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ARAB Banker

The Global Magazine of the Arab Bankers Association (ABA)

Arab Bankers Association
جمعية المصرفيين العرب

AHLI UNITED BANK BUILDING A PAN-REGIONAL BANK BASED IN THE GCC

IRAQI BANKS
LOOK TO THE FUTURE

HENLEY & PARTNERS AND LONDON & CAPITAL
RESIDENCY, CITIZENSHIP AND INVESTMENTS

SAUDI FINANCIAL MARKETS
PREPARING FOR CHANGE

THE FIGHT AGAINST FINANCIAL CRIME

HOW TO ENGAGE WITH CHINESE BANKS

UNDERSTANDING THE DIAMOND MARKET

OVER £742M DRAWN DOWN

BY MFL CLIENTS DURING 2014

Once again working typically on a SUCCESS ONLY basis MFL has assisted clients with COMPLETED and DRAWN DOWN facilities of almost £750m. Deals range in size from c£2m with no upper limit. Regardless of the size of the deal MFL will treat you in the same professional manner.

The long established team at MFL is at the forefront of structured real estate financing products. We maintain rigorous and long standing relationships with lenders old and new to ensure our clients have the maximum exposure when seeking finance.

The market place for lenders has increased during 2015 and we have seen a dramatic number of new entrants and exciting lenders returning to the market. The pricing is gradually improving with margins and lending terms improving in recent months.

Riverside Tower Residential Development

THE PROPOSAL

The client was an experienced residential developer with a good track record. He had owned the site, located on a prime Thames side location, for some years and improved the planning consent to provide a new resident tower comprising 16 storeys and underground parking.

THE RESULT

We were able to assist the client with a "one stop shop" senior and junior facility providing him 100% loan to cost facility. The client was not required to add any additional equity to the deal.

The capital stack was sliced to give the client a blended cost of capital that reflected the risk associated with the transaction. The scheme had a GDV of over £50m.

Penthouse Residential Investment

THE PROPOSAL

The clients were a high net worth family from the Middle East. They had owned a substantial residential penthouse apartment in the Regents Park area subject to an existing mortgage.

The existing mortgagee had recently changed lending policy and was not able to extend the facility.

THE RESULT

We spoke to a number of lenders who understood the family's background and history. With this understanding the new bank was able to work efficiently within the confines of current "Know Your Customer" compliance issues.

A new facility was agreed and a fresh facility at 65% LTV was agreed and completed.

Equity Release Industrial Property

THE PROPOSAL

The client was an established property landlord with a substantial portfolio of industrial properties located within the London area. Through asset management the client had greatly increased the portfolio value. The current lender was reluctant to allow the client to release equity to assist in growing the portfolio.

THE RESULT

Liaising with a new lender who grasped the client's business ideas we were able to secure a new facility.

With a LTV ratio of 65% of the new values the client was able to release over £6m of trapped equity to contribute towards new acquisitions allowing his portfolio to grow in real terms by almost £20m once leveraged.

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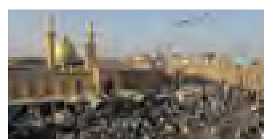

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ARAB Banker

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

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Opportunities on the horizon as we navigate though the minefields

Arab banks have successfully navigated half a decade of political instability of deep and troubling proportions. Despite some bright spots, namely in Lebanon and Egypt, the situation has not abated and in many ways has increased in intensity. In addition, Arab banks now have to contend with economic uncertainty arising from the precipitous drop in the price of oil. This uncertainty of course affects mostly the banks in the GCC that have enjoyed a sustained period of high oil prices, and the resulting abundant liquidity and growing business opportunities. A positive sign, in this respect, is that most of those countries are yet to show significant slowdown.

The major new positive development for the region is the recently-concluded nuclear agreement between the P5+1 and Iran. This should result in the lifting of sanctions on Iran and the opening of its vast markets. It should also present the leading Arab banks with a set of interesting opportunities in one of the last 'emerging' countries to open its doors. Some Arab banks might opt for a presence in Iran while others may simply find an outlet for their lending activities. Islamic banks should enjoy particular favour. Project financing will be an area with large potential. The field of contractor and service provider financing is a sector where the Arab banks could use some of their highly honed skills, accumulated over the past three decades in their home markets.

We at the Arab Bankers Association strongly believe that Arab banks will continue to meet the challenges posed by difficult environments. They enjoy abundant capital, experienced management (as one Arab banker said: "we live in a continuous stress test"), and an excellent technological base. Their conservatism coupled with a measured need to expand in the region will put them at an advantage vis-a-vis the risk/opportunity profile that is facing them.

At the ABA, we continue to do all we can to support our member banks. Our series of professional seminars is geared towards keeping their staff abreast of current developments in financial markets and of products that are of interest to them. Our seminars encourage dialogue amongst banks themselves, as well as with professionals from related disciplines and with relevant governmental authorities. Most recently we have begun a dialogue between the chief executives of Arab banks in London and senior officers of the Prudential Regulation Authority. The first meeting, held in June, was valuable and we expect it to be the first of several.

In our efforts to help in the recovery process from the turmoil of the 'Arab Spring' we aim to host a series of events, varying in length and intensity, with the objective of re-introducing revived national banking systems to the City of London. Our first such event will take place this autumn, and will be dedicated to Egypt. We hope to conduct further such events during 2016.

Last year we gave our third 'Banker of the Year' award to His Excellency Mr. Raymond Audi, who was the driving force behind the creation of Bank Audi, an all-encompassing regional bank with significant presence in Turkey (perhaps a model for similar moves by Arab banks into Iran). Mr. Audi's award recognised his achievement in building one of the best-managed and most sophisticated banks in the region. It was also in appreciation of his continuing and large scale contribution to the cultural life of Lebanon and beyond.

At our forthcoming Gala we will be granting our fourth such award. This will be given to Mr. Adel El-Labban, Group Chief Executive at Bahrain-based Ahli United Bank. This award is given in recognition of his landmark contributions to Arab banking, and specifically to the building of Commercial International Bank, the leading private sector bank in Egypt, and of Ahli United Bank, one of the leading banks in the Middle East, with a significant presence in London. Mr. El-Labban is a creative banker with a 'builder' instinct who embraces a set of traditional values.

Before I close, I would like to point your attention to our website, *www.arab-bankers.co.uk*, with its expanding coverage of key Arab banking issues. It is a resource that we intend to enrich and to make a meeting point of our banking community.

Enjoy this issue of *Arab Banker.* We need, and greatly appreciate, your opinions and suggestions about its content and layout, and we promise that we will respond with urgency to any comments you have.

Please do use the Arab Bankers Association, with all its activities, publications and platforms, for the benefit of your own business, and of Arab banking as a whole

George Kanaan
Chief Executive Officer
Arab Bankers Association

Building on our success

In this third edition of the new *Arab Banker* magazine, we have expanded our coverage of Arab banking systems and have included articles on the fight against financial crime.

Three years ago, the Arab Bankers Association re-launched the *Arab Banker* magazine with a clear mission to provide strong editorial content that was well presented and published to a strict deadline.

I am delighted that for three years in a row, we have been able to fulfil that mission and that we have done so without placing any financial burden on the Association.

The *Arab Banker* has been well received by our members and by the hundreds of institutions to which we send the magazine in Europe, the Middle East and beyond. Advertisers have also liked the magazine, giving us more support with every issue.

As a publication of the Arab Bankers Association, our magazine is of course focussed on banks in the region and institutions that work with Arab banks. But our membership and readership is diverse, and that is why we include articles about real estate, citizenship and investment, and culture.

This year, our main feature is on Ahli United Bank, a Bahrain-based bank that is building a regional franchise through the acquisition and integration of banks in the GCC and beyond. At a time when few Arab banks have large regional franchises, Ahli United Bank is a role model for those who would expand beyond their domestic base.

We also profile the man who has led Ahli United Bank's regional expansion, Adel El-Labban. In the 1990s, Mr. El-Labban transformed Commercial International Bank into Egypt's most successful bank. In 2000, he was chosen to lead the transformation of Ahi United Bank. As our profile on pages 16-17 shows, he retains traditional views about the role of banks in society, and is sharply critical of the excesses that led to the global financial crisis.

This issue includes interviews with senior executives at three other leading Middle Eastern banks. Sheikh Fahim Mo'dad, of Lebanon's Blom Bank, gives us his view on prospects for Iraqi banks (pages 26–27); Hisham Ezz Al-Arab, of Commercial International Bank gives us his perspective on the Egyptian banking system (pages 28–29), while Georges El-Hedery of HSBC Egypt gives a perspective on Egypt from one of the world's biggest and most international institutions (pages 30–31).

We include profiles of the banking systems of Kuwait (pages 18–19), Saudi Arabia (pages 20-22), and Morocco (pages 32–34), and on pages 46–47 we give an update on sovereign credit ratings assigned to Middle Eastern countries, and compare them to ratings on other developing and advanced economies.

On pages 35–37, Dr. Ali Aissaoui, one of the leading commentators on Middle East oil and energy, assesses the role of OPEC in global oil markets and considers how well the region's major oil exporters will be able to cope with lower oil prices.

Banks are under huge pressure to show that they are playing their part in the fight against financial crime, so we have included three articles in this year's magazine about financial crime. On pages 38–40, Paul Cochrane, a Beirut-based journalist who writes extensively on money-laundering and terrorist financing, describes some of the steps that Middle Eastern banks, and their regulators, have been taking. On pages 41–42, Oisín Fouere of K2 Intelligence explains how banks can guard against cyber attacks. On pages 44–45 we provide case studies of criminal financial transactions that have been identified by MENAFATF.

Looking beyond banking, we have articles from Henley & Partners on the increasing opportunities for investors to acquire residency or citizenship in attractive locations (pages 50–52) and from London & Capital on how such investors can optimise their financial portfolios (pages 54–56).

On pages 63–65, we investigate the diamond market, with guidance from André Abadjian of the international jeweller Star Diamond.

As usual, the final pages of the magazine are devoted to culture and books. Pam Smith profiles some of the young Palestinians who are making a name for themselves in the worlds of film and theatre (pages 76–78). On pages 80–82 we review recent books on Libya, and others.

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

Thanks also go to Martin Cox of JPS Print Consultants for his excellent design and layout, again ensuring that the magazine has a strong and professional appearance, and to Jason Smith of JPS, who printed it.

Andrew Cunningham
Editor

Al-Rajhi appoints Stefano Bertamini as new CEO

Saudi Arabia's Al-Rajhi Bank appointed Stefano Bertamini as its new Chief Executive Officer in May, succeeding Suleiman al-Zabin.

From 2008 until January 2015, Bertamini was a Group Executive Director and CEO of Consumer Banking at Standard Chartered Bank, based in Singapore. Before working for Standard Chartered, he spent 22 years with GE, finishing as Chairman and CEO, Greater China and President of GE Capital Asia.

Mr Bertamini generally uses the first name 'Steve' rather than 'Stefano'.

Al-Rajhi had been under pressure as a result of falling profits, but the appointment of a non-Saudi is unusual for a Saudi bank that is wholly Saudi-owned. (Joint venture banks, such as Saudi British Bank, which is 40% owned by HSBC, routinely have their most senior manager appointed by the joint venture partner.) The Saudi banking regulator, SAMA, is a strong regulator and would not have approved the appointment of Mr Bertamini unless it was sure that he was the right person for the job.

With equity of $11,166 mn at the end of 2014 and assets of $82,014 mn Al-Rajhi is the biggest wholly-Islamic bank in the Middle East and, by some measures, the biggest in the world.

Rebranding at the ABC Group; new directors; new London Head

Bahrain-based Arab Banking Corporation rebranded itself Bank ABC in mid-June. The new brand name is being applied across the group, which spans 18 countries, with the exception of its subsidiary in Brazil, Banco ABC Brasil. The legal names of Arab Banking Corporation and its subsidiaries will not change.

ABC was established in 1980 by the governments of Kuwait, Libya and Abu Dhabi. Its principal shareholders today are the Central Bank of Libya, with 59.4% and the Kuwait Investment Authority, with 29.7%. The bank is listed on the Bahrain Bourse.

In March 2015, the bank appointed two new directors, Dr Farouk El-Okdah and Dr Tarik Yousef. Dr El-Okdah was Governor and Chairman of the Central Bank of Egypt from 2003 until early 2013, prior to which he led National Bank of Egypt. Dr Yousef is a member of the Board of the Central Bank of Libya and the CEO of Silatec, the Doha-based company that promotes small and medium sized enterprises in the Middle East. The bank's board of directors now comprises four Libyans, four Kuwaitis and one Egyptian.

Bank ABC's London-incorporated subsidiary has been re-branded Bank ABC in the UK but retains its legal name of ABC International Bank.

Separately from the re-branding exercise, Paul Jennings was appointed Chief Executive Officer of Bank ABC in the UK in January 2015, following the retirement of Bill Playle. Jennings had been appointed as Deputy Chief Executive in 2012.

BLME appoints Michael Williams as Chief Executive Officer

Bank of London and the Middle East (BLME), the London-incorporated Islamic bank, appointed Michael Williams as Chief Executive Officer in May 2015, replacing Humphrey Percy. Mr Percy had been with the bank since its foundation in 2006 and the receipt of its banking license in 2007.

Michael Williams had been a non-executive Director of BLME since 2012 and was Chairman of the Nominations Committee and of the Risk Committee of BLME Holdings. He also served as Chief Executive Officer of International Bank of Qatar and Chief Executive Officer of National Bank of Fujairah. Mr Williams began his banking career at Barclays, where he spent 25 years, and also worked for Nomura Bank International for six years.

BLME is the largest Shari'a-compliant bank in Europe. Boubyan Bank, a Kuwait-based Islamic bank that is a subsidiary of National Bank of Kuwait, held 19.94% of its shares at the end of 2014, and a further 7.67% was held by Kuwait's social security fund. At the end of 2014, BLME had equity of £244 mn and assets of £1,386 mn.

GIB appoints new CEO in London

Bahrain-based Gulf International Bank (GIB) appointed Mark Watts as the Managing Director and Chief Executive Officer of GIB UK, its subsidiary in London. Mr Watts joined GIB UK in late 2014 from National Bank of Abu Dhabi where he had spent four years as Managing Director and Chief Investment Officer of the Asset Management Group. Prior to that, he had worked at European Finance House, also in the asset management field. (European Finance House was owned by Qatar Islamic bank and rebranded QIB (UK) in 2010.)

GIB UK's assets under management increased by 32% to $13 billion in the year to the end of April 2014.

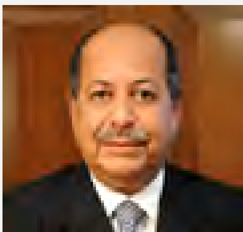
Resignation of Chairman and Chief Executive at Abu Dhabi's Al Hilal Bank

The Chief Executive of Abu Dhabi's Al Hilal Bank, Mr Mohammed Jamil Berro, resigned in mid-July. Mr Sarie Asaad Arar, the Chief Business Officer, was appointed Acting CEO in his place.

A week later, the bank's Chairman, Mr Ahmed Ateeq al-Mazroui, resigned and was replaced by Mohammed Abdullah al-Rumaithi, who had been a senior Board member.

The bank is reported to have suffered significant loan impairments during 2014, dramatically reducing the its net profit for the year (though not leading it to declare a loss). Al Hilal Bank is wholly owned by the Abu Dhabi Investment Council, according to information published by the Central Bank of the UAE. The bank had equity of $3,934 mn at the end of 2013 and assets of $38,705 mn.

New senior appointments at Investcorp



Investcorp, the Bahrain-based private equity firm and fund manager, announced a significant restructuring of its senior management positions in April, and appointed a new Chief Financial Officer in June.

Nemir Kirdar, who founded Investcorp in 1982, relinquished his role of Executive Chairman and CEO and stepped up to Chairman of the Board, with effect from 1 July. Mr Kirdar's appointment followed the resignation of Abdul-Rahman Al-Ateeqi, who had served as Chairman of the Board since the firm's foundation.

Mr Kirdar will be replaced as Executive Chairman by Mohammed Al Ardhi. Mr Ardhi is a former fighter pilot who rose to command the Omani Royal Air Force as Air Vice Marshall. After his retirement from the Air Force he earned a Masters of Public Administration from Harvard and worked in business before joining National Bank of Oman as Vice Chairman, and then Chairman.

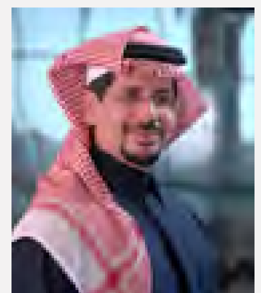
Replacing Mr Kirdar as CEO are Mohammed Shrooqi (pictured top left), who previously led Investcorp's Gulf business (after many years in the region as a senior Citibank executive) and Rishi Kapoor (pictured bottom left), who was previously Investcorp's Chief Financial Officer. Mr Shrooqi and Mr Kapoor will serve as co-CEOs.

In June, Investcorp announced the appointment of Tony Robinson as Chief Financial Officer to replace Mr Kapoor. Mr Robinson spent 14 years with Investcorp before leaving in 2008. Most recently, he was the Chief Financial Officer of Mumtalakat Holdings, the Bahrain government's sovereign wealth fund.

The appointments of a new Executive Chairman and of co-CEOs to replace Mr Kirdar and the retirement of Mr Ateeqi represent a significant change in the governance structure of Investcorp. Local observers have commented that the moves are likely to ease succession planning in future and enable greater board and management flexibility.

Investcorp had equity of $818 mn at the end of December 2014 and balance sheet assets of $2,099 mn.

Bahrain's Bank Alkheir appoints Al-Sejiny as CEO



Bank Alkheir, the Bahrain-based Islamic wholesale bank, appointed Ayman al-Sejiny as Chief Executive in January 2015. Al-Sejiny had previously been Barclays' Chief Executive Officer for Saudi Arabia, a post that included managing Barclays Capital and Barclays Wealth.

Al-Sejiny was a co-founder of Bank Alkheir in 2004 and a member of its board of directors. The bank was originally known as Unicorn Investment Bank but changed its name to Bank Alkheir in 2011. Al-Sejiny also served as Managing Director and CEO of Alkheir Capital Saudi Arabia.

In 2013, the bank announced plans to merge with the Bahrain-based Al-Khaleeji Commercial Bank, but plans were abandoned in 2014.

At the end of March 2015, Bank Alkheir had equity of $224 mn and assets of $599 mn.

New CEO and Senior Managers at Commercial Bank International

Dubai-based Commercial Bank International (CBI) appointed Mark Robinson as its Chief Executive Officer in February. Mr Robinson joined CBI from the ANZ Banking Group where he was CEO for Europe, Middle East and America. Before joining ANZ, he had a long career with Citigroup.

In July, CBI appointed Mamoon Abdel Kader as head of Islamic Banking. Mr Abdel Kader had previously worked for Emirates Islamic Bank (a subsidiary of Emirates NBD) as Regional Head of Corporate Banking. The bank also appointed Anil Kumar as head of Retail Banking. Mr Kumar had previously worked for Abu Dhabi Islamic Bank as EVP of Business Transformation.

CBI was incorporated in 1991 and is registered in Ras Al Khaimah. Its headquarters are in Dubai. At the end of 2014, the bank had equity of $637 mn and assets of $5,360 mn.

HSBC appoints new CEO in Kuwait

HSBC appointed Roger Winfield as Chief Executive Officer for HSBC Kuwait in May, succeeding Simon Vaughan Johnson, who transferred to HSBC France. Mr Winfield previously spent eight years with HSBC in the United Arab Emirates, working in Private Banking and, for the last two years, as Market Head for the Lower Gulf.

AlAhli Bank of Kuwait to re-brand Piraeus Bank Egypt following acquisition

Kuwait's AlAhli Bank will re-brand Piraeus Bank Egypt as AlAhli Bank of Kuwait-Egypt when it takes control of the bank in the second half of 2015.

AlAhli Bank is planning to pay $150 mn for a 98.5% stake in Piraeus Bank Egypt. Athens-based Piraeus Bank is selling its Egyptian subsidiary as part of a broad asset disposal programme. It bought the bank – then known as Egyptian Commercial Bank – in 2007.

AlAhli Bank received approval for the acquisition from the Kuwaiti Central Bank in June 2015 and was expecting to receive approval from the Egyptian authorities – both the Central Bank (which regulates banks) and the Egyptian Financial Supervisory Authority (which oversees listed companies and capital market activity) – after the summer.

Piraeus Bank has 39 branches in Egypt.

AlAhli Bank currently has two overseas branches, in Dubai and Abu Dhabi.

Royal Bank of Scotland gives up Qatar Banking Licence

Royal Bank of Scotland (RBS) closed its office in Qatar in April and Douglas Kerr, who had been appointed Qatar country manager in September 2014, left the bank at the same time.

RBS received a licence from the Qatar Financial Centre Regulatory Authority in 2007. The license was returned in March 2015.

The bank has been scaling back its overseas operations in recent years as part of a long-term re-positioning of its business strategy following its take-over by the British Government at the height of the global financial crisis in 2008.

As part of the restructuring of its GCC operations, the bank sold a Dh3 billion ($820 mn) portfolio of corporate loans to Commercial Bank of Dubai in early 2015. In 2010 it sold its retail operations in the UAE to Abu Dhabi Commercial bank.

ABANA to celebrate women's role in finance

The Arab Bankers Association of North America (ABANA) reached an enviable milestone in 2015, with nearly half of its 20-person board of directors, elected by over 600 industry peers, now composed of Arab women. ABANA's 2015 dinner (to be held in New York on October 14) will celebrate the impact women are having on the finance sector in general and investment trends in particular. Sheikha Hanadi Nasser Bin Khalid Al Thani, Founder & Chairperson of Amwal, will be a distinguished keynote speaker. ABANA's annual dinner is a major annual event attended by senior international figures and those with interests in US-Middle East finance. This year the dinner will be followed by a half-day conference on October 15. More details can be found at *www.arabbankers.org*.

Germany issues first license for an Islamic Bank

The German bank regulator (known as the 'Bafin') issued a license to Kuveyt Turk Bank in March, the first time that a license has been issued to an Islamic Bank.

KT Bank, as the new bank will be known, is a subsidiary of Kuveyt Turk Katilim Bankasi, Turkey's largest Islamic bank, in which Kuwait Finance House has a 65% stake. The bank has authorised capital of €50 million, of which half is paid up. The bank began operations in July.

A recent study by two German financiers noted that there are currently about 4.3 million Muslims in Germany with an average income of about €1,900 per month and a high savings rate. Most of the Muslims in Germany have their family origins in Turkey, and so present a fairly homogeneous client base into which to offer banking products. Most are now second or third generation immigrants who have made their home in Germany. (*The Potential for Real Islamic Banking in Germany*, by Recklies and Bouhmidi.)

The United Kingdom already has five Islamic banks: Al Rayan Bank, Bank of London and the Middle East, European Islamic Investment Bank, Gatehouse Bank and QIB (UK). In 2011, there were 2.7 million Muslims in Britain.

A group of investors is working to establish the first Islamic bank in Luxembourg, to be called Eurisbank. The project is being led by Ammar Dabbour, an investment manager with many years experience in Luxembourg, who began his career with UBS.

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To find out more, please get in touch.

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Adel El-Labban, AUB's Chief Executive Officer and Managing Director

Ahli United Bank: building a pan-regional bank based in the GCC

Bahrain-based Ahli United Bank is on a mission to create the first Gulf-based pan-regional financial services group. Over the last 15 years, it has accumulated and integrated an impressive range of banks within the GCC, and added to them banks in other Middle Eastern countries that have significant financial flows with the region. As Ahli United looks to the next stage in its development, Group Chief Executive Officer & Managing Director Adel El-Labban spoke to *Arab Banker* about the bank's history, its business strategy and its ambitions for the future.

Ahli United Bank (AUB) is a very unusual bank. It is the product of necessity and vision.

Its origins lie in London, in the late 1990s, with United Bank of Kuwait Plc (UBK), a small Kuwaiti-owned consortium bank. UBK had successfully navigated many market shifts since its establishment in 1966 but by 1998 it had run out of steam and was facing severe competitive pressures given its size, fragmented business lines and lack of proximity to its natural client base in the Gulf.

UBK's transformation to AUB is attributable to committed and visionary shareholders accepting the need to radically alter the business model and embark on a process of complete financial re-engineering in terms of domicile of incorporation, products and markets.

AUB's future lies in a vision of Middle Eastern economies that recognises the leading position of the Gulf states, the strength of regional trade flows and cross border business, and long-term opportunities beyond the GCC in countries such as Egypt and Iraq.

And the results are impressive. The bank showed a return on average equity of 15.2% in 2014 and a cost to income ratio of 29.7%. Net profits have shown a compound average growth rate of 19.5% since the bank's foundation in 2000. The bank's risk adjusted capital ratio was 15.5% at the end of 2014. Its market capitalisation is about $5 billion.

AUB holds BBB+ ratings from Fitch and Standard & Poors (S&P), in both cases two notches higher than the rating of the Kingdom of Bahrain where it is based, reflecting not just the strength of the bank's performance metrics but also its geographic diversity in terms of revenues and profits.

Shareholders have shown their approval for the bank by subscribing six issues of equity or preferred stock since 2001. The bank has also received backing from the International Finance Corporation (IFC), the arm of the World Bank that promotes private sector development. The IFC has subscribed three issues of the bank's debt or preference shares and, following conversions, now holds a 5.2% direct stake. It also holds direct equity stakes in three AUB Group entities: in Egypt, Oman and Iraq. AUB is the IFC's largest global financial services investee company with invested capital commitments of approximately $600 million.

The most recent vote of confidence from the international investor community came in April 2015 with a successful $400 million issue of Additional Tier 1 securities which was heavily oversubscribed and tightly priced.

AUB is now one of the largest commercial banks in the GCC with equity of $3,390 mn at the end of 2014. Within the GCC, it has significant operations in Bahrain, Kuwait and Oman. In the broader Middle East, it has a major operation in Egypt and stakes in banks in Iraq and Libya. Outside the region, it retains its original UBK platform, renamed AUBUK, as a 100%-owned subsidiary in London.

A strategy of buying and integrating banks

Group Chief Executive Officer Adel El-Labban, who has led the bank since its inception, is clear about the bank's business strategy. "We are buying banks to integrate them and create the first pan-regional financial services group. Our core market is the Gulf, where we want a 10% market share, and we are targeting cross border business opportunities between secondary Middle East and North African economies and our core Gulf franchises to expand our business scope and to differentiate ourselves from our more country-centric peers."

Ahli United Bank: Shareholder Structure

Public Institution for Social Security	Kuwait	18.93%
Social Insurance Organisation	Bahrain	9.99%
Tamdeen Investment Company	Kuwait	7.62%
Sh. Salem Al-Nasser Al-Sabah	Kuwait	5.45%
International Finance Corporation	USA	5.16%

Notes:

- There are no shareholders, other than those shown above, that hold more than 5%.
- Kuwaiti individuals and corporates collectively held 66.3% of the bank's shares at the end of 2014, and Bahraini individuals and corporates held 26%.

Source: Ahli United Bank Annual Report, 2014

AUB's journey to become one of the leading regional banks began in 1998 when United Bank of Kuwait (UBK), a London-incorporated bank owned by a group of Kuwaiti banks and government entities, suffered a loss on its bond portfolio following the financial market disruption caused by the Russian government's debt default. The loss was only $18 million, less than 10% of the bank's equity, and hardly life-threatening for a bank that had been a fixture of London banking since its creation in 1966 and that was owned by rich GCC institutional shareholders.

But UBK's shareholders were thinking long-term, and they were worried that their bank would face increasing difficulties competing against larger banks in ever-more sophisticated financial markets. They also recognised that a London-based bank could never get as close to clients in the GCC – its core customer base – as banks that are actually based in the region.

El-Labban puts the dilemma succinctly: "UBK was a subsidiary looking for a parent."

At that time, the Kuwaiti central bank was not granting new banking licenses and there were no local Kuwaiti banks available to buy. In contrast, Bahrain had an open approach to licensing new banks and, importantly, the Bahrain Monetary Authority (the predecessor of the Central Bank of Bahrain) had strong ties to the Financial Services Authority, the British regulator that had been overseeing UBK in London.

As UBK began its search for a Gulf-based parent, Al-Ahli Commercial Bank (ACB), a Bahraini bank, came up for sale.So, in the summer of 2000, UBK and ACB merged to create Ahli United Bank through a share swap transaction by which both UBK and ACB became wholly owned subsidiaries of the newly formed parent bank, AUB.

El-Labban, who had been Managing Director of UBK, was put in charge of the new institution with a mandate to expand and regionalise the business through friendly acquisitions and business combinations that could be integrated into a single operational and marketing model, focusing on same-market growth as well as cross-border business flows.

Over the next fifteen years, AUB steadily pursued its ambition to become a pan-regional bank.

It began by purchasing a 15% stake in a Kuwait's oldest commercial bank, Bank of Kuwait and the Middle East (BKME), in early 2001. Later that year, it strengthened its position in Bahrain by buying the local operations of Grindlays Bank. The transaction gave AUB a share of about 20% in the local Bahraini banking market.

In 2003, the bank acquired a 40% stake in Ahli Bank of Qatar and bought a 49% stake in Commercial Bank of Iraq. It then increased its stake in BKME to 74.9% through a competitive privatization process and by secondary market purchases. It made an acquisition in Egypt – buying a 54% stake in Delta International Bank (later increased to 86% through a share swap transaction). In 2007, it bought a 40% stake in Ahli Bank Oman and in 2010 bought a 40% stake in United Bank for Commerce and Investment in Libya.

Earlier this year, the bank applied for a wholesale banking license in the Dubai International Financial Centre (DIFC) and is planning to be operating in Dubai to cover the broader UAE market by early 2016, if all goes well.

AUB has kept pace with the growth of Islamic banking by

Ahli United Bank Operations (end-2014)

	GCC*			Other Middle East/North Africa			OECD
	Bahrain	**Kuwait**	**Oman**	**Egypt**	**Iraq**	**Libya**	**UK**
Entity	Ahli United Bank B.S.C.	Ahli United Bank K.S.C.P.	Ahli Bank S.A.O.G.	Ahli United Bank S.A.E.	Commercial Bank of Iraq P.S.C.	United Bank for Commerce and Investment S.A.C.	Ahli United Bank Plc
Current AUB Ownership	n/a (Parent Entity)	74.9%	35%	85.4%	74.3%	40%	100%
Technical Services and Management Agreement	n/a (Parent Entity)	No	Yes	Yes	Yes	Yes	n/a (wholly owned)
Year initial stake acquired	At inception	2001	2007	2006	2005	2010	At inception
Branches (of which, Shari'a-compliant)	21 (5)	37 (37)	19 (7)	34	10	12	2

** During the first half of 2015, Ahli United Bank has applied for a banking license in the Dubai International Financial Centre (DIFC)*
Source for information: Ahli United Bank

converting its Kuwaiti subsidiary into a fully Shari'a-compliant bank in a bold move to improve its domestic market positioning; and by offering Shari'a-compliant products in London, Oman and through its head office in Bahrain. The bank had Shari'a-compliant assets of $14.1 billion at the end of 2014, approximately 42% of its total assets. This provides AUB with an unrivalled ability to cater to the conventional and to the Shari'a-compliant needs of its clients across its entire group operations.

El-Labban is clear that the objective is not to build a financial portfolio, and his words are born out in the relationship that AUB has with its subsidiaries. The parent bank adopts a hands-on approach in managing its group entities through majority ownership stakes and through long-term Technical and Management Services Agreements with its banks in Oman, Egypt, Iraq and Libya. AUB seeks to integrate and standardise the operations, management structures and business focus of all its group entities so as to optimise cost synergies (AUB has consistently averaged a cost-to-income ratio of 30% or lower, despite operating in markets that have historically required high operating costs) and to maximise cross border business flows (which currently contribute 17% of consolidated net profit after tax).

In 2013, the bank sold its stake in Ahli Bank Qatar because, as a minority shareholder, its ability to maintain its equity percentage stake when the bank raised capital was obstructed by local regulatory intervention. The pain of having to divest from such an attractive market was soothed by the fact that AUB made a profit of $213 million on the sale, and by its continuing solid business flows with the Qatari market.

Evolving balance sheet

At the beginning of its journey, AUB was focussed primarily on retail banking on its assets side; and it funded itself partly through retail deposits but also with substantial quantities of corporate and institutional money. El-Labban explains how this balance sheet has evolved:

"Due to a continuing series of interventions by different regulators, the profitability of retail banking assets has declined. At the same time, we've seen the cost of retail funding continue to be significantly lower than institutional money and considerably more stable. On the corporate side, the opposite has happened: corporate banking assets have become more attractive as an after-effect of the various market turbulences faced by the region, but the availability of institutional liabilities is much reduced, with major international banks severely reducing their interbank funding. As a result, we are now funded predominantly by retail deposits, and we use them to finance assets that are mostly corporate. We are happy with this configuration, since it combines low-cost stable funding with a diversified mix of prudently selected and well priced assets."

At the end of 2014, the bank's balance sheet totalled $33.4 billion, of which corporate banking assets comprised $14.2 billion, and treasury and investment assets $11.9 billion. Retail banking assets were $3.6 billion. On the liabilities side, customers' deposits accounted for $23 billion.

In terms of the geographical breakdown of the bank's loan portfolio, the GCC dominates. Loans to clients in the GCC account for about two thirds of the bank's total, and most of those are to clients in Kuwait, Bahrain, Qatar, Saudi Arabia and Oman.

If the bank is successful in its application for a license in the DIFC, the proportion of loans within the GCC is likely to increase further as the bank builds its business in the UAE.

The preponderance of loans to GCC clients is entirely in line with the bank's strategy to build its core franchise in the Gulf, while targeting cross-border business in countries that have significant and sustainble trade and other financial links with the GCC or within the GCC itself.

Geographical breakdown of Ahli United Bank loan portfolio (Consolidated group figures, end-2014)

	$ million	% of total
Bahrain	3,320	17.4
Kuwait	9,195	48.2
Other GCC	2,193	11.5
United Kingdom	1,724	9.0
Egypt	2,091	11.0
Europe (excluding UK)	164	0.8
Asia (excluding GCC)	279	1.5
Rest of the World	120	0.6
Gross Loans	**19,086**	**100.0**

Source for data: Ahli United Bank

Business in Egypt has been very successful

Loans to clients in Egypt account for about 11% of total loans. "Our Egypt business has been very successful, generating the highest return on equity anywhere in our group," says El-Labban. But that success has entailed hard work, in particular during the political uncertainty that followed the overthrow of the Mubarak regime in 2011 and the fall of the Morsi government in 2013. "We were working 24/7/365 – as hard as humanly possible to keep our branches open and our services running," El-Labban adds. "AUB Egypt benefited greatly from the decision by some other banks, mostly foreign owned, to significantly curtail their businesses in Egypt during this period which facilitated the attraction of their clients to us."

The bank is realistic about is operations in Libya and Iraq. "These are long-term investments in large, oil-rich economies, but right now, our focus is on capital preservation and minimizing risks."

In terms of the bank's overall risk profile, El-Labban is cautious. "We recognise that acquiring and integrating banks entails some significant risks, so we want our on-going, underlying businesses to have low to moderate risk profiles. This is best reflected in AUB's cautious approach to taking market risk and to avoidng speculative lending operations."

Non-performing loans accounted for 2% of gross loans at the end of 2014, less than half the ratio shown by its peer group, while provisions (including collective impairment provisions) were equivalent to 159% of non-performing loans.

So what does the future hold for AUB?

When the bank says it wants to be 'pan-regional', it includes Iran in its field of vision, as well as Iraq and the GCC. El-Labban points out that cultural, commercial and family ties extend across the Gulf and into Iran, and that Iran has one of the largest and most diverse economies in the region, with a large and well-educated population.

But much depends on the outcome of high-level diplomatic efforts to re-integrate Iran into the global community. Removal of sanctions would result in a major economic boom in Iran in which AUB seeks to play a strong role.

AUB principal subsidiaries: financial highlights (end-2014)

		Equity ($mn)	Assets ($mn)	Loans ($mn)	Net profit ($mn)	Risk asset ratio (%)*
Ahli United Bank	Kuwait	1,116	12,276	8,466	165	16.3
Ahli United Bank (UK)	UK	295	3,671	1,415	49	19.5
Commercial Bank of Iraq	Iraq	244	385	21	9	760.4
Al Ahli United Bank Egypt	Egypt	296	3,494	1,688	52	12.4
Ahli Bank	Oman	518	4,272	3,607	65	14.0

** According to Basel 2.*
Source for data: Ahli United Bank

Saudi Arabia is another area of ambition. The Saudi financial system is developing rapidly, not only in banking but also in insurance and capital markets. The bank already conducts significant amounts of Saudi-related business, and is interested in doing more. But El-Labban insists that any physical expansion into the Kingdom must conform to the AUB practice of integrating its acquisitions into the group. "We don't do 'flag planting' or 'symbolic regionalism,'" he stresses.

Turkey is an area of interest, but at the moment there are few acquisition targets available at the right price. El-Labban says he is not willing to go down the 'greenfield' route. "It's easier to pay a premium on acquisition and then average it down through capital increases to fund future expansion; rather than trying to take on well-entrenched competitors form a standing start."

El-Labban is clear about where he won't be leading the bank. There's no interest in expanding beyond Libya across North Africa. In Lebanon, the political risks are just too great to warrant an acquisition at the moment. As for East Asia, El-Labban does not see sufficient linkages with the GCC to justify its inclusion in the bank's strategic plan at present.

Western Europe is more complex. Through UBK, the bank has been in London for nearly 50 years, and rules on 'passporting' give AUBUK easy access to banking markets throughout the 28-member European Union. The bank has no plans to make acquisitions within the EU. However, it is interested in strengthening its wealth management franchise through an acquisition in Switzerland, if the right opportunity materializes.

And how will El-Labban judge his success?

The first measure of success, according to El-Labban, is "establishing a solid reputation for integrity, professionalism, clear vision and innovation."

"From the financial perspective of shareholders, I am targeting return on equity and earnings per share," he says. "When judging the efficiency and professionalism of the bank, I look at return on assets and my cost-to-income ratio. As for indications of growth, I analyse the number of clients the bank is serving and the ratio of product cross sell achieved."

All of those indicators are going in the right direction for AUB, but there is plenty more to do.

"With the sole exception of the UK, which is a mature market, all the countries in which we are operating have low-rates of banking penetration and have strong potential for growth. Our challenge is to navigate the significant political head-winds and to convert these opportunities into the strongest integrated banking platform in the region", El-Labban says. ■

Ahli United Bank: consolidated performance summary ($mn)

Balance sheet & income ($mn)	End 2014	End 2013	End 2012	End 2011	End 2010
Total Assets	33,445	32,652	29,873	28,330	26,457
Total Loans	18, 465	17,306	15,972	15,496	14,478
Shareholders' Equity	3,391	3,149	2,776	2,537	2,392
Net profit	483	366	336	311	265
Financial Ratios (%)					
Return on average assets	1.6	1.3	1.3	1.2	1.2
Return on average equity	15.2	13.4	13.0	12.7	12.0
Costs/income	29.7	30.0	31.5	32.4	33.6
Basel II Capital Ratio	15.5	16.2	15.6	16.0	14.1

Notes:
- *In 2013, net profit including the exceptional non-recurring gain related to the divested Ahli Bank of Qatar stake was $579 million.*
- *In 2013, after including the gain related to the divestment of the Ahli Bank Qatar stake, return on average assets was 2% and return on average equity was 20.1%.*

Source for data: Ahli United Bank

Adel El-Labban: a modern banker with traditional values

Adel El-Labban has spent his banking career pushing innovation and seizing new opportunities, whether in his homeland of Egypt, in Western financial markets such as London and New York or, for the last 15 years, as head of Ahli United Bank (AUB) one of the fastest-growing commercial banks in the Middle East.

But El-Labban retains some very traditional views about the responsibility that bankers have to their clients and the broader role that banks need to play in developing economies. *Arab Banker's* editor, Andrew Cunningham, spoke to Adel El-Labban about his career in banking and some of the challenges that he has faced.

Adel El-Labban is a quiet man. He speaks softly and slowly, thinking carefully about what he is going to say. But underneath the quiet exterior is a determined banker who has built two of the Middle East's leading banks and worked at the cutting edge of international financial markets.

Yet, early in his career, it seemed that El-Labban was destined to take a path very different to banking.

Adel El-Labban was born in Switzerland, where his father was serving as the Egyptian Ambassador, and it was diplomacy and foreign affairs that dominated the dinner-table talk at home.

After graduating in economics with highest honours from the American University in Cairo, and completing his military service, El-Labban applied for, and was top-placed in, the entrance examinations into Egypt's diplomatic service. But a career in diplomacy was not to be.

"I lasted one week," he says with a smile. "It was very clear to me that this was not going to be my cup of tea." Despite being posted to the Minister of Foreign Affairs' office, he describes the working environment as, "overly hierarchical and slow paced."

Although El-Labban was not to follow his father's profession, his father has been a significant influence. "He taught me how to handle adversity with dignity and fortitude", El-Labban says. "My father had his career in the Foreign Service cut short for political reasons – for sticking to what he believed was right during the years when President Gamal Abdel Nasser and a close group of military officers were running the country. Later on, he founded a non-profit organisation to lobby for improving human rights in Egypt and, again, it affected his life negatively. But he never wavered from what he believed was the right thing to do."

After resigning from the Foreign Service, the young El-Labban decided to make his way in banking.

This was the late 1970s, and after years of socialism under Nasser, the banking system had been opened to foreign capital, tentative steps were being taken towards economic reform, and foreign investors were returning to Egypt. These were exciting times for Egyptian banks and financial markets.

El-Labban applied for a job at Chase National Bank, a joint venture between Chase Manhattan Bank and National Bank of Egypt, and the first joint venture bank to have been created under the new Open Door Investment Policy. El-Labban's application was accepted, and he completed the famed Chase Manhattan Bank Credit Training Programme.

Looking back, El-Labban has no regrets about taking a career in banking. "As bankers, we deal in risk, particularly credit: a very precious commodity with great potential to improve lives or to destroy them, if misused. Given its diversity, the business of banking is the best educator. It teaches a lot about the real workings of the economy, of markets and of different industries but most importantly it is a great eye opener into the human character. People think it's just about finance and profits, but it's not. It's about people, about understanding motivation and character, making the right judgements; ensuring risk is prudently controlled without compromising business growth. It's also a very international and dynamic business, so to be successful you have to understand different cultures and markets as well as different ways of thinking and interacting to stay competitive."

El-Labban stayed at Chase National Bank for five years, becoming the bank's youngest General Manager, in charge of corporate banking, at the age of 25. He was then plucked from Egypt to join the Loans and Syndications department of Arab Banking Corporation (ABC), Bahrain's largest and most dynamic offshore bank at the time.

Arab banks were expanding rapidly and reaching overseas. The Iranian revolution of 1979 had sent oil prices to unprecedented levels, creating huge capital surpluses for Arab governments. Many new banks were being established to manage and deploy those flows and ABC – well capitalised, well led, and with shareholders from three oil-producing governments – was in the vanguard.

When oil prices declined later in the decade, the pace of banking in the Gulf slowed, so it was time for another change. El-Labban moved to New York as a Vice President in Morgan Stanley's corporate finance division, responsible for the bank's investment banking work in the Gulf region.

Family reasons soon took El-Labban back to Egypt to lead the bank where he had started his career. Chase National Bank had been re-named Commercial International Bank (CIB), and El-Labban returned as General Manager for corporate, treasury and retail risk, and was put in charge of strategic projects to create insurance and investment banking subsidiaries. He was also given a seat on the board.

When Commercial International Investment Company (CIIC), CIB's investment banking subsidiary, was created, El-Labban was appointed as its founding chairman; one year

after that, he was given the top job at the bank itself.

This was an extraordinary opportunity to build the leading private sector bank in one of the Middle East's biggest economies. By the end of the 1990s, CIB was recognised by the investor community, including the international credit rating agencies who had recently begun to rate banks in the Middle East, as the best-performing bank in Egypt, with the most up-to-date product offerings and the best human, as well as technical, infrastructure.

El-Labban remains very proud of his contribution to CIB's ground-breaking local IPO in 1993 and to its GDR issue in 1996: both were firsts for Egyptian companies and watershed deals in the resurrection of the Egyptian Stock Exchange. These transactions generated the required capital for converting CIB from a commercial bank into a diversified financial services group providing brokerage, asset management, investment banking and insurance services. They also resulted in the dilution of the stake of the state-owned National Bank of Egypt, CIB's majority shareholder at that time, in a privatisation that was business-driven and not government-imposed.

By 1999, it was time for a change, and El-Labban moved to London to take over United Bank of Kuwait (UBK), an Arab owned, London-incorporated bank that had recently incurred losses on its bond portfolio. The shareholders were looking to reverse those losses, restructure the UK operations and then pursue an alternative strategic vision as a pan-regional bank. That vision attracted the builder's instinct in El-Labban.

After his success developing and expanding CIB in Egypt, El-Labban was identified as the man to manage the transformation of UBK. In 2000, UBK merged with Al-Ahli Commercial Bank of Bahrain, the first step in the creation of what has become Ahli United Bank (AUB), one of the GCC's leading and most dynamic banking franchises. El-Labban moved to Bahrain to lead the new bank (see pages 12–15).

El-Labban is a banker who built a private sector bank in Egypt at a time when the market was dominated by state-owned banks and companies, and who pioneered path-breaking capital markets transactions and a diversified financial services model for CIB. He worked for an international Arab bank at the high point of Arab oil revenues and at the low point. He was building a regional Middle Eastern bank in the years following the fall of Saddam Husain in Iraq and during the global financial crisis and Arab Spring when many investors were moving elsewhere. But as he reflects on his career, he says that he has learnt more about banking in the last three years than in all of the preceding 33 put together, given the range and intensity of challenges faced, particularly in AUB's more exotic markets.

"We have a 40% stake in a small commercial bank in Libya with a Technical and Management Services Agreement. When the civil war started in Libya, the first thing we had to think about was how to get our people out of danger; then we had to get our external balances out of the country; and finally we had to figure out how to manage our investment – hour-to-hour – from a remote location based in Cairo. This wasn't a training exercise conducted in an ivory-tower environment. This was real life, with real people, and with a significant investment at stake."

El-Labban also cites AUB's experience in Iraq as another very hard learning experience. "How can you build a prudent business model in a country facing multiple security risks like Iraq? A lot of creativity, common sense and structuring resourcefulness is needed to capture the high risk premium on carefully selected loan and investment opportunities. It is not an exercise for the faint hearted".

El-Labban was selected as Arab Banker of the Year by Euromoney and by the Union of Arab Banks, but is more proud of AUB's selection in several years as the Best Bank in the Middle East by *Euromoney*, *The Banker* and *Global Finance*, despite its very recent beginnings. He sees these selections as recognition for having steered AUB in the right direction and as confirmation of the advantages of a well managed, integrated regional business model.

Underlying these reflections are some strong moral views on global banking, and in particular the way in which banking practices have evolved since he started work in the 1970s.

"I believe it is a very big privilege and responsibility to manage a business that depends on funds entrusted by other people," he says. "The risks that bankers in the West were taking with other people's money in the years before the global financial crisis were so rash and self-serving as to be considered, in my view, grossly negligent. We really do need to do some re-thinking – as a global business – about how we behave with other people's money and how we handle our fiduciary responsibilities; and the constraint has to come internally, from inside our banks and inside ourselves, rather than from regulators and law-makers who have all proven to be very late and lacking during past crises. Not enough work has been done on this front and the banking system remains still very exposed to a recurrence of the 2008 events."

He adds that in developing countries, the role that bankers need to play today is similar to that played decades ago by branch managers in European clearing banks: to know and understand their clients, to deal in the real economy and to proactively advise and help their clients to improve their businesses. He believes that relationship banking is not "a dead or exhausted topic". He says it is the only realistic means for achieving sustainable win-win situations for clients and banks is by growing their businesses and avoiding identifiable pitfalls. It is a philosophy that he takes to work every day.

"At AUB, I expect our management and staff to have total commitment to the betterment of our clients. That is our core mission. It doesn't change and everything we do contributes to preserving and implementing that key goal. Our reputation is our main asset and it depends on our clients being fully convinced of AUB's full commitment and consistent support of their best interests at all times." ■

Adel El-Labban

Banking system profile: Kuwait

Kuwaiti banks have recovered well from the difficulties that arose from the global financial crisis of 2008–09 and now enjoy low non-performing loan ratios, strong capitalisation and high levels of liquidity. Looking to the future, Kuwaiti banks need greater diversification of earnings and stronger profitability – but their ability to achieve these goals will depend heavily on Kuwait's economic and policy environment. In the following article, *Arab Banker* presents a profile of the Kuwaiti banking system.

Kuwaiti banks are among the strongest and most mature in the Middle East. They have survived catastrophic events, such as the Iraqi invasion and occupation of their country in 1990–91; they have learnt to manage the ups and downs of the oil price cycle; and they have grown accustomed to a fractious domestic political environment in which feuding between the government and its opponents creates huge uncertainty about the timing of important economic projects and policy initiatives.

The global financial crisis presented Kuwaiti banks with familiar challenges. Real estate values – to which the banks have always been heavily exposed – fell worldwide; the value of equities – again, a significant asset class for Kuwaiti banks – also fell; and many of Kuwait's investment companies – which used to receive significant amounts of funding from the banks – faced huge financial difficulties.

Non-performing loans rose from 4% of assets at the end of 2007 to nearly 12% two years later, but since then have steadily fallen, reaching 2.9% at the end of 2014.

Banks' exposure to local investment companies is now much reduced – down to almost half the level seen five years ago – and the investment companies themselves are, in most cases, now performing reasonably well.

Capital ratios remain high

Risk-adjusted capital adequacy ratios have remained around 18% over the last five years (supported in part by deleveraging). The aggregate risk-adjusted capital ratio for the system was up slightly at 19.3% at the end of 2014, according to the Central Bank of Kuwait's latest *Financial Stability Bulletin*.

However, the rebuilding of balance sheet strength has come at a price. High provisioning levels depressed earnings a time when falling interest rates also reduced banks' net interest margins. The result was several years of falling or flat net income for many of the banks. The turnaround came in 2014 when net profits across the sector rose by 26.5%, according to the Central Bank of Kuwait.

Of course, caution is needed when analysing the Kuwaiti banking system in terms of aggregate figures. There are big differences in the performance of Kuwait's ten domestic commercial banks and, from year to year, non-recurring items at individual banks can have a big impact on aggregate numbers.

National Bank of Kuwait (NBK) has long been the dominant banking force in Kuwait, with about 30% of loans and deposits, but Kuwait Finance House (KFH), an Islamic bank, now has a share that is nearly as big. Nearly two-thirds

Kuwait commercial banks: financial profile, end-2014 (KDmn unless otherwise stated)

	Equity	Assets	Loans	Customers' deposits	Equity expressed as US$
National Bank of Kuwait	2,870.5	21,784.1	11,908.7	11,259.7	9,818.0
Kuwait Finance House	2,097.0	17,181.9	11,341.3	10,881.4	7,172.4
Burgan Bank	955.9	7,751.4	4,386.5	4,708.3	3,269.5
AlAhli Bank of Kuwait	558.3	3,499.0	2,422.3	1,938.3	1,909.6
Commercial Bank of Kuwait	553.8	4,212.8	2,319.7	2,554.3	1,894.2
Gulf Bank	511.4	5,330.9	3,583.1	3,661.7	1,749.2
Ahli United Bank (Kuwait)	339.3	3,596.9	2,480.4	2,453.8	1160.5
Boubyan Bank	301.1	2,647.9	1,805.1	2,082.9	1,029.9
Kuwait International Bank	240.8	1,662.6	1,072.0	986.8	823.6
Warba Bank	91.9	594.8	388.2	346.1	314.3

The 10 banks listed here are those that are included in the Central Bank of Kuwait's list of "Kuwaiti Banks", with the exception of Industrial Bank of Kuwait, which is not included here.

Kuwait Finance House, Ahli United Bank, Boubyan Bank and Warba Bank are Islamic banks. The figures given for their "loans" refers to Shari'ah-compliant financing transactions that are economically equivalent to conventional loans.

Exchange rate: KD1 = US$ 0.29237

Source data: Bank reports

of all loans and deposits are found in the two largest banks.

One other bank, Burgan Bank, holds more than 10% of banks' loans and deposits and when Gulf Bank, which has market shares of 9%, is counted we can see that the biggest four of Kuwait's ten banks hold three-quarters of all loans and deposits.

Again, caution is needed: the larger banks have significant overseas operations – particularly NBK – so figures for total loans do not give a precise indication of domestic lending activity. The overseas branches and subsidiaries of Kuwaiti banks represent about 20% of their total assets.

Kuwaiti banks face an earnings challenge

Despite these qualifications, it seems clear that Kuwaiti banks face an earnings challenge. A December 2014 report by local brokers Kamco, based on 2010–13 figures, showed Kuwaiti banks consistently trailing banks from Oman, Qatar, Saudi Arabia and the UAE in terms of return on assets and return on equity. A more recent analysis of 74 GCC commercial banks by Darien Analytics, based on end-2014 figures, placed no Kuwaiti banks among the top 50 performers.

Nonetheless, profitability is certainly moving in the right direction. All ten banks reported an increase in net profits in 2014, with three of them more than doubling net profits on the previous year. Nine of the ten banks reported increased net and operating profits for the first half of 2015.

But there are reasons for optimism that go beyond the recent rebound in profitability.

Firstly, the Kuwaiti government's budget for the fiscal year 2015–16 (which began on 1 April) is based on an oil price of $60/B, one of the most conservative oil price assumptions among the major oil exporters.

Although government spending is being cut, plans for spending on major projects remain, and some of the reduction in spending will arise from cutting back on subsidies.

Kuwait plans to increase its crude oil production capacity from the current three million b/d to four million b/d by 2020. Increased refining outputs will accompany increased crude production. As for subsidies, diesel and kerosene prices were lifted in January 2015.

And despite the fall in oil prices – or perhaps because of it – there are signs that Kuwait's domestic policy environment may be improving.

In an upbeat assessment of Kuwait's policy environment, the IMF's latest Article IV Report (dated December 2014) referred to an improvement in the political climate, with the current parliament approving many more projects and voting on many more laws than previous parliaments. (The current parliament was elected in July 2013. There were six parliaments from 2006 to 2013.)

No one is expecting a revolution in the way in which the government and the Parliament interact, but even moderate improvements will ease the effects of current, lower, oil prices and open the way for an increase in government-sponsored economic activity. Kuwaiti banks will be among the first beneficiaries. ■

Financial profile of the Kuwait banking sector

Balance sheet figures (KDmn)	End 2014	End 2013	End 2012	End 2011	End 2010
Claims on private sector	32,720	31,099	29,021	28,144	27,514
Claims on government	1,563	1,502	1,684	1,887	1,910
Foreign assets	11,681	10,202	9,488	8,226	7,259
Assets	55,466	51,485	47,145	44,082	41,380
Private sector deposits	32,480	31,386	28,548	26,728	24,336
Deposits from government	5,286	5,057	4,955	4,010	4,207
Foreign liabilities	4,297	3,044	2,983	3,159	3,047
Own funds	7,488	7,180	6,593	6,265	5,937
Assets expressed in US$	*189,073*	*175,500*	*160,708*	*150,264*	*141,055*
Ratios (%)					
Own funds % assets	13.5	13.9	14.0	14.2	14.3
Claims on pvt. sector % assets	59.0	60.4	61.4	63.8	66.5
Claims on pvt. sector % pvt. sector deposits	100.7	99.1	101.7	105.3	113.1
Growth of claims on pvt. sector	5.2	7.2	3.1	2.3	1.8

Source for data: Central Bank of Kuwait

Financial profile of Kuwait investment companies (end-2014)

(KD mn)	Conventional companies	Islamic companies
Total assets	5,849.1	4,683.9
Foreign assets	3,429.9	1,411.0
Funding from local banks	765.7	939.1
Foreign liabilities	1,244.3	628.8
Own funds	2,810.3	1,757.5
Number of companies licensed	40	49

Source for data: Central Bank of Kuwait

Preparing for change in Saudi financial markets

Saudi Arabia's decision to open its stock exchange to foreign investors has been the biggest story in GCC finance this year – and one of the most significant developments in Middle Eastern capital markets for several years.

As *Arab Banker*'s Editor, Andrew Cunningham, explains, the opening of the exchange confirms the long-term commitment of the Saudi authorities to develop and expand their financial system.

Investors have been talking about the opening of the Saudi stock market for years.

In 2007, the market was opened to citizens of other GCC countries. Non-GCC citizens have been able to gain exposure to the market through swaps.

But the Saudi stock market (known as the Tadawul) is by far the biggest in the Middle East and non-GCC investors wanted direct access.

The opening was handled in a way that is the typical ***modus operandi*** of Saudi Arabia's financial authorities. Refusing to be rushed by outside pressure, the authorities waited until they were ready. But when they were ready, the matter was handled professionally and in a timely manner.

The Capital Market Authority (CMA) announced in July 2014 that they would prepare draft regulations for direct investment by Qualified Foreign Investors (QFIs) in the Tadawul, that there would be a three-month consultation period, and that final regulations would be issued in time for the market to open during the second quarter of 2015. And that is precisely what happened.

The first trading took place on 15 June.

The regulations that govern trading by QFIs have been framed to limit the type of institution that will, in practice, be able to take advantage of the new opportunities, and also to limit the impact of overseas investment on Saudi companies.

QFIs must already have at least $5 billion under management and be regulated in their home market. They may buy no more than 5% of a listed company's stock, and no more than 49% of the stock may be held by all QFIs.

The Authorities' insistence that trades be settled on the same day – T+0, as opposed to T+2 that is used in Europe – will in practice mean that only large and technically sophisticated institutions will be able to trade.

The Tadawul is listed as a 'Frontier Market' by MSCI, along with most other stock exchanges in the Middle East. Only Egypt, Qatar and Bahrain qualify as 'Emerging Markets' and none as 'Developed.'

The Tadawul's Chief Executive, Mohammed al-Jadaan, has publicly stated that he wants to see the exchange upgraded to 'Emerging Market' by 2017. Since such upgrades are dependent on factors such as tradability, liquidity and transparency, Mr Jadaan's ambition implies that further moves to expand the investor base and to increase trading volumes are in the pipeline.

The market capitalisation of the Tadawul was around $580 billion in the weeks that followed the opening to QFIs. This was more than three times the market capitalisation of the next biggest Arab stock market in Qatar, and more than four times the capitalisation of the exchanges in Abu Dhabi, Dubai or Kuwait.

The next big development in Saudi financial markets is expected to occur in the fixed income markets. Issuance of conventional bonds, though not unknown, has always been constrained by the sensitivity attached to interest payments, which are forbidden under strict interpretations of Islamic law. (The financial statements of Saudi banks do not refer to interest income or interest expense: the terms 'special commission income' and 'special commission expense' are used.)

Increasing global issuance of sukuk – which fulfil the economic objectives of conventional bonds but in a Shari'a-compliant manner – opens the way for Saudi Arabia to develop a sukuk market, but it will be some time before the Kingdom will be able to boast a thriving sukuk/fixed income market.

Global sukuk issuance may be increasing, but it remains limited. Global issuance was approximately $110 billion in 2014. Two thirds of global issuance is usually in Ringgit, aimed at the local market, with the Malaysian government or central bank being by far the biggest single issuer.

The Gulf Bond and Sukuk Association listed 55 sukuk from Middle Eastern issuers for the first half of 2015, but only one of those was by a Saudi company: Najran Cement. In 2014, Saudi issuance was more substantial, with large issues by Saudi Electricity Company, and issues by the Saudi Petrochemical Company and three local banks, but, as in previous years, issuance by Emirati companies and banks dwarfed that from the Kingdom.

Nonetheless, there are reasons to believe that the Saudi bond and sukuk market may be ready to expand.

In early July, the Saudi government issued SR15 billion ($4 billion) in bonds to local quasi-sovereign companies and the Governor of the Saudi Arabian Monetary Agency (SAMA) then publicly said that the government would be issuing more bonds in the months ahead.

The government's appetite for bonds is driven in part by low oil prices. The Kingdom is reported to have drawn down about $65 billion of its reserves during the first half of 2015. Although reserves remain high – nearly $700 billion at mid-year – raising debt will provide the Saudi government with more financial flexibility as it contemplates the possibility of a prolonged period of low oil prices.

Greater and more diverse government issuance will enable the creation, for the first time, of a Saudi yield curve, which in turn will facilitate issuance by the private sector.

During 2015, the Capital Markets Authority has been preparing

Who's who in Saudi Finance?

The Saudi Arabian Monetary Agency (SAMA) acts the central bank and as the regulator and supervisor of the banking system. It also regulates and supervises insurance firms and their activities, and finance companies. Consumer protection also falls under SAMA's purview.

Under the Governor and Vice Governor, there are five deputy governors, responsible for Investment, Supervision, Banking Operations (including payment systems, bank branches and currency), Research and International Affairs (including monetary policy and financial stability, and financial sector development), and Administration.

There are four departments under the Deputy Governor for Supervision: Banking Control, Insurance Control, Finance Companies Control, and Consumer Protection. All of the current department heads were appointed in May 2013.

Governor of SAMA: H.E. Fahd bin Abdullah al-Mubarak.

Appointed December 2011 from outside SAMA. He had previously been Chairman and Managing Director of Morgan Stanley Saudi Arabia and Chairman of the Saudi Stock Exchange. Holds a doctorate in business administration from the University of Houston in Texas.

Vice Governor of SAMA: H.E. Abd al-Aziz Saleh al-Furaih.

Appointed August 2014 from outside SAMA. Before his appointment, Mr Furaih was deputy CEO of Riyad Bank, one of the largest and longest established commercial banks in Saudi Arabia. Mr Furaih has a masters degree in Accounting and has an American Certified Public Accountants Fellowship.

Deputy Governor for Supervision SAMA: Abd al-Aziz Al-Helaissi.

Appointed May 2013. Before his appointment, Mr Helaissi was JP Morgan's head of Corporate Banking for the Middle East and North Africa and its Senior Country Officer for Saudi Arabia. Prior to that, Mr Helaissi held senior positions in three Saudi banks: Saudi British Bank, Saudi Hollandi Bank and Arab National Bank.

Capital markets are regulated by the Capital Market Authority. The CMA regulates the Saudi Stock Exchange (which is commonly known by its Arabic name, 'Tadawul'); it regulates and monitors the issuance of securities; it is responsible for protecting investors and preventing market manipulation and insider trading; and it overseas the activities in Saudi Arabia of rating agencies.

The CMA effectively appoints the directors of the Tadawul, who then elect their own chairman and deputy chairman. (Legally, Tadawul's Board is appointed by the Saudi Council of Ministers on a recommendation by the CMA.)

Chairman of the Capital Market Authority: Mr Mohammed al-Jadaan

Appointed in January 2015. Before his appointment, Mr al-Jadaan was one of three partners of the Al-Jadaan law firm, which has a co-operation agreement with Clifford Chance. He also sat on the CMA's advisory Board. Before founding the Al-Jadaan law firm, Mr al-Jadaan worked at the Riyadh Miliary Hospital. In addition to his B.A. in Islamic law and economy, Mr al-Jadaan has a Masters in Law from the Institute of Public Administration. Mr al- Jadaan replaced Mohammed al-Sheikh who had been appointed in February 2013.

Chairman of the Stock Exchange: Mr Khalid al Rabiah

Elected by directors of the Exchange in February 2014, Mr Rabiah's experience lies primarily in petrochemicals (as CEO of Methanol Chemicals Company 'Chemanol') and Amiantit, the Saudi Arabian pipe manufacturer.

Minister of Finance: H.E. Dr Ibrahim al-Assaf

The Saudi Ministry of Finance conducts the activities that are generally expected of national ministries of finance. In addition, it oversees the activities of state-owned development banks and funds, such as the Agricultural Bank and the Public Investment Fund.

Dr Assaf was appointed in 1996 and has remained in his post following King Salman's accession to the throne in January 2015 – he is one of the longest-serving Saudi ministers. Born in 1949, and with a PhD in Economics from the Colorado State University, Dr Assaf was Saudi Arabia's Executive Director at the IMF for six years before serving briefly as Vice Governor of SAMA and as a Minister of State before taking the finance portfolio. (Strictly speaking, Dr Assaf was Minister of Finance and National Economy from 1996 to 2003 and has been Minister of Finance since 2003. 'National Economy' is now contained with a Ministry of National Economy and Planning.)

Saudi Sovereign Wealth Fund

Saudi Arabia does not have a stand-alone sovereign wealth fund. The government's reserves are held and managed by SAMA. The Sovereign Wealth Fund Institute estimated SAMA's foreign holdings at $757.2 billion in December 2014.

regulations to license credit-rating activity in Saudi Arabia. Although this can be seen as part of a global trend in which domestic capital markets authorities are trying to exert control over global credit rating agencies, the move does indicate that the authorities recognise how important credit ratings will be in the development of their bond and sukuk markets.

The cornerstone of the Saudi financial system has always been – and will continue to be – the banking sector. Well-capitalised, profitable, and strictly and competently supervised, Saudi banks are among the best performers in the Middle East.

At the end of March 2015, the Saudi banking system as a whole showed a loans-to-deposit ratio of 76% – well within SAMA's 85% limit. In simple terms, Saudi banks have more than $40 billion of lending headroom, before they hit the SAMA limit.

No one is expecting any significant changes to the Saudi banking system.

Two new domestic banking licenses have been issued within the last 10 years (to Bank Al-Bilad, which began operations in 2005, and Al-Inma Bank, which began operations in 2008).

SAMA's official position is that it is willing to issue new licenses, both for domestic and foreign banks, but in private officials comment that those who have received licenses have not developed significant amounts of new business: so why issue new licenses?

The most significant development in Saudi banking over the last year was the Initial Public Offering by National Commercial Bank. The $6 billion issue reduced the shareholding of para-statal companies and was a huge success. Yet the issue was engulfed in controversy when some Muslim scholars questioned whether it was permissible for Muslims

	Financial figures, SRmn end-2014						
	Equity	Assets	Net loans	Customers' deposits	Net profit	Senior Executive	Shareholders > 5%
National Commercial Bank	46,920.9	434,878.1	220,722.4	333,095.5	8,793.2	Saeed al-Ghamdi	Public Investment Fund 44%, Public Pension Agency 10%, GOSI 10%
Al-Rajhi Bank	41,896.2	307,711.6	205,940.0	256,077.0	6,836.2	Steve Bertamini	Suleiman bin Abd al-Aziz al-Rajhi Endowment Company 15%, GOSI 10%
Samba Financial Group	38,912.0	217,398.8	124,079.4	163,794.8	5,010.5	Sajjad Razvi	Public Investment Fund 23%, Public Pensoin Fund 15%, GOSI 12%
Riyad Bank	35,537.1	214,589.3	133,490.3	164,079.4	4,352.4	Talal Al-Qudaibi	Public Investment Fund 22%, GOSI 17%, Al-Nahla Company for Trading and Contracting 9%, Public Pension Agency 9%, Masek Holding Company
Banque Saudi Fransi	26,471.3	188,776.9	116,540.7	145,275.2	3,516.3	François Couvegnes	Crédit Agricole 31%, GOSI 13%, Rashed Abd al-Rahman al-Rashed and Sons Company 10%
Saudi British Bank	26,071.2	187,609.3	115,220.8	145,870.5	4,266.1	David Dew	HSBC 40%, Olayan Saudi Investment Company 17%, GOSI 10%, Abd al-Qader al-Muhaidib and Sons Company 5%
Arab National Bank	20,639.8	164,668.4	103,724.0	129,631.2	2,877.2	Robert Eid	Arab Bank 40%, GOSI 11%, Rashed Abd al-Rahman al-Rashed and Sons Company 10%, al-Jaber Trading Company 6%
Alinma Bank	17,939.2	80,861.9	53,637.0	59,427.8	1,264.4	Abd al-Mohsen Al-Fares	Public Pension Agency 11%, Public Investment Fund 10%, GOSI 5%
Saudi Investment Bank	11,852.1	93,626.4	57,472.5	70,733.4	1,436.5	Musaed Al-Mineefi	Public Pension Agency 17%, GOSI 17%, Saudi Ogeh Company 9%, J P Morgan Finance International 7%, National Commercial Bank 7%
Saudi Hollandi Bank	10,741.9	96,619.2	65,147.8	76,813.9	1,820.9	Bernd van Linder	ABN AMRO 40%, Olayan Saudi Investment Company 22%, GOSI 10%
Bank Al Jazira	6,158.0	66,553.9	41,244.6	54,569.3	572.5	Nabil Al-Hoshan	Ittihad al-Ukhuwa Development Company 7%, National Bank of Pakistan 6%, Saleh Kamel 5%
Bank Albilad	5,891.4	45,229.9	28,355.3	36,723.7	864.0	Khalid Al-Jasser	Mohammed Ibrahim al-Siba'i and Sons Company 18%, Abd Allah Ibrahim al-Siba'I Investment Company 11%, Khalid Abd al-Rahman Saleh al-Rajhi 9%, Abd al-Rahman Saleh Abd al-Aziz al-Rajhi 8%, Abd al-Rahman Abd al-Aziz Saleh al-Rajhi 7%

Sources: Financial Figures taken from Darien Analytics GCC Banking Survey, *based on published financial statements. Senior Executive and Shareholders > 5% taken from the website of the Saudi Stock Exchange (Tadawul) accessed on 22 May 2015.*

to buy shares in a bank that paid and received interest as part of its routine business. Although most of NCB's activities were Shari'a-compliant, the bank quickly committed to make all its activities Shari'a-compliant within the next few years, and so side-stepped the scholars' objections.

Of course by far the most significant event in the Kingdom in recent times has been the accession to the throne of King Salman, following the death of King Abdullah in January 2015.

In April, King Salman appointed Mohammed Bin Nayef as Crown Prince and his own son, Mohammed, as Deputy Crown Prince. The two appointments make clear that King Salman will be the last of the sons of Ibn Saud, the founder of Saudi Arabia, to rule the Kingdom, and they clarify how power will be passed to the next generation.

The implications for the Saudi banking and financial sector of this hugely significant development cannot yet be discerned. King Salman has created two key governmental committees to address political issues (led by the Crown Prince) and economic issues (led by the Deputy Crown Prince).

Initial reports indicate that the Economic Committee has been actively questioning Ministers whose portfolios touch on economic matters, and it has been taking particular interest in issues that affect the Kingdom's economic development.

At some point, the Economic Committee will have to turn its attention to the King Abdulla Financial District (KAFD) – a huge area on the outskirts of Riyadh that is supposed to act as a magnet for Saudi financial services, rather as Canary Wharf has done in London. The District's detractors point to vast unoccupied office space and the unwillingness of major institutions to move there, but to its supporters, the District is a clear indication that the Saudi government will put the regulations and the infrastructure in place to enable domestic financial activity to expand and foreign players to enter.

The Economic Committee will also have to consider the management of Saudi Arabia's financial reserves. At the moment, these continue to be managed by SAMA rather than through a sovereign wealth fund. In December 2014, Finance Minister Ibrahim Assaf rejected suggestions that the Kingdom should create a sovereign wealth fund, but the fact that he made such a public statement was indicative of pressure building to change the way in which the reserves are managed.

Power in Saudi Arabia is passing to a younger, more technocratic generation. No one should expect quick changes or dramatic initiatives – that is not the Saudi way – but over the medium term, this new generation will have a profound impact on the way financial activity is conducted in the Kingdom. ■

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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.

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GCC banks perform well and have the size to compete overseas

GCC commercial banks performed well during 2014. All the large and medium sized banks declared net profits for the year, and nearly all of them declared higher profits than in 2013. Banks are well capitalised and are able to fund their core lending business with customers' deposits.

Arab Banker's Editor, Andrew Cunningham, presents a listing of the largest 50 GCC commercial banks (ranked by Equity) and considers whether GCC banks have the size to compete beyond their home region.

Stability is the defining characteristic of GCC commercial banking at the moment. The region's largest ten banks at the end of 2014 – ranked by equity – were the same as the ten largest in 2013 (albeit in a slightly different order). Qatar National Bank (QNB), Emirates NBD and Saudi Arabia's National Commercial Bank continue to be the largest three banks in the region, all showing moderate growth on previous years.

All of the 50 largest commercial banks were profitable in 2014. In fact, only three GCC commercial banks declared net losses for 2014 and two of those were the recently-created Islamic banks in Oman, Bank Nizwa and alizz Islamic Bank, both of which are still constrained by the costs of building new banking franchises from scratch. The third bank to declare a net loss was Bahrain's Ithmaar Bank, although the bank's results have showed some improvement on recent years.

Arab Banker's ranking of GCC commercial banks does not include investment banks or private equity firms, even if they hold banking licenses. However, there are currently no locally-incorporated investment banks that are large enough to be included in the top 50. Investcorp, the leading GCC investment bank, had equity of $818 mn at the end of 2014, down from $936 mn at the end of 2013. United Gulf Bank, another prominent, locally-incorporated investment bank had equity of $462.5mn at the end of 2014.

All 12 of Saudi Arabia's locally-incorporated commercial banks feature in the region's largest 50, as do all of Qatar's ten locally-incorporated commercial banks. Seven of Kuwait's nine locally incorporated banks rank in the largest 50. Emirati banks also feature prominently, although the UAE banking system contains many small banks as well as some of the region's largest.

Omani banks continue to be small: only Bank Muscat could show equity greater than $1 billion the end of 2014: with equity of $3,419 mn it was more than three times the size of the next biggest bank, National Bank of Oman.

Bahrain too has a large number of very small banks although its flagships, Arab Banking Corporation and Ahli United, rank among the region's largest.

As GCC banks look to extend their operations further afield in the Middle East, into Africa and also into Asia, the issue of capital size becomes important.

Within the Middle East, GCC banks have more weight then most of their peers. The largest Egyptian banks have equity of $1–2 billion and most Egyptian banks are much smaller. The largest Moroccan banks have equity of about $2–4 billion.

In sub-Saharan Africa, only South African banks show equity size comparable to the larger GCC banks: the four big South African banks have equity ranging from $5–10 billion. Nigeria's largest bank, Zenith, had equity of a little more than $3 billion.

Several of the larger GCC banks are now setting their sights on Asia. Although Chinese banks are massive – among the biggest in the world – and the three big Singaporean banks also significantly outrank their GCC peers, there is no reason why capital should be a constraint on GCC banks competing to offer credit and other financial services in Asia.

Maybank, the biggest Malaysian bank, with equity of $12.3 billion at the end of 2013, according to *The Banker* magazine, is roughly the same size as Qatar National Bank. There are ten Gulf banks with capital funds larger than Bangkok Bank, the biggest bank in Thailand.

It is noticeable that few GCC banks talk of expanding in Western Europe, and still fewer of expanding into the United States. In both cases, the burden of regulation and compliance is overwhelming. London may be the leading city of Arab and Islamic banking outside the Middle East, but Western Europe as a whole does not promise high economic growth over the medium term.

Opportunities for expansion within the Middle East remain limited, with two exceptions: Egypt and Morocco. In both cases, financial markets are evolving well and the economies growing at reasonable rates. On the other hand, in both countries, local banks are well established and generally provide a broad range of services at a good standard.

Libya and Syria, both of which appeared to offer good opportunities a few years ago, are now engulfed in civil war, as is Yemen. The Iraqi environment remains extremely challenging, and financial policy in Algeria continues to protect the country's state-owned banks. The Lebanese banking system is vibrant and exciting and controlled by well-managed and forward looking domestic institutions.

The prize on the horizon is, of course, Iran: a large economy (about the same size as that of the UAE), a large population (about the same as Egypt's) and an underdeveloped financial and banking system. But engagement by GCC banks in Iran will require political blessing from their governments and central banks. ■

Largest 50 GCC commercial banks, ranked by equity size (end 2014)

All figures in $ million

			Equity	Assets	Net loans	Customers' deposits	Net profit
1	Qatar National Bank	Qatar	15,929.4	133,664.4	92,927.6	99,031.0	2,890.5
2	Emirates NBD	UAE	12,733.9	98,853.0	66,980.3	70,325.6	1,399.4
3	National Commercial Bank	Saudi Arabia	12,505.7	115,906.9	58,828.6	88,779.1	2,343.6
4	Al-Rajhi Bank	Saudi Arabia	11,166.5	82,013.6	54,888.6	68,251.5	1,822.0
5	Samba Financial Group	Saudi Arabia	10,371.1	57,942.7	33,070.6	43,655.8	1,335.4
6	National Bank of Abu Dhabi	UAE	10,337.7	102,414.2	52,903.6	66,220.8	1,519.2
7	National Bank of Kuwait	Kuwait	9,818.0	74,508.7	40,731.6	38,511.8	936.1
8	Riyad Bank	Saudi Arabia	9,471.6	57,193.9	35,578.8	43,731.6	1,160.0
9	First Gulf Bank	UAE	9,459.1	57,774.9	38,043.6	38,469.3	1,553.5
10	Abu Dhabi Commercial Bank	UAE	7,194.0	55,555.9	38,276.0	34,313.7	1,144.1
11	Kuwait Finance House	Kuwait	7,172.4	58,767.7	38,790.9	37,217.9	547.6
12	Banque Saudi Fransi	Saudi Arabia	7,055.3	50,314.2	31,061.3	38,719.8	937.2
13	Saudi British Bank	Saudi Arabia	6,948.7	50,003.0	30,709.5	38,878.5	1,137.0
14	Arab National Bank	Saudi Arabia	5,501.1	43,888.6	27,645.3	34,550.3	766.9
15	Commercial Bank of Qatar	Qatar	4,863.0	31,782.2	19,934.9	16,917.5	533.2
16	Duabi Islamic Bank	UAE	4,821.5	33,735.4	20,144.3	25,146.3	763.5
17	Alinma Bank	Saudi Arabia	4,781.3	21,551.9	14,295.7	15,839.1	337.0
18	Union National Bank	UAE	4,608.7	25,450.7	17,445.6	18,364.1	550.2
19	Mashreq Bank	UAE	4,607.0	28,821.0	15,806.2	18,635.1	677.0
20	Arab Banking Corporation	Bahrain	4,426.0	29,356.0	14,819.0	13,945.0	318.0
21	Qatar Islamic Bank	Qatar	3,894.5	26,410.9	16,401.0	18,303.6	458.5
22	Al-Ahli United Bank	Bahrain	3,830.2	33,444.9	18,464.5	23,006.8	531.3
23	Abu Dhabi Islamic Bank	UAE	3,727.0	30,472.2	19,880.1	23,085.2	476.7
24	Bank Muscat	Oman	3,418.7	25,347.3	17,680.8	16,413.2	425.2
25	Burgan Bank	Kuwait	3,269.5	26,512.3	15,003.2	16,103.9	248.7
26	Masraf al-Rayan	Qatar	3,220.9	22,010.6	15,913.3	17,194.9	554.3
27	Saudi Investment Bank	Saudi Arabia	3,158.9	24,954.0	15,318.0	18,852.4	382.9
28	Doha Bank	Qatar	3,103.4	20,752.9	13,344.3	12,626.5	373.4
29	Saudi Hollandi Bank	Saudi Arabia	2,863.0	25,751.7	17,363.7	20,473.0	485.3
30	Gulf International Bank	Bahrain	2,350.7	21,300.2	7,931.5	12,897.8	85.6
31	Commercial Bank of Dubai	UAE	2,126.8	12,775.9	8,759.3	8,757.7	327.4
32	National Bank of Ras Al Khaimeh	UAE	1,941.8	9,484.5	6,880.2	6,712.7	396.1
33	Al Ahli Bank of Kuwait	Kuwait	1,909.6	11,967.7	8,285.0	6,629.6	128.6
34	Commercial Bank of Kuwait	Kuwait	1,894.2	14,409.1	7,934.1	8,736.5	168.3
35	Barwa Bank	Qatar	1,765.9	10,497.0	6,333.2	6,006.9	196.0
36	Gulf Bank	Kuwait	1,749.2	18,233.4	12,255.4	12,524.2	121.4
37	Bank Al Jazira	Saudi Arabia	1,641.3	17,738.4	10,992.8	14,544.2	152.6
38	Al Khalij Commercial Bank	Qatar	1,589.1	14,081.8	7,386.0	7,541.6	154.7
39	Bank Albilad	Saudi Arabia	1,570.2	12,055.0	7,557.5	9,787.9	230.3
40	Qatar International Islamic Bank	Qatar	1,475.2	10,552.0	6,001.6	7,320.4	226.9
41	Sharjah Islamic Bank	UAE	1,249.5	7,083.5	3,941.6	3,973.5	102.7
42	International Bank of Qatar	Qatar	1,248.1	8,486.7	5,456.8	5,828.6	159.2
43	Bank of Sharjah	UAE	1,201.6	6,822.5	3,834.1	4,847.3	77.9
44	Ahli Bank of Qatar	Qatar	1,146.3	8,624.2	5,856.0	5,467.2	165.3
45	National Bank of Umm al-Qaiwain	UAE	1,033.4	3,601.7	2,174.2	2,190.0	85.2
46	Boubyan Bank	Kuwait	1,029.9	9,056.7	6,174.0	7,124.2	97.5
47	National Bank of Bahrain	Bahrain	1,011.2	7,325.5	2,089.2	5,764.4	142.8
48	Bank of Bahrain and Kuwait	Bahrain	955.0	9,341.5	4,927.0	6,593.6	134.2
49	National Bank of Oman	Oman	941.8	7,753.3	6,035.7	5,673.3	131.0
50	Arab Bank for Investment and Foreign Trade (Al Masraf)	UAE	937.3	3,903.6	2,003.3	2,377.9	99.7

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

Iraqi banks look to the future

Amid the insecurity and violence that plagues much of Iraq, banking activity is continuing. Although banks have had to reduce or close their activities in some parts of the country, in others they are trying to strengthen their balance sheets and improve customer service.

Sheikh Fahim Mo'dad advises the Chairman of Lebanon's Blom Bank on the banking situation in Iraq, where Blom has two branches. In the following interview, Sheikh Mo'dad describes the current banking environment in Iraq and its prospects for the future.

ARAB BANKER: How is the current security situation affecting day-to-day banking activity in Iraq?

SHEIKH FAHIM MO'DAD: The fight against the extremist Islamic State (IS) is affecting the country as a whole and, as part of that, of course the banking sector is affected. Foreign banks in particular have ceased to operate in cities that are under the control of IS.

Apart from the problems of security, what are the biggest challenges that Iraqi banks are facing?

The role of the Central Bank of Iraq is crucial. In areas of the country where the Central Bank is not able to operate, via its branches, banking activity has been reduced to a minimum and to the extent that there is any banking activity it is based on cash.

In areas of the country that are not currently under the control of IS, both local and foreign banks have taken precautions and are being very selective in terms of lending and providing trade finance. All banks are pursuing very conservative business strategies these days.

Having said that, there is a clear procedure for accessing foreign currency via the Central Bank and this procedure works well.

A big challenge that all Iraqi banks are facing is the lack of qualified banking staff. There is a big shortage in this area. Also, IT infrastructure needs to reach a higher standard, although this will take time to happen.

I would add that, despite the difficulties in Iraq, Blom Bank has not been facing problems in our two branches, in Baghdad and Erbil.

What have been the most important developments affecting Iraqi banks over the last year?

Banks are facing a big challenge in the form of the increase in the Central Bank of Iraq's minimum capital requirements. The minimum capital requirement is set at around ID 250 billion (about $200 million) for Iraqi banks and at around $50 million for foreign banks.

Mergers and acquisitions will be the best approach to take for Iraqi banks that will have difficulty with the new requirements, especially those that have little opportunity to increase their market share.

Is the Iraqi government still favouring state-owned banks in the conduct of government business?

All government related work is currently being done via state-owned banks and that includes activities ranging from account opening, placing deposits, salary transfers, local and foreign letters of credit, and issuance of letters of guarantee.

The Association of Private Iraqi Banks has made several complaints and has followed up closely on this matter. As a result, some recommendations and decisions have been made, including the use of private banks in some activities relating to transfer of funds, and in relation to external trade and the issuance of letters of credit. However, we have yet to see any real changes and we are waiting for the implementation of the recommendations and decisions.

What do private Iraqi banks need to do in order to become bigger, challenge the state-owned Iraqi banks, and increase the amount of money they lend to the Iraqi private sector?

The required capital increase will certainly allow private banks to improve their technology and upgrade their personnel, and this in turn will enable them to improve their services and cater to the needs of public sector companies.

As for the branches of foreign-owned banks, such as our branches in Baghdad and Erbil, they can rely on the support of their head office to give them an edge and enable them to provide better services than the state-owned Iraqi banks, and at lower cost.

At the moment lending to the private sector accounts for only 15% of banks' assets. Private sector banks should work to increase awareness of banking services within the Iraqi population as a whole and this in turn will lead to an increase in their market share. Private sector Iraqi banks – and I include the branches of foreign banks among them – are well-placed to offer friendly, efficient, modern banking services to people who may not have much experience of dealing with banks.

There is also a need to update some important banking regulations. For example, the law on real estate mortgages does not allow for mortgages in foreign currencies, even if the loan itself is in foreign currency. We also need stronger laws to enable banks to re-possess real estate used as collateral in the event of defaults on loans. Of course, banks should not be allowed to hold real estate indefinitely – the law should require banks to dispose of it over 2–3 years – but this is an area that banking laws need to address.

Do you think the Central Bank of Iraq fully understands the challenges that Iraqi commercial banks are facing?

I have met Dr Ismail al-Allak, the new governor of the Central Bank of Iraq, and I can tell that he really wants to use the Central Bank to help the Iraqi economy and reduce the rate of inflation. He is also committed to strengthening the banking industry and to keeping to deadlines. Having said that, we have to recognise that the Governor is working within laws and regulations that he did not write, but which he must respect.

What is Blom Bank's strategy for its business in Iraq?

At the moment, we have two branches, in Baghdad and Erbil, and we are in the process of getting approval from the authorities for two new branches, in Basra City and Suleymaniya City. We have a worldwide presence – we are currently present in around 14 countries – and this enables us to provide a wide range of services for our clients, as well as promoting banking awareness in the business environment in Iraq. ■

Egyptian banks: looking to the future with confidence

Egyptian banks are performing well, despite the political upheavals of recent years and the economic challenges that have followed in their wake. But what does the future hold for the Egyptian banking system?

Arab Banker spoke to Hisham Ezz al-Arab, the Chairman and Managing Director of Commercial International Bank, Egypt's largest private sector bank, and to Georges El-Hedery, a Director of HSBC Bank Egypt and Head of the bank's Global Banking and Markets business for the MENA region.

First, Mr Ezz al-Arab responds to questions on developments in the banking system, including the role of the Central Bank and the effect of the devaluation of the Egyptian pound. Then, on pages 30 and 31, Georges El-Hedery explains why Egypt continues to be a priority market for HSBC.

***ARAB BANKER*: Egyptian banks proved their strength during the two years that followed the overthrow of President Mubarak and the consolidation of President Sisi's administration, but how are they performing now? Are Egyptian banks growing and becoming stronger?**

MR. HISHAM EZZ AL-ARAB: Egyptian banks stand on a very solid ground, are growing strongly, and despite the recent period of economic and political instability, they have proved to be much more resilient than most people thought. Egyptian banks were not very much affected by recent events, thanks to the Central Bank of Egypt's reform programme, introduced in 2004, that strengthened the banking sector considerably and succeeded in creating a stable, liquid and well-capitalized banking environment. The growth rates of both loans and deposits are evidence of the health of banks and of the sector as a whole. The system's loans grew by 48% to reach EGP 679,321 million up from EGP 458,081 mn in the period from December 2010 to the first quarter of 2015, despite the slowdown in local investment that took place during this time. During the same period, deposits grew by 75% to reach EGP 1,663,797 mn.

What measures has the Egyptian Central Bank been taken to strengthen the banking system in Egypt?

The CBE has been taking solid steps towards the restructuring of the banking sector. During the first phase of the reform plan, which took place between 2004 and 2008, the CBE focused on three main issues: consolidation within the banking sector, addressing the issue of non-performing loans (NPLs), and financial and managerial restructuring of publicly owned banks (National Bank Egypt, Banque Misr and Banque Du Caire). In addition, the CBE upgraded banking supervision to bring it into line with international standards. As part of this, an improved management information system was implemented in order to provide the kind of high-quality and timely data that is required in a risk-based supervisory system. Another aspect of this first phase of reforms was a special focus on human resources through upgrading skills and knowledge in the banking sector.

Building on the success of the first phase, the CBE launched the second wave of reform in 2009. This lasted for two years, centering on improving the regulatory environment, adopting Basel II and giving an increased focus on corporate governance. It also addressed the problem of banks' concentrated risk exposures and their proprietary investments. During this second phase, the CBE completed the full operational and financial restructuring plan for the three state-owned specialized banks (Principal Bank for Development and Agricultural Credit, Egyptian Arab Land Bank, and Industrial Development & Workers Bank of Egypt). As part of this second phase, the CBE promoted the extension of banking services to under-served sectors, and in particular to SMEs.

The CBE is currently focusing on banks' capital adequacy and on finalising its data warehouse.

How is the devaluation of the exchange rate affecting Egyptian banks?

The room to run a currency mismatch is extremely limited under the CBE rules and regulations. For instance, banks cannot issue loans in Egyptian pounds sourced from US dollars, and vice versa.

In my opinion, the recent changes in the value of the Egyptian pound should not be viewed as a devaluation, but rather as a long-awaited adjustment of prices in order to adapt to the changes occurring in the currencies of our major trade partners against the US dollar. This adjustment is necessary, since 70% of Egypt's trade is not in US dollars. It would have been acceptable to keep linking the Egyptian pound to the US dollar if 90% of our trade was denominated in US dollars, but it is not. Also, we should not forget that tourism constitutes one of the main sources of foreign currency, and when tourism returns to normal levels it will also bring in major currencies other than the US dollar. It was imperative to measure our trade partners' currencies, as all countries do, to assess and define the currencies ruling our trade, and pass on this much needed exchange rate move.

Are government-owned banks being affected by the imposition of 'maximum' salaries in government-owned companies?

This decision may, but not necessarily, lead to losing experienced high-calibre staff in the public banks, mainly at the most senior levels since these are the people who are

most affected by the salary ceiling. The younger generations and the juniors won't be subject to any impact from the salary cuts, simply because they haven't yet reached that level of seniority.

We want to have a more robust banking sector, founded on a wide variety of strong institutions that are led by proficient and highly qualified managers. It is in everyone's best interest to have constructive competition between banks, since this will contribute to Egypt's economic development.

Having said that, today we see a lot of competition between the public sector and private sector banks and this is good for the banking system and for banking customers. If the public sector banks start to lose their strongest executives as a result of rules on maximum salaries, then we will have a banking sector that is less strong.

There have been many reports of the Egyptian government initiating large infrastructure projects (including building a new city outside Cairo). Do you think these will provide growth and revenue opportunities for Egyptian banks or will funding for these projects come from foreign sources, including development funds?

Those projects are initiated out of necessity, and not solely for stimulating the country's economic growth. The several mega-projects that were recently initiated should not be perceived merely as projects that open up job opportunities and create new investment channels, but rather as projects that fill needs that have been left unfulfilled for far too long. Take the New Suez Canal as an example. This project is in fact long overdue. We need to widen this strategic waterway, since it is a lifeline not just for Egypt but for the entire world. It will be the first major expansion of the Canal in almost 150 years and will allow ships to pass north and south at the same time, and will capitalise on Egypt's ability to trade by linking other ports and establishing a large-scale logistics district that will create the fastest shipping route between Europe and Asia. As President Sisi said, the expansion of the Suez Canal is "Egypt's gift to the world".

The same idea applies to the proposal for a new capital city. Again, this is not based on an ambitious desire but rather on a profound need. Cairo can no longer accommodate our extraordinary population growth or serve its needs. Over the next ten years, Cairo will become more and more unbearable, with deteriorating infrastructure and more demanding facilities and solutions. It is clear that we have to address this problem immediately and start relocating our capital.

Do you expect to see Egyptian banks expanding their overseas operations in the next few years? If you do, where do you think this expansion will take place.

I have to say that the banking sector in Egypt has a lot of opportunities for growth at home. Domestically, many areas are still under-penetrated (such as the retail market) some hold huge potential (such as the SMEs sector), while others are still in their infancy (such as mortgage lending). In my view, the idea of overseas expansion is not likely to occur in the near term, since the domestic market is far from being saturated.

Financial inclusion at home is currently a huge issue for Egyptian banks. It aims to ensure that basic banking services are available to a much broader range of customers, and also to use technology more to effectively integrate Egypt's huge grey economy into its formal one. Additionally, financial inclusion will accelerate banking penetration to under-banked citizens, which account for nearly 75% of the population. We currently have roughly 12 million bank accounts in a country with a population of 88 million, of which 52 million are eligible to open bank accounts.

In addition to financial inclusion, the list of other key goals includes spreading awareness about the role of banks in society, creating innovative products and solutions to satisfy the evolving needs of customers, extending financial services to the SMEs that are the current main driver of Egypt's economy, digitalising banks' services and benefiting from state-of-art technologies to serve clients in a timely and innovative methods.

In my opinion, we should be seizing first the plentiful opportunities of the Egyptian market and solidifying the banking sector before expanding in other territories. Egyptian banks will expand overseas in future, but they will do so on the basis of solid domestic foundations and only once the local market is well saturated.

Do you think that the Central Bank of Egypt is willing to allow foreign banks to take a greater role in the Egyptian economy, either by buying local banks or establishing branches?

The Central Bank of Egypt is allowing foreign banks to assume bigger roles in the banking sector and in the economy in general, and it has never challenged or obstructed their entry to Egypt.

In recent years, we have seen foreign banks enter Egypt. Examples include Kuwait's AlAhli Bank that will buy Piraeus Bank Egypt. Emirati and Qatari banks have also entered the market, sometimes through purchasing existing foreign-owned banks.

However, the tangible role of foreign banks in Egypt should be assessed in terms of performance and contribution to the economic development and growth. So far, the role of foreign banks was not very impressive. Foreign banks in Egypt may be numerous in terms of number, yet only about ten of them are significant players; the rest are marginal. ■

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 and was the first private sector banker to hold the position. Mr Ezz Al-Arab is also the Chairman of the Board of Trustees of CIB Foundation, a Director of MasterCard Middle East & Africa Regional Advisory Board since June 2007, a principal member of the American Chamber of Commerce in Egypt and a member of the Board of Trustees of the American University in Cairo. Mr Ezz Al-Arab has been leading CIB as Chairman and Managing Director since 2002.

HSBC in Egypt: a priority market

HSBC is one of the biggest and most international banks in the world. It has operated in Egypt since 1982 and is one of the largest multinational banks in Egypt, offering a comprehensive range of financial services.

In the following interview, Georges El-Hedery, a Director of HSBC Egypt and Head of the bank's Global Banking and Markets business in the MENA region, outlines HSBC's view on the Egyptian economy and the bank's business operations in Egypt.

ARAB BANKER: What is HSBC's view of Egypt's economic prospects?

GEORGES EL-HEDERY: Let me say first of all that Egypt is a priority market for us. Our skills and experience as one of the few truly international banks means we have much to offer the country.

The world economy is becoming ever-more connected as world trade grows and cross-border capital flows increase. Egypt has a long history of being an important trade gateway, with ships passing through the Suez Canal since its opening in 1869. This year, Egypt opened an $8 billion extension of the Suez Canal which will further integrate this important trade artery into global-goods flows. Egypt expects that the expanded waterway will generate annual revenues of $13.2 billion by 2023, up from $5.3 billion today. This will provide important support to the economy as it emerges from a number of turbulent years.

We believe that the Egyptian economy has turned the corner. Statistics show a pick-up in capital spending commitments and a rise in foreign direct investment (FDI). The tourism industry – a crucial generator of foreign currency and employment – has also continued to recover, with visitor numbers up 15% in the first quarter of this year when compared to the same period last year.

Egypt was also able to raise foreign currency debt on the international markets for the first time in June, giving it access to market funding as well as concessional funding. On the back of foreign currency inflows, reserves in mid-2015 were at their highest level since early 2012.

As a result, we expect growth to run as high as 4.5% by the end of 2016, the fastest pace of economic expansion since 2011.

Progress is being made in other areas, such as improving the business environment and increasing the country's openness to trade. Only 10% of Egyptians have a bank account, so government efforts to increase access to finance, for both individuals and small businesses, will provide further support to the economy.

For the longer term, the fundamentals look good. This is, after all, the most populous country in the Arab world, with 90 million citizens. With the right economic policies, Egypt will restore its long-term economic stability and growth.

What is HSBC's business strategy for HSBC Bank Egypt over the next five years?

In Egypt, we offer a broad range of corporate banking services to enable clients to grow their business domestically and internationally. This includes everything from trade and receivables finance to credit and lending to wholesale capital markets services. We aim to be recognised as the leading international trade and business bank by connecting clients to markets. Put simply, our purpose is to be where the growth is, connecting customers to growth opportunities. We also help Egyptians manage their day-to-day finances and save for the future in our 80 branches, or on our digital platform.

The momentum in Egypt's domestic economic activity continues to be bolstered by strong support from overseas. This is creating new trade corridors between Egypt and partners in the Gulf and further afield. As one of the world's largest and most international banks, with decades of experience in Egypt, we are very well placed to help Egyptian businesses take advantage of these new opportunities.

How far do you recruit and promote local bankers and how far do you bring in senior managers from elsewhere in the Group?

The Chief Executive of our Egyptian bank is a Frenchman, the Chairman a Saudi and, alongside many Egyptians in the senior leadership ranks, we are lucky to have Hania Sadek, who was ranked by Forbes as the 37th Most Powerful Arab Woman, as our Chief Operating Officer. We also have many talented Egyptians in roles across the world, not just in the Middle East. In this sense, HSBC offers talented people a world of opportunities. From an Egyptian perspective, it means we can bring a world of ideas to the country.

How is HSBC Bank Egypt able to compete against local banks, which are often much bigger and have more widespread branch networks?

HSBC's business model is based on an international network connecting and serving a cohesive portfolio of markets, including Egypt. Over the next decade we expect 35 markets to generate 85% of world trade growth, with a similar degree of concentration in cross-border capital flows. Our services are primarily delivered by domestic banks, typically with local deposit bases. This is our differentiating factor.

Do you expect to see fundamental changes to the structure of the Egyptian economy over the next ten years?

The Egypt Economic Development Conference held in Sharm El Sheikh in March 2015 was widely regarded as a success for Egypt. The three-day event attracted business leaders and investors from around the world and was a strong statement of Egypt's long-term intentions. It sent a strong signal that Egypt is open for business again.

There are many reasons to be optimistic. The government is backing many of the large-scale infrastructure projects and it is reassuring to see international companies involved, which translates into a significant direct investment in Egypt. A number of high-profile legal cases have recently been resolved – including the repayment of a large portion of the money owed to international oil majors and the resolution of various land disputes with real estate companies – and these should serve to allay the fears of potential investors.

Where do you see new opportunities arising in Egyptian banking and in Egyptian financial markets?

The pace of change in Egypt over the past few years has been notable. In the near-term, I expect Egypt will find ways to build on its existing strengths, including looking for ways to enhance its tourism potential and to update its aging infrastructure. This will create opportunities for Egyptian and international firms, which will lead to new project and trade finance business for banks. This will be particularly true in sectors such as energy, where Egypt needs to overcome a shortfall in production. Egypt's capital markets are beginning to reawaken and this will lead to more interest from international investors, alongside the potential for new listings. On the retail banking side, as unemployment falls more people will require bank accounts, credit cards and mortgages. ■

About HSBC Bank Egypt

HSBC Bank Egypt was established in 1982 as the Hong Kong Egyptian Bank. In 2001, it was re-branded HSBC Bank Egypt and the HSBC Group's shareholding was increased from 40% to 90%. The bank's Chief Executive Officer is Jacques-Emmanuel Blanchet and its Chairman is Mohammad Al-Tuwaijri. The bank reported profits before tax of $335 million in 2014.

Georges El-Hedery has been based in Dubai since 2010, first as head of Global Markets in the MENA region and from 2013 as head of Global Banking and Markets. Before moving to Dubai he spent five years with HSBC in London. Before that he worked for Goldman Sachs and BNP Paribas.

With strong foundations, Moroccan banks look to Africa

Perched on the north western tip of Africa, Morocco has often had an uneasy relationship with the rest of the Arab world. Viewed from the Gulf, Morocco is often barely recognised as being part of the Middle East. Quite apart from issues of proximity – from Dubai you can fly across Asia to Hong Kong in the same time it takes to fly from Dubai to Casablanca – Morocco has deep cultural and political traditions that are quite different from those seen in the Arab heartlands of the Levant, Mesopotamia and Arabia. And of course, Morocco is francophone.

Yet Morocco and its banking system should be of interest to Arab bankers, wherever they are based. The banking system is well regulated, reasonably large, profitable and expanding. The first Islamic banks are about to open their doors, and the large Moroccan banks are expanding rapidly in Africa.

Arab Banker's editor, Andrew Cunningham, offers a profile of the Moroccan banking system and the key issues that are shaping it.

Morocco has a good story to tell about its banking system. Capitalisation is high, non-performing loans are low, and returns on equity and on assets are stable and robust.

Bank Al Maghrib is recognised as one of the best bank regulators in the Middle East, and its long-standing governor, Abdellatif Jouahri, is widely respected in the region and beyond. Legislation passed in late 2014 further strengthened Bank Al Maghrib's supervisory authority.

GDP growth has been running at 3–4% and the IMF is predicting that this will rise to 5% in the years ahead. Morocco's current account and the government's budget are stable and sustainable. Morocco has an investment grade rating from Fitch and Standard & Poors, while Moody's puts it one notch below investment grade.

Morocco's economy and its banking system are medium-sized when compared against others in the Middle East. Gross domestic product was around $107 billion in 2014, about half the size of Algeria's and double that of Tunisia. Banking system assets were $126 bn, compared to $136 bn in Algeria and $44 bn in Tunisia.

Morocco's banks dominate financial intermediation. Finance companies, which specialise in consumer credit, are about one-tenth of the size of the banking system, and they have not been expanding in recent years. The offshore banking centre is even smaller. The micro-finance sector was brought under the supervision of Bank Al Maghrib in 2007 after excessive growth led to asset quality problems. Now based on surer foundations, it remains small.

Three banks dominate the Moroccan banking scene: Attijariwafa Bank, Banque Centrale Populaire and BMCE. These three account for about two-thirds of loans and deposits in the system. The biggest eight banks account for the vast majority of banking activity in Morocco.

With equity of $4.5 billion, the biggest bank, Attijariwafa, is about the same size of Mashreqbank or Arab Banking Corporation.

The big three banks are controlled by Moroccan interests: Attijariwafa is close to the Royal Court, Banque Centrale Populaire is a locally-owned co-operative network (similar to France's Banque Populaire network), and BMCE is associated with the Benjelloun family.

The three big French banks are also present: BNP Paribas in BMCI, Société Générale in Société Générale Maroc and Crédit Agricole in Crédit du Maroc. (Crédit Agricole du Maroc is a Moroccan agricultural bank, not a French subsidiary.)

In recent years there has been a lot of talk about over-capacity in the banking system. Eight banks of significant size is a large number for an economy such as Morocco's. (Saudi Arabia has 12 banks for an economy that is seven times larger.) With the large banks controlled by particular groups, there is little serious talk of mergers.

Banking penetration is low – about 40% of Moroccan adults have bank accounts – but bringing un-banked citizens into the regulated financial system is unlikely to make much impression on banks' growth figures and profitability, however important such financial inclusion may be in social terms.

Bank Al Maghrib issues first Islamic banking license

One exciting new area for the banks is Islamic finance.

Morocco was slow to join the Islamic banking movement. Even today, Islamic banking is officially known as 'participative finance'.

It was not until 2007 that Bank Al Maghrib passed regulations allowing banks to offer a small range of Shari'a-compliant products: mudarabah, ijarah and musharaka. In 2010, it began licensing Shari'a-compliant finance companies (offering, for example, Shari'a-compliant car finance). Attijariwafa Bank was one of the first to take advantage, creating its own Shari'a-compliant finance subsidiary.

But it was in 2014 that Islamic finance really started moving. Bank Al Maghrib began discussing the creation of a Central Shari'a Board to oversee Shari'a business. In November, a law was passed to allow the creation of Islamic banks and the issuance of sukuk. In February 2015, a Royal Decree created a "Shari'ah Committee for Participative Finance".

In March, Governor Jouahri said that the bank had received 18 requests for Islamic banking licenses, 15 from foreign groups and three from local groups. Three months later, Al Baraka Group (one of the biggest Islamic banking networks in the world, and owned by Saudi investors) announced that it had created a 50–50 joint venture with BMCE Bank and had received a license to operate. The new bank is expected to begin operations in early 2016, and will open 20 branches within five years.

It is hard to predict how the licensing of Islamic banks will

Moroccan Banks: aggregate financial profile

Billion dirhams unless otherwise stated	End 2014	End 2013	End 2012	End 2011	End 2010
Loans to the economy	763	747	719	696	633
Securities issued by the government	116	116	94	90	69
Assets	1,138	1,099	1,062	1047	959
Assets ($ billion)*	126	133	126	122	113
Customers deposits (excludes from government)	833	781	758	793	742
Equity	54	53	50	42	36
Ratios (%)					
Loans % assets	67.0	68.0	67.7	66.5	66.0
Loans % deposits	86.4	95.6	94.9	87.8	85.3
Growth in loans	2.1	3.9	3.3	10.0	5.9
Equity % assets	4.7	4.8	4.7	4.0	3.8

* Figures calculated using exchange rate for the end of the respective year.

Source for data: Bank Al-Maghrib Quarterly Bulletins

affect the banking system as a whole. If the system is already overcrowded, then won't the licensing of more banks depress earnings and encourage banks to increase their risk profiles in search of higher yields? Much depends on whether the Islamic banks will conduct new business (for example, extending financing facilities to those who have hitherto eschewed interest-based commercial loans) or simply capture existing business from the conventional banks.

More broadly, the licensing of Islamic banks is expected to attract Gulf capital into Morocco's finance sector, and for a country that relies heavily on foreign direct investment, that is important. There is already significant Gulf investment in Morocco, though it is concentrated in real estate and tourism projects.

Significant investments in Africa

The other exciting area for the larger Moroccan banks is Sub-Saharan Africa. Over the last ten years the three big banks have made significant investments in the region. Over the same period, the banks have made little effort to expand their operations in Western Europe or in the Middle East beyond North Africa.

The banks' southward expansion finds favour politically, in view of the Moroccan government's interests in West Africa. In 2010, the government created the Casablanca Finance Centre specifically to attract financial institutions looking to expand into Africa.

Attijariwafa Bank began its expansion programme in 2005 with the acquisition of Banque du Sud, a small Tunisian bank, but in 2008 it turned its attention to Sub-Saharan Africa with the purchase of Crédit Agricole's retail banking network in five west African countries.

BMCE began building a stake in Bank of Africa, a Mali-based multi-national bank, and in 2012 it took control of the bank. Groupe Banque Populaire began its journey later, taking a stake in the Banque Atlantique, a multi-national bank based in Côte d'Ivoire, in 2012. Since then, it has taken control of Banque Atlantique.

The IMF has estimated that at the end of 2013 Sub-Saharan assets accounted for 20% of Attijariwafa's consolidated assets, 24% of BMCE's consolidated assets, and 9% of Groupe Banque Populaire's.

All three banks cited significant growth in their African operations when announcing their financial results for 2014. In his letter to shareholders, the head of Attijariwafa, Mohammed El Kettani, said that Africa was at the heart of the bank's strategic networks.

Bank Al Maghrib is known to be very focussed on the safety of Moroccan banks' African operations. An 'African Committee' has been created as a forum in which the three banks meet with Bank Al Maghrib to share experiences and information.

The expansion into Africa is an indication of where Moroccan banks' priorities lie – within their own Francophone environment and, to some extent further south, and not in the wider Middle East. But for the banks in the wider Middle East, the strategy of Moroccan banks is an opportunity.

The big Moroccan banks have knowledge, expertise and experience of operating in African countries that are difficult but, when handled correctly, can offer big profits. Very few Middle Eastern banks understand Africa.

Perched on the north west tip of Africa, Moroccan banks have a lot to offer the rest of the Middle East. ■

Large Moroccan banks: financial profile, end-2014 (millions of Moroccan Dirhams, unless stated)

	Equity	Assets	Loans	Customers' deposits	Assets expressed in US$mn
Attijariwafa Bank	40,402	401,884	255,056	257,881	44,378
Banque Centrale Populaire	27,445	309,630	206,082	229,821	34,191
BMCE	20,803	247,243	155,153	161,269	27,302
BMCI	8,074	66,275	51,209	43,291	7,318
Société Générale Maroc	7,560	76,079	55,876	55,125	8,401
Crédit du Maroc	5,930	49,061	35,042	36,976	5,418
Crédit Agricole du Maroc	5,531	84,479	61,558	61,180	9,770
Crédit Immobilier et Hotelier (CIH)	4,303	43,139	32,606	22,429	4,764

Source for data: Bank annual reports

Oil market down-cycle presents OPEC with new challenges: an interview with Ali Aissaoui

After more than three years at $100-plus per barrel, oil prices fell by more than 50% in the second half of 2014, and by mid-2015 they had managed only a partial recovery. Many attributed the collapse in prices to increased production of shale oil but, as Ali Aissaoui explains in the following interview with *Arab Banker*, the causes are more complex and involve many factors – including OPEC producers' current fiscal positions. Looking forward, the extent to which Iran will be able to increase oil production if sanctions are lifted will also be a crucial factor determining oil prices in the years ahead.

Ali Aissaoui is Senior Energy Policy Consultant at the Arabian Petroleum Investments Corporation and a Research Associate at the Oxford Institute for Energy Studies. He writes extensively on global energy issues and on the political economy of the major oil-producing countries of the Middle East and North Africa.

***ARAB BANKER*: Is it still possible to speak about OPEC as a market force when so few of its members have the spare production capacity that is required to influence prices?**

ALI AISSAOUI: What you're actually asking is whether Saudi Arabia, which holds the bulk of OPEC and the world's spare production capacity, is the only relevant oil market force at play. That might be true if Saudi Arabia still acted as a sole swing producer but it no longer does. The responsibility of that role has evolved over the years.

During the first half of the 1980s, in the context of major structural changes that dramatically shrank the demand for OPEC oil, Saudi Arabia was almost alone in shouldering the burden of stabilizing oil prices – to the detriment of its production level. Consequently, Saudi Arabia engineered a price war to regain market share.

Since then, the burden of output modulation has fallen on an increasing number of OPEC member countries. But their contribution is asymmetric. In an up-trend market, when almost all countries are producing at maximum capacity, Saudi Arabia is the ultimate country that can use its spare capacity to increase output to moderate prices. Conversely, in a down-trend market, all OPEC members – sometimes joined by willing non-OPEC helpers – act in concert to lower output to restore prices. Today we are witnessing another structural down-trend caused by the boom in the supply of unconventional oil (which mainly consists of shale oil).

This has prompted OPEC, led by Saudi Arabia, to adopt a new market share policy, reminiscent of that which it assumed in December 1985. While, understandably, Saudi Arabia does not want to retake the role of sole swing producer, it has come to the conclusion that even a collective OPEC production adjustment to support prices would only benefit those high-cost producers, which are neither willing nor able to cooperate in such an endeavor.

OPEC's decision to abandon the market to its own devices can be interpreted as an indication that OPEC has lost its status as the leading market force. Whether this loss is permanent or temporary remains to be seen.

To what extent do you think the decline in oil prices that began last year is a reaction to the threat of shale oil and gas, rather than factors of supply and demand within the traditional crude oil markets?

Whatever the nature of the threat of shale oil and gas, ultimately it is market forces that set the price. Throughout most of the 2000s (except the period of the global financial crisis), prices trended upward strongly as a result of stagnant oil supply and rapidly rising demand from China and other emerging economies. The higher oil prices of that period, together with remarkable progress in technology and in policy support, acted as a strong incentive for the industry to expand; and the industry responded by stepping up exploration and the development of high-cost frontier resources.

The resulting growth momentum in North American unconventional oil production – both US shale oil and, to a lesser extent, Canadian oil sands – led to a supply shock that, when combined with slowing demand, sent prices falling in June 2014. The fall was later exacerbated by OPEC's November decision to focus on market share. However, since reaching a low of some $45 per barrel in January 2015, Brent oil prices have been trending higher, and by mid 2015 were in a range above $60, with a pronounced volatility. The current volatility is mainly due to uncertain demand and storage outlooks, as well as to the still unbroken growth of US shale oil.

What is your outlook for oil prices over the next five years?

This is a straightforward, but very difficult, question to answer. Oil prices are notoriously unpredictable since they have to adjust to frequent changes in expectations about

many market parameters. However, we may assume that prices are governed by inventories in the short term and marginal costs in the longer term. This provides a simple framework that can help evaluate the likely price movements and direction. Taking account of the persistently high global supply and continued stock builds we should not expect a significant improvement in prices above the average seen in the first half of 2015, which was a little below $ 60 per barrel for Brent crude. It is worth noting that the consensus price forecast of industry analysts for 2015 is still around this level.

In the medium term, and assuming that OPEC countries continue to leave the market free, US shale oil is likely to act as a marginal source of supply, potentially capping near-term crude oil prices. The level of such a cap depends very much on the cost of the last barrel needed to balance the market. Based on current estimates of global oil demand, that cost/price is likely to be between $70 and $80 per barrel. This estimate excludes any new geopolitical risks, which could trigger sharp price swings and more excess volatility.

What is the current period of low oil prices telling us about the structure and resiliency of the economies of the GCC states and of other oil producers in the Middle East?

For all their differences, all oil-exporting countries are extremely vulnerable to the instability and volatility of global oil markets. Yet almost all of them seem to be defying the current oil price collapse by pursuing, to varying degrees, expansionary fiscal policies.

This is particularly the case of the OPEC-GCC countries which managed to build substantial fiscal buffers when oil prices were comfortably above $100 per barrel. A useful measure of their capacity to build such buffers is the difference between the oil market price and their fiscal break-even oil price. The latter is the price that generates the net revenues needed to balance projected expenditures. Current fiscal break-even prices in these countries range from a little more than $60 per barrel for Qatar to about $90 per barrel for Saudi Arabia. Fiscal break-even prices are higher in the troubled economies of the rest of the OPEC Middle East: about $110 per barrel for Iraq and $135 per barrel for Iran.

Before the oil price collapse, the OPEC-GCC countries managed to post substantial fiscal surpluses, part of which have been placed in fiscal stabilisation funds, sovereign wealth funds or, in the particular case of Saudi Arabia, entrusted to the central bank, which acts as an asset manager for the government. Accordingly, these countries can now withstand long periods of low oil prices, some longer than others.

Conversely, high-fiscal-cost counties – those at the high end of the fiscal break-even price range – have small or no fiscal buffers. They are, therefore, more likely to reduce expenditure. They can also increase production, assuming they have the potential to do so and that it can be done without depressing market prices further. Given current circumstances, Iran has few options but to reduce subsidies and increase taxes; not to mention incurring more public debt even if sanctions are lifted.

Is the existence of large financial reserves, particularly in the OPEC-GCC countries, changing the way in which they approach oil pricing policy? What would be the implication for cooperation among OPEC member countries?

OPEC's current market share position is clearly detrimental to oil prices. Because of their smaller fiscal buffers, the non-GCC OPEC ministers have on the whole tried not to deviate from the traditional price stabilisation policy. Here again, the concept of fiscal break-even price is my clue for answering your question. Indeed it can reveal the difficulty of getting OPEC members to act cohesively. It is worth noting that Saudi Arabia's fiscal break-even price generally lies near that of the output-weighted OPEC's average, which is still around $90 per barrel. However, this average cannot constitute a common predictor of price preferences. It rather throws doubts on the ability of OPEC to act as a group to weigh on the market.

Countries whose fiscal costs are higher than the OPEC average will continue trying to persuade the others to lower the current production ceiling and adjust individual outputs. If they succeed in their aims, we could expect to see prices increase and petroleum fiscal revenues enhanced. However, it is difficult to see how such a downward adjustment in output could be made, given that OPEC might soon be faced with the need to accommodate incremental production from Iraq and post-sanctions Iran, among others.

You've referred twice to post-sanctions Iran. What is your view on Iran's ability to increase its oil and gas production in the short-term, if sanctions are lifted?

Iran has been hard hit by the tougher sanctions imposed by the US and EU against its nuclear program since 2012. As the sanctions have targeted the energy and financial sectors, oil exports – and production – have fallen by about one million barrels per day compared to 2011. Therefore we should expect Iran's output to increase as soon as a final agreement is reached on its nuclear program, even if sanctions are only partially lifted.

If we interpret correctly recent public statements by petroleum Minister Bijan Namdar Zangeneh, who is probably basing his predictions on a full lifting of sanctions, Iran could add half a million barrels per day within a month of signing an agreement and recover the lost one million barrels per day within six months.

However, this won't be sustainable without significant investment in rehabilitation and capacity improvements. Because sanctions have also affected large-scale energy investments, production cannot fully resume without such investments being made.

In any case, one should factor in the uncertainty about the process required to achieve an implementable agreement, which stems from the possibility that ratification by the UN Security Council might be put on hold until a US congressional review is completed.

Do you think that OPEC could ever regain the market power that it had in the 1970s and 1980s, when its biannual meetings were considered major international events, covered by journalists from all over the world?

It is very difficult to predict whether OPEC could regain its market power. However, OPEC will continue to attract global media and industry attention, particularly at critical junctures. At the moment, part of the interest in OPEC arises from the high stakes and uncertainty that surround the market outlook.

But, whatever the circumstances, we should not forget that OPEC contributes 41% of global liquid petroleum output while its aggregate proven oil reserves represent 72% of the world's total. OPEC is just too big to be discounted by the market and other players in the industry. Since the mid-1980s, when its oligopolistic price regime came to an end, OPEC has been able to adapt to successive market cycles. I believe that the current cycle will not prevent it from continuing to play a pivotal role.

However, that role could be undermined if policymakers fail to address new challenges. In the current circumstances, Saudi Arabia's renunciation of a cooperative production cut and the market share policy that it has instead been pressing for underscore the need to agree on new rules of leadership and collective action in order to maintain relevance and coherence. ■

Ali Aissaoui

Ali Aissaoui is a Senior Energy Policy Consultant at the Arab Petroleum Investments Corporation (APICORP) where he has held the position of Head of Economics & Research. He is also a Research Associate at the Oxford Institute for Energy Studies where he previously was a senior research fellow. Prior to that, he served as energy policy advisor to the Algerian government and Sonatrach as well as Algeria's representative in the OPEC Board of Governors.

Mr Aissaoui has mainly devoted himself to research on topics related to energy markets and prices, energy investment and financing, and the political economy of the major petroleum-producing countries. In addition to informing high-level policy-making, he regularly shares his research findings through publication and puts them to good use as a speaker, discussant and peer reviewer.

Mr Aissaoui is an active member in several professional associations, including the Oxford Energy Policy Club, the Paris Energy Club and the Arab Energy Club. He is also member of the International Association for Energy Economics. His recent publications include *Saudi Arabia: How Long Will Its Buffers Last If Oil Prices Stay Low?*, Op-Ed in MEES dated 27 February 2015; and *OPEC in the Future: Will It Continue to Play a Pivotal Role?*, Op-Ed in MEES dated 3 October 2014.

The challenges of compliance and the fight against financial crime: Middle East banks in the spotlight

The steady flow of new banking regulations, constantly updated sanctions lists, and ever more stringent due diligence requirements have made governance, risk and compliance – often referred to simply as 'GRC' – a front-line issue for banks. And as regulators and lawmakers show that they are intent on enforcing new rules and that they will exact heavy penalties for failures to comply, banks all over the world are struggling to keep up. Based in Beirut, Paul Cochrane is a writer and consultant who follows the latest developments in the global fight against financial crime in the Middle East and Central Asia. In the following article, he analyses how Middle East banks, and their regulators, are responding to the new, harsher 'GRC' environment.

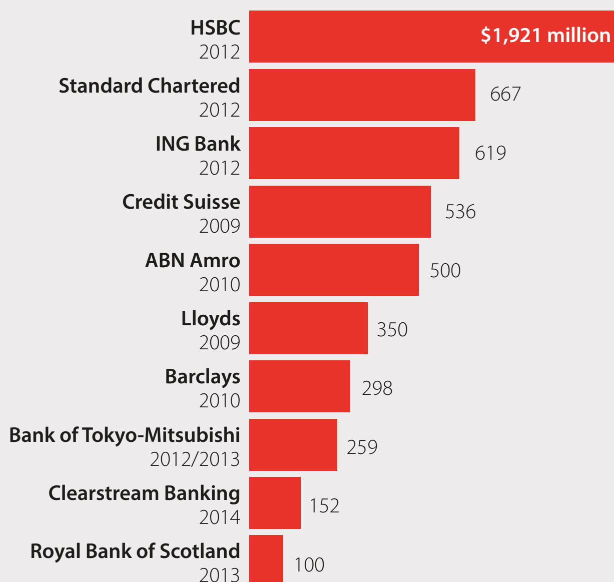
A leading Arab banker that I spoke to recently said that he was spending about 20% of his time on compliance issues, and that upon visiting a major correspondent bank in Europe he had been questioned for two hours about his bank's compliance regime. Questions he was asked included:

- Did his bank have the correct Know Your Customer (KYC) due diligence procedures in place?
- Did his bank understand what was meant by 'enhanced' due diligence, and what was the bank doing about it?
- Was the bank abiding by international sanctions on Syria and Iran? Was it screening for Politically Exposed Persons (PEPs)?
- Did the bank have a Global Intermediary Identification Number (GIIN) issued by the US Internal Revenue Services (IRS) so that it could be compliant with the Foreign Account Tax Compliance Act (FATCA)?
- Was the bank limiting its risks by not on-boarding certain clients and businesses?
- What risk-based approaches was the bank taking to compliance?

This Arab banker's experience is not unusual. In fact the questions he was asked are just the tip of the iceberg. Bank compliance departments have to address, on a daily basis, a huge number of new regulatory initiatives and they have to keep up to date with new terminology and reporting requirements.

Penalised

Fines and forfeitures paid in US sanctions-violations and money-laundering cases, in millions.



Source: Department of Justice, OFAC filings / The Wall Street Journal

And if they don't comply, they risk losing access to key markets or incurring large fines from regulators. But getting the balance right – ensuring the bank fully complies with all requirements but ensuring that business lines and customer relationships can continue – is very difficult.

Regulations, regulations and more regulations

As a result of the huge number of regulations and sanctions being issued by the US Treasury, the European Union, the United Nations and others, compliance officers are moving from the back-rooms to the board rooms.

But 'compliance' has not assumed such an important role solely as a result of external requirements. In an unstable and rapidly changing world, it is prudent to protect oneself against financial crime, cybercrime and the possibility of being a conduit for terrorist financing. It is about risk aversion.

Middle Eastern institutions have been quite pro-active in upgrading their compliance functions, aware of the difficult neighbourhood in which they work and the attention that is focused on the Middle East when financial crime is discussed.

MENAFATF, the regional body of the OECD's Financial Action Task Force (FATF), has been carrying out mutual evaluation reports of Middle Eastern countries, and providing guidance to them on how to bring their laws and regulations up to date.

In practice, countries in the region have a mixed record when it comes to enacting and enforcing laws and regulations to prevent financial crime, and the picture varies greatly from country to country. However, no Middle Eastern bank has suffered the large fines that have been imposed on international banks in recent years: the chart above lists some of the largest such fines on banks. Nor has there been a repeat of the Lebanese Canadian Bank incident in early 2011, when the bank was accused by the US Treasury of money laundering and subsequently closed its doors.

Yet while MENA countries have been making progress in compliance, the region still ranks low globally in adoption and enforcement of anti-money laundering (AML) standards and those that apply to countering the financing of terrorism (CFT). Several Middle Eastern countries were ranked near the bottom of the Basel AML Index in 2014. Iraq was sixth from the bottom, ranked 157th out of 162, Yemen ranked 146th and Lebanon 129th.

Basel AML Index 2014: Highest-risk countries, ranked from strongest to weakest

Country	Rank
Oman	29
Qatar	37
Jordan	41
Tunisia	44
Egypt	52
Bahrain	69
Morocco	71
Saudi Arabia	76
Syria	80
Turkey	94
Kuwait	96
UAE	103
Algeria	118
Lebanon	129
Yemen	146
Iraq	157
Iran	162

The Basel AML Index is an annual ranking that assesses country risk regarding money laundering and terrorist financing. It focuses on anti-money laundering and counter terrrorist financing (AML/CFT) frameworks and other related factors such as financial / public transparency and judicial strength. It is published by the Basel Institute on Governance.

At 162, Iran was the lowest ranking country in 2014. Finland ranked highest.

In this table the ranking has been reversed to place strong countries at the top and weak countries at the bottom.

In December, 2014, FATF identified Algeria, Iraq, Kuwait, Syria and Yemen as jurisidctions with "strategic AML/CFT deficiencies".

Yet the MENA region is not alone. FATF recently commented on the low levels of implementation of AML/CFT regulations worldwide. And FATF has now moved beyond surveying simply whether or not countries have the right regulations in place: it has begun conducting Evaluation Reports that assess implementation and enforcement of those regulations. The first of these new reports, on Spain and Norway, concluded that both countries had deficiencies in implementation and enforcement.

New laws

Despite the challenges, the MENA region has been moving forward in recent years, both in the area of enforcement, and in the passing of new laws. For example:

- In March 2014, the Qatar Financial Centre Regulatory Authority (QFCRA) reprimanded the Qatari unit of the Royal Bank of Scotland (RBS) over the training and competency of its staff.
- In the same month, the UAE's Federal National Council passed an anti-fraud law to replace a 1979 law.
- In 2013, the Lebanese central bank introduced regulations requiring all banks to have a compliance department and compliance officers.

- Also in 2013, Kuwait passed Law No. 106 on the Combating of Money Laundering and Financing of Terrorism, replacing a law passed in 2002.

In response to the rise of the Islamic State in Syria and Iraq during the last two years, and the rising risks of terrorist financing and financial crime that have resulted, Bahrain hosted an international summit (now known as the 'Manama meeting') in November 2014.

With cybercrime becoming a major issue, MENA countries have responded with relevant legislation. Qatar enacted a cybercrime law in 2014, and others have been updating out-of-date legislation. (For example, the UAE updated its cyber crime legislation in 2012.)

However certain countries still have no relevant legislation: Kuwait, Morocco, Egypt, Libya, Algeria and Iraq are examples, while Jordan has only a temporary law.

Iran: keep abreast of regulatory change

Iran is under the most severe international sanctions in modern history – but change may be coming. Multilateral talks on Iran's nuclear energy programme have reached a successful conclusion, and there is a real possibility that the sanctions regime will be significantly reduced, and eventually lifted, if a comprehensive deal on the future of the nuclear energy programme can be agreed and enforced.

If that happens, there are big business and financial possibilities in what is the region's largest banking market (by assets). Already, firms have been preparing to conduct business in a more open Iran.

Yet, while sanctions were eased in five areas in 2014, the overarching sanctions remain. The US Comprehensive Iran Sanctions, Accountability, and Divestment Act (CISADA) of July 2010 is still in place, and the US-imposed additional sanctions on more than 30 organizations and individuals with ties to Iran in August 2014.

Such developments have sent mixed signals to the markets: on one hand, a political breakthrough is possible and sanctions will ease, but on the other hand, more due diligence will be required when dealing with Iran. Financial institutions will have to continue to act prudently and not act before sanctions have actually been lifted. It should be noted that the Basel Institute on Governance's Anti-Money Laundering (AML) Index 2014, identified Iran as the highest risk country in money laundering and terrorism financing out of 162 countries.

Challenges ahead

Banks are dedicating increased budgets to compliance, software and information security. Gartner, a US-based IT research and advisory company, estimates that MENA-based banks spent $1 billion in 2014 on information security, up 8% on 2013.

But the complexities of compliance and regulatory requirements cannot be handled by software alone (see the article by Oisín Fouere on pages 42–43). Human resources are an essential part of any effective regime. The results of the Thomson Reuters-Deloitte *Financial Crime Survey in the MENA 2014* were highly revealing about the challenges compliance officers face, especially in regard to the gap between implementation and practice.

Eighty per cent of those who responded to the survey were involved in compliance policy, but almost 50% of respondents highlighted a lack of confidence in the effectiveness of existing financial crime programmes when compared with domestic and international regulatory requirements. Similarly, 57% questioned the ability of their compliance policy to prevent illicit activity. Two-thirds of respondents said there was an absence of cyber-security policy.

On the positive side, 85% of respondents have seen anti-crime and compliance activities increase in the last two years, with 60% indicating that they have devoted additional personnel to fighting financial crime. Another strong point was that over half the respondents were aware of dynamic regulatory changes, which is especially significant given the UN resolutions concerning the Islamic State, as well as on Syria, Iraq and Yemen.

Looking ahead, compliance is only likely to get more onerous as well as costly. Around 75% of the survey's respondents expected compliance costs to increase in the short-term. ■

FATCA: one year on

In July 2014, the United States implemented the Foreign Account Tax Compliance Act (FATCA), with the aim of bringing back to its shores more tax dollars from its overseas citizens. It is a wide-reaching, extra-territorial law requiring foreign financial institutions (FFIs) to report on US clients, either directly to the Internal Revenue Services (IRS) or through a country's central bank, depending on the agreement that is signed between a country's financial authorities and the US authorities. If US clients do not cooperate, banks will have to decide whether to close an account or impose a 30% withholding tax.

Although the Act was passed in 2010, it took time for jurisdictions to reach agreement with the US authorities and for FFIs to fully understand the requirements. Indeed, the regulatory burden and complexity of filing led the IRS to designate the first year as a 'transition period' before it will start getting tough with banks, and countries, that are not complying.

As with many new laws, there have been some initial problems and some reforms are expected. But since July, it has been evident that implementing FATCA has a significant regulatory burden, while certain banks – including those in the MENA region – have decided to lighten their paperwork load by not on-boarding American clients.

In the UK for instance, 50% of banks are not accepting new American clients. The implementation of FATCA is being closely watched, as if it as successful as hoped, it will enable the roll out of the Multilateral Competent Authority Agreement on financial information tax sharing, launched by the OECD and the G20 in 2014. This new measure is already being termed 'Son of FATCA' or 'GATCA' – the Global Account Tax Compliance Act.

Paul Cochrane

Paul Cochrane is an independent journalist based in Beirut, where he has lived since 2002. He writes about the Middle East and Central Asia for specialised publications, business magazines and newspapers. His work has been featured in over 70 publications, including Reuters, *Money Laundering Bulletin, Accountancy Futures, Commercial Crime International, Petroleum Review* and *Jane's*.

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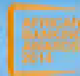

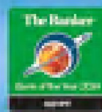

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A BANK TO TRUST

Guarding against cyberattacks: using intelligence as well as technology

Cyberattacks on banks are increasingly sophisticated in execution and international in scope. And all banks are at risk. Some in the GCC have already been attacked, and all remain prime targets for cybercriminals.

Oisín Fouere has previously advised governments in the Middle East and currently serves as Managing Director of the Cyber Security Practice for K2 Intelligence. In the following article he describes how cybercriminals are attacking banks, and the steps that banks can take to defend themselves.

There have been a number of high-profile breaches of Gulf banks' IT systems in recent years. Although awareness of the threat is rising, our research shows that many banks in the region remain vulnerable due to a lack of access to suitably qualified and educated talent and the poor quality of their governance controls.

In December 2012 and February 2013, National Bank of Ras al-Khaimah in the United Arab Emirates, and Bank Muscat in Oman lost $45 million after cyber criminals hacked into third-party databases storing pre-paid debit card information.

Such attacks generally do not happen over a short period of time and are often not the work of lone operators. The groups carrying out these attacks operate like legitimate businesses. Their economic models guide their attack strategy: criminal cyber-groups try to keep their operating costs low and they look for high profit margins on the business they conduct.

We can detect a clear attack 'lifecycle'. It begins with a reconnaissance, which is repeated once attackers have accessed the target's networks to further identify the key systems they wish to attack. At that point, the attackers

either alter the system to facilitate entrance in the future, or steal data that the bank had thought was secure.

Banks often identify a security breach only after customers have reported frauds. If they are to anticipate attacks and guard against them, banks need to be able to monitor and understand the nature of the attacker's networks.

But banks are often too reliant on technology-driven safeguards. Such safeguards are important but they are not sufficient. Banks also need to invest in intelligence-driven cyber security to supplement their technical controls and allow for early detection of potential or ongoing threats.

The limitations of technology in preventing cyber-attacks on banks are clear and there are numerous examples of financial institutions being compromised because they relied on technology alone.

In the examples of the breaches in the UAE and Oman, the criminal gang was able to hack into a third-party database of prepaid debit cards and override withdrawal limits. For Bank Muscat, over the course of one ten-hour period, the gang and their accomplices around the world were able to withdraw $40mn through about 36,000 transactions at cash machines in 24 countries.

> "Over the course of one ten-hour period, the gang and their accomplices around the world were able to withdraw $40m through about 36,000 transactions at cash machines in 24 countries"

Banks that are using technological solutions to protect themselves against cyberattacks should be aware of their vulnerabilities. Anti-virus intrusion systems look for signatures of known activity and previous attack methods, so when a new attack has been designed it often goes undetected. By gathering intelligence to keep abreast of new malware developments and trends, banks are more likely to identify an attack when it happens.

Attacker groups operate in the 'deep web' or 'dark net' – areas of the internet that cannot be accessed by a normal browser. Attackers talk in closed groups or encrypted chat rooms where they communicate with those funding or directing the attack.

In the deep web, attackers also outsource tasks that they are not able to perform themselves, and this outsourcing process can provide vital information.

We recommend monitoring these communications in order to anticipate and prevent attacks. With information gleaned from such monitoring, clients can better predict whether an attack is likely to occur, and this in turn enables them to strengthen controls in particular systems, or temporarily suspend a system until it has been strengthened.

But intelligence should not be seen as an alternative to technology: the two must be used in parallel.

For example, measures can be taken to identify the creation of a custom Trojan (a malicious programme) that could be a major threat to banks. Signatures of this Trojan can then be created for clients, and these signatures could enable them to recognise the new threat and prepare for it.

Although these measures would not tell the bank if, or when, an attack could take place, the bank would have the right controls and response procedures in place, should the attack occur. Security measures such as these can give the bank vital time in which to prevent or minimise damage.

Beyond these more traditional tactics found in cyber attacks, some unconventional but equally threatening methods have emerged.

Particularly common these days is 'spear-phishing': the sending of fake emails purporting to be sent from within the company or another legitimate source. Often these emails deceive staff and lead to the leaking of sensitive data, such as passwords or account numbers. This type of attack can be facilitated unknowingly by staff and does not require hackers to breach complex perimeter security systems.

Tactics such as 'spear-phishing' can be a threat to banks boasting technically sophisticated security. In response, banks need to educate both employees and customers about these threats. By providing appropriate training for all staff – and regularly updating it – malicious security breaches facilitated by email traffic can easily be avoided. Employees can become better informed and more vigilant about providing secure information.

An evaluation of a bank's security practices in all areas of its operations can protect sensitive and secure information. Banks should conduct simulated intrusion tests every six months in order to maintain accurate benchmarks of their perimeter security system's abilities.

By continuously educating employees about how attacks could occur, banks can significantly reduce the danger that those employees will become the unwitting channels through which cyber attacks are mounted. Banks should also have a security operations centre or service that can proactively monitor possible threats and receive information about potential attacks through an up-to-date cyber intelligence feed.

Only by combining technology and intelligence, and engaging its staff, can a bank ensure that its sensitive information will be protected from criminals. ■

Oisín Fouere

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Understanding the details of financial crime: the new MENAFATF *Typologies Report*

Since its creation more than ten years ago, MENAFATF has grown in stature and sophistication to become the leading voice in the fight against financial crime in the Middle East.

One of MENAFATF's most successful initiatives has been the publication of its biennial *Typologies Report*, detailing case studies and patterns of crime that have been detected by Financial Investigation Units throughout the Middle East. *Arab Banker*'s editor, Andrew Cunningham, explains the importance of the *Typologies Report* and summarises some of the case studies that it presents.

All banks in the Middle East agree on the importance of fighting financial crime. It is not just the financial penalties imposed by regulators, or the financial cost of the crimes themselves, or the reputational risks that have pushed the issue of financial crime to the top of senior managements' agendas. Major international banks are cutting correspondent banking relationships with institutions that are perceived to have insufficient controls.

SUMMARIES OF SOME OF THE EXAMPLES OF THE CASE STUDIES IN THE MENAFATF REPORT

Corruption that facilitates money laundering/terrorist financing

The suspect deposited three cheques for LD 4 million into his bank account, but he had never made deposits of this kind before and there had been no account movement in the previous two years. The branch manager at the bank referred the case to the local Financial Investigation Unit (FIU) which recognised that the source of the funds paid into the account had been identified as a suspect ('W') in a previous transaction. Suspicious elements in this transaction included: over-invoicing, use of shell-companies, 'structuring' of cash deposits, and the fact that W was a suspect in a previous transaction.

Laundering the proceeds of corruption

A bank regulator became suspicious while conducting an inspection of a bank under its control and, specifically, while studying the accounts of one of the bank's customers. The customer held several accounts and most of the movements through the accounts comprised large cash deposits that were inconsistent with the nature of his business. Furthermore, the customer did not use banking products other than cash deposits and transfers. The customer transferred his salary into the accounts but the accounts showed no movements reflecting personal expenses. Areas of suspicion included: holding several accounts in one name, depositing large amounts of cash that were inconsistent with the nature of the business, and focussing on cash deposits without the use of any other banking instruments.

Use of offshore banks, international commercial companies and offshore trusts

An FIU received a suspicious transaction report about Company A that was receiving large amounts of money by transfer from Country B, and then promptly transferring them to several other countries, some of which were classed as tax havens. The FIU discovered that the transfers from Country B were being made monthly by a public company and that the recipients in the tax havens were shell companies. It was noticed that one particular company in one of the tax havens ('C') received the majority of the money. The FIU discovered that Company A was receiving the proceeds of bribes arising from a contract under which the public company in Country B would supply military equipment to a government authority in Country C. It was further discovered that the company in C that received most of the funds was owned by the brother of the person who had concluded the contract with the arms supplier in Country B.

Trade Based Money Laundering (TBML)

A customer arranged a letter of credit for €2.4 million from his bank to finance the import of machines from abroad. He then submitted shipment documents to the bank in order to complete the transfer of funds. The bank discovered that the merchandise had not arrived – the customer claimed that the merchandise had broken down in a port before its arrival. Further investigation by the bank established that the documents presented by the customer were false. The customer's objective had been to enable the transfer of funds out of the bank and into a bank in another country. Suspicious elements in this case included: submitting false documents, and claiming that the ship carrying the merchandise had broken down in a port before its arrival.

Underground banking/alternative remittance systems/hawala

A bank reported that a local individual was gathering funds from different people of his nationality and then making deposits and internal transfers in his own accounts. He would then make deposits and internal transfers into the accounts of several

Another point of agreement is that everyone within a bank has to play a role in identifying and rooting out financial crime. To be effective, the fight against financial crime cannot be viewed as a 'Compliance' matter, a 'Legal' matter, or simply consigned to the Operational Risk department. Front-line staff – tellers in the branches, telephonists in the call centre, and the technicians monitoring internet banking systems – have to know what to look for and when to sound the alarm.

Of course, a customer who regularly deposits large amounts of cash will always arouse suspicion. But financial criminals are usually more subtle than to do something so obvious. (Though one of the biggest challenges in the Middle East is that cash is still widely used for legitimate purposes as a result of underdeveloped banking systems.)

So what are the signs that a transaction might be part of a criminal action? What should staff on the front line look out for? Those are the questions that the MENAFATF *Typologies Report* tries to answer.

The report identifies 17 types of transactions, all relating to money laundering or terrorist financing (ML/TF). Examples include: Trade Based Money Laundering; Human Trafficking and Smuggling; Precious Purchases such as antiquities; racehorses and cars; and Using Shell Companies.

By analysing the case studies, MENAFATF is also able to identify the most common techniques and tools used by criminals to implement their crimes. Most obviously, it is banks that are by far the most misused institutions. Nearly three-quarters of all case studies submitted to MENAFATF involved the use of banks, whereas exchange companies were used in only 14% of cases. (The remainder involved the use of 'border regions'.) Bank transfers were the financial instrument used most frequently, closely followed by cash deposits. Forged documents or financial instruments were the most frequently used techniques to effect a crime, with overseas funds transfers the second most frequent. As for indications that a crime was taking place, the existence of forged documents was, unsurprisingly, the most frequently cited, but the second most frequent were examples of 'disproportionate value' (where funds or cash being employed are inconsistent with the transaction they are supposedly financing), repetitive transactions and transactions whose size is inconsistent with the usual account movements. ■

MENAFATF

MENAFATF was created in November 2004 as an 'FATF Style Regional Body' (FSRB). FATF is the 'Financial Action Task Force' that was created in 1989 by the G-7. It has published recommendations on how to counter money laundering, terrorist financing and proliferation. It has 36 members, one of which is the GCC. Saudi Arabia has observer status. MENAFATF has 19 members, including all Arab countries and the State of Palestine.

In francophone countries, MENAFATF is known as GAFIMOAN, the acronym of its name in French: Groupe d'Action Financière du Moyen-Orient et de l'Afrique du nord.

companies. The amounts the suspect was collecting on a monthly basis ranged from SR150,000–200,000 which was inconsistent with the nature of the suspect's business. The internal transfers were also inconsistent with the suspect's business. Under investigation, the suspect was unable to prove the legitimacy of the transactions or the source of funds (either incoming or outgoing from his account).

Use of new payment systems

A company opened owned a bank account and signed up for electronic banking. The company sold cards through its website that provided cardholders with various benefits (medical assistance, car rentals, car breakdown services, etc). The bank suspected that, in practice, the company was selling fictitious cards and that its true purpose was to provide a conduit through which money that had been fraudulently acquired could be transferred to beneficiaries, while disguising the true identities of the beneficiaries. The bank's suspicions appeared to be confirmed by the following points: the company issued a very large number of different types of cards, the company appeared on Mastercard's list of suspicious operations, and the company withdrew money from the bank in cash.

Human trafficking and smuggling

The suspect was self-employed and received internal transfers into his bank account from regions bordering his own country. He also made cash deposits varying from LD50,000 to LD200,000. He then distributed funds out of his account through internal transfers and through cheques that he deposited himself for the benefit of another person ('B') in the same bank. The bank became suspicious because: the account was being used to receive and distribute money that originated in high-risk areas bordering the account holder's country into accounts of natural and legal persons that had no relationship with those border regions and B's account was categorised as a 'government employee' account, but the amounts received were inconsistent with that. For example, in the first seven months of 2013, the account showed a debit balance of LD42,465 million and a credit balance of LD42,524 million.

Using shell companies

A suspect ('A') opened two bank accounts at Bank 'S'. The first account was personal and the second was in the name of a company. Three months after the accounts were opened, the company account received a transfer of TD134,000 issued from a public treasury account under the title 'VAT Recovery'. Suspect A transferred the full amount to the personal account and then used most of it to buy two plots of land. The remainder he withdrew in cash. Around the same time, Suspect 'B' created a Company and opened an account at Bank S. Three months later, B's company received a transfer for TD276,985 issued by the same public treasury account. Suspect 'B' withdrew the full amount in cash straight away.

Financial transfers/using bank accounts abroad

The suspect received large and repeated amounts of money from abroad and each time gave the same explanation for the transfer (family obligations). After reviewing the transactions, the FIU discovered that many of the transactions were clustered together over short time periods and that these transfers were originated by only three people. The FIU was suspicious of the way the transfers were structured/timed and the repeated use of transfers for a single purpose. It asked the FIU in the country issuing the transfers for information about the three individuals.

Middle East sovereign credit ratings: the effects of lower oil prices

The large oil exporting economies of the Middle East have maintained their credit ratings over the last year despite the fall in oil prices, but some of the smaller economies have been affected.

Arab Banker's Editor, Andrew Cunningham, reviews changes to sovereign ratings in the Middle East over the last year.

Saudi Arabia, Kuwait, Qatar and Abu Dhabi have maintained their sovereign credit ratings, despite the fall in oil prices that began in the middle of 2014.

Kuwait, Qatar and Abu Dhabi have AA ratings from at least two of the three major international credit rating agencies: Fitch, Moody's and Standard and Poors (S&P), while Saudi Arabia has a AA rating from Fitch and AA- ratings from Moody's and S&P.

Moody's is the only one of the three big agencies that rates the United Arab Emirates (as opposed to individual Emirates, such as Abu Dhabi or Sharjah). It has maintained its AA rating. In contrast, Oman and Bahrain have both seen rating downgrades.

Bahrain was been downgraded to BBB- by all three agencies during the first half of 2015, and its ratings from Moody's and S&P carry a negative outlook. BBB- is the lowest investment grade rating.

Moody's said that its decision to downgrade Bahrain in April was, "predominantly based on the expected deterioration in the government's finances as a result of the oil price shock." Moody's also noted the Bahrain does not have a sizeable sovereign wealth fund, estimating that the Mumtalakat Holding Company (which holds Bahrain government investments) had net asset holdings of around 20% of GDP in 2013.

S&P noted that a heavy burden of government wages (accounting for 42% of government spending) and subsidies (accounting for another 30%) underpinned Bahrain's "pronounced vulnerability to low oil prices."

S&P downgraded the Sultanate of Oman to A- on the same day that it downgraded Bahrain and two other oil exporters, Kazakhstan and Venezuela. In April, Moody's put its A3 rating on Oman on negative outlook, but did not change the rating.

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' the 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

Ratings on large gulf economies are supported by their large financial reserves

In contrast to Bahrain and Oman, the larger Gulf economies have substantial financial reserves that are held either in a sovereign wealth funds or in their Central Bank.

Sharjah and Ras Al-Khaimeh have both retained their credit ratings over the last year. Sharjah was awarded an A rating by S&P and A3 by Moody's in January 2014. Ras Al Khaimah is rated A by S&P and Fitch.

The Emirate of Dubai continues to be unrated by any of the big three credit rating agencies. However, both Moody's and S&P rate Dubai Electricity and Water Authority (DEWA), which is 100%, owned by the Emirate of Dubai. Moody's rates DEWA at Baa2 and S&P at BBB: the same equivalent ratings, two notches above the investment grade/speculative grade divide.

Both Moody's and S&P consider DEWA to be a Government-related entity. S&P believes that there is a "very high" likelihood of timely and sufficient extraordinary support being provided by the Emirate of Dubai in the event that DEWA suffered financial distress. The rating on DEWA is therefore a reasonable proxy for how the Emirate of Dubai would likely be rated by the two agencies.

Beyond the Gulf, only two Middle Eastern countries have seen their ratings change over the last year: Egypt and Lebanon. Fitch upgraded Egypt by one notch to B in December 2014, and Moody's upgraded Egypt by one notch to B- in April 2015. (The Moody's rating is one lower than the Fitch rating.) S&P changed the outlook on its B- rating to positive in May. Moody's downgraded Lebanon by one notch to B2 in December 2014.

Looking ahead, the rating outlook for the next year seems

Credit ratings on sovereigns

	Middle East Sovereign Ratings			Ratings on 'Eurozone 19' (Moody's ratings)	Ratings on other selected other sovereigns (Moody's ratings)
	Moody's	S&P	Fitch		
AAA				Austria, Germany, Finland, Luxembourg, Netherlands,	United States, Singapore,
AA+				France	United Kingdom
AA	Abu Dhabi, Kuwait, Qatar, U.A.E.	Abu Dhabi, Kuwait, Qatar**	Abu Dhabi, Kuwait, Qatar, Saudi Arabia		
AA-	Saudi Arabia	Saudi Arabia		Belgium	China
A+	Oman			Estonia	Japan*
A		Ras al-Kheimah, Sharjah	Ras al-Kheimah	Slovakia	
A-	Sharjah	Oman*		Latvia, Lithuania, Malta	Malaysia, Mexico
BBB+				Ireland	
BBB				Italy, Spain	Brazil, South Africa
BBB-	Bahrain*	Bahrain*, Morocco	Bahrain*, Morocco	Slovenia*	Turkey
BB+	Morocco			Portugal*	Russia*
BB					
BB-	Tunisia	Jordan	Tunisia		
B+	Jordan				
B	Lebanon*		Lebanon, Egypt*		
B-	Egypt*	Lebanon, Egypt		Cyprus*	
CCC				Greece	Venezuela
CC					
C					

** Indicates that the rating has changed within the last year (see separate table for details). ** Indicates a first time rating, assigned within the last year.*
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 2015.

quite predictable. If oil prices fall or remain around $50-60/B we should expect the rating agencies to review Bahrain for possible downgrade. Moody's may take Oman down a notch, although the Sultanate will remain safely in investment grade territory. If oil prices start to move upwards towards $75/B or higher, then Bahrain's BBB- rating will look more secure, although the agencies can be expected to be cautious about any upgrades.

As for the larger oil exporters, it will take many years of low oil prices to compromise their financial reserves, so a downgrade driven by economic factors is unlikely. Political instability, either internal or as a result of external threats, particularly if it leads to dysfunctions in governance and decision making, could, in principle, threaten the existing ratings. But in practice, the larger Gulf states have shown themselves to be adept at managing difficult political challenges, despite their lack of formal governance structures: the transition of King Salman to the throne of Saudi Arabia earlier this year provides an example.

In April, Hoshiyar Zebari, the Finance Minister of Iraq, said that his country was seeking a credit rating. Algeria remains unrated, and there seems little prospect of ratings on Libya being restored any time soon. (Both S&P and Fitch had ratings on Libya before the overthrow of Muammer Ghaddafi, but neither does now.)

If Iran is accepted back into the international community, it will no doubt seek a credit rating. Moody's assigned a B2 credit rating to Iran in 1999 but withdrew the rating in 2002 under pressure from the US government. A credit rating, even as low as B2, was seen as economically useful to the Government of Iran and therefore providing it breached US sanctions, according to the US government.

Beyond the Middle East, two notable downgrades have been of Russia, by three notches to Ba1 by Moody's, and of Japan by one notch to A1 by Moody's. Three Eurozone countries, Cyprus, Portugal and Slovenia have been upgraded over the last year. ■

Recent changes to sovereign ratings in the Middle East

Upgrades:	
Egypt	Moody's upgraded by one notch to B3 in April 2015 Fitch upgraded by one notch to B in December 2014
Downgrades:	
Bahrain	Moody's downgraded by one notch to Baa3, with negative outlook in April 2015 S&P downgraded by one notch to BBB-, with negative outlook, in February 2015 Fitch downgraded to BBB- in June 2015
Lebanon	Moody's downgraded by one notch to B2, with negative outlook, in December 2014
Oman	S&P downgraded Oman by one notch to A- in February 2015
New ratings:	
Qatar	Fitch assigned a first time rating of AA to Qatar in March 2015. This is the same level as the existing Moody's and S&P ratings

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

Cyprus	Upgraded by one notch to B3 in November 2014
Japan	Downgraded by one notch to A1 in December 2014
Portugal	Upgraded by one notch to Ba1 in July 2014
Russia	Downgraded by three notches to Ba1 in multiple rating actions
Slovenia	Upgraded by one notch to Baa3 in January 2015
South Africa	Downgraded by one notch to Baa2 in November 2014

Engaging with Chinese banks: strategies for success

Chinese banks are increasingly visible and active in global financial markets – and an increasing number of Middle Eastern banks are trying to gain a foothold in China. Yet Chinese business culture and customs remain obscure and poorly understood by many of the executives who now find themselves engaging with their counterparts in Chinese banks.

Stephen Timewell is Editor Emeritus of *The Banker*, and began visiting Chinese banks in the early 1990s. Over the last 25 years, he has met with the chairmen and senior executives of all the leading Chinese banks. In the following article, he draws on that experience to give advice on how to initiate and manage business relationships with Chinese banks.

Unfortunately, the first thing to say is that one should never underestimate how difficult it can be to interact with Chinese institutions and their senior executives. However, with the right approach, it is possible to develop strong and lasting relationships.

Dealing with China is not about quick, short-term wins but about long-term endurance and the willingness to stay the course. Not unlike Arab banking in the 1980s and 1990s, when financial markets were developing and changing very rapidly, banking in China has been expanding at an explosive pace and, like in the Arab world, this growth is built on relationships or 'guanxi'.

Building those relationships is not easy. Banks in China have grown enormously in the past 25 years, with Chinese banks accounting for 111 of *The Banker's* Top 1000 World Banks in 2014, compared to just eight in 1990. Led by ICBC, Chinese banks comprised four of the world's ten-largest banks in 2014.

It is not just the balance sheets of Chinese banks that are enormous. ICBC, for example, has over 440 million individual customers, 400,000 employees, and 17,000 domestic branches: visiting such a mammoth bank can be quite intimidating.

Last year I met with Tian Guoli, the Chairman of Bank of China, the 3rd largest bank in China and 7th largest bank in the world. As I walked into the meeting room, I was faced not only with the Chairman but also eight other senior bank executives. This can be a little frightening if you are not used to it, but fortunately I have experienced this traditional Chinese banking style many times before.

The key is not to be intimidated by the numbers. Yes, you have to give a commanding performance to all the people in the room (even if it is only the Chairman who responds, as is often the case) but every word you say and all your body language is being carefully scrutinised, even if many of the executives do not speak English.

But why did Bank of China put out so many senior executives to meet a journalist? It is the traditional way that Chinese banks operate. However, some chairman and chief executives are breaking away from this tradition and are adopting a less-formal style when meeting outsiders.

When meeting with a Chinese bank, it is important, in my opinion, to make sure you meet the top person. If you do not, then it is very possible that a more junior executive will not have the position or confidence to respond to your questions.

But if your request for a meeting with the Chairman or chief executive is refused, and you are offered a meeting with less-senior officials, what should you do?

You should definitely accept the meeting. Not only is keeping face important (and both you and your potential interlocutor might lose face if you reject the meeting) but, more importantly, it is often difficult to judge who is the prime executive for the matter you want to discuss and, coming in from the outside, you might get it completely wrong. So, you should make the most of what you are offered. Appearing frustrated or arrogant will not be helpful.

And remember, sometimes vice presidents can be better-informed on the bank's business than the chairmen.

In such a hierarchical and stylised culture, appearances are very important.

I have met many times with Chairman Dong of China Minsheng Bank, the country's 9th largest bank, which is also privately owned. These meetings were unusual because of the relaxed style and the venue: meetings were very convivial and were held at the bank's beautiful golf clubhouse in north Beijing. A large meal was always part of the proceedings, and considerable eating and drinking capacity was required.

While I joined the chairmen and six of his senior executives in enjoying large quantities of good food, rice wine and laughter, I was perplexed by these marathons sessions. In retrospect, I suspect that I was being carefully watched to see how I dealt with the pressure. Fortunately, I must have performed well, since a few days after a particularly long and large meal, the bank appointed me as their consultant.

"Eating and drinking prowess goes down well in most situations: so just enjoy it!"

What conclusions can we draw from this?

Eating and drinking prowess goes down very well in most situations and is culturally very important – you have to be able to 'perform' well at the dinner table! Although this style of doing business can be difficult for newcomers, my advice is just to enjoy it!

Despite China's rapid growth and constant change, the country's politics remain ultra-conservative, and decision-making moves slowly.

Don't expect quick decisions and remember that a good result one year doesn't necessarily ensure success the next. Decision-making will not necessarily follow a consistent path, and this can be extremely frustrating. But for those who can stay the course the benefits can be huge.

The mechanics of operating in China can be complex but they are manageable. You need to allow plenty of time to build relationships, so if you are planning a business trip, give yourself two weeks if possible.

Beijing remains the focus for any visit to the banks, since that is where most of the big banks are based (for example, half of the biggest 20 have their headquarters in Beijing). The People's Bank of China (the central banking authority) and the China Banking Regulatory Commission are also in Beijing.

But, remember that point about 110 of the world's biggest 1,000 banks being Chinese: there are a lot of 'second tier' or even 'third tier' Chinese banks which are very large by global standards.

So, don't limit your visit to Beijing and Shanghai. There are plenty of opportunities in other cities, many of which have hardly been explored by Western, or Middle Eastern, banks. Chengdu, in the West, and Guangdong, in the South, have huge potential along with banks in Fujian province and in Tianjin (the latter just an hour's ride by fast train from Beijing).

China has fantastic, modern airports – and it is building a new airport every month! Train services are being improved. So there is no reason why visiting bankers cannot travel throughout the country.

But what about language? Is it a problem if you don't speak Mandarin? Of course, there is more to communication than speaking; but being able to communicate in Mandarin does make a huge difference. A good interpreter can cost up to Rmb 6000 ($1,000) for a full day in Beijing, but banks will often provide their own interpreters.

Looking to the future, important issues are China's increasing willingness to consider banking opportunities abroad; the internationalisation of the renminbi; and President Xi Jinping's anti-corruption efforts that are starting to have an impact on how business is conducted.

Tian Guoli, the Chairman of Bank of China, told me last year that, "There is nothing more important than the internationalisation of the renminbi." He was right, in the sense that this issue pervades everything that Chinese banks are doing these days. ICBC now has four operating branches in the Gulf: Dubai, Abu Dhabi, Doha and Kuwait, as well as a global network reaching 40 countries. Chinese banks look set to take over Portugal's third-biggest lender, Novo Banco.

But remember that China's global banking ambitions are still likely to reflect the country's traditional slow and steady approach.

I remember when, in 2007, ICBC paid $5.5bn for a 20% stake in South Africa's Standard Group. Speaking to the Chairman, Jiang Jianqing, about the transaction, it was clear he was very nervous about the bank's first foray into Africa and unsure how it would go.

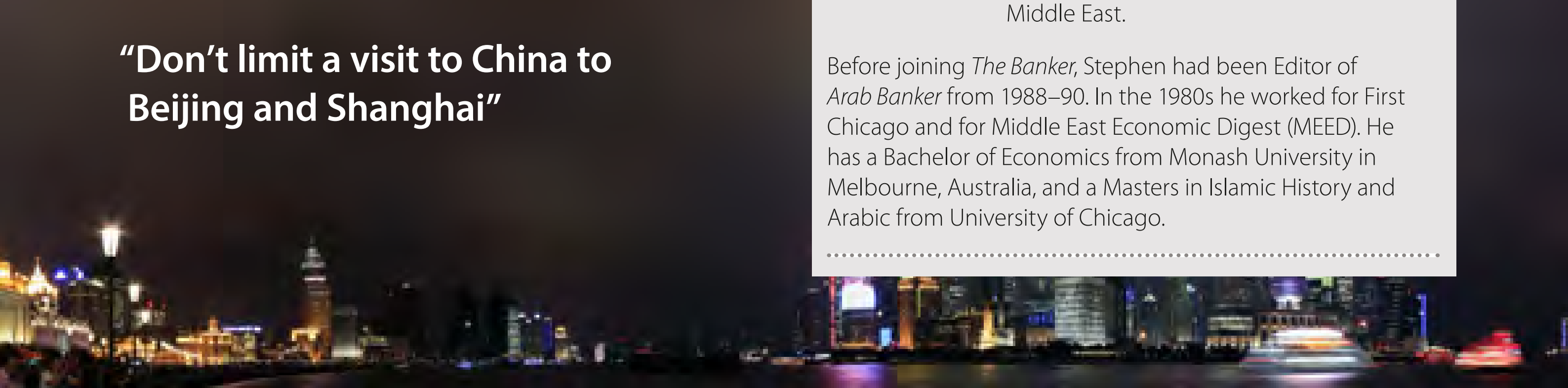
Nearly eight years later, in February 2015, ICBC came back with another transaction, buying 60% of the London trading arm of Standard Bank plc for $690m, a move that greatly enhanced its global trading capacity.

The key lesson from these transactions – lessons that apply across all banking dealings with China – is that long-term relationships are seen as critical to success and, as ICBC showed, everything can come to those who wait. ■

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 wrote about banks in all areas of the world, and in particular on China and 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.



"Don't limit a visit to China to Beijing and Shanghai"

Realising dreams and unlocking opportunity: the rise of global citizenship

'Global citizenship' is now a business with global reach. More than ever before, citizens of one country are applying for – and receiving – citizenship of another.

There are many reasons why people seek a second citizenship. In an age when businesses, capital and people themselves move ever more quickly and frequently from country to country, the flexibility to choose where one lives is increasingly attractive. A second citizenship also offers the opportunity to educate children abroad, manage taxes and estate planning more efficiently, or simply to live in another country whose lifestyle and culture may be closely aligned with one's own.

Whatever the reason for wanting a second citizenship, there has never been a better time to apply. Many countries have opened their borders to those willing to invest in their economies, with some competing to offer attractive residence and citizenship programmes.

Henley & Partners has more than 40 years' experience of advising clients on options for residence and citizenship. In the following article, Hakan Cortelek and Mark Pihlens, Managing Partners in the firm's London office, describe recent developments in the market for global citizenship, and the process by which global citizens should decide which countries could provide them with the additional freedoms and opportunities that they seek.

In 2013, Joseph Muscat was elected Prime Minister of Malta. Aged just 39 at the time, Muscat is one of a new generation of ambitious Maltese politicians shaping the islands' future and, in Muscat's own words, he is determined to win the "global race for talent" by attracting people to Malta.

It was therefore hardly surprising that Muscat's new government decided to offer citizenship to investors willing to invest in Malta and play a part in its future.

Following an international tender, Henley & Partners was appointed by the Government of Malta to design, implement and promote the Individual Investor Programme (IIP), which was launched in 2014. As we thought about how to structure the programme, our priorities were to ensure that the programme was able to offer strong enough benefits to be competitive in the international market for residence and citizenship, while also strict enough to attract only the type of investors who would enhance Malta's status as an international business centre.

The result was a programme that requires an contribution of €650,000 and an investment of €150,000 on application and the establishment of ties to the country (including holding a residence in Malta). A detailed due diligence process is undertaken to check an applicant's suitability, and a criminal record or previous problems with visas results in automatic disqualification. The process of acquiring citizenship takes just over a year.

And the benefits are outstanding. Malta is an attractive and cosmopolitan place to live, in the middle of the Mediterranean Sea, and it has good air links into Europe and the Middle East. It has been a member of the EU since 2004 (so citizens have the right to live and work in any of the other 27 EU countries) and citizens can travel to more than 160 countries – including the US – without a visa.

Malta's IIP is typical of many investor programmes under which governments offer residence and/or citizenship in return for an investment in their country. Such programmes are available from small jurisdictions, such as the Caribbean islands of Antigua & Barbuda, and from the largest in the world, such as the UK and the US.

More choice is now available for those seeking a second citizenship

The big trends that we are seeing at Henley & Partners are, firstly, that more choice is becoming available for those seeking a second citizenship – as new programmes are launched; and secondly, that countries that already have programmes are striving to make them more efficient, more attractive, and more beneficial to their economy

That does not mean that the standards surrounding investor immigration programmes are becoming more lax, but it does mean that jurisdictions are thinking hard about

the type of people they want to attract and tailoring their programmes to suit those people.

For example, in 2014 the UK Government increased the minimum investment under its Investor Visa Programme to £2 million from £1 million, but made the investment conditions attached to that investment more flexible.

Also in 2014, the Canadian Government suspended its immigrant investor programme partly because the application process had become subject to huge delays. Canada is expected to re-open the programme with a requirement for applicants to hold their investments for a longer period and to invest more directly in Canadian companies.

Among the newer programmes that have been able to quickly establish themselves are those of Portugal (a residence program) and Antigua (a citizenship program).

Portugal's Golden Residence Permit was launched in 2012 and is currently receiving about 2,000 applicants per year. The programme is popular with investors from the Middle East, although the majority of applicants are from China. The programme requires an investment of €500,000 in real estate or a capital transfer of €1million. Residency can be received in 2–3 months, and an annual visit to Portugal of at least seven days is required to maintain it (hardly a difficult requirement since Portugal is one of the world's leading tourist destinations!). Alternatively, citizenship can be applied for after six years, but this requires applicants to have maintained much higher residence requirements and stronger ties to Portugal than the one week per year for the Golden Residence Permit.

Antigua's programme can lead to full citizenship within six months – quicker than most other programmes – and citizenship brings with it visa-free travel to Canada, the Schengen countries including the UK, and others: over 130 countries in total. To maintain citizenship, investors must spend five days in the country during the first five years (again, hardly a disincentive – Antigua is a major tourist destination with an excellent harbour for yachts). The investment criteria offer a choice between purchase of a property valued at $400,000 or more (which must be held for at least five years) or a $200,000 donation (which is non-refundable) to the National Development Fund.

Finding the right investor programme for you

People often ask us, "Which is the best residence or citizenship programme in the world?" and of course the answer is, "It depends on what you are looking for and on your personal and financial circumstances."

Key questions that applicants need to consider include:

- How much do I have to invest in the programme, and how flexible are the investment criteria (and, in particular, can I invest all or part of the sum in real estate)?
- How long does the process of becoming a resident take; and how quickly can I transition 'residence' into 'citizenship'? (Or can I acquire citizenship directly, without first becoming a resident?)
- How many days do I have to spend in the country in order to maintain my residence/citizenship?
- Does residence/citizenship of this country give me visa-free access (or even residency rights) to other countries that I would like to visit?
- How easily can my family members also become residents/citizens? And what ages can be included in the family application?

A guide to citizenship and residence schemes

	CITIZENSHIP: Henley & Partners has identified only four countries that offer citizenship programmes of real interest and which pass the company's due diligence standards.		
	Minimum investment	**Length of Process**	**Residency Requirement**
Antigua & Barbuda	$200,000 (donation) or $400,000 real estate investment	3–4 months	5 days over first 5 years
Cyprus	€2,500,000 (real estate investment), €5,500,000 for bank deposits and €3,000,000 for business investment (NB – €500,000 real estate held for life)	3 months	None
Malta	€650,000 contribution, €150,000 bond investment, €350,000 real estate purchase (or €16,000/yr lease)	1 year	Effective residency requirement during first year prior to citizenship
St Kitts and Nevis	$250,000 (donation) or $400,000 (real estate investment)	4–6 months	None
	RESIDENCY: Henley & Partners has identified six countries with residency programmes of interest.		
	Minimum investment	**Length of Process**	**Residency Requirement**
Australia	AUD 5,000,000	5–8 months	160 days/year
Portugal	€500,000 (real estate), €1,000,000 (transfer of capital)	2–3 months	1 week per year on average
Singapore	SGD 2,500,000	5–8 months	Singapore must be your primary place of residence
Switzerland	Minimum tax payable of CHF 200,000 per year	2–6 months	Switzerland must be your primary place of residence
United Kingdom	£ 2 million	1 month	185 days
United States	$ 500,000 (investment must create at least 10 full time jobs)	12–18 months	183 days

Source for data: Residence and Citizenship Programme Guide, *Henley & Partners*

- Are there any language or health requirements attached to the programme? (For example, some people think that the investor programme offered by the State of Quebec has a requirement for applicants to speak French, but in fact there is no such requirement.)
- How will I be taxed after I become a resident/citizen of this country? Are there double taxation treaties with other jurisdictions where I pay tax? (We always encourage our clients to seek suitable tax advice in the relevant jurisdictions before making any decisions.)

We also advise potential clients to be aware of relevant laws in their current country of citizenship. For example, some countries forbid their citizens from holding dual citizenship.

Applicants for investor programmes also need to be prepared to answer questions about the source of their wealth, the nature of their business, and their banking relationships. At Henley & Partners we conduct our own due diligence on potential clients before 'on-boarding' them, and this is followed by several layers of background checks, with the result that we only submit the files we are comfortable with and for which we have high expectations of success.

Although comparison of different investor immigration programs usually focuses on their inherent benefits (such as access rights and visa-free travel), financial requirements, residency requirements and the speed of the application process, lifestyle choices do – and certainly should – play an important part in prompting people to apply for a second citizenship.

The dream of moving to a place in the sun – perhaps an island in the Caribbean or a cosmopolitan centre in the Mediterranean – is now within reach for many. Similarly, a wish to move to one of the world's major economies, such as the UK or Canada, can be fulfilled by following procedures that are transparent and quick to implement.

More people than ever before have the opportunity to become global citizens, choosing where they will reside on the basis of their own lifestyles and ambitions. ■

Helping those who have no choice

Henley & Partners focuses on helping wealthy individuals achieve their residence and citizenship goals, but through an innovative partnership with the United Nations High Commissioner for Refugees (UNHCR) the company is also helping those at the other end of the spectrum of global mobility. Through a multi-year programme, Henley & Partners is contributing more than $1 million to support UNHCR's global refugee registration activities, while also assisting UNHCR to raise awareness of refugees' needs.

Adults and children fleeing persecution can face huge difficulties reaching a safe place. Frequently they need to cross international borders but this can be difficult, if not impossible: they may have fled their homes unexpectedly, they are likely to have travelled hundreds of miles, and they may have become separated from other members of their family. Without proper identification or travel documents, these refugees are exposed to smugglers, human traffickers and all kinds of exploitation. UNHCR registration is the first and the most critical step towards providing assistance to refugees and protecting them from forcible repatriation.

Recently, the UNHCR has introduced iris-scanning technology to deliver effective and efficient refugee registration that is not susceptible to fraud. Jordan was the first country to use iris-scanning technology, and more than 20,000 Syrian refugee families resident in Jordan have now been registered.

Amanda Philip, Henley & Partners' delegate to the UNHCR Field Mission comments, "For many refugees, the hardest thing to cope with is the loss of dignity, responsibility and freedom. The registration process enables them to access the fundamental services necessary to take control of their lives again."

Mark Pihlens

Mark Pihlens is Managing Partner (Operations) of Henley & Partners UK and a member of the firm's Residence and Citizenship Practice Group. Mark has a wealth of experience in senior commercial roles, including most recently as a founding Director and CEO of InvestUK Ltd, a successful immigration-related investment consultancy, where he developed a market-leading program for UK Tier 1 Entrepreneur clients. As well as advising clients, Mark also leads the management of operations in the Henley & Parnters' London office .

Hakan Cortelek

Hakan Cortelek is an immigration and citizenship planning specialist and a Managing Partner at Henley & Partners UK. With his extensive experience in private banking in the UK and Canada, he has also excelled in developing a thriving, globally connected investor immigration practice. He participated in various consultancy sessions with the UK Home Office as well as the immigration authorities of Canada, St Kitts and Nevis, Malta and Antigua & Barbuda.

Computer-generated image, indicative only

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New rules open new opportunities for investor visa portfolios

In November 2014, the British Government made significant changes to its 'Investor Visa' scheme. The required minimum investment was doubled to £2 million and the option to maintain a portion of the funds in a bank account or as an investment in one's own residence was removed. On the other hand, the Government abandoned the requirement for the investment to be 'topped up' if it falls below the minimum level.

The changes have challenged investment managers as they adjust their clients' portfolios to take account of the new rules. In the following article, Ed Margot, a Senior Portfolio Manager at London & Capital, explains how his firm is taking advantage of the opportunities provided by the new rules.

The new rules surrounding UK Investor Visas are enabling our clients to think more carefully about the risk and return profiles of their portfolios. Under the old rules, 25% of the £1 million minimum portfolio could be used to buy a house, or kept as a bank deposit, leaving only £750,000 as an investment earning minimal returns. But now, the initial investment portfolio can be no less than £2 million – a significant amount to have sitting idle for the several years that it takes to acquire residency.

The investment management team at London & Capital has always been focussed on capital preservation, but we don't believe that the only way to preserve capital is to invest in government bonds. It is possible to structure a portfolio that can generate returns similar to those offered by corporate bonds, while maintaining a risk and volatility profile similar to that of Gilts.

Simply put, London & Capital estimates that a portfolio of short-dated Gilts will yield about 2% over a five year period, whereas a portfolio of corporate bonds yields about 4%. By carefully allocating assets across different asset classes with different risk profiles, our portfolios generate returns that are closer to 4%, while displaying the risk and volatility of a portfolio of Gilts that would usually yield 2%.

Let's consider how we build up our portfolio.

We use 'building blocks' to allocate money to different asset classes and then we subdivide some of these asset classes into sub-asset classes, or 'investment themes'.

We have three main investment themes in our Investor Visa Corporate Bond Portfolio:

Investment Grade Bonds: These are the foundation of our portfolio. They have low interest rate sensitivity ('duration' – see below) and lower volatility than many other asset classes.

Financial Services Bonds: Following the global financial crisis, regulators are requiring financial services firms to take less risk and show less volatility. As a result, we feel that bonds issued by financial service firms are more attractive investments than they were in the past, with better pricing and stronger growth potential.

High yield bonds: These bonds offer higher returns, but we remain very cautious about how we allocate them to our portfolio. Many of the companies we invest in are 'fallen stalwarts' – good quality firms that came under pressure during the recent financial crisis. We buy these companies' bonds when we see that their business fundamentals are improving and their credit ratings are on an upward trajectory, since those factors will push up the value of their bonds.

Theme	Weighting	Yield	Duration	Volatility
Investment grade	42.0%	2.6%	2.8	2.6%
Financials	40.0%	3.8%	2.5	2.4%
High yield	16.0%	3.8%	3.8	2.4%
Cash	2%	0.0%	0	0%
Portfolio	100%	3.4%	2.9	2.5%

Source: Bloomberg, 15th May, L&C T1IV Bond Portfolio

There are many factors that go into building a portfolio but there are two crucial indicators that all portfolio managers use to assess the risk of a portfolio, or part of a portfolio: duration and volatility.

'Duration' is a misleading term. In this context it doesn't refer to the tenor of a bond, or to the time until its maturity. Rather, it is an indication of the sensitivity of the price of a bond to a movement in interest rates. The price of a bond goes up when interest rates go down (and vice versa). Duration measures that sensitivity. Mathematically, it is complicated to calculate, but in very simple terms, conservative investors want to see short duration (a low number around 2-4), because that means that the value of their investments is not vulnerable to swings in interest rates.

Both the Gilt and corporate bond markets have a range of bonds whose duration varies over the short, medium and long term. At London & Capital, we are able to build

a portfolio of bonds that has the same duration as Gilts. In other words, the portfolio is benefiting from the higher returns offered by corporate bonds, while not taking on the risks associated with changes in interest rates.

Volatility is an easier concept to understand than duration, but equally important. Volatility measures the extent to which the price of an investment moves up and down over time. The larger the number, the more risky the investment. This is because risk is the uncertainty of return and an investment whose price may be up or down 10% is riskier than one which may move up or down 2%. The value of short dated Gilts does not change much ('low volatility') because the rating of the UK Government is quite stable and because short-term investments – including Gilts – display lower volatility than longer-term investments, other things being equal. But we are able to construct a portfolio that displays the same volatility as Gilts, even though it comprises corporate bonds.

When I am constructing a portfolio I have many complex investment systems available to me. More simply, I multiply the volatility number by three to provide an estimate of the worst-case fall in the value of the portfolio. In the past, I used this 'worst-case' scenario to calculate how much money needed to be in the portfolio to ensure that I was confident the portfolio will not fall below the £1 million minimum investment. Under the new rules, I do not have to ask the client to inject additional funds ('top up') if the value falls below new minimum investment of £2 million, and that enables me – and my clients – to take a little more risk.

	Yield to maturity	Duration	Volatility
L&C Investor Visa Corporate Bond Portfolio	3.4%	2.9	2.5%
Gilts	0.9%	2.9	2.5%

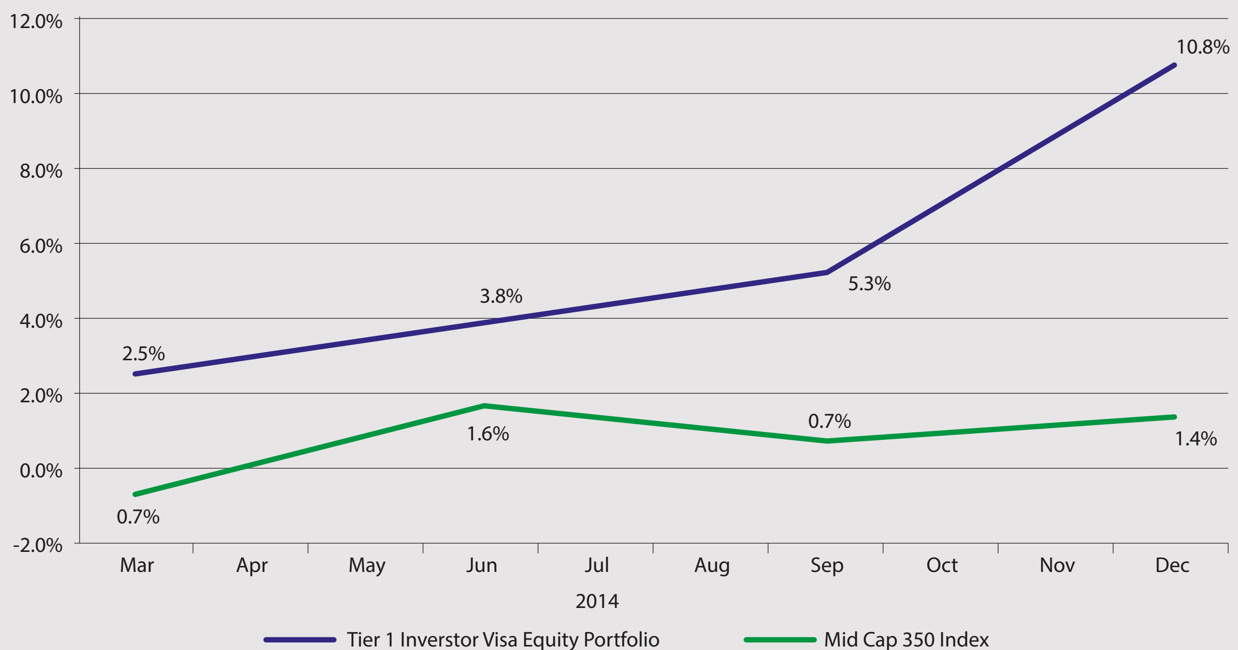
Source: Bloomberg, 15th May, L&C T1IV Corporate Bond Portfolio versus 3 short-dated Gilt Portfolio

The table above shows the current yield, duration and volatility that our Bond Portfolio would achieve if invested today and the yield, duration and volatility for a typical portfolio of Gilts. (We used Bloomberg to provide the data.)

The table shows that the two portfolios have almost identical risk profiles (duration and volatility are the same) but that the yield on our bond portfolio – at 3.4% – is far superior to that of a portfolio of Gilts.

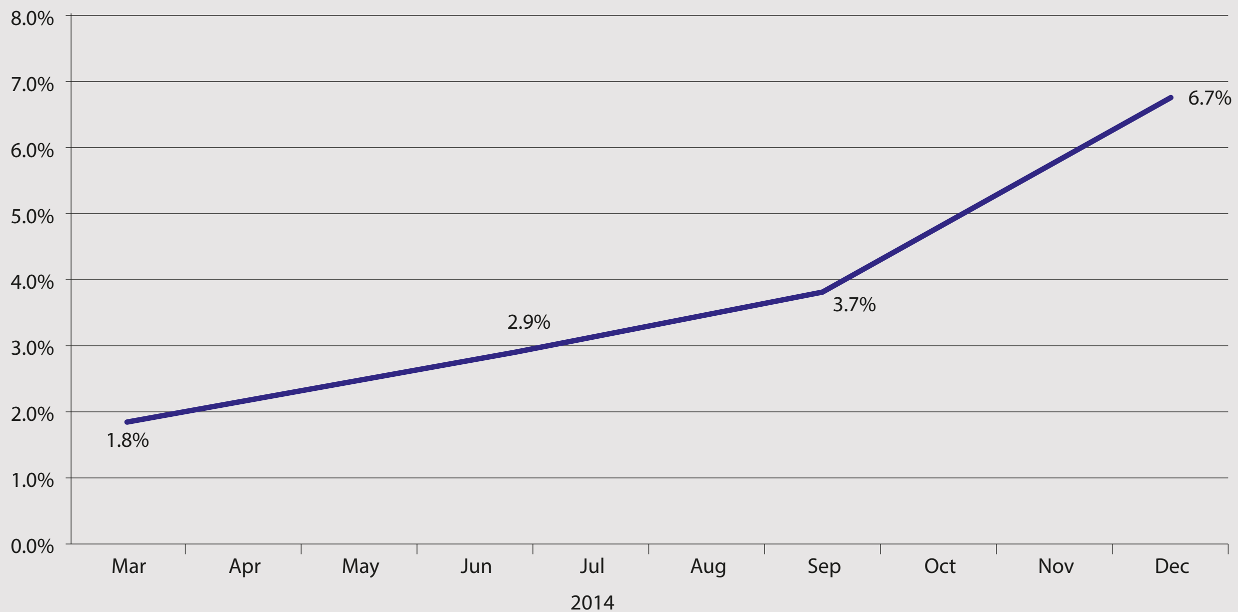
I mentioned earlier that a conservative corporate bond portfolio should generally yield 4%. We expect that the actual returns on our portfolio will be the same, rather than the 3.4% seen in the table above. That is because bonds in our portfolio will mature over the next couple of years, and there will be opportunities to re-invest the money at higher yields than we have been receiving until now, as a result of the recent fall in interest rates.

Now let's consider how we work with those clients who want to increase their risk profile in order to increase their returns. With the removal of the 'top up' requirements, we are seeing more clients interested in doing this although, on the whole, the focus on safety remains.



Source: L&C client portfolios invested in 2014. This shows actual rather than 'theoretical' performance.

Tier 1 Inverstor Visa Balanced Portfolio



Source: L&C investment portfolios. Blend of 'actual' Tier One Investor Visa Equity portfolio and Corporate Bond portfolio on a 40 / 60 basis.

Some clients place more money in their Investor Visa portfolio than the minimum required by the UK government because they want to use the portfolio as a source of income. Others have been considering investment horizons of 7–10 years – well beyond the length of time that a portfolio must be maintained before receiving permanent residency in the UK. Other clients may just want a higher return within the five years that they are invested.

For these clients, we either introduce equities into the portfolio alongside bonds and cash or we construct a portfolio solely from equities. Our equity selection process focuses on companies that offer good dividends, have strong balance sheets, good cash flow and stable earnings.

Our Tier 1 Investor Visa Equity Portfolio delivered a return of 10.8% in 2014, compared to 1.4% achieved by the FTSE Mid Cap 350 index – the index that we used as our benchmark.

When we blend equities and bonds into a portfolio, we can reduce the risk compared to a portfolio made up solely of bonds. The portfolio benefits from diversification – investments don't perform in the same way all the time, so holding different types of investment, and different asset classes, reduces the risk that the whole portfolio will fall in value.

As a result, our Balanced Tier 1 Investor Visa Portfolio – comprising a mixture of bonds and equities – returned 6.7% in 2014.

Last year's change in the investment requirements for Investor Visa applicants were designed to force applicants to invest more money in the UK economy. But they also included conditions that are enabling investors who want to take more risk to do so, without jeopardising their applications.

Investor Visa portfolios still need to be constructed carefully so as to optimise the financial objectives of the Visa applicant while complying with the requirements of the UK Government, but the way is open for more creative portfolio management than has been realistic in the past. London & Capital is already working with its clients to seize these new opportunities. ■

Ed Margot
Ed Margot, Chartered FCSI, is a Senior Portfolio Manager at London and Capital where he is responsible for building investment portfolios of Investor Visa applicants and Resident Non-Domiciled clients. Specifically, he has been responsible for building low-risk investment portfolios that go beyond Gilts. Before working for London & Capital he built a Managed Advisory Service and was responsible for managing a £500 million discretionary investment desk.
London & Capital was founded in 1986 and now manages more than $4 billion for private investors, families and institutions.

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.

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Battersea Power Station development: the rebirth of a London icon

From the moment Battersea Power Station ceased generating electricity in the 1980s, Londoners wondered what would happen to Europe's largest brick building. In the years following, proposals for this iconic art-deco structure ranged from a theme park to the new home of Chelsea Football Club.

But in 2012 everything began to change and, today, if you travel into London from the South West, you will see one of the most exciting real estate developments anywhere in Europe.

In the following article, *Arab Banker* describes the work taking place at Battersea Power Station, and how it will transform the surrounding areas.

For years, Battersea Power Station was one of the largest underdeveloped sites in London. Extending along half a kilometre of riverfront, between Chelsea Bridge and Vauxhall Bridge, it occupies 42 acres – the size of 24 football pitches.

What was an ideal location for the Power Station in 1932 has become a perfect residential and commercial neighbourhood today. By 2020, the site will comprise residential homes, offices and shops, as well as leisure and hospitality facilities. Four thousand new homes will be built on the site; there will be 1.6 million square feet of office space; and 18 acres will be devoted to parks and space for the arts.

The new site will combine apartments and townhouses with a new public park on the waterfront. The roof of the Power Station will comprise a residents' garden, designed to reflect the garden squares that proliferate in the up-market residential areas of Knightsbridge and Kensington. At ground level, Foster + Partners (themselves based in Battersea) are collaborating with Gehry Partners on the creation of a pedestrianised 'High Street' that combines residential housing and retail shops.

To accommodate the huge number of people who will be living and working in and around the Power Station once it is complete the developers have added space for more than 3,000 parking places and more than 8,000 bicycles.

Transport services in the surrounding area are being transformed

The surrounding transport infrastructure is also being transformed. The London municipal authority will build an extension to the Northern Line (part of the London's underground train network), adding two new stations and extending the Northern Line into the heart of the development. Existing overground train stations at Battersea Park and Queenstown Road will be developed, and a river bus service will begin stopping at the upgraded passenger quay. In recent years, Battersea has become an increasingly sought-after area of London.

Neighbouring Battersea Park provides 200 acres of green space, and Battersea High Street and its surrounding areas have been attracting restaurants, cafés, and high-end retailers from Gordon Ramsay through to Victoria Beckham. The relocation of the US Embassy to a site just north of the main residential area – expected in 2017 – has also been driving up house prices and rents. (The Dutch Embassy will also be moving to the area in 2017.)

The development of Battersea Power Station is being managed by Battersea Power Station Development Company, with Malaysian owners S P Setia Berhad, Sime Darby and the (Malaysian) Employees Provident Fund bringing a combination of significant international experience and financial strength.

Additional financing is coming from a Tax Increment Financing (TIF) mechanism. Common in the US, this is the first time that TIF has been used in England. The UK Government has lent the Greater London Authority (the elected body that runs London) £1 billion to fund the Northern Line Extension, and will use revenue from future business rates created on the site to repay the loan over a period up to 25 years. The expectation is that the huge influx of residents and businesses to the newly developed site will lead to significant tax revenues for the local authority as well as London more widely.

And what of the Power Station itself? As *Arab Banker* went to press, one of the four chimneys had been taken down and was about to be replaced. The other three chimneys will go through the same process. All of the art deco features on the original chimneys will be reproduced on the replacements, while the decorative features on the brickwork of the main structure will be retained and painstakingly refurbished.

London has waited a long time for the rebirth of Battersea Power Station. But the wait has been worthwhile. ■

More information on the redevelopment of Battersea Power Station: www.batterseapowerstation.co.uk

Views from the top: expert views on the financing market for London real estate

As the Founder and Managing Director of Mutual Finance, one of the UK's largest property finance intermediaries, Raed Hanna sits at the centre of the UK property finance market. *Arab Banker* asked Raed to assemble some of his friends and business associates from the real estate world and ask them about current trends that they are seeing.

In response, Raed brought together Vincent Tchenguiz, one of London's most successful property investors; David Irwin, a Partner at Teacher Stern Solicitors; Alice Myers, Head of Real Estate at Bank of London and the Middle East; and Faisal Alshowaikh, Head of Islamic Financial Services at Bank ABC. Here is what they said:

RAED HANNA: Over the last year, have you seen conventional borrowers using, or thinking about using, Shari'a-compliant financing to assist with their property financing requirements?

ALICE MYERS: We have seen Shari'a-compliant finance used by both Muslim and non-Muslim clients over the last five years. Our offering has always competed directly with both Shari'a-compliant and conventional finance. Understanding of, and familiarity with, Islamic finance structures in the UK has grown rapidly and is now well accepted across the market.

FAISAL ALSHOWAIKH: Yes, we are seeing conventional borrowers more readily considering Shari'a-compliant financing packages, driven by the need to widen their financing sources as well as the needs of the investors.

VINCENT TCHENGUIZ: I am not aware of an increase in borrowers using Shari'a-compliant debt to assist with real estate acquisitions. However, I am now seeing clients using all sorts of debt, both conventional and unconventional. Because debt is less readily available now, I think borrowers are now open to many more solutions to meet their requirements. So I think people will consider Shari'a-compliant options going forward.

DAVID IRWIN: I still believe that the desire for Shari'a-compliant products is driven by the need and preference of the investor group. While all borrowers may consider the option, I think that typically it is a religious motivation that leads to this choice.

What do you think about the sentiment in the real estate market following the British election in May? Have people become more confident?

VINCENT TCHENGUIZ: We have seen a more positive sentiment from real estate investors. People expect the new Government to be generally positive towards commercial real estate. However, clients have been affected by wider

> "London is still very much perceived as a safe haven and a politically stable environment in which to invest."
> VINCENT TCHENGUIZ

political issues and continue to be pre-occupied by events across the Eurozone, including events in Greece.

FAISAL ALSHOWAIKH: Most definitely. Lending and new enquiries were at a virtual standstill prior to the election. The uncertainty and lack of confidence prevented borrowers from bidding and in some cases progressing with transactions. After the election, sentiment has improved and investors were relaxed about making decisions as some certainty was restored.

ALICE MYERS: The general reaction within the real estate market to the election result has been positive. There appears to be more activity in the market since the election, and that is encouraging. Sentiment in the commercial space has been more preoccupied with European political and economic developments than the domestic election results.

DAVID IRWIN: During the pre-election period I think I should have gone on holiday! The confidence was sucked from the real estate market and it was virtually put on hold. Since the election, delayed transactions have started moving again. I do believe that now the political uncertainty has moved away, we will see deal flow.

However, since the election there have been some changes to the residential property market arising from changes in the recent budget to the treatment of non-domiciled residents. This has given us some food for thought and time will tell how these will impact the market.

With the political unrest in the Middle East continuing, have you seen any significant change in the attitude to real estate investment from Middle Eastern investors?

VINCENT TCHENGUIZ: I don't think that there has been a real change in attitude recently. London is still very much perceived as a safe haven and a politically stable environment in which to invest. Prior to the recent problems in the Middle East, the UK and London specifically were always popular locations for investors. I think this will continue for the foreseeable future with London at the forefront of people's thoughts.

ALICE MYERS: Investors in the Middle East have always been particularly open to outward investment and actively seek to deploy capital internationally. London real estate is viewed as a safe haven for investors because of the strong support from its supply and demand characteristics, and this looks set to continue.

DAVID IRWIN: London has always been considered a safe haven in times of political uncertainty, as have pockets of Germany and the Eurozone. However, there have been changes to residential holdings from a tax perspective, and this might encourage investors to consider more commercial assets, given the tax attraction.

FAISAL ALSHOWAIKH: Middle East investors are always seeking to diversify their risk profiles and typically look to invest in robust stable locations like London, Germany and the US. I don't really see any change in this and would expect clients to maintain their investment patterns.

As you look at the UK lending market, have you seen terms improving or have you seen more flexibility from lenders across the capital structure?

FAISAL ALSHOWAIKH: Generally the appetite towards property lending has improved. If you look back three or four years, there was a very limited desire to lend into the sector. However, one has to be mindful of regulatory and compliance requirements.

VINCENT TCHENGUIZ: Personally I have not witnessed any significant change in the lending policy or terms offered in the commercial real estate arena. There appears to be no major variance in the terms and pricing offered by lenders over the past 12 months.

Having said that, when completing transactions, 'compliance' is far more intense now and lenders are far more focused on this when closing transactions. This causes the whole process to be slowed down and frequently can cause delays.

ALICE MYERS: We have certainly seen new investors emerge over the last few years. As many of these lenders have not been from the more traditional banking space, this has created more variety in terms of transaction structure and this can offer clients additional flexibility in putting together the funding structure.

DAVID IRWIN: Banks have hugely altered their attitude towards compliance and this in turn has created a level of bureaucracy that has greatly increased the time it takes to close a transaction. Banks are often not willing to take decisions that in the past would have been seen as commercial decisions. They are now rigid on compliance issues.

Clients that have strong relationships with existing lenders are frequently in the best position when a deal is not quite standard. These longstanding relationships continue to deliver the greatest flexibility.

The UK property market now has more 'alternative' lenders, such as hedge funds, insurance companies, and private equity firms. How are these 'alternative' lenders affecting the market?

VINCENT TCHENGUIZ: We are now seeing greater choice and more alternatives. One is no longer pigeon-holed and limited to approaching only the obvious lenders. The 'one size fits all' attitude has changed and a number of the new entrants are specialising in differing sectors. This is helpful for the market.

The range of lenders is good for the market as it creates competition, although we have not yet seen this competitive tension have an effect on pricing which remains similar across the varying lending platforms.

ALICE MYERS: With this increased variety and flexibility in approach come some additional challenges when putting together groups of lenders, and there are fewer common elements to structure and pricing that can be taken for granted.

DAVID IRWIN: The common theme across all of the new entrants to the market place is the attitude towards compliance. Each lender still has the same rigorous and thorough approach. Pricing is slowly becoming more competitive where the lender has a genuine desire to be active in the sector or to on-board a specific client.

One area of lending that seems to be progressing well is the bridging/short term debt market. These lenders are flourishing on the back of the slow pace of drawdowns from the traditional lenders. We have to ask, 'Why can bridge lenders act so fast, when banks can't?'

FAISAL ALSHOWAIKH: There have been a number of new entrants to the market who are trying to establish themselves, as this is a good asset class to invest in. They are competitive but some are more restrictive in their funding requirements.

Do you believe that prices on prime and good London residential real estate will continue to rise?

DAVID IRWIN: I think that generally the prime residential market will continue to rise but the pace will be slower than we have seen of late. However, the recent attacks on the 'non-dom' regime will obviously have an impact.

VINCENT TCHENGUIZ: Genuinely, I have no idea. The prices we see being achieved in and around the prime London market continue to astound me and, quite frankly, I think these are astronomical. That being said the increased stock on the market will inevitably have an impact on prices. I certainly don't expect to see any sudden dips, but I feel that a slowing of the pace of increase will occur.

ALICE MYERS: There has been a clear split in growth performance between the established and new prime London residential markets over the last 12 months. In the short to medium term, rapid capital growth seems unlikely, but long-term value and outlook remain strong. We continue to focus on quality of product – in any market a higher quality finish or a preferred location will offer additional value protection.

FAISAL ALSHOWAIKH: This end of the market is very much priced on a supply and demand basis. I think the rates of increase will vary and will be driven by locations and the availability of new stock. ■

Vincent Tchenguiz, Chairman, Consensus Business Group.
Consensus provides advice to a family office on a real estate portfolio that included approximately £4.5 billion in commercial assets and residential freeholds, along with significant other investments in areas as varied as clean technology, health care and holdings in funds.

Alice Myers, Director, Head of Real Estate, Bank of London and the MIddle East PLC.
Alice joined BLME in April 2008 and has since grown the real estate business encompassing investment and development finance together with private client property services. She leads the overall strategy and manages transactions from inception to repayment. The bank provides facilities in relation to both commercial and residential properties. Alice graduated from Oxford University and has over 14 years' banking experience working in internationally facing roles. She started her career at the Bank of England, followed by Mitsubishi UFJ Trust International and Morgan Stanley.

David Irwin, Partner – Commercial Property, Teacher Stern Solicitors.
David joined Teacher Stern as a trainee in 1990. He is a commercial property lawyer involved in all types of investment acquisitions and disposals, including large portfolio transactions and major shopping centres. His broad commercial property experience extends to property finance, acting for both borrowers and lenders, and to tax-related property transactions, with a particular emphasis on stamp duty land tax mitigation schemes.

Faisal Alshowaikh, Head of Islamic Financial Services, Bank ABC – London.
Mr. Alshowaikh is the Head of Islamic Financial Services at Bank ABC, London, which he joined in April 2009. He has over 30 years' experience in Banking and Finance in the Middle East, South Asia and the United Kingdom. He has held important positions in the past, including as CEO of Asian Finance Bank (a subsidiary of Qatar Islamic Bank) which he set up in Malaysia in 2006.

Investment briefing: understanding the diamond market

Instantly recognisable, diamonds are deeply embedded in our culture as status symbols, items of beauty and, of course, as engagement rings. Most readers of *Arab Banker* either own or have bought diamonds at some time in their life. Yet the process by which diamonds are mined, cut, polished and sold – the road from the diamond in the ground to the ring on your finger – remains obscure to most people, even to those active in investment management and the commodities industries.

In the following article, *Arab Banker* describes the key players in the diamond industry and the production process, and then considers the investment performance that diamonds have achieved as an asset class.

Perhaps the most remarkable thing about diamonds – more remarkable than their beauty or their value – is that we have them at all. They are formed about 100 miles below the surface of the earth, in the zone known as the earth's 'mantle', at temperatures more than 1,000 degrees centigrade. And in the absence of volcanic eruptions occurring at unusually low depths in the earth's mantle, that is where the diamonds would stay.

But occasionally such 'deep-source' eruptions do occur, and if they occur underneath an area containing diamonds, then the diamonds are pushed upwards, and settle close enough to the earth's surface to be mined.

The deep-source eruptions create narrow 'pipes' of lava and it is these pipes that are the tell-tale sign that diamonds might be present.

It is possible for diamonds to be formed at or close to the surface of the earth – but you need an asteroid impact big enough to replicate the temperatures and pressures seen 100 miles below the surface. Diamonds have been found in this way, but only very rarely.

So – for any prospective diamond miners reading *Arab Banker* – lava pipes remain the best source of diamonds. But remember that no new lava pipes have formed since geologists first recognised their significance, over a hundred years ago.

Diamonds and other precious stones

The four most common types of precious stone are diamonds, rubies, emeralds and sapphires. Diamonds are subdivided into white diamonds and coloured diamonds.

White diamonds are transparent and colourless. If a diamond has a colour other than yellow or brown it is known as a coloured diamond. Coloured diamonds can be very valuable. In fact, the most valuable diamonds in the world are coloured diamonds.

Rubies derive their red colour from chromium and their value is primarily determined by the depth of their colour. Emeralds (also known as beryls) often have imperfections and are vulnerable to breakage. The best emeralds come from Columbia and, with the right shade of green, can be more valuable than diamonds. Sapphires are generally blue but also come in other colours. Sapphires and rubies are often found in the same area.

Six countries account for nearly all diamond production. Four are in Africa: Angola, Botswana, Congo and South Africa. Russia is another major producer, and the sixth is Canada.

The diamonds mined from lava pipes are 'rough diamonds'. Two companies account for two-thirds of the global production of rough diamonds: De Beers and ALROSA. De Beers has been owned by Anglo American (85%) and the Republic of Botswana (15%), since 2011, after the Oppenheimer family sold its 40% stake to Anglo American. ALROSA is a Russian company that is majority owned by the Russian government and regional or municipal authorities in Russia.

Rio Tinto and BHP Billiton are also considered significant diamond producers, each accounting for about 5% of global production.

These diamond producers sell their rough diamonds to accredited dealers, known as 'sight holders'. There are about a hundred companies worldwide that act as sight holders.

Sight holders either cut and polish the diamonds themselves, or sell them to companies who specialise in this work. Historically, a huge proportion of cutting and polishing took place in Antwerp, but much has now moved to lower-cost economies, such as India. Botswana, the world's most significant single source of diamonds, also has a large cutting and polishing industry.

After polishing and cutting, the diamonds are sold to jewellery manufacturers: these range from the 'non-branded' firms, most of whom are based in India and China, to regional retailers (Rosy Blue, Neil Lane Bridal and The Leo Diamond are among the best known), all the way to the luxury brands such as Gucci, Louis Vuitton and Chanel.

Companies such as Tiffany, Bulgari and Richemont fall into a special category of 'integrated specialised manufacturers', who manufacture their own jewellery as well as selling it.

Luxury brands – both those who manufacture and sell, and those who only sell – account for about 10% of the global diamond market.

But what are the economics of the diamond business? Is it profitable, and how do diamonds perform as an asset class?

Arab Banker spoke to André Abadjian, a senior diamond trader with Star Diamond, one of the world's leading rough diamond trading firms that generates more than $300 million annually in revenues from diamond sales. Star Diamond also advises both individuals and corporations on purchases of precious stones

Beginning with the fundamentals of the business, Mr Abadjian explains that the production of new diamonds is stagnating – there have been few new discoveries in recent years and levels in ten years time are projected to be around the same level as they are today. In contrast, demand is increasing as newly wealthy individuals in emerging markets such as India, China, Russia and the Middle East start buying diamonds.

It is worth noting that no single producer is powerful enough to control the diamond market. When De Beers controlled 80% of the sales of rough diamonds, it retained stock or released it into the market in order to control prices. But this arrangement (known as the Central Selling

What makes a precious stone valuable?

Each gemstone is unique and no universally accepted system has been developed for grading them. However, in practice the '4C' system (developed in 1950 by the Geminological Institute of America) is used to compare and value gemstones.

Carat: Gemstones are weighed in 'carats', and each carat is divided into 1,000 'points'. Five thousand carats are equivalent to one kilogramme: so a 10-carat stone weighs two grammes. One of the most famous diamonds in the world is the Krupp Diamond, bought by Richard Burton for Elizabeth Taylor. The Krupp had 33 carats and was flawless. Burton paid $305,000 for it in 1968, and it was sold at auction after Taylor's death in 2011 for $8.8mn.

Clarity: This is a measure of internal flaws (known as 'inclusions') and impurities. The existence of such flaws and impurities reduces the ability of light to flow through the stone, and so reduces the stone's value.

Colour: Some stones, such as white diamonds, are without colour, while others have a range of colours, depending on the type of stone. Distinguishing and valuing colours is the most difficult of the four criteria to judge.

Cut: Precise and well-executed cuts increase the value of a stone. The quality of a cut can be tested by shining light through the stone.

For non-diamond gemstones, origin is also an important factor driving value.

Why are some diamonds coloured, rather than white?

Not all diamonds are white. In fact the market for coloured diamonds is currently one of the most exciting areas of the precious stone business. Coloured diamonds are graded from 'faint' to 'dark' depending on the strength of the colour and, if the colour is strong enough, the stone may be termed a 'fancy' coloured diamond. Natural fancy diamonds are very rare and can be extremely valuable. Red-coloured stones are the most valuable, followed by green, blue, pink and mauve/purple.

Yellow, orange and brown colours are caused by the presence of nitrogen. Violet is caused by hydrogen and green by exposure to gamma rays deep below the earth's surface. Blue colour is usually caused by boron, while red, purple and some brown stones gain their colour from a deformation in the chemical structure of the diamond itself. (Known as 'graining' this deformation is not an impurity and so does not reduce a stone's value.)

The eight step process from the mine to the finger

The journey of a precious stone from the mine to the ring on your finger comprises eight steps:

Exploration: searching for diamond mines and, once found, developing them so that diamonds can be extracted

Production: removing the rough stones from the mine and processing them

Rough sales: inspecting, classifying and selling the rough stones to accredited industry dealers

Cutting and polishing: transforming the rough stones into commercially marketable stones by cutting and polishing them

Polished Sales: the polished stones are sold to dealers or jewellers for use in jewellery manufacturing

Jewellery Manufacturing: the stones are transformed into jewellery items that are ready for sale

Retail sales: more than a quarter of a million retailers sell jewellery around the world

Consumer demand: millions of people around the world want to own jewellery

Organisation: CSO) ended in 2000. The ending of the CSO had a huge impact on the diamond market: producers now manage their own sales to sight holders; prices are driven by market forces; and few players, at any point in the production chain, maintain inventory.

Diamonds have performed well as an asset class in recent years, though there is a big distinction between the performance of larger, more valuable diamonds, and those that are smaller and suited to the retail market.

Figures produced by the Rapaport Group (which produces authoritative statistics on diamond prices) show that 5-carat diamonds generated a compound average growth rate (CAGR) of 9.83% during the ten years to the end of 2013. The only significant asset class that achieved a higher return was gold, with 11.3%. The Nasdaq returned 7.57% and the Dow Jones 4.65%. The MSCI showed an average return of 6.1% over the same period.

Three-carat diamonds showed a CAGR of 8.32%, still enough to beat the Nasdaq, Dow Jones and MSCI indexes, and even a one-carat diamond outpaced US inflation and the return on one-year treasury bills.

But Mr Abadjian points out that diamonds have displayed lower volatility of returns than stock markets and their returns are negatively correlated: when stock markets do badly, diamonds tend to do well.

But are diamonds really an asset class, like stocks, bonds or precious metals; or are they simply items that we buy for their beauty, status and emotional value, hoping that, expensive as they are, they will retain their value?

The collapse of the CSO has certainly made the diamond market behave more like the markets for other commodities. Grading of diamonds is conducted according to established standards by reputable organisations: those of the Geminological Institute of America (GIA) are the best known, but similar institutes exist in Europe, including Antwerp, and in Australia. Processes and procedures for transporting, storing and registering stones are well established.

Star Diamond's Mr Abadjian is so confident in the structure of the market, and its investment potential, that he hopes to start a fund dedicated to investment in precious stones. He sees a particular opportunity for firms that can move quickly when exceptional stones come onto the market and have the financial strength to hold inventory until the right buyer – either a wealthy individual or a high-end manufacturer – is looking to buy.

So whether your interest in diamonds – and other precious stones – is purely aesthetic, or whether you're looking for the next hot asset class, keep an eye on diamonds. This is a market on the move.

Star Diamond Group is an International Company with a show room by appointment in London and four other centres. www.stardiamond.com. ■

Comparison of investment returns of different asset classes

	Gain over 10 years (%) End 2004–End 2013	Compound average growth rate over 10 years (%) End 2004–End 2013
Gold	191.8	11.30
5 carat diamond	155.5	9.83
3 carat diamond	122.3	8.32
NASDAQ	107.5	7.57
Platinum	69.0	5.39
Dow Jones	57.6	4.65
1 carat diamond	47.7	3.98
U.S. Inflation (CPI)	26.5	2.38
U.S. Treasury bills (one year)	19.3	1.78
0.5 carat diamond	9.2	0.88
$ per Euro	8.6	0.83
Yen per $	2.9	0.29

Data from Rapaport, cited by Star Diamond.

Another year of progress, including new initiatives

The Arab Bankers Association has been active since the last edition of *Arab Banker*, not just holding our technical seminars and social events, but also expanding our range of activities to include lunch briefings for corporate members and contacts between senior Arab Bankers and the UK regulatory authorities.

The Arab Bankers Association (ABA) has held three expert seminars since the last edition of *Arab Banker* magazine, and two social events.

The expert seminars focussed on recent changes to the way in which UK banks (and in particular branches and subsidiaries of foreign banks) are supervised; recent developments in international oil markets; and the state of the UK real estate market, including the tools available to finance it, both through conventional banking and Islamic banking.

These seminars are held in the evening at the ABA's offices in the Arab British Chamber of Commerce Building in London's Mayfair. They start at 6pm and are followed by a buffet dinner where participants can talk informally the speakers, while also meeting old friends and making new ones.

When possible, presentations are published on our website (*www.arab-bankers.co.uk*: see the tab 'Events').

Our Annual Gala Dinner was held on 19 November 2014 and attracted more than 250 people from London and abroad. It honoured Mr Raymond Audi, the chairman of Lebanon's Bank Audi, for his work as a banker and for his work as a philanthropist and patron of the arts.

The Association's Christmas Party was held on 16 December and guests were entertained by jazz musicians and a raffle that left most of the guests heading home with a gift.

A new development during the last year has been the introduction of Corporate Members' Lunches. These are small events to which Corporate Members may send a delegate (which, depending on the subject matter, is not necessarily the Chief Executive). The first lunch addressed changes to the UK Tax Regime, while the second addressed requirements of the US Foreign Account Tax Compliance Act (FATCA) and related requirements that are expected to come into force over the next few years.

Another new initiative was the meeting of 13 CEOs of branches and subsidiaries of Arab banks in London. The meeting was called by the ABA in response to members' concerns about the increased burden of regulation on senior management time and, in some cases, concerns over the proportionality and consistency of some regulatory initiatives. As a result of the meeting, which was held on 13 April 2015, the ABA invited officials from the Prudential Regulation Authority to meet with the CEOs to discuss their concerns. That meeting took place on 25 June and was found to be constructive and helpful.

Traffic on the Association's website continued to increase during 2014. The new website was launched in February 2014, and the number of users and the number of 'views' is now two and a half times what it was under the old site – and it is still increasing. The second edition of the re-launched *Arab Banker* magazine, which was published in September 2014, was well received and economically viable for the Association. This is the third edition.

The Arab Bankers Association is led by George Kanaan, the Chief Executive Officer. George is assisted in the London office by Huda Lahiani, Acounts and Administration Officer, and by Joumana Karam, the Membership Secretary. Carol Hovsepian Business and Development Officer, helps George from Beirut. Andrew Cunningham is the Association's Editor in Chief, overseeing content for the website and producing publications, including the *Arab Banker* magazine.

In September 2014, four new Board members were elected: Tarek Amer, from National Bank of Egypt (UK), Fuad Khadder from HSBC, Charbel Khazen from Gulf International Bank and Bert de Ruiter from QIB (UK). Two members left the Board: Gaby Fadel, of Byblos Bank Europe and George Kardouche, a former ABA Chairman. The Association is grateful to Gaby and George for their years of service to the Association. ■

George Kanaan, Chief Executive of the Arab Bankers Association

Joumana Karam, Membership Secretary

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 2015, 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-border 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.

Tarek Amer (ABA Board member since 2014)
Tarek is the Chief Executive Officer and Managing Director of National Bank of Egypt (UK) Limited, the London-based subsidiary of National Bank of Egypt. He is based in London. Prior to holding this position, Tarek had been Chairman of National Bank of Egypt since 2008. Before working for National Bank of Egypt, Tarek spent five years as Deputy Governor of the Central Bank of Egypt where he led the Bank Restructuring Programme and the central bank's monetary policy management. Earlier in his career, he had held senior positions in Citigroup and in Bank of America.

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.

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.

Fouad Khadder (ABA Board member since 2014)
Fouad is Managing Director, Head of Institutional Private Client Group, for the MENA region at HSBC Private Bank in Geneva Switzerland. Before joining HSBC, Fouad spent nearly 20 years with American Express Bank, holding a variety of positions that culminated in a posting in New York as Regional Head of Treasury. He has been with HSBC for nearly 12 years, working in the bank's hedge fund business and its investment division. He holds a BA in Economics from the American University of Beirut and a Masters in Law from the University of Oxford.

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

Bert de Ruiter (ABA Board member since 2014)
Bert was appointed Chief Executive Officer of QIB (UK) with effect from March 2014. He 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, Bert held a wide range of senior banking positions at Lloyds Bank, including CEO of the bank's operations in Dubai and country manager in the Netherlands. A Dutch national, Bert began his banking career at ABM AMRO Bank. QIB (UK) is a 100% subsidiary of Qatar Islamic Bank.

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.

Mr George Kanaan, Mr Raymond Audi, Mrs May Ogden-Smith and Baroness Warsi

ABA Annual Gala Dinner: Raymond Audi receives award for Distinguished Service

Mr Raymond Audi, Chairman of Bank Audi, received the Arab Bankers Association's Award for Distinguished Service to Arab Banking at the Annual Gala Dinner on 19 November 2014.

The Arab Bankers Association's Annual Gala Dinner is the premier social event in London for the Arab banking community, attracting more than 250 people from London and abroad.

The Dinner always includes the presentation of an Award for Distinguished Service and, as well as the after-dinner speakers, it includes a charity auction and entertainment.

Mr Raymond Audi received the 2014 award not only for his decades of service to Bank Audi but also for his work as a patron of the arts and as a philanthropist. Guests at the Gala heard about Mr Audi's collection of mosaics, now housed in Bank Audi's former management building, about the Audi Foundation's work to restore old buildings in Sidon, and about his patronage of Lebanese artists.

Lady Olga Maitland, a former member of Parliament and President of the Defense and Security Forum, introduced the keynote speaker, Baroness Sayeeda Warsi, the first Muslim to serve in a British Cabinet. A former Chairman of the Conservative Party, Baroness Warsi resigned as a Government minister in 2014 in protest at the government's policy on Gaza.

Later in the evening, two paintings by Chant Avedissian and Jean Marc Nahhas were auctioned to raise money for Teach for Lebanon, a charity that enables underprivileged Lebanese children to continue their education when their family circumstances would otherwise have led them to leave school and look for work.

Tenors Unlimited, a group of three professional opera singers, then entertained guests with songs from classical opera and popular musicals. Spencer Wood, a magician and mind reader, toured the tables, astonishing guests with feats of magic.

Many banks bought corporate tables at the dinner, including Qatar Islamic Bank, Europe Arab Bank, British Arab Commercial Bank, Blom Bank and HSBC. ■

L–R: Baroness Warsi, Soulaf Kanaan, Rose Issa

Ziad Akrouk, Europe Arab Bank and Tarek Amer, National Bank of Egypt (UK)

L–R: Fawzi Dajani (National Bank of Kuwait Interntional), Lady Olga Maitland, George Kanaan

Chahdan Jebeyli, Bank Audi

Tanya Naaman and Guy Oppenheim

Tenors Unlimited entertain the guests

Understanding new regulations on Financial Conduct and Financial Crime

Simon Hills, British Bankers Association

Officials from the UK's Financial Conduct Authority (FCA) and from KPMG briefed ABA members and their colleagues on the new regulations governing how banks should behave and how they should ensure that they are not being used for criminal purposes.

Julia Hoggart, who heads the supervision of investment banks at the FCA, led the presentations and was followed by Colin Darby, a senior manager at KPMG who specialises in financial crime and anti money laundering requirements. Simon Hills, Executive Director at the British Bankers Association, introduced the speakers. The seminar was held on 2 December 2014 and was sponsored by KPMG. ■

Colin Darby, KPMG

Julia Hoggart, Financial Conduct Authority

Stephen Blythe of Arab National Bank and Kevin Holt or Europe Arab Bank

Amitabh Singhania and Louis Vallance of Emirates NBD

John Downe

Christmas Party attracts members and friends for festive celebration

The ABA's Christmas Party was held in the reception rooms of the Arab British Chamber of Commerce on 16 December and attracted more than 80 members and their friends.

Guests were entertained by jazz musicians and a huge variety of gifts from local organisations was presented through the raffle. The party was sponsored by National Bank of Egypt. ■

George Kanaan introduces Shaf Ali, Belleveue Mortlakes (L) to ABA Chairman Abdulaziz Al-Khereiji

Carol Duncan and Kristina Bobs

Soulaf Kanaan and Simon Abirached

Osama Al Ayoub, CEO of the Kuwait Investment Office speaks to Vivien Davies, ABA Corporate Secretary

HE Alain Economides and Bahaeddine Bassatne

George Kanaan shares a joke with Sanne Govers and Ian Walker of MEC International

Wim Thomas, Shell International

Dr Carole Nakhle and Dr Paul Horsnell

Dr Gavin Graham

Expert views on the oil market and the future for oil prices

Five eminent oil experts gave their perspectives on oil markets and oil prices at an ABA seminar on 11 May.

The seminar was introduced by Dr Gavin Graham of Petrofac, and included presentations by Wim Thomas, Chief Energy Advisor at Shell International, Dr Paul Horsnell, Head of Commodities Research at Standard Chartered Bank, Lord Howell of Guildford, and Dr Carole Nakhle.

After the presentations, ABA members and their friends enjoyed a buffet dinner on the terrace of the Arab British Chamber of Commerce Building.

The event was made possible through the sponsorship of BB Energy. ■

Expert presentations on London real estate and real estate finance

The ABA's seminar on real estate and real estate finance drew a big crowd on 18 June 2015.

Sophie Chick and Ben Raywood from Savills gave details of current trends in the London property market, while Maisam Fazal of Al Rayyan Bank and Wasim Khan of Norton Rose Fulbright addressed aspects of Shari'a-compliant real estate finance. Michael Bowles, from National Bank of Kuwait International, discussed trends in commercial real estate, and Simon Murphy, from the Battersea Power Station project, updated participants on the development of one of London's iconic buildings – and one of the biggest real estate developments in Europe

After the presentations, the weather smiled, and participants were able to spread onto the terrace to enjoy a buffet dinner. ■

Yusuf Meshieh and Barry Wilson

Ben Raywood, Savills

Maisam Fazal, Al Rayyan Bank

Fouad Shakhashir, Lloyds Banking Group

Corporate Members' lunches provide a new forum to exchange information and ideas

The Arab Bankers Association held two lunches for corporate members over the past year.

The first lunch, sponsored by Smith & Williamson, was held on 30 January 2014 and focussed on changes to the UK tax regime that will affect high net worth individuals and offshore corporations. The lunch was led by Roy Baldwin, the head of Smith and Williamson's Tax Investigations and Disputes department, and by two of his senior colleagues.

The key message from the Smith & Williamson team was that the UK tax authorities are increasingly adept at identifying taxable revenue, and that they are taking an increasingly hard line against those who try to avoid paying what is due.

The second lunch was sponsored by Allen & Overy, E & Y and AxiomSL on 6 March 2014, and focussed on the requirements of the US Foreign Tax Compliance Act (FATCA), and the forthcoming Common Reporting Standards (CRS) under which 50 countries will automatically exchange a common set of data about offshore account holders.

One of the key learning lessons from the lunch was that it is possible to develop FATCA reporting systems that will be scalable for use with CRS reporting requirements, whenever they are introduced.

ABA corporate members are entitled to send a representative to these lunches and in practice they send executives who are most suited to the subject matter. For example, several of the people attending the Smith & Williamson lunch were responsible for their banks' human resources and staffing. ■

Bert de Ruiter, QIB (UK) and Faisal Al Showaikh, ABC Bank

Matthew Tucker, BLME and Lee Blackshaw, Smith & Williamson

And we also play golf!

The Arab Bankers Association's Golf Society held its inaugural event on 5 March at Richmond Golf Club, in south-west London.

ABA Member David Douglas of Fides Trust organised the Association's first golf afternoon. There were prizes for the overall competition (won by Jonathan Carr), and for the shot 'nearest the pin' (won by Phil John) and for the longest drive (won by Jez Drayton).

The golf was preceded by a light lunch and followed by drinks and refreshments.

The Association encourages members to come forward with ideas for other sporting or social events that could be of interest to members: we will be happy to publicise such events on our website and through mailshots to members and friends, and if numbers are sufficient, we may be able to provide other support. ■

Arab Bankers Association
جمعية المصرفيين العرب

Phil Long, prize for 'nearest the pin'

Jonathan Carr, overall winner

Palestinian culture: a younger generation finds new audiences in the diaspora

Nearly 70 years after the dispossession of Palestine and the creation of the first generation of Palestinian refugees, it is difficult to find reasons for optimism or joy in the dismal plight of the Palestinian people. But perhaps one area for hope lies in the commitment of young Palestinians – many of them born after the second great dispossession in 1967 – to maintain and enrich their Palestinian culture.

Palestinian writers, filmmakers, musicians, poets and artists are achieving great success – and widespread recognition – on the European arts stage, and especially in London. In the following article, Pam Smith, a London-based writer who has closely followed the Palestinian arts scene for more than 30 years, describes some of the brightest lights in the constellation of Palestinian artists. If you have not heard of them already – you soon will!

The younger generation of the Palestinian diaspora is following in the footsteps of great pioneers, such as Mahmoud Darwish, Salma Jayyusi, Leila Shawa, Mona Saudi, Kamal Boullata, Mustafa Abu Ali, Mai Masri and the venerable writer and literary critic, Edward Said. And the new generation is showing that it is worthy of those who have gone before and that it has a confidence, imagination and authenticity of its own, both in narratives and images.

The result is a dramatic re-affirmation of Palestinian identity and, perhaps just as important, an inspiring vision of what the Arab world in general stands to gain once it can move beyond its own troubled past and present.

Playwright and poet Dalia Taha is just one example. Her first play, *Keffiyeh/Made in China*, premiered in Brussels before touring seven Palestinian cities across the West Bank. Now 28 years old and studying in the US, she was selected for an International Residency at London's renowned Royal Court Theatre in Sloane Square in 2013. The result of her

stay at the Royal Court, *Fireworks,* offers a new way of seeing how war fractures childhood. It opened to huge critical acclaim at the Jerwood Theatre last February.

Significantly, Taha is also succeeding in making a broader public realise that Palestinian artists can be just that – artists – and not just people caught up in a politics and polemics. "Art in its essence always challenges power structures," she told *The Guardian.*

"It's always responding to politics. But at the same time, it is art, so it's also doing something else. It's playing with aesthetics and form. I'm trying to respond to both," she says. "That's why I hate questions like, 'How was it to grow up in Palestine?'"

In April 2016, the Arcola theatre in London's increasingly-fashionable East End will present *Scenes from 68* Years*, a new play about the Israeli occupation written by the

Still from Muayad Alayan's *Love, Theft and Other Entanglements*

Palestinian culture: the film scene

Thanks to the London Palestine Film Festival (PFF), founded in 1998, films and documentaries about Palestine and Israel, as well as about Palestinian refugees and Palestinians in the diaspora have become an accepted part of the British arts scene. The London festival has also acted as an inspiration for similar festivals in Canada (Toronto), the US (Boston) and UK venues outside London (Bristol).

Although the London Festival had to be suspended this year due to a lack of funding, its success over the past 17 years, along with the research and media coverage that it inspired, continues to influence venues and would-be patrons around the UK.

This summer, the Barbican – the PFF's partner since 2005 – scheduled a showing of Jerusalem director Muayad Alayan's humourous drama, *Love, Theft and Other Entanglements* as part of its East End Film Festival. The film tells the story of a Palestinian refugee who steals to bribe his way out of Palestine, but whose actions only serve to get him into further trouble: a story that Alayan feels is a universal one about human beings and how they act under circumstances that are difficult to bear. A firm believer in what he calls "grass roots filmmaking," Alayan says that for him, cinema "has always been a medium where people from different backgrounds, with different skills and talents, come together to create stories – stories to be shared with the world beyond the limitations of geography or culture."

In contrast, Palestinian-British filmmaker Leila Sansour, has focussed specifically on her home town of Bethlehem after winning accolades for her 2003 feature documentary, *Jeremy Hardy versus The Israeli Army*. Her most recent film, *Open Bethlehem,* was screened at London's Royal Geographic Society in September 2014 and won high praise from critics, including the television presenter, Jon Snow, who described it as "one of the most remarkable and moving documentaries I have seen." The screening was followed by a discussion between Sansour and British writer and broadcaster Melvyn Bragg which asked the question: "Should we save Bethlehem?" – a reference to the dramatic changes taking place as a result of the Israeli occupation.

Rich Mix, a cultural centre and cinema in Shoreditch in London's East End, also hosts a wide variety of films, events and exhibitions about Palestine and the Middle East, including the Shubbak Festival of contemporary Arab culture, which is held annually in July. The July 2014 Subbak Festival broke new ground with *The World is With Us,* a month-long exploration of Palestinian poster art and archive film footage, once thought lost, from the days of Palestinian revolutionary struggle in the 1960s and 1970s.

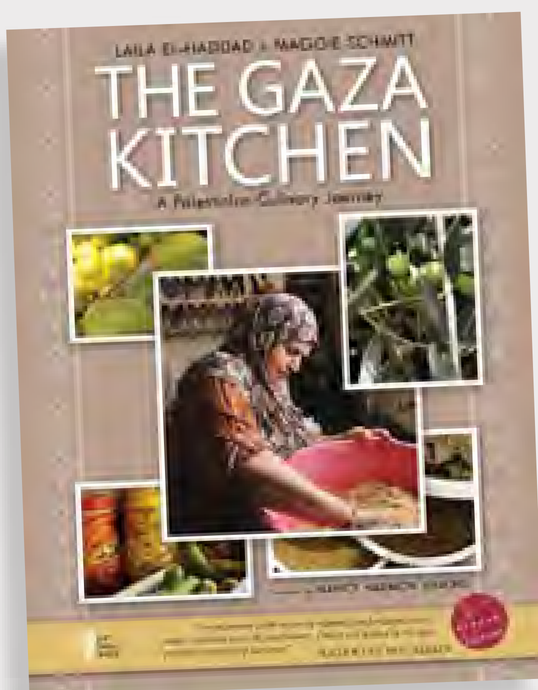
The 2015 festival turned its attention to the Palestinian diaspora, with a showing of Dubai-based Hind Shoufani's poetic narrative, *Trip Along Exodus*. Drawing on VHS, 8mm, 16mm, HD video, photographs and animation, the film tells the story of the journey that Shoufani's father Elias made from Galilee in 1948 to Princeton in the 1960s; and from Beirut in the 1970s to Syria, covering both his huge intellectual influence as well as his participation in the Palestinian Revolution.

Palestinian cuisine: from Gaza with love

Laila El-Haddad, a Palestinian writer and journalist who first found fame with her blog from Gaza, *Gaza Mom*, will be in London in October 2015 as part of a European tour to promote *Gaza Unsilenced*, a collection of short but powerful essays about the devastating Israeli assault on Gaza last year.

But many in her prospective audiences will want to question her about another of her books, *The Gaza Kitchen*, which she co-authored with American anthropologist and writer, Maggie Schmitt.

Sub-titled *A Palestinian Culinary Journey*, the richly illustrated book covers everything from meats, seafood, vegetables, salads, rice, soups, mezze and desserts, to tips on how to use the ubiquitous *zibdiya* – the mortar and pestle that is necessary for the preparation of almost every dish.



While the book is introducing us to new tastes, we also discover the history of an ancient cuisine developed at the crossroads of Europe, Asia and Africa; a cuisine with unique blends of sour pomegranate juice, tamarinds, sesame seeds, dill, hot peppers and lemons.

And perhaps yet more warming, and loving, than the food are the stories of the women (and sometimes men!) who collaborate in the kitchen over many hours of laughter and dedication, replete with stories of their families, their friends, their neighbours, and their compatriots.

One of Britain's most famous authorities on Mediterranean food, Claudia Roden, wrote of the book:"Intriguing, homely and delicious, the recipes are familiar as broadly Middle Eastern, but they are distinctly Palestinian and many also uniquely of Gaza … more herby, spicy, peppery, lemony …"

Roden added that the recipies also give us, "A rare insight into the intimate everyday lives of engaging people who grow vegetables and herbs and raise pigeons and rabbits on their rooftops even as they lament their predicament."

Palestinian-Irish writer, Hannah Khalil. Her 2013 award-winning play, *Bitterenders*, about a Palestinian family in Jerusalem that is forced to share their house with Israeli settlers, draws its inspiration and dark humour from the Irish playwright, Samuel Beckett and his 'theatre of the absurd,' as well as from the popular British TV comedy of the 1970s, *Steptoe and Son*.

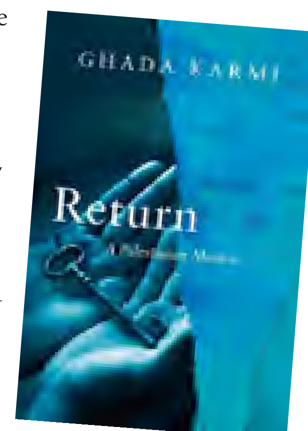
Ahmed Masoud, a writer and director, arrived in London from Gaza in 2002 and financed part of his studies by dancing the *dabke* and later setting up the now famous Al Zaytouna theatre and music group. It recently toured Europe with its dance adaptation of Shakespeare's Henry V.

Not content with that artistic form, Masoud has also written a play which was reportedly funded in part by the organisation 'Jews for Justice for Palestinians'. Entitled, *Go to Gaza, Drink the Sea*, it was staged in London and Edinburgh in 2009. Another of Masoud's plays – *Walaa*, 'Loyalty', about the crisis in Syria – was funded by the UK Arts Council in 2014. Masoud's book, *Vanished: The Mysterious Disappearance of Mustafa Ouda*, which explores the question of friendship in the midst of political unrest, was launched at London's School of Oriental and African Studies in June; an earlier version won a Muslim Writers Award from Penguin Books.

June 2015 saw the participation of Paris-based artist Hani Zurob in *The Map is Not the Territory*, an Exhibition at the P21 Gallery in London's Kings Cross which looked at the themes of invasion, occupation and colonisation as experienced by Palestinians, the Irish and Native Americans. Since winning the A.M. Qattan Foundation's Young Artist of the Year Award in Ramallah in 2002, Zurob has been resident artist at the Municipality of Paris, the Cité Internationale des Arts in Paris and at Le Cube in Rabat. He was also listed as one of The Huffington Post's "10 International Artists to Watch in 2013."

Palestinian refugee poet Rafeef Ziadah was chosen to represent Palestine at London's 'Poets Olympiad' in 2012, after two of her poems, *Shades of Anger* and *We Teach Life, Sir*, went viral following their release online in 2011. Based in London, she joined the Palestinian refugee hip-hop group, Katibeh 5, from Beirut to appear alongside Palestinian rappers DAM during their UK tour last year. Since then she has been conducting poetry workshops at the South Bank, as well as continuing to work as a human rights activist.

What unites these writers, artists and musicians is a common commitment to explore their Palestinian heritage in ways that reflect the growing diversity of their experiences in the diaspora. For some, like the best-selling Palestinian-American novelist, Susan Abulhawa, that may mean recognising, as she told an audience in London in June, the importance of translating her work into Hebrew – "one of the languages of Palestine," as she put it – while at the same time supporting a cultural boycott of Israel.



For others, the primary focus is to preserve their artistic integrity and freedom to express their visions unimpeded by dominant political agendas. Whatever the case, their audiences, readers and listeners – Palestinian, Arab or otherwise – can only relish the new diversity on offer. ■

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Books on Libya

The Libyan Revolution and Its Aftermath

Edited by Peter Cole and Brian McQuinn

2015, Hurst & Company, London. £30.00. 416 pages

Libya, from Colony to Revolution

Ronald Bruce St John

Second Edition, 2012, Published by Oneworld, Oxford. £10.99. 328 pages

Exit the Colonel

Ethan Chorin

2012, Public Affairs, New York. $29.99. 374 pages

Libya: Whose Land Is It?

Mary Fitzgerald and Tarek Megerisi

Legatum Institute, London 2015. 32 pages

Colonel Gaddafi's Hat

Alex Crawford

Collins, London. £14.99. 296 pages

The fall of Muammer Gaddafi led to many new books being written on Libya and several updates of books that had been published before the start of the Libyan revolution in February 2011 and the killing of Gaddafi in October that year.

Of the books reviewed here, only Cole and McQuinn's ***The Libyan Revolution and its Aftermath*** addresses in detail the events that occurred during the revolution. It comprises 14 essays, with the first seven describing events related to the overthrow of Gaddafi, and the second seven describing the role that specific groups (such as Islamists, military battalions from Misrata, the Tebu tribes in the south) played in the revolution, and the historical factors that motivated them.

The contributors to the book are exceptionally well informed. All had at least three months of experience in

Libya working on the topics that they would write about, and some were intimately involved in the events that they describe: Ian Martin, who writes about the support given by the United Nations to the revolutionary groups, led the UN Mission to Libya from September 2011 until October 2012. Markieke Wierda, who writes about 'transitional justice' (in simple terms: addressing past abuses) is a lawyer who has handled war crimes cases.

Some of these essays are just too detailed for the general reader, although they will surely stand for years as a reference for those wanting to know the intricate details of the revolution. Surprisingly, the book contains no maps.

But the editors' introduction and Dirk Vandewalle's opening essay provide good overviews of what happened and they explain how the international response was shaped by the experience of other events, such those in Rwanda and Kosovo. The essays on Libya's Tebu people, on the borders of Sudan and Chad, and on the Tuareq, on the borders of Niger and Algeria, provide the non-specialist reader with particularly interesting insight into the significance of Libya's southern border regions, although again maps would have been helpful.

Ronald Bruce St John has written extensively about Libya for many years and his encyclopaedic knowledge of the country's history shines through in ***Libya, from Colony to Revolution***. The book begins with the early history of Libya and takes the reader through the Ottoman and Italian occupations to the creation of the United Kingdom of Libya in 1951. But the bulk of the book focuses on the period after Gaddafi's seizure of power in 1969. The narrative ends in October 2012.

St John is good on how Gaddafi managed Libya and the development of Gaddafi's own ideology. He is also strong on Libya's international relations, particularly with African states. The book is well written and accessible to the general reader. It has a useful chronology at the start and maps are included when needed. There is also an extensive guide to further reading.

Ethan Chorin was the US Commercial Attaché in Tripoli from 2004 until 2006, a time of intense US engagement with Libya, and he has remained involved in Libyan issues since then.

Exit the Colonel sketches the consolidation and development of the Gaddafi regime in less detail than St John, but Chorin has a sure touch for key developments: an attempted coup in 1975, the effective abolition of private property in 1978 and 1979; the outlawing in 1980 of teaching in any language other than Arabic. He is clear about the significance of the Abu Slim prison massacre in 1996 when government forces killed about 1,250 prisoners.

Chorin is particularly good on the Western re-engagement with Gaddafi after the 2003 deal on weapons of mass destruction and on the apparent efforts of Saif al-Islam, Gaddafi's son, to reform and liberalise the Libyan economy.

Some aspects of the re-engagement were comical (and not just in retrospect). Pandering to Gaddafi's vanity, the US government arranged for globally-recognised writers and thinkers, such as Francis Fukuyama, to visit the Colonel in Libya and exchange views, peer-to-peer, on issues of political theory and global politics.

The Legatum Institute is a London-based think-tank and educational charity focussed on promoting prosperity. ***Libya: Whose Land Is It?*** is a case study published by the Institute that addresses the specific issue of land use and property rights during Gaddafi's rule and since the revolution. Published in April 2015 – a time of intense political uncertainty and violence in Libya – the study begins by recognising that, "in the current context, any discussion of land, housing and property rights can seem irrelevant." But it continues, "Without a deep knowledge of the history of Libyan property rights, both before and after the revolution, it is impossible either to understand how Libyan politics came to deteriorate so quickly, or to design a realistic path out of the current crisis."

The study describes how the Gaddafi regime redistributed land and property to favoured groups. Many confiscations were effected through Gaddafi's *fiat* but in 1978 Law 4 enabled all tenants to acquire ownership of their rented accommodation. In 1980, the land registry office, with all property records, was destroyed by fire. In the years before 2011, the regime took tentative and ineffective steps to re-instate or compensate property owners, but the difficulty of addressing the problem is evident from the estimate that up to three-quarters of Tripoli's population may now be living in or using confiscated property. A United Nations study cited by the authors estimates that as many as 1.5 million people could be displaced in Tripoli if seized property is simply returned to its original owners.

The study includes short appendices on how problems related to property rights have been addressed in Iraq, since the fall of Saddam in 2004, and in Cyprus, in the years following the Turkish invasion of 1974.

For those without the time to read a book on the Libyan revolution, the Legatum Study is quick to read and offers some telling details and insights.

Alex Crawford reported for Sky News on the battle for Zawya in March 2011 and on the fall of Tripoli. The title of her book, ***Colonel Gaddafi's Hat*** refers to the looting of Azziziya Barracks – Gaddafi's military and administrative centre near Tripoli: one of the looters emerged wearing Gaddafi's hat. The book gives a good account of the bravery of news reporters (and their cameramen, sound recordists and others) who covered this and other conflicts, but it is not (and is not intended to be) an account of the Libyan revolution and its origins.

The books reviewed here are only a selection of those now available. Alice Pargeter, an academic and consultant who has written books on Islam and the Muslim Brotherhood, published *Libya, the Rise and Fall of Qaddafi* in 2012, and Dirk Vandewalle has updated his *History of Modern Libya*, to include the last years of Gaddafi's rule and the start of the post-Gaddafi era.

Of the books reviewed here, Chorin's is most likely to appeal to readers of *Arab Banker* in view of its focus on Libya's recent history and of Chorin's background as a Commercial Attaché. An updated version, to take the narrative beyond 2012, would be very welcome.

St John's is the book to read for those wanting a long historical overview or to dip into particular aspects of Libyan history. As for Cole and McQuinn's book, reading just one or two of the articles will give the reader an insight into the complexity of the revolution and the reasons why sustained, coherent and unified progress since the overthrow of Gaddafi has been so difficult to achieve. ■

Andrew Cunningham

Book reviews

A Beirut Anthology, Travel Writing Through the Centuries

Edited by T.J. Gorton

158 pages

A Cairo Anthology: Two Hundred Years of Travel Writing

Edited by Deborah Manley

150 pages

Both published by The American University in Cairo Press, distributed in the UK by I. B Tauris. Both are priced at £11.99

These delightful little books comprise extracts from the writings of travellers who have visited and observed Beirut and Cairo. Excellent as travelling companions during a visit to either of the cities – or as light airplane reading – they also show how perceptions of the Beirut and Cairo have changed over the centuries.

The ***Beirut Anthology*** takes a chronological approach, beginning with the myths surrounding the city's foundation and ending in the first half of the twentieth century. The ***Cairo Anthology*** is structured thematically, recording the reactions of travellers to the city's antiquities and notable sites such as the Citadel, the mosques and streets, and the Pyramids and Sphinx. As a result, the Beirut book is more of a historical record, while the Cairo book is more of a travelogue.

The extracts are short – each takes only a minute or two to read. The books are well produced and easy to carry – they are shorter and smaller than their page lengths imply.

Most of the Beirut extracts are from the writings of French travellers: Gérard de Nerval and Gabriel Charmes feature prominently, but there are also accounts by British travellers such as Henry Maundrell and David Urquhart (the latter a Scottish diplomat who first promoted Turkish baths in Britain on his return from the East). Mark Twain features as one of the few Americans.

Not all descriptions of Beirut are positive: many writers decry the ruin of the port of Beirut after the reign of Fakr El-Din (the construction of a new harbour began only in 1889, according to Baedeker); and Beirut is no match for the cultural snobbery of T.E. Lawrence (Lawrence of Arabia). But most are positive, with writers celebrating the diversity and the energy that Beirut has always had to offer.

The Cairo anthology spans the two hundred years from the mid-eighteenth to the mid-twentieth centuries. The late nineteenth century – the high point of British political interest in Egypt – provides particularly rich pickings.

These two books are the first in a series of travel anthologies being published by the American University of Cairo Press. The third in the series, An Alexandria Anthology by Michael Haag, is already available, and will soon be followed by anthologies on Istanbul and the River Nile. Let's hope the publishers will also give us collections from the Maghreb and from the Arabian Gulf. ■ *A.C.*

Foundations of Shari'a Governance of Islamic Banks

Karim Ginena and Azhar Hamid

Published by Wiley. £60. 383 pages

This is a timely and important book. Explanations of Shari'a governance and recommendations for best practices do already exist, but they usually take the form of academic papers or formal standards and regulations. This book provides a detailed examination of the scope of Shari'a governance, how it impacts banks' risk profiles, and the internal structures through which strong Shari'a governance can be established and maintained.

Both authors combine strong academic qualifications with experience of working inside Islamic banks.

Those who are new to Islamic finance will find this book difficult, but for readers with a basic familiarity of Islamic banking it is a treasure trove of information and guidance.

The authors define Shari'a governance as, "the overall system that manages the conformity of the activities of Islamic banks and financial institutions to the precepts of the Shari'a pertaining to transactions." In simple terms: how does an Islamic bank ensure that it is operating in line with Islamic precepts? As such, 'Shari'a governance' is one aspect of corporate governance.

The first chapters, written by Karim Ginena, explain the roots and objectives of Shari'a, and the structures of corporate and Shari'a governance. (There is an excellent overview of how failures of Shari'a governance can lead to various types of losses for a bank.)

The chapter on legal and regulatory aspects of Shari'a governance includes three case studies of courts declining to rule on Shari'a permissibility of contracts, even though the contracts themselves explicitly referred to the Shari'a. "The law governing a transaction must be the law of a country," Ginena concludes.

The excellent chapter on Internal Shari'a Control Systems includes sample audit checklists.

The second half of the book, written by Azhar Hamid addresses the working of Shari'a Supervisory Boards. These sections draw heavily on existing literature and the work of standard setters such as the Islamic Financial Services Board and the Accounting and Auditing Organization for Islamic Financial Institutions, but they provide detailed guidance on how Shari'a boards should operate, the scope of their responsibilities and how to appraise the quality of their work.

Experienced readers may not agree with everything the authors say: this reviewer would question Hamid's assertion that the Shari'a board should report to shareholders rather than to the board of directors. An appendix detailing, ***inter alia***, the development of Islamic financial institutions in various countries appears, in places, out of date. But these are minor points: this book is essential reading for anyone involved in the management or oversight of Shari'a-compliant financial institutions. ■ *A.C.*

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