectors, together with media organisations. She is an active member of the UK's Middle East Association and is fluent in Arabic.

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.

Ziyad Akrouk (ABA board member since 2012)
Ziyad has been Chief Executive Officer of Europe Arab Bank plc, which is part of the Arab Bank Group, since May 2011. He is based in London. He was previously CEO of Citibank's operations in Kuwait and also held senior roles within Citibank in Bahrain, Poland, Egypt and Jordan. Before becoming a banker, Ziyad spent his early career working as a civil engineer.

Farid Barakat (ABA Board member since 2010)
Farid is the Country CEO and Managing Director Global Wealth UK of the National Bank of Abu Dhabi (NBAD) and head of its London branch. He is based in London. Farid joined NBAD in 1977. The bank's London branch specialises in private banking services and high profile property financing and has a growing corporate and trade finance department.

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

Gaby Fadel (ABA board member since 2005)
Gaby is the London Branch Manager of Byblos Bank Europe. Gaby began his banking career with Credit Lyonnais in Beirut and later moved to the Brussels office of Byblos Bank and then to the London office of Banque Française de l'Orient (which was partly owned by Credit Agricole). In 1999, he returned to Byblos Bank in his current position. Gaby's work has covered international trade finance, property & corporate finance, and correspondent banking as well as dealing with high net worth individuals; and it has taken him not only to the Middle East but also to East, North and West Africa.

Hani Kablawi (Board member since 2010)
Hani is an Executive Vice President at BNY Mellon and the head of the bank's EMEA asset servicing division. He is based in London. Hani previously managed country and client relationships across EMEA for BNY Mellon and was co-Chair of the bank's Sovereign Advisory Board, which oversees relationships with sovereign wealth funds and central banks globally. He previously worked for BNY Mellon in New York, Abu Dhabi and Dubai.

George Kardouche (ABA Board member since 1988)
George served as ABA Chairman for several years. He began his career with Royal Bank of Canada in Beirut and then worked for Dillon, Read in New York and London developing client relationships in the Middle East. George also worked for United Gulf Investment Bank and Drexel Burnham Lambert before concluding his banking career with Schroders in London. His publications include *The UAR in Development; The Competition for Savings (USA); and Wage & Price Controls in Canada?* He currently sits on the boards of two Egyptian companies: Orouba Agrifoods Processing Co. and Ajwa for Food Industries Co.

Amr Turk (ABA 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, focussed 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.

Arab Bankers Association
جمعية المصرفيين العرب

ABA Annual Gala Dinner honours Naaman Azhari

Dr. Naaman Azhari, the Chairman of the Blom Group, received the Arab Bankers Association's 2013 award for Distinguished Service at the Association's Gala Dinner on 24 October.

The Gala Dinner confirmed its place as the premier social event for Arab Bankers in London, with nearly 250 guests attending.

ABA Chief Executive George Kannan and Chairman Hani Kablawi presented the Association's Distinguished Service award to Dr. Azhari, who was joined on stage by two of his sons, Saad and Samer. Dr. Azhari then spoke about his early banking career and his ten principles of banking that have guided him throughout his career.

Mr. Andrew Clowes, the Chairman of the Middle East Association, then introduced the keynote speaker, the Rt. Hon. Oliver Letwin, the Minister for Government Policy in David Cameron's coalition government.

After the dinner, Khaled Samawi, the co-founder of Ayyam Gallery, led a charity auction for two paintings that had been donated by the Gallery. One was by Syrian artist Samia Halaby and the other was by Saudi artist Nasser El Gharrem.

Money raised from the auction went to two charities: the Palestinian Association for Children's Encouragement of Sports, which provides after-school sports programmes for Palestinian girls and boys; and Give a Child a Toy, which provides educational, recreational and medical support to under-privileged children in Lebanon.

Entertainment at the dinner was provided by 'Sirens Encore' a group of four professional opera singers who performed songs from popular musicals and classical opera.

Eleven institutions bought corporate tables at the Gala. Blom Bank France, National Bank of Kuwait International, ABC International Bank, BNY Mellon, Emirates NBD and Europe Arab Bank bought premium corporate tables and Samba Financial Group, National Bank of Abu Dhabi, KPMG, Byblos Bank Europe and Riyad Bank bought standard tables.

The Gala Dinner was held at the Jumeirah Carlton Tower in London's Knightsbridge district. ■


Dr. Naaman Azhari


George Kanaan, Samer Azhari, Naaman Azhari, Saad Azhari, Hani Kablawi


Mr and Mrs George Kanaan and Dr. and Mrs Letwin


Andrew Clowes gives his introductory remarks


Sirens Encore provided the entertainment


Khaled Samawi

ABA celebrates Christmas in style

The Association's Christmas party was held at the East India Club just off Piccadilly in London's West End on 16 December, attracting more than 70 members and their friends.

As well as drinks and canapés, guests enjoyed a selection of Christmas carols sung by a group of professional entertainers. Twenty five prizes – including chocolates, cufflinks, ladies accessories and dinners for two at some of London's leading restaurants – were awarded through a raffle. ■


Rupert Chetwynd


Carol singers entertained the guests


Prizes galore!


Stephen Blyth, Arab National Bank

1. Marwan Dagher, Managing Director, HSBC, who moderated the discussion
2. Marcus Grubb, Managing Director, Investment Strategy, World Gold Council
3. Ned Naylor-Leyland, Investment Director, Quilter Cheviot
4. Janet Henry, Chief European Economist, HSBC
5. Simon Walker, Qatar National Bank, and Abdulaziz Al-Khereiji, Riyad Bank, and Chairman of the ABA
6. Steve Timewell, Editor Emeritus of The Banker, Pam Smith, writer and journalist, George Kardouche, ABA Board member and former ABA Chairman.

Glittering performances at Gold and Foreign Exchange Seminar

Four international experts gave technical presentations on the prospects for Gold and Foreign Exchange markets at the ABA's first seminar of 2014.

HSBC Bank, the World Gold Council and Quilter Cheviot sponsored the ABA's first expert seminar of 2014, held at the Association's offices on 19 March.

Attendees heard presentations from Marcus Grubb, the World Gold Council's Managing Director for Invesment and Strategy; Daragh Maher, a currency strategist at HSBC; Janet Henry, HSBC's Chief European Economist; and Ned Naylor-Leyland, an Investment Director at Quilter Cheviot.

Marwan Dagher, HSBC's Head of Institutional Sales in Europe introduced the speakers.

Among the significant points addressed in the presentations was the impact on the gold market of Chinese consumers who are now buying the commodity in increasing amounts.

Al-Sharq al-Awsat, the leading daily Arabic newspaper, reported the seminar on its front page and gave a detailed summary of the presentations on an inside page. ■

Understanding 'Investor Immigration' and Citizenship Requirements

Three leading London firms put their expertise together to brief ABA members and their friends on the requirements for 'Investor Visas' and citizenship in the UK and other territories.

EdwinCoe LLP, London & Capital and Henley & Partners sponsored the ABA's seminar on investor immigration, which was held at the ABA's offices on 14 May 2014.

Dhruti Thakrar from EdwinCoe described the application processes for a UK Work Permit (Tier 1 Visa) and for applications for residency based on investment (Tier 2 Visa). Her colleague, Frank Strachan, one of EdwinCoe's tax partners, then described the steps that applicants should take to avoid adverse tax treatment as a result of a change in residency.

Mark Estcourt, Executive Director of London & Capital, outlined the investment conditions attached to the 'Investment Visa' and suggested ways that applicants could optimise their portfolios.

Hakan Cortelek, Managing Partner of Henley & Partners, compared the requirements and benefits of residency and citizenship in countries other than the UK.

All the speakers pointed out pitfalls and mistakes that applicants sometimes make, leading to delays or even failures in their application process.

Presentations from the seminar were posted on the ABA's website. ■

One of the speakers – Hakan Cortelek, Managing Partner of Henley & Partners.

Yousef Meschia and Fiona Parsons from Banque de Luxembourg

Frank Strachan, tax partner at EdwinCoe and one of the speakers; and Vivien Davies, a partner at Edwin Coe and the ABA's Corporate Secretary.

Jeannette Lichner, FTI Consulting, one of the speakers

Jake Green, Ashurst Solicitors, one of the speakers

Fadi ElKhoury, Samba Financial Group

Charles Hollis, FTI Consulting, who introduced and moderated the discussion

Dealing with regulatory change in UK financial markets

FTI Consulting sponsored the ABA's seminar on regulatory change, held at the ABA's offices on 22 May.

Charles Hollis, Senior Managing Director at FTI Consulting gave the opening address and moderated the discussion.

Jeannette Lichner and Peter Brooke from FTI Consulting addressed issues of corporate governance, conduct risk and financial crime, referring in detail to the requirements in the UK regulator's Handbook that are applied to banks. Ms Lichner also explained the regulator's approach to the supervision of foreign branches.

Jake Green of Ashurst Solicitors described the increased use by financial regulators of "attestations" – whereby senior managers of the Board of a bank have to certify ("attest") that they have ensured that their controls, policies and procedures are in line with regulatory expectations – and he gave advice on how banks can best deal with requests for "attestations."

The presentations were posted on the ABA's website. ■

Expert briefing on UK real estate

The ABA's seminar on "Investing in UK Real Estate" attracted more than one hundred members and friends on 17 June.

The seminar was sponsored by ABC International Bank, National Bank of Kuwait and Norton Rose Fulbright who all provided expert speakers. The seminar also included presentations by Savills.

Keith Leach from ABC International Bank and Wasim Khan from Norton Rose Fulbright discussed trends in Islamic Real Estate Finance, while Michael Bowles from National Bank of Kuwait outlined recent developments in conventional property finance. Speakers from Savills provided a summary of property price trends in London and in other areas of the UK.

The seminar was introduced and moderated by Faisal Alshowaikh, the head of Islamic Financial Services at ABC International Bank.

The speakers' presentations were posted on the ABA's website. ■

Shaima Jillood, Charles Russell LLP

Faisal Alshowaikh, ABC International Bank

Hemant Mistry, BLME, and Imam Qazi from Foot Anstey LLP

Ms Sophie Chick, Savills

Gary Martin and Vijya Jesani from National Bank of Abu Dhabi

ABA Iftar at Maroush Gardens

The Association's Iftar was held on 14 July at Maroush Gardens

Abu Dhabi Islamic Bank and QIB (UK) sponsored the ABA's Iftar which was held at Maroush Gardens in London's West End.

Despite the late start – Iftars begin at sunset when Muslims break their fast during the month of Ramadan – the event attracted a large number of members and guests, many of whom stayed late into the night.

Carpo of Piccadilly, produced souvenir packages of dates for each guest to take home. ■


Staff from Europe Arab Bank


Bert De Ruiter of QIB (UK), one of the sponsors, with staff from his real estate department.


David Curtis, Beaulieu Capital, with George Kanaan


Mr and Mrs Fawzi Dajani, Mr and Mrs George Kanaan, Mrs Marcelle Fadel


Joumana Karam, the ABA's Membership Secretary and Atef Sherif from Samba Financial Group

Carpo of Piccadilly provided a gift of dates for guests to take away with them

The 2013 Annual ABANA Achievement Award Dinner

ABANA at 30: bridging the North America-MENA financial communities

This year, the Arab Bankers Association of North America (ABANA) has been celebrating thirty years of activity, bringing together the Arab financial community in North America and providing a focal point for others who want to engage with Arab bankers.

Dueaa Elzin, ABANA's Membership Coordinator, describes ABANA's work and its successful efforts to connect with bankers and executives in the MENA region.

In October 2013, Hutham S. Olayan, President and Chief Executive Officer of Olayan America, received ABANA's 2013 Achievement Award at a sold-out celebration in the Grand Ballroom of the Plaza Hotel in New York City. ABANA has given the award to accomplished individuals – such as Badr Al Sa'ad, Nemir Kirdar, Prince Alwaleed Bin Talal, Faisal Al Ayyar, Muhammad Al-Jasser, Ibrahim Dabdoub, Mohammed El-Erian and Abdulmajeed Shoman – since its foundation 30 years ago.

Introducing Ms. Olayan to the guests, James Gorman, Chairman and CEO of Morgan Stanley, described Ms. Olayan as a "true internationalist" and a "true trailblazer." ABANA's 650 professional members around the world also know her as one of the organization's founders, along with Issa Baconi, Monir Barakat, Fakhruddin Khalil, Fadi Saab and Charles Yeterian.

Building a professional bridge between the Arab world and North America

"The central idea behind ABANA is to build a professional bridge in the financial sector between the Arab world and North America – and to strengthen it with each passing season," Ms. Olayan said. She noted that ABANA's membership has grown significantly, especially in recent years, despite marked consolidation in the banking industry.

Carlos Ghosn, CEO of Nissan, will receive the 2014 ABANA Achievement Award on October 15th, following the World Bank/IMF meetings.

According to ABANA Executive Director and COO Susan Peters, "The annual award dinner is by far the best-known ABANA program for many MENA- and UK-based financial institutions, but we are most proud of our ABANA Conversation series, which has been a consistent forum for discussions that enhance the understanding of business and capital flows between North America and MENA."

Through ABANA's events, hundreds of business leaders over the years – such as Nemat Shafik, James Wolfensohn, David Rubenstein, Hisham El Khazindar and many standing finance ministers and central bankers – have shared their insights with members of the US financial community. Topics of discussion range from North African private equity to US energy independence and allow for nuanced exchange directly from those at the forefront of their industries.

ABANA's rotating 20-person board of directors and its alumni represent a who's-who of leading US-based finance and legal professionals who either come from the Middle East or are working there now. The board's current president, Dr. Amer Bisat, a managing director at BlackRock, has led the organization into a transformation toward greater internationalization – increasing its non-US member institutions beyond its current 25% – and a more intellectual bent to its content, best exemplified in the 'ABANA Summit' that was launched earlier this year. According to Bisat, the Summit is a much-needed US forum at which to address "topics that are of extreme and urgent interest to the region now and coupling that with the highest level of senior people who can speak about that topic intelligently."

Changing the west's perception of Arab financial institutions

Many of ABANA's members continue to recognize its early and ongoing role in changing perceptions of Arab financial institutions in the West. Asked about ABANA's impact, longtime ABANA member Lorraine George-Harik, Partner at HPM Partners, said, "Since the 1980's, it has been important for ABANA to battle negative stereotypes and create positive images of Arab and Arab-American professionals working in finance."

ABANA's members are a well-connected group of 80 institutions and 650 professionals. With the consolidation of the financial services industry, the organization was compelled to evolve beyond its original base of Arab banks, many of which (Arab Bank, National Bank of Egypt, Gulf International Bank, Arab Banking Corporation), continue to be pillars of the organization. Since its foundation, ABANA has expanded to include central banks and money-center banks, law firms, private equity funds, hedge fund managers and consultants. The organization's robust growth, especially over the past four years, has also promoted diversification in its membership base as a whole. Nearly 40% of members are non-Arabs working in or with the MENA region. Hutham Olayan recently drew attention to the organization's strides toward gender parity. "I am very gratified that the current membership has elected a board of directors that is 35% women," she said. "This puts ABANA way beyond the norm – not only in the Middle East, but also in the US and internationally."

Opening the doors for financial collaboration between the US and MENA region has always been an ABANA priority. According to Mark Jackson, Director of Global Growth Markets at Thomson Reuters, "ABANA gives us that ability to connect with stock exchanges or heads of private equity firms that we find more difficult to connect with in their home locations."

Fostering the next generation of Arab and Arab-American business leaders and reaching them early in their careers is central to ABANA's mission. In addition to targeted programming and partnerships with Arab student groups at Columbia Business School and the Wharton School of Business, a monthly series of roundtable discussions where young professionals meet with senior members of the ABANA community has been instrumental in creating mentorship relationships and introductions to new careers and companies. A new virtual network giving MENA-based entrepreneurs access to ABANA's network of expertise and mentors is set to launch in the coming months.

"Being relevant and providing our members with access to information and other business leaders is critical for ABANA," said Bisat. "To stay current, we are continually building on and launching new programs, such as our international series of online geopolitical and economic briefings and new video mentoring sessions for entrepreneurs in the region – to better serve our MENA-based membership. ABANA's longstanding reputation as the North American nexus of financial institutions engaged in MENA is a source of great pride." ■

ABANA's website is www.arabbankers.org

ABOVE: Hutham Olayan, Bader Al-Sa'ad and H.E. Muhammad Al-Jasser at the ABANA Achievement Award Dinner.

BELOW: Nemat Shafik and ABANA President Dr. Amer Bisat at a recent ABANA Conversation.

Promoting authentic Arab culture in all its forms: the work of the Arab British Centre

You won't find the offices of the Arab British Centre unless you're looking for them – the Centre looks onto a tiny courtyard, at the end of a narrow alleyway, behind London's Fleet Street. But from behind its unassuming green door, the Centre's small team organises an astonishing array of events, ranging from film festivals and exhibitions to classes on Arabic language and calligraphy. The Centre's offices also play host to a variety of other organisations, such as an Arab literary magazine and an educational foundation for Palestinians.

Ruba Asfahani, the Centre's Communications manager, describes the Centre's work and its determination to present Arab culture in a way that Arabs will recognise and non-Arabs will understand.

Sami Tamimi, the head chef and co-founder of the Ottolenghi chain of restaurants In London, hosts a one-night only supper club to celebrate his book *Jerusalem*, at 'Books for Cooks' in Notting Hill.

Founded in 1977, the Arab British Centre has evolved into one of the most vibrant and effective promoters of Arab culture outside the Middle East. But it's not just the quantity of our work that makes us stand out – we hold about 40 events a year, of which the majority are held in our Centre – it's also our commitment to promoting culture and events that Arabs will recognise as their own.

An example is our biennial film festival, *Safar*, the only festival in the world solely focused on locally popular Arab cinema, presenting Arab films that will be accessible to fans of world cinema but avoiding cultural stereotypes. The 2012 festival included classics such as Youssef Chahine's *Alexandria, why?* (1978) and *The Beginning And the End* (1960, Omar Sharif's final film before becoming a Hollywood star in *Lawrence of Arabia*), and the more recent, and controversial, *Yacoubian Building* (2006).

The 2014 Safar, which was held in mid-September, built on the extra-ordinary success of its predecessor by including classic and contemporary films such as *The Sparrow* (1972), *Kit Kat* (1991) and UK premieres such as the ensemble-cast film *Rock the Casbah* (2012, starring Omar Sharif and Nadine Labaki) and *Factory Girl* (2013). As well as this, 2014 saw a new addition to the festival with an exhibition dedicated to the history and artistic nature of film posters as well as its influence on contemporary artists working in a variety of media.

Recognising those who contribute to understanding of Arab culture

Another example of the ongoing work we do is the Arab British Centre Award for Culture, which has been running since 2008 and now celebrates an individual who has made the most constructive contribution to British understanding of Arab culture.

The award is given every two years, and in 2013 the winner was Hassan Abdulrazzak, an Iraqi playwright. In presenting the award, the Chairman of the panel of judges, Baroness Helena Kennedy, cited Abdulrazzak's impact on the British public's understanding of the Arab world. For example, Abdulrazzak's first full length play, *Baghdad Wedding*, showed the impact of Iraq's multiple wars and the years of sanctions on Iraq's middle class – an aspect of recent Iraqi history that was rarely, if ever, shown on regular television. His second play, *The Prophet*, addressed the political and ethical challenges that many Egyptians faced following the fall of President Mubarak in January 2011.

In addition to these high profile events, the Centre also stages regular exhibitions and film screenings as well as courses in Arabic language, Arabic calligraphy and the Oud. We also have an impressive, specialised library of books on Middle Eastern history and contemporary issues as well as translated works by Arab writers. We've even noticed students from London universities coming to us to borrow books they can't find elsewhere!

Acting as a platform for others

The Centre acts as a platform for other organisations seeking to stage or promote events in the UK. For example, our meeting room/gallery space has been used to host book launches, lectures and talks and even a food demonstration! Where we are unable to accommodate certain events, we have a brilliant network of partners to assist in making dreams come true. For example, the Algerian National Ballet were hoping to perform in our Centre, but this would have been impossible given the size of the space, and so we introduced them to a partner who enabled them to have a sell-out show in West London in 2013.

Hassan Abdulrazzak receives the 2013 Arab British Centre Award for Culture from Baroness Helena Kennedy, the Chairman of the Judges.

As a reference point for all Arab cultural related activities in the UK, we're always keen to hear from people promoting Arab-related events and if we can help – even if it just means listing the event on our website – then we will.

We try not to be too London-focused, though it is difficult with a small team and limited funds. However, through our small yearly Grants pot of money, we encourage those who are working outside of London to promote Arab culture. The most recent example was in June with *Syria Speaks*, a nationwide tour promoting the art of Syria.

The Centre is in the fortunate position of being self-funded for all our core activities. Over a decade ago, we sold our large building in Gloucester Road, bought with the original grant we received from an Abu Dhabi fund, and we moved into our current offices in Gough Square. The money realised from that transaction was put into a trust and this now funds our core activities including the upkeep of the building and staff salaries. Most of our events are free and if there is a fee, it is kept at cost-price meaning that the money is used to cover only the cost and not for profit.

We bring in sponsors for the larger, occasional events, such as our film festival Safar. In 2012, the festival received financial support from The Abdalla Foundation and John Parke Wright IV among others, and as a result we were able to reach a far greater audience to introduce them to the silver-screen of the Arab world!

The Centre is run with only three full-time staff. Noreen Abu Oun has been the Executive Director since 2006; I manage the Centre's communications and outreach and Chelsea Milson is the Projects Manager, managing our busy events calendar amongst other things.

The Board of Trustees is chaired by Virginia Forbes, who has worked on Arab-led philanthropic and cultural projects in the US and the UK. The Treasurer is Brian Constant, a former banker who spent 40 years working in Middle East financial markets before spending six years as Director

General of the Middle East Association. We also have a strong board that works in journalism, film, law and finance. The mixture of individuals has allowed us to reach new partners, envisage exciting events and meet fresh talent working in Arab culture.

The Centre is able to incubate other organisations

The Centre's strong financial position means that we are also able to incubate Resident Organisations in our building. We currently have six: Caspian Arts Foundation; the Council for Arab British Understanding (Caabu); Friends of Birzeit University; Banipal, a literary magazine about contemporary Arab writing; Zaytoun, a Fair Trade company that promotes organic and ethical Palestinian produce; and Ibraaz, a foundation that publishes material on visual culture in North Africa and the Middle East.

All these Organisations benefit from office space in Gough Square and can use the Centre's facilities to stage their own events. For example, Caabu hosts regular talks on a variety of subjects such as Hebron embroidery, books on Baghdad and Syria to name but a few.

Upcoming events

So, what's coming up at the Arab British Centre that might be of interest to readers of the Arab Banker magazine? Well, depending on when you're reading this, we might be able to tempt you with our celebration of Lebanese wine in October, as part of the Royal Borough of Kensington and Chelsea's annual Nour Festival. This will include not just a sampling of wines from Lebanon, which are fast becoming heavy-hitters on menus across the world, but also a talk by Michael Karam based on his recent book, *Lebanese Wine, An Independent Guide*.

By the way, that book has been published by a Beirut company, Turning Point Books, that publishes in English for a Lebanese and international audience. Their catalogue includes some hilarious cartoon 'guides' to Lebanese stereotypes and etiquette that will delight anyone who appreciates the Lebanese and their culture (*www.tpbooksonline.com*).

Between 4–6 December this year, we'll be repeating our Festive Souk/Market in our building in Gough Square. Last year's event was so successful that we've been asked to run it again and again! Last year's souk included a jeweller from Bethlehem, Nagada fabrics from Egypt, North African sweets and others. We expect this year's Souk to be bigger and an even greater success.

For a full picture of what the Arab British Centre has to offer, take a look at our website – I'm sure that you'll find something – and probably quite a few things – that will attract your interest. See you soon in Gough Square – look out for the green door! ■

The Arab British Centre is at 1 Gough Square, London EC4A 3DE (just north of Fleet Street). www.arabbritishcentre.org.uk

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 £150

☐ **Young Professional** (less than seven years' experience in the banking and financial sector) | Annual fee £50

☐ **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

Alfanar: combining philanthropy and financial rigour

For ten years, Alfanar has been combining the social mission of charitable giving with the financial rigour of investment banking. The result has been the Arab world's first 'Venture Philanthropy' organisation. Over those ten years, Alfanar has touched the lives of more than 20,000 underprivileged people in the Middle East and the pace of its work is increasing faster than ever before.

Arab Banker spoke to Myrna Atalla, Alfanar's Executive Director, about Alfanar's work and its distinctive business model.

Tarek Ben Halim founded Alfanar in 2004 after a career in investment banking, including time as a Managing Director at Goldman Sachs. He wanted to contribute to the economic and social development of the Middle East, but he wanted that contribution to have the rigour and results-orientated approach that he had used during his years working in finance. He also wanted to challenge a culture of 'donor dependency' and use Alfanar to promote self-reliance and cultural change in the region.

The result was – and remains – the concept of 'Venture Philanthropy'. Alfanar provides financial and technical support to organisations that, on one hand, have the capacity to make themselves sustainable, and on the other hand will be able to effect social change in the world around them.

Myrna Atalla, Alfanar's Executive Director, gives the example of 'Falastine 100%', a new line of food products and catering services, which resulted from seed funding Alfanar made available to the Women's Programme Association (WPA) in the Burj Al Barajneh Palestinian camp located in southern Beirut. Through Alfanar's investment, WPA set up a kitchen and trained a group of women to make high-quality Palestinian food products. The women have now received capacity-building support from Kamal Mouzawak, a Lebanese social entrepreneur who founded Lebanon's first farmers' market in central Beirut (known as 'Souk el Tayeb'). Mouzawak helped launch 'Falastine 100%' at Souk el Tayeb on International Women's Day in March 2014 and invited the women to cook at his popular green restaurant 'Tawlet'. After catering an event at the Italian Embassy in Beirut, the women of 'Falastine 100%' were commissioned to cater multiple Iftar events during the month of Ramadan. Alfanar is currently working with 'Falastine 100%' to develop a business plan for further expansion.

Another example is Alfanar's support for the Future Lights Development Organisation (FLDO) in Egypt. In 2007, Alfanar provided FLDO with seed funding and management support to establish the first Montessori-style pre-school in a Cairo slum area. Since then more than 3,500 children from Cairo's slums have received top-class care and instruction.

But the impact of FLDO goes far beyond those 3,500 children. FLDO's active learning philosophy extends training to staff from other pre-schools, and works with parents so that at the end of the day the children go back to a home environment that is supportive of education.

"We like to back people who are ambitious and the CEO of FLDO is a good example of what we look for," says Atalla. "He has created a training programme that goes beyond his own school and beyond pure educational issues – he's training educators in day care centres throughout Cairo's slums, and his programme is holistic, expanding on the Montessori curriculum to include principles of health, hygiene, first aid and meal preparation, to ensure that children are afforded the right environment for effective learning. And by involving parents and the wider community, he's effecting social change across the many slum areas he works in."

Two key performance metrics

Alfanar uses two key metrics to judge the impact of its programmes: 'Lives affected' and 'Cost recovery'.

'Lives affected' is an important indicator of how much impact a programme is directly having on the lives of poor and vulnerable women and children. Some of Alfanar's figures are startling.

In Egypt, the charity's investment of £28,085 in The Bedayaat Foundation working in a slum district of Minya, the Badawi shelters (Minya is about 150 miles south of Cairo), has resulted in 115 children learning to read, write and do basic maths; 328 children engaging in art and other creative activities; and 717 children and adults participating in community-building events. In Lebanon, an investment of £27,883 in the 'Ana Aqra'a' Association ('Ana Aqra'a' means "I read" in Arabic) has resulted in 17 literacy trainers being qualified to train other teachers, additional training given to 40 public school teachers and 560 children learning to read and write through the Association's summer schools.

The "Cost recovery" metric is more intriguing and reflects Alfanar's focus on investing efficiently and backing initiatives that can become sustainable. Atalla gives a hypothetical example: "Suppose we provide a grant of $1,000 to a handicraft centre. If they are able bring in revenue through sales of $800 as a result of the grant, then that represents an 80% cost recovery rate." Note that Alfanar's priority is not to recover for itself the money that it has disbursed. Rather, it wants to see that the money invested is able to generate a return for the individuals and organisations it is supporting.

Alfanar adds technical assistance to all of its financial assistance. Sometimes this could take the form of strengthening the administrative and commercial capacity of its investees – such as helping a social enterprise to keep better financial records and strengthening their sales and marketing abilities. It can also entail advice on core activities, for example by helping with designs for new products.

But whatever the package of assistance contains, it is all mapped out in a formal business plan that is subject to regular reviews that measure actual progress against the original plan.

Alfanar's staff provide 'Investment Updates' to the Board detailing, project by project, money disbursed, lives affected and the 'cost recovery rate', as well as updates on recent activities. While it is clear that what is being described in the Investment Updates is the work of a charitable organisation, the Updates have a form and rigour that would not look out of place at a meeting of a private equity firm's investment committee.

Alfanar's Board provides key financial support

Alfanar was led by Tarek Ben Halim until his tragic and early death from brain cancer in 2009. Ben Halim had also been the largest source of funding for the organisation. It was at this difficult time that Alfanar's Board showed its mettle, stepping up to support the charity financially and increasing its involvement in its strategic direction and day-to-day activities.

Crucially, Board members cover all of Alfanar's operating costs, with the result that other donors can see every penny they give go directly to project activity.

Atalla also points out that Alfanar is not an 'endowed' organisation. "We give out all the money we raise," she says.

The Chairman of the Board is Lubna S. Olayan, the renowned Saudi businesswoman (see separate box overleaf).

Alfanar enjoys a healthy spread of donations with individuals, including Board members, comprising 45% of support. Corporate sponsors like '6 October Development Company' (SODIC) in Egypt contribute 16% of income (a percentage that Atalla is keen to increase). The remainder comes from institutional donors like UK Aid as well as trusts, foundations and events.

Atalla gives an example of how partner funding can work. In 2012, the Global Fund for Widows provided Alfanar's US affiliate with $30,000 to fund a pilot project with The Future Eve Foundation to provide vocational training, financial literacy advice and micro-loans to 200 widows in three villages close to Minya. The project was a success and the following year UK Aid stepped in with funds to enable the project to be expanded to cover 4,000 widows in 15 villages.

According to Basma, a widow who has been through the programme, "I don't need a thing from anybody, I can

Lebanese children learn to read through the Alfanar-supported "Ana aqraa'" ("I read") programme

provide for myself and my family." To date, 2,573 widows have received financial literacy training, following which they received micro-loans to start their own enterprises. So far the total funds invested by Alfanar in this transformative initiative have been £197,200 and the 'cost recovery' rate has been 143%.

Alfanar is currently backing six projects in Egypt: three in the area of children's education and three in the area of women's empowerment. In Lebanon, it is backing three projects, two in children's education and one in women's empowerment.

The charity has small offices in both countries, from which local staff monitor projects and provide technical assistance.

In 2013, the charity opened an office in Libya through which it began scoping and connecting with social innovators.

In 2005, its first full year of operation, Alfanar impacted the lives of 370 people. In 2013, it impacted 3,438 lives, taking the cumulative total to 16,443. (That's an average growth rate of 63.5%, in case you were wondering – Alfanar does calculate these things!)

So what's next?

Myrna Atalla is working on Alfanar's next business plan, which aims to create the first revolving loan fund for charities and social enterprises in the Arab world. Under this plan, Alfanar will continue to provide grant funding to ambitious charities while opportunistically providing social investment to social enterprises that reach financial sustainability. Donors will significantly multiply the value of their investment because loans will be recycled to help more organisations educate and empower a growing number of women and children over time. Atalla encourages interested readers to get in touch if they would like to help get this initiative off the ground. ■

www.alfanar.org.uk

Lubna S. Olayan is the Chairman of Alfanar's Board of Trustees and one of the leading business figures in the Middle East. She told the Arab Banker how she became involved with Alfanar and why she believes in its mission.

I got involved with Alfanar because my very good friend Tarek Ben Halim, Alfanar's founder, asked me to join his Board.

Because of Tarek, I had great confidence in Alfanar's prospects. He was passionate and gave everything he had to get it going. I liked his vision and what he wanted to achieve with Alfanar – to help social purpose organisations serving poor and vulnerable communities become financially sustainable, self-reliant, and independent. Over the past 10 years, Alfanar has proven itself. Our track record shows that we help organisations impact 63% more lives and grow their revenue by 62% over the span of our investment with them.

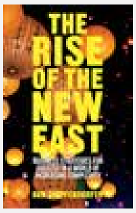
As Chairman of the Board, I couldn't execute my duties without our excellent team and our invaluable supporters. Our Executive Director Myrna Atalla is on top of things. She is passionate and loves what she does. We have a committed Board of Trustees – Hakeem Belo-Osagie, Charlotte Boyle, Amjad Bseisu, Julia Middleton, Cynthia J. Oakes, Nadia Plumbly – and we all share the same vision – to deliver social returns that are scalable, sustainable and game-changing especially in the fields of education and women's economic empowerment in the Arab region. We have an amazing team of investment professionals who work hand-in-hand with our investees to increase their social impact and achieve financial sustainability: Investment Manager Fadel Zayan, Egypt Director Shenouda Bissada, Lebanon Director Teresa Chahine, Senior Programme Assistant Mohammed Al Radi, Egypt Programme Officer Marianna Barsoum, Egypt Programme Assistant Mai Elghamery. Finally, none of what we do would be possible without an incredible group of supporters, both donors and pro-bono volunteers. We are deeply grateful for the backing of over 200 individual, corporate and institutional donors.

I think the venture philanthropy model is a new phenomenon for the Arab world. It is extremely rewarding for both donors and investees because it results in sustainability. Donors know that they are investing in lasting solutions, and grassroots organisations are able to be laser-focused on achieving their social missions because they can rely on themselves. We try our best at Alfanar to help our investees reach financial independence.

Lubna S. Olayan is the CEO of the Olayan Financing Company and a Board member of Saudi Holland Bank and Schlumberger. She holds Advisory Board positions with Rolls Royce and Akbank, and a series of Trustee and Board positions in charitable and non-profit organisations.

Alfanar works to empower widows in the Minya district of Egypt and helps them start their own businesses

Book reviews



The Rise of the New East

Ben Simpfendorfer

Published by Palgrave Macmillan, £14.99. 229 pages

Asia has 325 cities with populations greater than 750,000 compared to 59 in the US; fifteen of the world's 20 biggest container ports are in the East; and, according to the author, the average Chinese person owns three to five smart devices (such as smartphones, e-readers and tablets) compared to an average of less than one in Germany.

The Rise of the New East is full of such examples of how Asian countries and Asian people are becoming – or perhaps have already become – dominant economic forces in world trade and business.

But this book is more than a description of the rising economic power of Asia. The examples cited above occur at the start of the book as the author sets the scene for a nuanced and well-informed analysis of how the East itself is changing.

Simpfendorfer has lived in Asia for many years, previously worked for investment banks, and now runs his own consulting firm, Silk Road Associates.

His two big themes are that Asian countries are increasingly not just suppliers but consumers of goods, and that inland, or second and third tier, cities are increasingly important, as opposed to the (mainly coastal) cities that have until recently been the focus of Asian economic growth and of western interest.

The author knows his subject matter intimately. He has visited factories in the rising cities of East Asia and spoken to factory managers deep in inland China. Personal observations are backed by robust research and statistics.

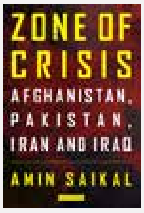
A chapter on urban planning addresses the problems faced by large and growing cities that often suffer from poor infrastructure, overcrowding, and a lack of natural resources. Simpfendorfer comments that, "Looking forward, focussing on cities rather than on countries will be increasingly important as individual cities adopt different strategies for dealing with the challenges of urbanization."

The author also considers the challenge of water scarcity, pointing out that while the US has 12,800 cubic yards of renewable water per person and Europe has 7,500, the average in the East is 2,700. Large parts of China have per capita averages of around 900 cubic yards – the same as Egypt. Simpfendorfer concludes that "no discussion of (Asia's) future can discount the possibility that some cities or even countries will run up against serious water shortages in the coming decade."

There is an excellent chapter on regional transportation, and a chapter entitled "Tapping into the Muslim Market" uses the halal food industry to illustrate the growing importance, and commercial power, of local tastes.

The book is well written, packed with interesting anecdotes and insights and, at a little over 200 pages, it is easily digestible. Those who have recently been living in Asia may not find much here that they don't know already, but for the rest of us this book is a fascinating insight into the local and international trends that are shaping this region. Well worth a read. ■

Andrew Cunningham



Zone of Crisis: Afghanistan, Pakistan, Iran and Iraq

Amin Saikal

Published by I. B. Tauris, £25. 225 pages

Most of this book comprises four individual chapters describing the recent histories of Afghanistan, Pakistan, Iran and Iraq, but the author's key thesis is that events in these four countries are connected, since they are rooted in common factors such as sectarian divisions, dysfunctional governance, corruption, and interference by external actors.

The individual country chapters are each 40-50 pages long and provide a good overview of developments in each of the four countries both in terms of the role of local actors and the impact of external interference.

Saikal doesn't mince his words when describing the actions of the United States in Afghanistan and Iraq. "Washington's misreading and underestimation of Iraq's complexity boggles the mind," he says, before describing the various missteps and mistakes made by the US government and the occupying authorities.

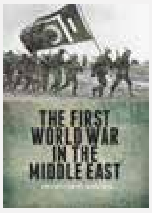
Similarly, the chapter on Afghanistan describes in excruciating detail the incompetence and naiveté that characterised the western intervention.

But this book is not a polemic against the US. Local political groups, religious factions and economic conditions are described in full. Each of the four country chapters ends with a section entitled "The Way Forward" in which Saikal tries to identify the actions and policies that might be able to bring about long-term peace and prosperity.

Saikal knows his subject matter well. He is currently a professor at the Australian National University and has held positions at the Universities of Princeton and Cambridge. He has previously written books about Iran and Afghanistan.

Saikal has no illusions about the failure of local actors to work for peace and prosperity in their own countries, but among his conclusions is recognition that it is only local forces – not external intervention – that will be able to bring about peace and prosperity. He says, "Whatever the immediate consequences, the American and international withdrawal from the region may eventually allow regional dynamics to take precedence once again and some kind of equilibrium to be restored. This will undoubtedly prove a slow and painful process, but one that is ultimately necessary to the long-term stability of the region." After reading this book, it is hard to disagree. ■

A.C.



The First World War in the Middle East

Kristian Coates Ulrichsen

Published by Hurst, £25. 263 pages

This book aims to fill a gap in the existing literature on the First World War by providing a comprehensive account of how the War was fought in the Middle East, the local antecedents to the battles that were fought in its name, and the long-term impact that the conflict had on the region.

The major campaigns in the Middle East – the British advances into Palestine and Mesopotamia and the attack on Gallipoli – have been addressed in broader histories of the War, but these campaigns are usually treated as 'sideshows' to the main action that was taking place on the Western Front.

The book is divided into three sections. The first addresses the political economy of the Middle East in the years preceding 1914 and the challenges of military campaigning in the region. The second focuses on the four main areas of conflict: the Caucuses, Gallipoli and Salonika, Egypt and Palestine, and Mesopotamia. The third analyses how new factors such as oil and a changed international environment (typified by President Wilson's 'Fourteen Points') affected the way in which Western powers and local actors fought for control of the region after the conflict had ended.

The chapters can be read individually and the author's account of the campaigns in the Caucuses will be particularly valuable for those whose knowledge the conflict in the Middle East is rooted in the Allied campaigns of Palestine and Mesopotamia. The author cites Malcolm Yapp's estimate that between November 1915 and February 1917 three quarters of all Ottoman casualties were sustained in the Caucuses, leaving the Ottoman armies badly weakened when campaigns in other theatres intensified in the final years of the war.

The effects of the war on the region are often under-appreciated. Hardship arose not only from forced requisitioning of food and the spread of disease, but also from natural disasters such as poor harvests in Lebanon and Syria and a plague of locusts in 1914–15. Up to half a million people died in the Levant as a result. Food shortages also affected Egypt and Mesopotamia. The author cites studies estimating that the population of Turkey declined by 20% in the ten years from the Balkan Wars of 1912–13 to the conclusion of the Turkish wars of independence in 1923. In contrast, the decline in the French population during the war years was less than 1%.

While not underestimating the significance of formal agreements and settlements such as Sykes-Picot and the treaties of Sèvres and Lausanne, Ulrichsen shows how changes to the political and economic fabric of the Middle East, initiated or accelerated by the War, would shape the region in the years ahead. The mechanisation of industry and transport, recognition of the importance of oil, and the rise of local actors, such as Ibn Saudi and the Egyptian nationalist movement, were among the key factors driving change in the region in the decades that followed the conflict's end.

The book is academically robust, detailed and well sourced. It is written in an accessible style and the index and chapter headings enable the reader who does not have the time to read from cover to cover to identify areas of specific interest. ■

A.C.

French Postal History in Tripoli (1852–1914)

Semaan Bassil

Issue 38–39 of *Archaeology and History in the Lebanon* published by the Lebanese British Friends of the National Museum.

This book is not just about stamps and postal systems. It will be valuable to anyone interested in the history of Lebanon during the nineteenth century. Meticulously researched, and with literally hundreds of illustrations, it not only tells the story of how French postal services developed in the northern Lebanese town of Tripoli, but also shows how trade and communications developed in region during the course of the nineteenth and early twentieth centuries.

A French Royal Decree of 1773 authorised French ships to leave French ports only after ensuring that they had taken on Board mail addressed to certain other ports, and the ships then had to deliver that mail free of charge. French ships in foreign ports had a duty to take on board mail addressed to France.

The French Postmaster General commented in 1875, 38 years after the introduction of a steam ship service from Marseilles to the Eastern Mediterranean, "It is not postal interest that drove the creation of the Maritime [postal] Service but the interest in developing French influence overseas, the desire to find new business opportunities and to link France with its colonies through a regular service."

It was the introduction of a steam service in 1837 that led to the significant expansion of the Levantine postal service. The first regular postal service from France to the Eastern Mediterranean began in 1837 and French Postal Service then established post offices in Smyrna and Dardanelles (1937), Beirut and Alexandria (1845) and Tripoli (1852).

The possibility that ships could spread disease, including plague, was an important feature of maritime trade during the nineteenth century. Mail was often dipped in boiled vinegar or fumigated to ensure that it was carrying no infection. The establishment of quarantine stations, known as lazarets, was often imposed on local authorities by western powers as a condition of trade. The refusal of Tripoli's religious leaders to allow the establishment of a quarantine station in 1833 was one of the factors that enabled Beirut to overtake Tripoli in importance.

It was not until 1879 that the Ottoman Empire created an international postal system but the Ottoman post was regarded as inefficient and unreliable and foreign services, such as that of the French, were able to continue operations until the outbreak of the First World War despite harassment from the Ottoman authorities.

This volume on Tripoli is the second that Semaan Bassil, who is Vice Chairman and General Manager at Lebanon's Byblos Bank, has published on postal history in the Levant. In 2009, he published a history of the French post office in Beirut.

Whether your interest lies in philately, broader questions of how early postal services were managed, the colonial history of the Levant – or if you simply want to savour the illustrations – this book offers plenty to enjoy. ■

A.C.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