

ARAB Banker

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Arab Bankers Association
جمعية المصرفيين العرب

BLOM BANK COMBINING STRONG CULTURE
WITH STRONG GROWTH

KUWAIT INVESTMENT OFFICE
A VISION FULFILLED

LONDON AS A CENTRE FOR ARAB BANKING

THE RISE OF CHINESE BANKS

LONDON'S MIDDLE EAST CULTURAL SCENE



KUWAIT INVESTMENT OFFICE

On the Diamond Anniversary of its establishment in London, the Kuwait Investment Office would like to thank Her Majesty's governments, the Bank of England, the Mayors of the City of London and London's financial community for their strong support over the last 60 years.

The Kuwait Investment Office also extends its gratitude to H.H. Sheikh Sabah al-Ahmed al-Jaber al-Sabah, the Emir of Kuwait, H.H. Sheikh Jaber Mohammed al-Hamad al-Sabah, the Prime Minister of Kuwait, and the Board of Directors of the Kuwait Investment Authority for their keen interest and support during the 60th Anniversary celebrations.

The Kuwait Investment Office is proud to be part of London's financial community and looks forward to a continuing partnership in the years to come.



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Cover: detail of Samia Halaby's *Clouds and Trees*, 2013. Courtesy of the artist. New paintings by Halaby will be on show at Ayyam Gallery, London, 9 October – 30 November 2013.

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ARAB Banker

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

43 Upper Grosvenor Street
London W1K 2NJ, UK

Telephone + 44 (0) 20 7659 4889
Fax + 44 (0) 20 7659 4868
Email arab-bankers@btconnect.com

George Kanaan

Chief Executive Officer
gkanaan@arab-bankers.co.uk

Andrew Cunningham

Editor in Chief
Andrew@darienmiddleeast.com

Houda Lahiani

Accounts Officer
hlahiani@arab-bankers.co.uk

Nezha ElHaloui

Business Development Officer
nalhaloui@arab-bankers.co.uk

Anesta Farhoud (in Beirut)

Business and Development Officer
Telephone: + 961 1 990009
Afarhoud@arab-bankers.co.uk

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P O Box 1048, Beaconsfield, Bucks HP9 2YF
Telephone: 0800 0834 827
info@jpsprintconsultants.com

For enquiries about advertising:

George Kanaan,

C.E.O.
Arab Bankers Association

For enquiries about editorial:

Andrew Cunningham,

Editor in Chief
Arab Bankers Association

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A Positive Story for Arab Banking

Arab Banking is getting through this turbulent period in the region in surprisingly good shape.



As the Arab Spring turns into stormy winter, Arab Banking remains open for business and the financial and business community in the region continues to be active. We have not seen, and I am not expecting to see, widespread failures or significant crisis.

In the past we have applauded the virtues of conservative management, strict regulation, and competent central bank governance that have given Arab banks the ability to weather major political and security storms. These, and careful diversification across the region and beyond, are what helped Arab banks breeze through the financial crisis of 2008 and what is helping them survive the current period of political upheaval.

The Arab Bankers Association is doing its part and helping where it can.

Our first task – to serve the Arab Banking community in London – is becoming all the more urgent as our community expands in number and in importance. We are at the heart of this community and the principal forum for its practitioners.

Our second task – to act as a bridge between Arab bankers working in the region and their colleagues in the City of London – has never been more urgent. The landscape of Arab banking and finance is fast changing, and the need to bring people together has never been greater. When feasible, we gather our community as well as many of our partners in the City around visiting senior financial figures, in particular those visiting from countries witnessing the most significant change.

The Arab Bankers Association has had a solid year of progress. We have held a number of seminars addressing our community's concerns on regulation, taxation, and

employment. These were led by top ranking practitioners from the regulatory agencies, prominent legal and accounting firms, and senior bankers. These events were accompanied by seminars covering the financial landscape of Egypt and Lebanon led by prominent bankers from both countries. We also held a seminar on the geopolitics of the region, delivered by Lord Lamont of Lerwick and Patrick Seale, to great acclaim from a crowded hall.

Last year we gave our first “Banker of the Year” award to the Chief Executive Officer of the National Bank of Abu Dhabi, Mr. Michael Tomalin, for his work over a decade and a half at the helm of the bank. Mr. Tomalin made the National Bank of Abu Dhabi one of the most important Arab banks and one of its strongest. His contribution to Arab banking is one of the most significant in the past generation.

Our forthcoming gala will witness the grant of our second such award. This will be given to Mr. Naaman Azhari, founder and Chairman of Blom Bank Group – the largest bank in Lebanon and one of the largest and most successful banks in the Arab World. Mr. Naaman Azhari is a titan among Arab Bankers and a huge contributor to its development in Saudi Arabia, Syria and Lebanon. His abiding principles in banking and management are the core of what is currently being considered “best practice” by regulatory authorities in the wake of the great financial crisis that hit the world in 2008.

As for the “Arab Banker”, we promise you a new start with this issue and an accelerating rhythm of publication culminating shortly in a return to our quarterly schedule. This we hope to achieve by drawing on the skills and the deep experience in Arab banking of our new editor Mr. Andrew Cunningham. But to succeed we need your support. We need you to contribute to us both editorially as well as commercially. The magazine occupies a unique niche as the principal professional organ of Arab Banking and Finance. It deserves your support. It needs it.

We are also improving our website. It now carries an up to date reportage of the activities of the association. It also carries exclusive interviews with top bankers as well as articles of interest to Arab bankers and financial professionals. This improvement is scheduled to continue and we look forward to the time when our website gets on the must-see list of all Arab bankers.

I hope you enjoy this issue of the “Arab Banker”. I look forward to seeing you at our events, including those of a purely social nature. But most importantly, I look forward to hearing from you on what you wish the association to do for you. Your active involvement in all what we do is the only measure of our success.

George Kanaan
Chief Executive Officer
Arab Bankers Association

A New Start for the Arab Banker Magazine

I'm delighted to present you with the new edition of the Arab Banker magazine. I hope you enjoy reading it.

The magazine contains a variety of articles related to the presence of Arab banks and financial institutions in London, the home base of many of our members. On pages 18–21 we look at London's position as a centre for Arab banking and finance, and on pages 30–33 we consider the position of the City of London as an international centre and its complex relationship with Europe. I'm delighted that Alderman Roger Gifford, the Lord Mayor of the City of London, agreed to write for us, describing the strong links between the City and the Middle East (page 28).

Sixty years ago, the Kuwaiti government established an office in London to manage its financial reserves. Earlier this year, the Kuwait Investment Office (KIO) hosted a lunch in London's Guildhall to celebrate its diamond jubilee. On pages 22–24 we describe the remarkable role that KIO has played in Kuwait's development and the strong relationships that it has built with the City of London.

But the magazine also looks beyond London to the institutions and the trends that are shaping the Arab banking of the future.

On page 12 we begin a profile of a remarkable institution and a remarkable man: Lebanon's Blom Bank and its former Chairman, Naaman Azheri. Blom Bank is an example of how strong culture and cautious management need not be an obstacle to strong growth and profitability. And in an era where bankers are so often accused of short-termism and short-sightedness, Mr. Azheri's career (which we summarise on pages 16–17) stands as an example of what can be achieved by taking a long-term view and learning from the past.

I hope that you will also read the profile of Antoine Zananiri. Mr. Zananiri has lived and worked through many of the key moments in the development of Arab banking and his fascinating career is described on pages 26–27. Mr. Zananiri arrived in London in 1978 and he was instrumental in the creation of the Arab Bankers Association – we will always be grateful to him for that!

Oman has been the "hot" topic in Islamic finance this year, so I am delighted that the magazine contains an interview with Dr. Jamil el-Jaroudi, the Chief Executive Officer of Nizwa Bank, the Sultanate's first Islamic bank (pages 41–43). On pages 35–37, Mustafa Hussain, from the London law firm Taylor Wessing, provides a lawyer's perspective on some of the challenges facing Islamic finance today.

Elsewhere in the magazine, Mohammed Baasiri, Vice



Governor of the Central Bank of Lebanon, describes the work of MENA-FATF (of which he was the first chairman) in fighting financial crime in the Middle East; Stephen Timewell, Editor Emeritus of *The Banker*, tracks the rise of Chinese banks; senior executives from Knight Frank discuss developments in the London commercial and residential property markets; Raed Hanna describes how his firm has been able to turn troubled property deals into profitable ones; and Hani Kablawi describes BNY Mellon's work with sovereign wealth funds.

We provide analysis of trends in Middle Eastern GDP (pages 60–62) and of ratings on Middle Eastern countries (pages 63–66). There is a profile of the Saudi banking system, with statistics on pages 38–40.

Walid Khadduri, of Middle East Economic Survey and Brahim Razgallah from JP Morgan analyse the energy scene and the macro-economic picture in the Middle East (pages 56–59).

Finally, I'm pleased that the magazine contains several pages on the cultural scene in London. Ayyam Gallery, founded by the Samawi brothers in Damascus in 2006, opened a new gallery in London earlier this year. Hisham and Khaled are doing exciting work in the Arab art world and I'm delighted to have an interview with Hisham on pages 78–80. SOAS's London Middle East Institute (LMEI) provides an extra-ordinary programme of Middle East-related events for specialists and non-specialists (pages 74–75), while Arabia Books is a new force in the publishing of Arab fiction (pages 76–77). Ayyam, LMEI and Arabia Books provide different points of access to the vibrant Arab cultural scene in London.

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

Particular thanks go to Martin Cox of JPS Print Consultants, who redesigned the Arab Banker and laid out the pages, giving the magazine a sharper look and a more professional appearance.

George and I are proud of this edition of the Arab Banker, but we recognise that there will be much that we can do to improve it. We welcome your comments on this edition and your suggestions on how we should move forward to the next.

Andrew Cunningham
Editor

Emirates NBD Appoints New CEO



Shayne Nelson has been appointed to replace Rick Pudner as CEO of Dubai-based Emirates NBD Bank. He will assume his new responsibilities on 1 January 2014 but is expected to arrive at the bank a few weeks before.

Nelson comes to Emirates NBD from Standard Chartered Bank where he has been CEO of the Private Bank with additional responsibilities for SME banking.

He has also served as Chairman of Standard Chartered Saadiq Islamic Banking and as a Director of the bank's board in China.

In addition to his Islamic banking expertise, Nelson has direct experience of the UAE, having been appointed in 2006 as Standard Chartered's regional Chief Executive for the Middle East and North Africa and the CEO for UAE operations. In these capacities he was responsible for implementing business strategies and corporate governance throughout the region. He was the Chairman of the Banking and Finance Advisory Council of the Dubai International Financial Centre.

In his leisure time, Nelson enjoys deep-sea fishing, and is the holder of a deep-sea fishing world record. He is Australian.

Rick Pudner has led Emirates NBD since 2006. He joined the bank after 24 years with HSBC.

Al-Raisi to Head Commercial Bank of Qatar, Stevens Remains Group CEO



Abdulla Saleh al-Raisi has been appointed Chief Executive Officer of Commercial Bank of Qatar. Al-Raisi joined the bank in 1998 and worked in both the retail and corporate divisions before being appointed Deputy CEO in 2007.

Stevens remains Commercial Bank of Qatar's Group CEO – he previously also held the CEO position at the bank now occupied by al-Raisi.

Al-Raisi's appointment will enable Stevens to focus on developing the Group's international strategy and managing its investments. Commercial Bank of Qatar holds stakes in National Bank of Oman and Sharjah-based United Arab Bank. In July it received approvals from Turkish regulators to take a stake in Alternatifbank.



Keith Scott Appointed to Head Arab National Bank in London

Keith Scott has replaced Safwan Afifi as General Manager of Arab National Bank's London branch in Curzon Street Mayfair.

Afifi had led the branch for 13 years.

Scott took up his new position in March 2013 after serving as Deputy General Manager of Eskan, the Bahraini housing bank, since 2007. From 2004 until 2007 he was General Manager of Muscat-based Alliance Housing Bank.

Scott is a keen musician and sings as a tenor in his local community in South West London.

Arab National Bank is based in Riyadh and is 40% owned by Jordan's Arab Bank.

Ali al-Kuwari Appointed Acting CEO of Qatar National Bank

Qatar National Bank has appointed **Ali al-Kuwari** as its Acting Chief Executive Officer, replacing Ali Sherif al-Emadi, the previous Chief Executive, who was made the Minister of Finance in the new cabinet announced by Emir Sheikh Tamim bin Hamad in June.

Mr. Emadi has been appointed as QNB's Chairman, in line with historical practice of having the Minister of Finance as the bank's chairman.

Mr. Kuwari previously held the position of Executive General Manager – Chief Business Officer.



Dubai Islamic Bank Appoints Chilwan As New CEO

Dubai Islamic Bank has appointed **Adnan Chilwan** as its Chief Executive Officer. Chilwan had previously served as Deputy CEO. He replaces Abdullah al-Hamli, who has been appointed

Managing Director.

Dubai Islamic Bank was badly affected by falling real estate values in Dubai (although it continued to post net profits throughout the global financial crisis and the real estate troubles in Dubai) but is now preparing for strong growth and is reported to be eyeing acquisitions in Asia.

During 2013, the bank has taken full control of Tamweel, one of the biggest mortgage lenders in Dubai.

CFA Society of Bahrain Elects New President and Board of Directors

Lamees al-Baharna was elected as the new President of the CFA Society of Bahrain at the Society's Annual General Meeting on 28 July.

On taking up the presidency, Ms. Baharna paid tribute to her predecessor, Mr. Khalil Nooruddin, thanking him for his dedication and hard work.

Ms. Baharna currently serves as Vice President Risk Management at Mumtalakat Holding, the Bahrain Government's asset holding company. She previously worked in Risk Management for Gulf International Bank and before that held positions

with Lehman Brothers and Merrill Lynch in Bahrain.

The CFA society also elected a new board for a two-year term, 2013–2013. In addition to Ms. Baharna, the board comprises, **Mahmoud Nawar**, Vice President, **Ali Moulandi**, Treasurer, **Kamlesh Kasala**, Board Secretary, **William Tohme**, Board Member and **Zeeba Askar**, Board Member.

The Bahrain CFA Society was founded in 2006 and currently has more than 100 members, making it the second largest CFA society in the Middle East.



Okasha Appointed Chairman of National Bank of Egypt

Egyptian Prime Minister Hazem Beblawi has appointed **Hisham Okasha** as Chairman of National Bank of Egypt. Okasha was previously one of the bank's two Deputy Chairmen.

The Chairman's position had been vacant since Tarek Amer resigned in January this year.

Beblawi was appointed Prime Minister in July. He is a former banker, having led Egyptian Development Bank of Egypt and also held a senior position at the Arab Monetary Fund in Abu Dhabi. He also worked for the U.N.'s Economic and Social Commission for Western Asia.

Amer resigned shortly after the appointment of Hisham Ramez as Governor of the Central Bank of Egypt. Amer had been seen by many as a contender for the Governorship. Before

being appointed Chairman of NBE in 2008, Amer had spent five years as Deputy Governor of the Central Bank.

Hisham Ramez had also served as Deputy Governor, moving in 2011 to Commercial International Bank where he was Vice Chairman and Managing Director.

National Bank of Egypt's share of the Egyptian banking market is a little more than 20% and the bank has an important role to play in fostering government policy. For example, it was no coincidence that National Bank of Egypt opened a branch in Addis Ababa a few years ago, at a time when the Egyptian government was rebuilding diplomatic relations with Ethiopia.

Following the overthrow of Hosni Mubarak, there were persistent reports

that the Chairmen of the big state-owned banks would be replaced, but that has generally not happened. Tarek Amer was confirmed as Chairman of NBE in 2011, as was Mohammed Barakat at Banque Misr. Tarek Kandil remains Chairman of Suez Canal Bank and the Managing Directors at the leading development banks have also been confirmed.

The main exception has been Banque du Caire, Egypt's third largest bank, where Mouneer al-Zahid was appointed Chairman in 2011. He had previously worked as a Managing Director at HSBC Egypt. A new chairman was also appointed at Egyptian Arab Land Bank.

Oman Prepares for Licensing of Takaful Firms

Oman's Capital Markets Authority (CMA), the body responsible for licensing and regulating insurance companies in the Sultanate, is preparing to issue licenses to three Takaful firms, local press reports say.

Takaful is the term used to describe insurance undertakings that are conducted in a Shari'a-compliant manner.

The Central Bank of Oman issued rules for the licensing and regulation

of Islamic banking operations in 2012, and since then two Islamic banks have begun operations while some conventional banks have begun offering Shari'a-compliant products through Islamic "windows."

It is expected that the CMA will require newly-licensed Takaful firms to float a proportion of their shares on the Muscat Securities Market – in the same way that the Central Bank requires newly-licensed Islamic banks to float a

portion of their shares.

In June this year, the local Al-Madina Insurance announced that its founders would float 40% of their holdings on the Muscat Securities Market later this year as part of a plan to convert itself into a Takaful firm.

At the same time, the Oman National Investment Corporation (ONIC) announced that it would take a 7.5% stake in Takaful Oman, a local firm that was under formation.

Gatehouse Bank Changes Senior Management, Opens in Malaysia

Gatehouse Bank, the London-based Kuwaiti-owned Islamic investment bank, made changes to its senior management in June.

The bank's former Chief Executive, **Richard Thomas** moved to Kuala Lumpur as the bank's Chief

Representative in Malaysia, heading the bank's newly opened representative office.

Fahed Faisal Boodai, Gatehouse's Chairman, has taken on the Chief Executive's role on an interim basis.

The Kuala Lumpur representative office is the bank's first in Asia and

signals its intention to develop its franchise across south east Asia. In 2012, Gatehouse Bank arranged the £165mn acquisition of the London property 10 Queen Street Place on behalf of the Malaysian Hajj Pilgrim's Fund, Lembaga Tabung Haji.

Kuwait's Former Central Bank Governor Appointed Finance Minister

Sheikh Salem Abd al-Aziz Al Sabah was appointed as Finance Minister in the new Kuwaiti cabinet announced by Prime Minister Sheikh Jaber al-Mubarak Al Sabah in August. Sheikh Salem replaced Mustafa al-Shamali,

who moved to the Ministry of Oil. Al-Shamali had been overseeing the oil ministry on a caretaker basis since the resignation of the previous minister, Hani Hussain, in May.

Sheikh Salem served as Governor of

the Central Bank of Kuwait from 1987 until February 2012, when he resigned in protest at the large increases in public spending.

Sourakieh Confirmed as CEO of UGB

Bahrain-based United Gulf Bank has confirmed **Rabih Sourakieh** as its Chief Executive Officer. Sourakieh has

been Acting CEO since the retirement of Mohammed Haroon in March 2012. Sourakieh has been with the Kipco

group – the owners of UGB – for over 10 years.

"Dubai Centre for Islamic Banking and Finance" Launched

The Crown Prince of Dubai, **Sheikh Hamdan bin Mohammad bin Rashid Al Maktoum**, launched the Dubai Centre for Islamic Banking and Finance at the end of July. The centre will work in partnership with the Hamdan bin Mohammed e-University to offer a variety of academic courses

ranging from masters degrees to short-term training programmes.

Subject matters to be covered will include Islamic banking and finance, Shari'a economics, accounting, risk management and corporate governance.

The Chancellor of the Hamdan bin

Mohammed e-University, Dr. Mansoor Al Awar, commented that the centre had put together an international advisory board, in line with its ambition to advance understanding and access to Islamic finance and education beyond Dubai to the wider community.

Qatari Diar Nominates New Chairman for Barwa Real Estate

Qatari Diar appointed **Salah bin Ghanim al-Ali** as the new Chairman of Barwa Real Estate Company in July. Qatari Diar owns 45% of Barwa Real Estate and is reported to have extended

financial support to the company earlier this year by buying some of the company's assets.

Qatari Diar appoints three of Barwa's seven directors.

Mr. Salah bin Ghanim al-Ali was named Minister of Youth and Sports in the new Cabinet announced by Emir Sheikh Tamim bin Hamad in June.

National Bank of Abu Dhabi Wins Hawkamah Corporate Governance Award

National Bank of Abu Dhabi has won the 2013 Hawkamah Award for Bank Corporate Governance. The Award was made in June, as part of The Banker Middle East's Industry Awards.

Five banks were shortlisted for this year's award. All applications, and

the final award, were appraised by an international jury.

The 2012 award was given jointly to Abu Dhabi Commercial Bank and Bank Muscat

Hawkamah is a Corporate Governance Institute based in

the Dubai International Financial Centre. It has taken a leading role in developing Corporate Governance codes for banks, insurance firms and commercial companies in the Middle East. Hawkamah initiated its annual corporate governance award in 2007.

From Lebanon to the world



A message of peace and determination written as a living testimony.



Blom Bank: Combining Strong Culture with Strong Growth

At a time when financial regulators, politicians, even bankers themselves are obsessed with the question of banking culture and the role it played in encouraging the excesses which led to the global financial crisis of 2007–2009, Lebanon's Blom Bank stands out as an institution that has successfully combined a strong internal culture based on caution and integrity with steady growth and increasing profitability.

Over the following pages, the Arab Banker presents a profile of Blom Bank and looks in particular at the banking culture instilled by Mr. Naaman Azhari and maintained by his sons and a new generation of senior executives

Saad Azhari, who became Chairman of Blom Bank in 2008, has received plenty of advice during his banking career, but there are two pieces of advice that he says have served him particularly well: “Never invest in something you don't understand”, and “Always avoid conflicts of interest”.

The first of those pieces of advice saved Blom from investing in the complex financial instruments that proliferated in the years before the global financial crisis – instruments that resulted in billions of dollars of losses throughout the global banking system.

The second has resulted in a single-minded focus on developing Blom's core competencies, while avoiding time-consuming adventures into industries and territories that offer uncertain returns.

It is hardly surprising that Saad received both pieces of advice from his father, Naaman Azhari.

Naaman began his banking career in Paris in the 1950s, and worked in Algeria and Syria – both suffering political turmoil at the time – before becoming General Manager of Banque du Liban et d'OutreMer (as Blom was then known) in 1962. He was made Chairman in 1971 and in that position he steered the bank successfully through the 15-year Lebanese civil war, the Israeli invasion of Lebanon in 1982, and led the bank's expansion as the Lebanese banking industry and its economy began to grow again in the 1990s. (See the profile of Naaman Azhari on page 16.)

Naaman stepped back from day-to-day management and oversight of the bank in 2008, handing the reins to a new generation. But the culture of caution, hard work and professionalism lives on.

In Lebanon, Blom is known as a conservative institution, with tightly controlled lending criteria and a healthy scepticism for untried ideas. Its growth has been almost entirely organic. It has not bought any of the small Lebanese banks that have put themselves up for sale in recent years, nor has it taken advantage of more liberal bank regulation in the GCC to buy minority stakes in Gulf banks. Still less has it tried to put down roots in West Africa or South America, where large expatriate Lebanese communities remain.

Yet growth and profitability have been impressive. Deposits registered a compound average growth rate (CAGR) of 13%

in the ten years to 2012 and income showed a CAGR of 16%. Risk-adjusted capital grew by an average of 10.5% in the four years to 2012 to give the bank a capital adequacy ratio of 13.7% under the Basel III guidelines. The bank is the second largest in Lebanon, with assets of \$25bn at the end of 2012 and deposits of \$22bn.

“Best Bank” Awards

In recent years, Blom has received more awards than any other Lebanese bank, making it the unanimous choice as the Best Bank in Lebanon by major international and regional institutions. These include “Best Bank in Lebanon in 2013” from Euromoney, “Best Retail Bank in the Middle East in 2013” from the Banker Middle East, “Best Bank in Lebanon in 2012” from the Banker, and “Best Islamic Bank in Lebanon in 2012” from Global Finance.

But the award that Saad is most proud of is “Best Bank in the Middle East, 2009” awarded by The Banker magazine, part of the Financial Times Group. “It was a testament to the sound and prudent policies that enabled us to bypass the global financial crisis and even prosper within it despite the financial havoc sweeping the world,” he says.

The steady, long-term growth in Blom's operating income and net income did not falter during the financial crisis and its non-performing loan ratio actually improved.

The Importance of an Independent Work Ethic

Looking at Blom's performance and the people behind it, the question of banking culture comes through again and again.

All three sons of Naaman Azhari now hold senior positions in the bank, but they were expected to prove themselves outside the bank first. Saad comments: “An over-riding family value that my parents stressed to me and my brothers was to have an independent work ethic. They wanted us to chart our own career paths independently of the bank – that is why we worked for other institutions when we graduated from university. We only joined Blom after several years of experience and success in other institutions so as to make sure that we could add value for Blom and its stakeholders.”

Saad has a masters degree in computer engineering as well as an MBA, and he worked for five years for PVZ Private Bank, part of the UBS Group, responsible for the



Above: Mr. Naaman Azhari with his sons (left to right: Samer, Saad and Amr). Below: Blom's head office building in Verdun, Beirut

Middle East, and Project Manager for the Swiss Options and Financial Futures Exchange, before joining Blom Bank (Switzerland) in 1991. Samer Azheri worked for Bechtel in Texas and as a project engineer for Oman's Bahwan Construction Company before joining Blom Bank in Paris in 1985.

Lebanese business remains the core, but overseas business is increasing

Lebanon remains central to Blom's business. In 2012, about 80% of the bank's income was generated in Lebanon and about 80% of its assets were domiciled there (though the decline of banking activity in Syria had a material impact on non-domestic income and assets). The bank has 78 branches in Lebanon, about twice the number it had five years ago. All have been built organically rather than through acquisition.

Overseas business is generated primarily by the bank's subsidiaries in Egypt, Jordan, Qatar, Saudi Arabia and the U.A.E. and in Europe where there are long-standing subsidiaries in Paris and Geneva. (The Paris and Geneva operations were crucial to the bank's business during the 15-year Lebanese civil war, and they also served as training grounds for Saad and Samer Azhari. In the mid-1990s: Saad managed the Geneva operations and Samer those in Paris.)

Profits from the bank's operations in Syria are currently negligible and assets account for less than 3% of the bank's total. Before the crisis in Syria began, the Syrian operations generated about 5% of revenues.

Acquisition in Egypt

Blom's acquisition of Cairo-based Misr-Romanian Bank in late 2005 was an unusual transaction for a bank that follows an organic expansion strategy, but Saad points out



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 "Overseas business is generated primarily by the bank's subsidiaries in Egypt, Jordan, Qatar, Saudi Arabia and the U.A.E. and in Europe where there are long-standing subsidiaries in Paris and Geneva."

“So what are the priorities for the future? In financial terms, Saad Azhari is clear: the two key financial ratios are return on equity and cost-to-income.”

that the Egyptian authorities had made clear that they had no intention of issuing new banking licenses. Although the Egyptian authorities had sold several state-owned, or partially state-owned banks, to overseas investors around the same time, Blom’s purchase of Misr-Romanian required considerable brinkmanship (concerning the price to be paid) and some quick thinking (to ensure that the purchase could be completed in line with Egypt’s antiquated legal system and without falling foul of populist sensitivities over the sale of state assets).

Saad cites the Egyptian acquisition as an example of how the bank’s conservative and risk-averse culture need not get in the way of agile deal-making.

Misr-Romanian has since been renamed Blom Bank Egypt and is generating about 7% of Blom’s income.

The bank’s long-term goal is to increase non-Lebanese business to about 50% of the bank’s total. The focus will be on building new business in the Middle East. Saad is particularly excited about opportunities in Iraq, where the



Saad Azhari, Chairman of Blom Bank

bank expects to have fully operational branches in Baghdad and Erbil by the end of the year.

Revenues from the Gulf States are expected to increase through the bank’s subsidiary in Qatar, which was opened in 2009, and its investment banking subsidiary in Saudi Arabia (owned by its investment banking arm, Blominvest) which opened in 2010. The bank has been in Dubai and Sharjah since 1975, through branches of Blom Bank France, and it also has a representative office in Abu Dhabi, which reports directly to head office in Beirut.

Saad is clear about why the bank is not looking to grow in some other areas. Central Africa, “Suffers from a weak legal system and poor governance,” he says. As for South America, “It is geographically too far from our centre of activities and the Lebanese diaspora there is deeply settled with very weak links to the mother country.”

Europe and the U.S. are important markets, but Blom has no plans to enhance its existing physical presence. Saad describes Europe as a “niche market” where the bank serves Lebanese and Arab expatriate communities with corporate and private banking products and trade financing. There are no plans to expand the bank’s existing presence in Paris and Geneva.

U.S. financial institutions represent the core of the bank’s correspondent banking activities, but the bank sees no need for a physical presence in the U.S., says Saad.

Diversifying income streams

In addition to expanding geographically in the Middle East, Blom has been diversifying its income streams. Insurance, which is offered through the Arope brand, accounts for about 5% of net income. Arope is a stand-alone Lebanese legal entity, in which Blom is the major shareholder. “Synergy between Blom Bank and AROPE Insurance is the key factor that will drive further success in our insurance franchise,” says Habib Rahal, the Chairman and General Manager of AROPE insurance, and a General Manager of the Blom Group.

Investment banking, including asset management, also accounts for a significant proportion of revenues. Blominvest, through which investment banking activity is handled, has more than half a billion dollars of assets under management, about five billion managed through its custody business, and it has been either the largest or second largest broker on the Beirut Stock Exchange.

Founded in 1994, and led by Fadi Osseiran, who holds a PhD in Economics from New York University, Blominvest has expanded into Saudi Arabia, Egypt, Jordan and Syria over the past five years.

Net income by country (\$mn)	Profit June 2013	% of Total	Profit 2012	% of Total
Lebanon	138.9	79.0	285.7	85.1
Egypt	12.7	7.2	10.8	3.2
Jordan	6.2	3.5	13.3	4.0
Qatar	0.7	0.4	0.3	0.1
Saudi Arabia	6.5	3.7	1.2	0.4
UAE	2.7	1.5	11.0	3.3
Syria	2.2	1.3	2.0	0.6
Europe	6.0	3.4	11.6	3.5
Total	175.9	100.0	335.9	100.0

BLOM Bank sal

Key Financial Figures	June-13	End 2012	End 2012	End 2011	End 2010	End 2009	End 2008
	USD mn	USD mn	LBP bn				
Assets, including	25,274	25,051	37,765	34,922	33,684	31,209	26,981
Cash and Balances with Central Banks	6,144	4,948	7,459	6,062	4,248	4,694	3,580
Due from Banks and Financial Institutions	3,064	3,364	5,070	4,846	5,931	5,787	5,817
Due from Banks and Financial Institutions, including granted loans	3,139	3,439	5,185	4,962	6,034	5,890	5,990
Net Loans to Customers	5,976	6,017	9,070	8,389	7,797	6,047	5,230
<i>Net Loans to Customers Including RPs</i>	<i>5,989</i>	<i>6,028</i>	<i>9,086</i>	<i>8,428</i>	<i>7,807</i>	<i>6,058</i>	<i>5,237</i>
Financial Assets – (AC & AFS & L&R)	8,793	9,492	14,308	13,649	13,572	12,791	10,613
Total Financial Assets	9,372	10,058	15,162	14,513	14,703	13,731	11,371
Customers' Deposits	21,943	21,673	32,672	30,383	29,363	26,940	22,636
<i>Customers Deposits including RPs</i>	<i>22,056</i>	<i>21,791</i>	<i>32,849</i>	<i>30,596</i>	<i>29,556</i>	<i>27,171</i>	<i>22,776</i>
Total Equity	2,169	2,182	3,289	2,989	2,851	2,576	2,199
Total Operating Income (before credit losses)	443	794	1,197	1,096	1,022	854	794
Total Operating Expenses	157	285	429	416	392	348	313
Profit for the year	176	336	506	500	498	442	379
Total Comprehensive Income for the Year	n/a	303	456	443	472	537	373
Key Ratios (per cent)							
Tier 1 Capital Ratio	14	13.54	13.54	12.84	13.59	13.68	12.78
Leverage Ratio (equity % assets)	8.58	8.71	8.71	8.56	8.46	8.25	8.15
Return on Average Assets	1.40	1.39	1.39	1.46	1.54	1.52	1.46
Return on Average Common Equity	16.55	17.80	17.80	19.20	21.14	21.31	20.60
Operating Costs % Operating Income	35.44	35.84	35.84	37.96	38.36	40.75	39.42

RPs: Related Partners, AC: Amortised Cost, AFS: Available for Sale, L&R: Loans and Receivables

Nor has Blom been shy about entering the market for Islamic finance. Blom Development Bank began operations in 2008 and offers a full range of Shari'a-compliant products to the Lebanese market. Assets grew by 42% in 2012, and deposits by 85%. The plan is to be present in all of the cities where demand for Islamic products is strong – Tripoli, Saida and the Bekaa area being the most obvious. A new branch in Saida will open before the end of the year, and a branch in Bekaa is foreseen for 2014. After that, the bank will look to expand its regional operations.

So what are the priorities for the future? In financial terms, Saad Azhari is clear: the two key financial ratios are return on equity and cost-to-income. The bank wants to keep return on equity close to 20% (it was 18% in 2012), and it wants to keep the cost-to-income ratio below 40% (it was 38% in 2012).

In strategic terms, organic growth is still the key.

Horizontal expansion into new territories will build on existing overseas operations, while vertical growth will involve expansion of current activities.

But for Saad the future of the bank is not just about growth and profits. As you would expect, it is also about culture. Blom has a big corporate responsibility programme, using its banking products to fund the removal of mines and cluster bombs on Lebanese soil, the "Shebab" programme that gives guidance to students on how to pursue university studies and career paths, and a paper recycling programme that includes a commitment to plant one tree for every ton of paper the bank gives to recycling.

"Peace of Mind' is a big theme in this bank", says Saad. "Peace of Mind for our customers and investors because they know their money is safe with us but also Peace of Mind for the wider community. We realise we have responsibilities not just as bankers, but also as citizens." ■

Naaman Azhari: A remarkable banking journey

When Namaam Azhari began his banking career in 1950 he can hardly have imagined what a tumultuous journey he had begun. It is a journey that took him first to Paris and then to Algeria (which was still under French rule), then Syria (including a period as a Syrian Government Minister). Based in Beirut from the early 1960s, Azhari saw the rise of Beirut as a regional financial centre and its demise during 15 years of civil war and invasion. But Azhari's career has lasted long enough for him to see Beirut rebuilt in the 1990s and for him to hand over the bank which he led for 45 years to a new generation of managers

In the following article, which is based on Namaam Azhari's memoir "Hethihi Tejribati" (This is my Experience"), the Arab Banker traces the early years of his remarkable banking career.

Naaman Azhari was born in Latakia but his family had roots not only in the coastal areas of Syria but also in Beirut and the northern Lebanese city of Tripoli. Azhari's father, Wajih, had been born in Latakia and his mother Ramziah was Lebanese. Both came from distinguished local families. They were married in Beirut in 1917.

Wajih worked in Beirut from 1912-1918 as the head of the Turkish Governor's office. In 1918 he returned with his family to Latakia as Governor and Mayor of the City. In his memoir, Naaman Azhari remembers the town of Latakia as having about 25,000 inhabitants. Fig trees, mentioned by Ibn Batuta in his description of Latakia six centuries earlier, still lined the outskirts (though they were soon to be replaced by olive and orange groves).

After high school in Latakia, Naaman Azhari faced the choice of Damascus, Aleppo or Beirut for the next stage of his education. He chose Beirut "without any hesitation." While studying hard, Azhari was not shy about enjoying what Beirut had to offer – he fondly remembers "Ajami" restaurant and the French restaurant "Lucullus."

Azhari moved to Paris in 1946 for his university education and three years later he held not only a law degree but also a degree from the celebrated "Sciences Po" Institute. After another year and a half he had a Doctorate in Economics and, after briefly

considering a further qualification in engineering (his father talked him out of it), he was ready to launch himself into banking.

Azhari's first job was with Credit Foncier d'Algerie et de Tunisie (CFAT – a French bank, despite its name). After six months in the bank's head office at 43 Rue Cambon, Paris, Azhari was sent to Algeria as an inspector – a position that enabled him to travel throughout the country. Two years later he was asked to move to Beirut to be the direct assistant to the bank's general manager for Lebanon and Syria, Paul Duphenieux.

Soon, he was appointed to head the Damascus branch, then all the branches in Northern Syria, and afterwards all of the bank's branches in Syria; and finally in 1960, less than ten years after joining as a trainee at CFAT, Paris, he became Chairman-General Manager of the Syrian bank, Arab Bank of the East (Bank al-Sharq al-Arabi) which bought all the CFAT branches, after the laws were passed to encourage the growth of locally-owned banks.

In 1958, Syria and Egypt had merged to form the United Arab Republic (UAR) under the leadership of Gamal Abd alNasser, and in 1961, on Nasser's orders, all Syrian banks were nationalised and all boards of directors dissolved. Azhari was the only director re-appointed to his previous position – as one of the few Syrians with real banking expertise, he was too good to lose.

As relations between Nasser's men and the Syrian elite soured, the political temperature in Damascus increased.

At 5am on 28 September 1961, someone knocked at the door of the Azhari residence. Azhari remembers his wife's fear as he was told to report to the military headquarters. But the knock at the door did not signal that Azhari had fallen on the wrong side of a political dispute and was heading to gaol. The UAR was falling apart and Azhari was being called up to become Minister for Planning and Local Government in a new, independent Syrian administration.

Azhari later served as Minister of Finance and the Economy, rescinding the nationalisation of banks and larger companies.

But even with Syria charting its own future again after the failure of the UAR, the political environment was dangerous. As different political and military factions jostled for power, Azhari made the difficult decision to move to Beirut.

No one, including Azhari, foresaw the crises that would befall Lebanon in the years ahead but, looking back, Azhari says that he has never regretted his decision to move.

In 1963, another change of government in Syria led to the re-nationalisation of all Syrian banks – just as Azhari had feared.

Azhari had always stayed close to his former colleagues at the French

bank CFAT, and CFAT continued to have an interest in a Lebanese bank Banque du Liban et D'Outremer (Blom), founded in 1951. So when Emile Bustani was preparing to retire as Blom's general manager, Azhari was offered the job. Azhari became General Manager of BLOM in July 1962 but remained Chairman-General Manager of the Syrian bank (Bank al-Sharq al-Arabi) until its re-nationalisation in 1963

He remembers well the febrile banking environment in Beirut in the early 1960s. In 1955 there had been 22 banks in Lebanon; by 1960 there were 40 and by 1964 the number had risen to 93. Most of the new arrivals were local banks, owned by local businessmen who wanted to use the banks to further their trading businesses.

Incredible as it may seem to us today, there was no effective central bank in Lebanon at that time. In 1938, the French colonial authorities had given Bank of Syria and Lebanon a 25-year mandate to issue currency, but it had no mandate to inspect banks or even oversee the health of the banking market.

Inevitably, banking failures followed, culminating in the failure of Intra bank in 1966.

In his memoir, Azhari says, "I don't

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"looking back today what is certain is that those difficult times for the banking sector taught me important lessons ..."

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know if it was good luck or bad luck that there were banking crises in Lebanon within two years of my arrival in Beirut, but looking back today what is certain is that those difficult times for the banking sector taught me important lessons... Perhaps the most important were to be obsessive in preserving depositors' funds, to be cautious when investing and to maintain strong liquidity."

Azhari was a banker through and through, but some of the directors of Blom were traders and businessmen at heart. There were differences of culture, but the differences were not unbridgeable.

Azhari remembers that he used to speak to the bank's vice chairman, Sheikh Boutros Khouri for about an hour at the beginning of each day.

Khouri would tell Azhari what he was hearing from the business community and, every now and then, tell Azhari about someone who had asked if the bank could lend him money. Azhari would adjust the tone of his voice to indicate whether he thought the loan was a good idea or a bad idea; Khouri would understand what was being implied; and the conversation would move on.

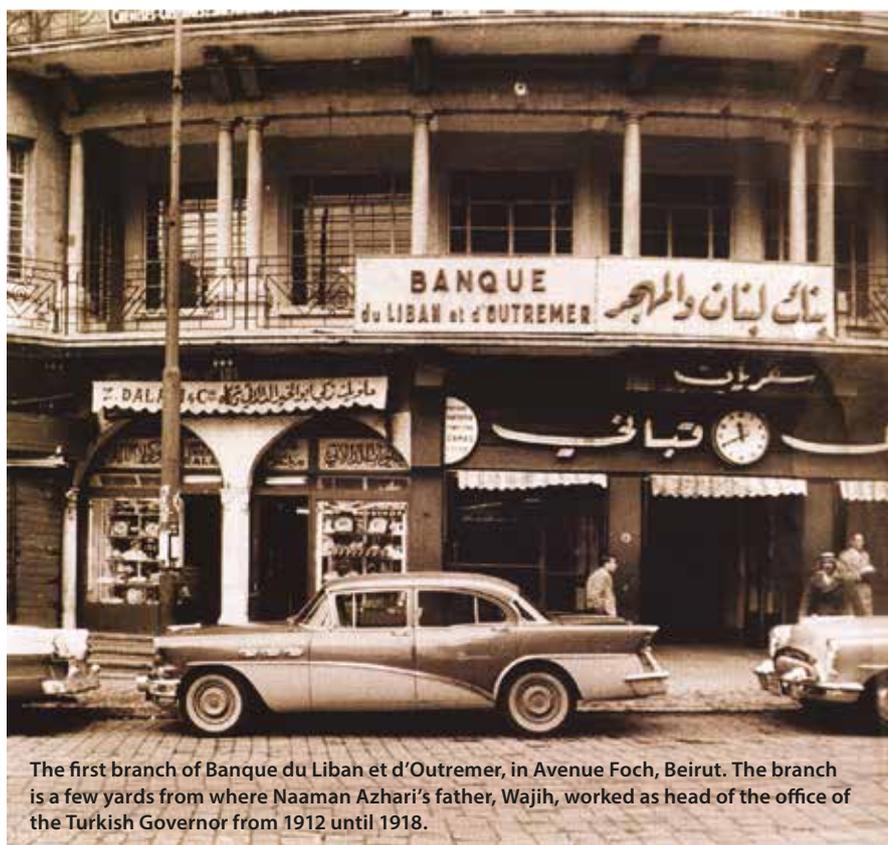
One of Azhari's first initiatives after taking over the bank was to call in loans to directors and big shareholders. Such lending was rife in Lebanon at the time, and the loans often exceeded the banks' capital.

Cautiously, Blom started to expand. Azhari recruited Yousef Sajaan, a former colleague from Arab Bank of the East to help attract Syrian clientele. He refers to Sajaan as the best banker Lebanon or Syria has ever had – an opinion he bases on Sajaan's honesty and his ability to judge clients without any errors throughout all of his long banking career.

In 1971, Azhari took over from Hussain Oueini as Chairman of the bank and remained as General Manager. He held the position until 2008 when he was succeeded by his son, Saad. He was then nominated to be Blom Bank's Group Chairman, a position he holds to this day

Of course, the 1970s brought further challenges, with the start of the Lebanese civil war. The bank took steps to mitigate its risks by expanding its overseas operations, including the establishment of La Banque de L'Orient et d'Outre-Mer (Banorabe) in Paris in 1976.

Azhari's final big challenge came in 1990 when (unfounded) rumours began to circulate about the bank's financial strength. As some depositors moved to withdraw their funds, Azhari announced that the bank would remain open all day every day and that no limit would be placed on deposit withdrawals – a statement that could not be made without the bank's high and sufficient liquidity. He also made an agreement with the central bank that it would stay open any time that Blom's branches were open, so that if the bank wanted to liquidate any of its treasury bills it would be able to. Not only did the bank survive the run, but deposits started to flood in. Soon, Blom would be the biggest bank in Lebanon. ■



The first branch of Banque du Liban et d'Outremer, in Avenue Foch, Beirut. The branch is a few yards from where Naaman Azhari's father, Wajih, worked as head of the office of the Turkish Governor from 1912 until 1918.



A long-term relationship: Middle East Banks and London

Since Arab banks first began to stretch their wings beyond the Middle East 50 years ago, London has been their preferred foreign destination. It remains so today and is unchallenged.

The Arab Banker looks at London's position as an Arab banking centre and considers the reasons why London continues to attract Arab banks and financial institutions

The relationship between London and Arab banks is based on more than finance. It is a relationship that goes beyond the need of Arab banks to have a window on international financial markets and London's early and continuing position as the leading international centre for banking.

The relationship goes beyond the need for Arab banks to "follow their customers" into western markets, or their desire to participate in the lucrative export flows from western countries to the Middle East.

A regulatory environment that is familiar with and comfortable with foreign banks and new financial forms such as Islamic banking certainly plays a role. English is the second language for most people of the Middle East and many of the region's leading bankers studied in the U.K. or North America.

London's large and diverse Arab population and the resulting vibrant cultural scene also make the capital attractive both for visitors and for long-term residents.

But finance certainly does lie at the core of the relationship.

London is the global centre for international banking

According to a survey by The CityUK, a think tank that lobbies on behalf of the City of London, London accounted for

Banks Incorporated in the United Kingdom

Name	Head office location	Lead Executive	Address in London	Phone number in London
ABC International Bank	Bahrain	William Playle, M.D. and C.E.O.	1–5 Moorgate, London EC2R 6AB	020 7776 4000
ADIB (UK)	Abu Dhabi	Walid Koubaa, Acting General Manager	100 Knightsbridge, London SW1X 7LJ	020 7584 5113
Ahli United Bank	Bahrain	James Forster, C.E.O.	35 Portman Square, W1H 6LR	020 7487 6500
Bank of Beirut (UK)	Lebanon	Bob Dziengeleski, M.D. and C.E.O.	17a Curzon Street, W1J 5HS	020 7493 8342
Bank of London and the Middle East	London	Humphrey Percy, C.E.O.	Sherborne House, 119 Cannon Street, EC4N 5AT	020 7618 0000
BMCE Bank International	Morocco	Mohammed Afrine, C.E.O.	26 Upper Brook Street, W1K 7QE	020 7429 5500
British Arab Commercial Bank	U.K.	Andrew Martin, C.E.O.	8-10 Mansion House Place, EC4N 8BJ	020 7648 7777
Europe Arab Bank	Jordan	Ziyad Akrouk, C.E.O.	13–15 Moorgate, EC2R 6AD	020 7315 8500
European Islamic Investment Bank	London	Zulki Caar Hydari, Chief Executive	Milton Gate, 60 Chiswell Street, London EC1Y 4SA	020 7847 9900
Gatehouse Bank	London	Mr. Fahad Boodai, Chairman and interim C.E.O.	125, Old Broad Street, London, EC2N 1AR	020 7070 6000
Gulf International Bank (UK)	Bahrain	Charbel Khazen, General Manager	1 Knightsbridge, London SW1X 7XS	020 7259 3456
Islamic Bank of Britain	U.K.	Sultan Choudhury, Managing Director	3 Duchess Place, Birmingham B16 8NH	0845 145 1200
Jordan International Bank	U.K.	Mort Mirghavameddin, C.E.O.	Moreau House, 112–120 Brompton Road, London SW3 1JJ	020 3144 0200
National Bank of Egypt (UK)	Egypt	Saleh Ismail, General Manager	11 Waterloo Place, London SW1Y 4AU	020 7389 1200
National Bank of Kuwait (International)	Kuwait	Fawzi Dajani, General Manager	13 George Street, London W1U 3QJ	020 7224 2277
QIB (UK)	Qatar	Geoff Calvert, C.E.O.	4th Floor, Berkley Square House, Berkley Square, London W1J 6BX	020 7268 7200

18% of global cross border lending in 2011, 50% more than the United States and double the shares of either France or Germany.

Forty per cent of global foreign exchange transactions were conducted from the U.K. in 2011, the survey says, more than double the volumes seen in the U.S. and more than ten times the amounts seen in other European cities such as Paris and Frankfurt. Nearly half of global over-the-counter interest rate derivatives were managed in London, nearly twice U.S. volumes.

In other areas such as fund management, hedge fund assets, and private equity investment, the U.K. trailed the U.S. but exceeded – sometimes by a long way – the shares of other European and Asian centres.

This significant financial position has not arisen overnight.

London pioneered the Eurobond market in the 1960s (the \$15mn loan arranged by S.G. Warburg for the Italian motorway network Autostrada is recognised as the first Eurobond). When London looked to be losing its international edge, the “Big Bang” deregulation of 1986 restored its ability to compete.

Money markets and trade finance lie at the heart of what the London financial market can offer today, and these two businesses are often the basis upon which Arab banks have come to London and remain here.

All of the large Arab banks in London run significant treasury operations.

Bahrain’s Arab Banking Corporation,

which has both a subsidiary bank and a branch in London, is often cited as an example of a bank that conducts huge volumes of trade finance business and uses the London markets to arrange and finance it.

Property finance is another area that has been growing. Arab investors have a big appetite for property investments and London is one of the world’s most liquid and well-researched property markets, offering a large amount of commercial and high-end residential space. Leading property agency Knight Frank notes that London seems to be more sympathetic to investors from emerging markets than some other major property centres. (See the interviews with Knight Frank on pages 51–53.)

In mid-2013, the Bank of England's register of banks listed 16 Arab banks that were incorporated in the U.K., nine that were incorporated outside the European Economic Area (EEA) and were authorised to accept deposits through a branch in the U.K. and three that were incorporated within the EEA and were licensed to accept deposits through a branch in the U.K.

Early contacts

Some of the first contacts between the Middle East and London may have been driven by political factors. It was not until 1971 that Britain withdrew from its Gulf protectorates (the areas that now comprise Bahrain, Qatar, and the UAE). Britain had withdrawn from Kuwait in 1961. Ties with Oman have always been strong.

Kuwait was the first country to put down roots in the capital. Kuwait Investment Office established a

presence in London in 1953 (See the article about KIO's 60th anniversary on pages 22–24.) In 1966, United Bank of Kuwait (UBK) opened its doors, reflecting the dynamism and innovation that characterised Kuwait banking at that time. UBK was a consortium bank, owned by several of the leading Kuwaiti commercial banks and the Kuwaiti government's Social Security Fund.

Consortium banking was common at the time. Banks outside Europe and the U.S. wanted to have a presence in developed financial markets but lacked the capital to form their own subsidiaries. Banding together with other banks was the solution.

In 1975, the Saudi Arabian Monetary Agency founded Saudi International Bank in London, with J P Morgan as the other major shareholder. J P Morgan also had a management contract.

In 1984, Jordanian banks joined together to form Jordan International Bank.

The biggest of the Arab consortium banks was Union des Banques Arabes et Françaises (UBAF) founded by the Egyptian Mohammed Abu Shadi in 1970 with shareholders from every country in the Arab League. UBAF was based in Paris, but had affiliates and subsidiaries throughout Europe (including London) and in the U.S.

Consortium banking went out of fashion in the 1990s. The banks often struggled to make a good return on equity, and when new funds had to be invested, not every shareholder could be relied on to put in their percentage. In some cases, regulators worried about who precisely would stand behind the bank in a crisis.

In 2000, UBK merged with Bahrain's Al-Ahli Commercial Bank and Saudi International Bank was taken over by

Banks incorporated outside the European Economic Area authorised to accept deposits through a UK branch

Name	Head office location	Lead Executive	Address in London	Phone number in London
Arab Banking Corporation	Bahrain	William Playle, Branch Manager	1–5 Moorgate, London EC2R 6AB	020 7776 4000
Arab National Bank	Saudi Arabia	Keith Scott, General Manager	35 Curzon Street, London W1J 7TT	020 7297 4600
Emirates NBD	UAE	Duncan Steele-Bodger, Country Head – UK & Jersey	3rd Floor, 2 Basil Street, Knightsbridge, London SW3 1AA	020 7838 2277
Gulf International Bank	Bahrain	Charbel Khazen, Branch Manager	1 Knightsbridge, London SW1X 7XS	020 7259 3456
Mashreqbank	UAE	Hamid Sabil, Acting General Manager	1st Floor, 2 London Wall Building, 1–5 London Wall, London EC2M 5PP	020 7382 4003
National Bank of Abu Dhabi	UAE	Farid Barakat, Regional Manager Europe	1 Knightsbridge, London SW1X 7LY	020 7235 5400
Qatar National Bank	Qatar	David Manson, General Manager, Europe	51 Grosvenor Street, London W1K 3HH	020 7647 2600
Riyad Bank	Saudi Arabia	Abdulaziz al-Khereiji, Chief Manager	17B, Curzon Street, London W1J 5HX	020 7830 4000
Samba Financial Group	Saudi Arabia	Fadi el-Khoury, General Manager	Nightingale House, 65 Curzon Street, London W1J 8PF	020 7659 8200

Banks incorporated inside the European Economic Area authorised to accept deposits through a UK branch

Name	Head office location	Lead Executive	Address in London	Phone number in London
Banque Chaabi du Maroc	Morocco		224 Edgware Road, Paddington, London W2 1DH	020 7258 3150
Blom Bank France	Lebanon	Amr Turk, Senior Manager London	195, Brompton Road, London SW3 1LZ	020 7590 7700
Byblos Bank Europe	Lebanon	Gaby Fadel, London Branch Manager	Suite 5, Berkeley Square, London W1J 6BS	020 7518 8120

Gulf International Bank.

Jordan International Bank continues to prosper as an independent bank.

A Sympathetic Approach to Islamic Banking

When Islamic banking began to expand and seek international markets, London was able to establish itself as a centre of expertise. In the early days, regulators were not hostile to Islamic finance, and they soon began to seek ways to embrace it. Eddie George, who was Governor of the Bank of England from 1993–2003, made particular efforts to facilitate the growth of Islamic finance in Britain, ending the problem of “double taxation” on Islamic property transactions. (Because such transactions entailed two sales, stamp tax had to be paid twice, making such transactions uneconomic.)

Later, U.K. regulators enabled Islamic banks offering investment accounts to find a way to accommodate both the Shari’a requirement for depositors holding Islamic investment accounts to be exposed to economic risk, and the British regulatory requirement that all such deposits benefit from insurance.

A mark of the U.K.’s position in Islamic financial markets can be seen from the fact that in October the annual World Islamic Economic Forum will be held in London. This will be the first time that it has been held in a non-Muslim country and indicates that when Islamic finance wants to project itself on a world stage, London is the venue from which it chooses to do so.

The Forum’s programme includes presentations by senior British officials and business figures, marking the seriousness with which Britain views the event. From the Islamic world, Malaysia will have a big presence. It is ironic that during 2013, London will be one of the principal venues where leadership of the Islamic financial markets will be contested.

Historically, London has been a centre for the legal and accounting infrastructure that underpins much of the innovation in Arab financial markets and Islamic finance. English law is prevalent for contracts issued by Middle Eastern entities that involve western investors or lenders.

Yet the rise of regional centres such as the Dubai International Financial Centre (DIFC) is reducing London’s value as a support centre. All the major western law firms working with GCC

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“In future, London’s role as a gateway to international finance is unlikely to be diminished.”

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clients have offices in Dubai. Bahrain and the Qatar Financial Centre are also attracting greater numbers of financial service firms.

In future, London’s role as a support centre for Middle East finance is likely to recede as regional centres become more sophisticated. But London’s role as a gateway to international finance is unlikely to be diminished.

Paris will continue to be the principal international outlet for the francophone banks of the Maghreb. Beyond the historical, linguistic and cultural connections, French banks and official bodies continue to support Maghreb institutions and feel at ease in a business environment that is very different from that of the Gulf or the Levant.

Quarter of a million “British Arabs” in the U.K.

Beyond finance, the cosmopolitan nature of London society is often cited as a reason why Arab firms come to London. The British population census of 2011 included the category of “British Arab” for the first time, and the census reported that 240,000 British Arabs were resident in the United Kingdom. About 110,000 of them lived in the London area.

Examples of London’s vibrant Middle Eastern and Arab cultural scene include art galleries, bookshops, and outreach programmes by London’s universities – see pages 74–80 for examples.

The long relationship between London and Arab banks has been mutually beneficial, bringing profits to London’s financial community, enriching the capital’s cultural life, and providing Arab banks with a way into international financial markets.

Long may it continue! ■



The Kuwait Investment Office in London: A Vision Fulfilled



When the Kuwaiti government opened a small office in London in 1953 to manage some of its financial reserves, it attracted little attention; but in the 60 years that have followed, that office has grown to become one of the most sophisticated sovereign wealth funds in the world – the Kuwait Investment Office (KIO).

As the KIO celebrates its 60th birthday, *The Arab Banker* reviews its rise to become one of the key financial institutions in the City of London.

On 28 June 2013, Mr. Bader Al-Sa'ad, the Managing Director of the Kuwait Investment Authority and Mr. Osama Al-Ayoub, KIO's President and Chief Executive Officer, hosted the Prime Minister of Kuwait, other senior Kuwaiti officials and leading figures from the City of London to celebrate the 60th anniversary of the foundation of the Kuwait Investment Office. The celebrations were held in London's historic Guildhall – the site of official gatherings in London since the fifteenth century – and the guest list included the cream of London's financial and political community.

Addressing the guests, Mr. Al-Ayoub stated that KIO looked forward to continuing its long-standing relationship with the City of London as there are many opportunities for investment that require the co-operation with U.K. companies, as has always been the case in the last 60 years. Mr. Ayoub confirmed that despite the challenging global economic environment at present, the UK continues to be an important player in global finance and a major part of KIO's on-going investment programme, in particular infrastructure investments.

Paying tribute to the KIO, the Mayor of the City of London, Alderman Roger Gifford stressed how important the KIO had become to London's financial community. "For 60 years, the KIO has invested skilfully and consistently for the future...We were honoured 60 years ago that Kuwait chose the City of London as KIO's home. We are honoured today. For those 60 years the KIO has been an important part of the City's international family – we are delighted that so many Kuwaitis consider London their second home."

But KIO's journey to become part of City of London establishment – and a leading member of the Global Sovereign Wealth Fund community – has not always been easy. Indeed, KIO's success is a testament not only to the skill and perseverance of its own fund managers, but also to the resilience of the State of Kuwait itself.

The investment office was first established in 1953 by the Emir of Kuwait, Sheikh Abdullah Al-Salem Al-Sabah. Although far from wealthy, Kuwait was beginning to feel

the effects of oil revenues – oil had been discovered in the Burgan field in 1938 and the first commercial exports of oil had begun in 1946. Kuwait had the foresight to recognise the importance that financial investments would play in the country's future.

The Kuwait Investment Board, as it was then known, was founded under an agreement between the State of Kuwait and the United Kingdom on 23 February 1953. It operated out of the Bank of England and was managed by a committee of Kuwaiti and British executives.

When Kuwait gained its independence in 1961, the investment portfolio in London gave the new government confidence to develop a welfare state, and to launch new industries to diversify Kuwait's economy.

As the investment portfolio grew, and Kuwait began to make its mark on the world stage, there was a need to formalise and upgrade Kuwait's financial infrastructure. The Investment Board was transformed into the Kuwait Investment Office; new Kuwaiti staff were added; the investment horizon extended to the longer term; and the investment portfolio diversified.

In 1974, KIO acquired St Martins Real Estate Group in the U.K. It was the start of what has become one of the world's premier real estate portfolios. A year later, the Office moved into larger premises at St Vedast House, opposite London's St Paul's Cathedral.

The huge increase in oil prices in 1973–74 transformed the Kuwaiti economy and brought more changes to the way in which the country managed its investments. In 1976, the Emir of Kuwait, Sheikh Jaber Al-Ahmed Al-Sabah, ordered the creation of the Fund for Future Generations and specified that it should receive 10% of all state revenues. In 1982, the Kuwait Investment Authority (KIA) was created as an independent public authority governed by a Board of Directors that is chaired by the Minister of Finance.

KIO continued to operate as the London office of the KIA, leading the geographical expansion of the investment portfolio by acquiring new asset classes.

But the biggest challenge – not just for KIO but also for all Kuwaitis – was yet to come.



H.H. Sheikh Jaber Mubarak Al-Hamad Al-Sabah, Prime Minister of Kuwait addresses the banquet at the London's Guildhall on 28 June.

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Left to right: Alderman Roger Gifford, Lord Mayor of the City of London; Mr. Bader Al-Sa'ad, Managing Director of the Kuwait Investment Authority; and Mr. Osama Al-Ayoub, President and Chief Executive Officer of the Kuwait Investment Office



Leading figures from London's financial and business communities attended the lunch celebrating the 60th anniversary of KIO's establishment in London

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On 2 August 1990, Saddam Husain's armies invaded and occupied Kuwait. International condemnation was immediate. International sanctions were quickly put in place to squeeze Saddam financially and limit his ability to loot Kuwaiti assets.

Kuwaiti financial officials moved with extraordinary speed not only to transfer control of the country's investments out of Saddam's reach but also to ensure that funds could be made available to the Kuwaiti government in exile. Saddam had hoped to use Kuwait's financial reserves to prop up Iraq's decrepit economy; but those financial reserves were quickly out of his reach.

After Kuwait was liberated on 26 February 1991, the task of reconstruction was huge – and costly. But with the funds carefully husbanded over the previous decades, Kuwait wasted no time in rehabilitating its oil industry and rebuilding essential facilities. Ultimately, Kuwait would spend more than \$85bn on the liberation and reconstruction.

After the upheavals of the 1970s and 1980s, and of the Iraqi invasion, Kuwait entered a relatively tranquil period in the mid-1990s, and the KIO was able to re-focus on what it does best – cautious, long-term investment for the benefit of Kuwait and its citizens.

The global financial crisis of 2007–09 brought opportunities to KIA and KIO. As long-term investors, they were unruffled by the sharp fall in market prices and the drying up of financial liquidity. Rather, they were able to take advantage of low prices to make new investments – to the benefit of the Fund's performance in recent years.

So what do the next 60 years hold for KIO? The speeches at the Guildhall celebration last June offer some indications.

Addressing the guests, KIA's Managing Director, Mr. Bader Al-Sa'ad recalled KIO's previously stated intention to increase the volume of funds managed out of London while also increasing the amount of investment into the United Kingdom itself. "KIA has invested more than \$24bn in the UK across all asset classes, sectors and industries," he said, adding that, "Ten years ago, it was only \$9bn."



In a rare insight into KIO's global holdings, Mr. Al-Sa'ad noted that KIO now manages more than \$120bn compared to \$27bn ten years ago. (And when the Kuwait Investment Board was first established in 1953, investments amounted to no more than a few hundred thousand pounds, he said.)

As for the asset classes in which KIO invests its funds, Mr. Al-Sa'ad said that KIA had set up an infrastructure investment fund that is managed from London alongside the existing real estate subsidiary. "KIO will be looking to manage more funds, in more asset classes, and in more regions of the world in the near future," he said.

His words are borne out by KIO's recent investment decisions. The Office has moved with confidence into emerging markets in Asia, Latin America and Africa, focussing on countries where a shift towards market economies is taking place. Finance, real estate and renewable energy sources have been the key investment targets.

Kuwait's commitment to London was confirmed at the Guildhall celebration by the Prime Minister of Kuwait, His Highness Sheikh Jaber Mubarak Al-Hamad Al-Sabah. "We in Kuwait are extremely proud of the solid ties that have bound us to Great Britain throughout history and through special relations that include cooperation in economic, social, cultural, political and military fields."

The Prime Minister added, "A point of pride is the commitment of the Kuwait Investment Office to British laws that concur with the values and principles of international trade and global environmental and economic considerations."

In 2053, will we be celebrating the 100th anniversary of KIO's establishment in London?

Investment managers will warn of the dangers of making long-term predictions, but given the strong bonds between Kuwait and London, and the proven ability of both KIO and the City of London to develop, adapt and grow over the last 60 years, another celebration in 2053 would seem a fairly safe bet! ■

Become a Member

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

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



Arab Bankers Association جمعية المصرفيين العرب

ABA Membership Application

PLEASE TICK BELOW AS APPLICABLE

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

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Signed: Date:

Post or fax to:

ABA
43 Upper Grosvenor Street
London W1K 2NJ

T +44 (0)20 7659 4889

F +44 (0)20 7659 4868

www.arab-bankers.co.uk

PROFILE:

Antoine Zananiri, a Life in Arab Banking



Antoine Zananiri has been a fixture of the Arab banking scene in London since the time Arab banks began arriving in the capital in the 1970s. He was also a pioneer of Islamic banking when few, including the Bank of England, really understood what it was.

The Arab Banker spoke to Mr. Zananiri about how he came to London and how he found himself managing one of London's first Islamic Investment Companies.

Antoine Zananiri began his banking career in his native Egypt and came to London via Lebanon. His career stretches back to the early days of Banque du Caire in the 1950s, through the nationalisation of Egyptian banks by Gamal Abd al-Nasser, the emergence of Beirut as a financial centre and the scattering of foreign banks throughout the Middle East after the start of the Lebanese civil war in 1975 and finally, the rise of London as the primary centre for Arab banking outside the Arab region itself.

Zananiri's start in banking was far from easy. Banque du Caire opened its doors – with Zananiri as Assistant Manager for the bank's main branch in Kasr el-Nil Street – in May 1952. In July, the Egyptian government was overthrown in a military coup, and one month after that, the bank's Managing Director, and other Directors, were arrested and put into a military detention centre as they returned from a business trip abroad.

Nonetheless, Zananiri found ways to prosper. When western countries imposed sanctions on Egypt after the nationalisation of the Suez Canal, the country was unable to access foreign exchange to finance imports. Zananiri arranged "deferred payment" letters of credit with western banks, contracting to repay money six months after goods were imported. He expected – correctly – that Egypt would by that time have

access to its foreign exchange reserves. As a result, Egypt was able to resume imports of tea, a staple drink for most Egyptians.

But when Nasser nationalised Egyptian banks in 1961, the way banks did business and the way they treated their staff began to change. In 1964, the Arab Socialist Union – the state-controlled political party – appointed two directors to Banque du Caire's board, and the new directors began to interfere in the way managers and staff were paid. Zananiri decided it was time to leave. He resigned from the bank, but it was not until 1966 that he received an exit visa and was able to leave Egypt for Beirut.

In Beirut, Zananiri opened a representative office for The First National Bank of Chicago and then expanded the bank by buying Bank Naayem. First Chicago paid \$1mn (the equivalent of the £3mn, the minimum capital requirement for Lebanese banks), plus a \$100,000 premium.

It was a time when many banks were looking to expand their presence in the Middle East. In the early 1970s, Lloyds Bank bought Bank of London and South America (known as Bolsa) and folded it into the group as Lloyds Bank International. Zananiri was hired as the bank's Middle East and North Africa representative in January 1974 and he opened Lloyds' Beirut office, its first in the Middle East, four months later.

When the Lebanese civil war began in April 1975 Beirut's foreign bankers and businessmen had different opinions on where to relocate. The Gulf was not an obvious choice – looking back nearly 40 years we sometimes forget just how undeveloped some Gulf States were in the mid-1970s. Greece had only just emerged from military dictatorship, and Turkey was riddled with political infighting. Egypt was just starting to open to foreign investment under Sadat's policy of *infitah* ("opening") and hardly presented an enticing prospect for those who had experienced the dynamism and liberalism of Beirut.

Many commercial businesses relocated to Athens. Some banks went to Amman or Istanbul. Alan Moore, the Director of the Bahrain Monetary Agency (as the Central Bank of Bahrain was then known) had the vision to propose that Bahrain establish an offshore banking centre that would welcome foreign institutions and give them a platform from which to operate throughout the region.

Zananiri suggested to Lloyds that they open an Offshore Banking Unit in Bahrain; Lloyds agreed and in 1976 he opened it. In 1977, he opened a branch of Lloyds bank in Dubai, appointing Kent Atkinson to head it, in 1977 he opened a branch in Cairo, led by Geoff Clayton, and a representative office in Tehran.

In 1978, Zananiri received a call from

J Hallam Dawson, a former colleague at First Chicago who had risen to become Executive Vice President, Head of International, at Crocker National Bank, a Californian bank based in San Francisco that was looking to build a presence in the Middle East. Offering an attractive financial package, Dawson asked Zananiri to join the bank as Senior Vice President, Head of Middle East and Africa. Zananiri joined Crocker later that year, basing himself in London but, as before, travelling extensively in the Middle East and Africa.

Around this time, Bahgat Khalil, a former colleague from Banque du Caire who had moved to the bank's joint venture in Jeddah, Saudi Cairo Bank, introduced Zananiri to Sheikh Saleh Kamel and the two began to do business and develop a relationship based on Islamic banking principles.

Kamel had made his fortune through his company Dallah Avco, a diversified group that was big in construction and airport maintenance. Kamel was interested in Islamic Finance, which was starting to emerge as an interesting niche market for fund managers and bankers.

In 1983, Kamel decided that the time had come to establish an Islamic bank in London. He turned to Zananiri to make it happen. When Zananiri offered to introduce to Kamel other Arab bankers who could head an Islamic bank, Kamel protested that there was no reason why a Christian should not be fully involved in an Islamic venture. (He pointed out, for example, that the only woman who is mentioned by name in the holy Quran is Mary, mother of Jesus.)

Kamel paid £300,000 to buy the license of London Gulf Bank, owned by a Pakistani businessman, and renamed it Al-Baraka International Bank Ltd.

But how did the British regulators respond to Islamic banks? Zananiri says that they were surprisingly relaxed about this unfamiliar new business model. They could see that Islamic banking was going to grow, and they needed to see how it worked in practice. "They treated us as an experiment," Zananiri says. They told us that they would be happy to give us a license but that they would watch us closely.

Al-Baraka took deposits and managed investments through its London offices, and the inspectors never had a problem with the type of

business conducted by Al-Baraka.

But the inspectors did have concerns about Al-Baraka's shareholding structure – Saleh Kamel remained the sole owner of the bank and the inspectors worried that if Kamel's businesses ever faced problems, the bank could be affected and there would be no other shareholders to step in with support. Zananiri urged Kamel to bring into the shareholder list some of the Islamic banks that were starting to make their presence felt in the Gulf.

Zananiri's advice was not taken, and when the Bank of England enhanced its scrutiny of Middle Eastern banks after the closure of Bank of Credit and Commercial International (BCCI) in 1991, Al-Baraka came under pressure. It surrendered its licence in 1993.

But by that time, Zananiri had moved on to new pastures, attracting Middle Eastern depositors for Swiss Bank Corporation (which was subsequently merged with UBS in 1998). Once again, his timing was good. The Iraqi invasion of Kuwait in August 1990 led to a flight of deposits from Iraqi and Jordanian banks, and UBS was among the large international banks eager to receive them.

Zananiri left UBS in 2000 and has since spent his time managing financial portfolios for friends and relatives, being an active member of the Arab financial community in London, and making up for lost time with his children and grandchildren. ■

The creation of the Arab Bankers' Association

Antoine Zananiri had been an active member of Beirut's Foreign Banks Association, which used to meet every month on the roof of the Al-Kazar Hotel. (The neighbouring St George Hotel was more prestigious, but also more expensive, and the view from the al-Kazar was just as good.)

When he moved to London in 1976, Zananiri met Munir Hadad who had also relocated from Beirut to London as the Dresdner Bank representative for the Middle East. Together with a group of other prominent Arab bankers, such as Bashir Zuheiri of European Arab Bank, Faisal Kudsi, who managed portfolios of wealthy Syrian investors, Elie el-Hadj, of Al-Rajhi Company for Islamic Investments and a few others, they formed the Arab Bankers Association.

The inaugural Annual General Meeting was held in March 1980 and was attended by 80 people, including proxies from members based overseas. Zuheiri was elected Chairman and Zananiri Secretary General. The Association moved into offices in Hanover Street. (It has since re-located to the offices of the Arab British Chamber of Commerce in Upper Grosvenor Street.)

Arab Bankers Association, Inaugural Executive Committee (May 1981)

UK-Based Members

Chairman
Deputy Chairman
Secretary General
Deputy Secretary General
Treasurer
Deputy Treasurer
Chairman of Studies & Research Sub Committee

Bachir Zouheiri, European Arab Bank
Sabih Shukri, Allied Arab Bank
Antoine Zananiri, Crocker National Bank
Walid Niazi, Gulf International Bank
Adel Dajani, Arab Bank
Ramzi Halabi, Sarabex
Elie el-Hadj, Al Rajhi Company for Islamic Investments
Faisal Kudsi, Capital Guidance
Munir Haddad, Dresdner Bank
Salman Khalaf, Rafidain Bank
Gilbert Jabre

Chairman of Finance Sub Committee
Chairman of Foreign Relations Sub Committee
Chairman, Public Relations Sub Committee
Member

Middle East-based Members

Ahmed Abd al-Latif
Anthony Asseily
Zouheir Khoury
Wael al-Sager
Mohammed Ibrahim Farid
Nooruddin Nooruddin
Abdullah Mazrui
Salih Sakran

Saudi Arabia Monetary Agency
J. Henry Schroder Company (Lebanon)
The Housing Bank (Jordan)
Kuwait International Investment Company
National Bank of Development (Egypt)
National Bank of Bahrain
National Bank of Abu Dhabi
Bank of Khartoum

Not Just Partners, but also Friends: The City of London and the Middle East

The City of London has long enjoyed a special relationship with the Gulf States and with the broader Middle East. In the following article, the Lord Mayor of the City of London, Alderman Roger Gifford, describes the ties that link the City and the Middle East, and stresses the importance of partnerships and friendship.

As a global centre for financial and professional services, London has for decades welcomed Arab financial services firms as participants in its business and markets, demonstrating that our outlook for the 21st century is international, not just domestic or European. The deep and enduring links with the Gulf States continue, and the flows of capital and talent benefit both sides. A strong position as a provider of professional and financial services, in both “Western” and Islamic finance, benefits both the UK and the Gulf, and we can build on this by continuing to work together. The further growth of the Arab business community in London is an important element of this.

Relationships with the countries of the Gulf have remained strong in recent years: bilateral trade with Kuwait is set to double to £4bn by 2015 and UK exports to the UAE rose by 16% in the first half of 2012. Her Majesty The Queen welcomed His Highness The Emir of Kuwait to the United Kingdom last Autumn and the City had the pleasure of welcoming him at a State Banquet at Guildhall.

As Lord Mayor, I have followed in the footsteps of my predecessors in pursuing commercial diplomacy with the Gulf States, visiting Riyadh, Jeddah, Abu Dhabi, Dubai and Doha in February this year to strengthen the business and diplomatic relationships that allow trade between our nations to thrive. I have no doubt that my successors will do the same as we continue to reinforce the important ties we have with the Gulf. The City of London is fortunate to be ideally placed for trading with the Arab world, as the gateway to European markets and sitting in the time zone that bridges the working day of both Asia and the Americas.

The City’s standing as a financial centre is supported by its role in delivering legal and professional services, including dispute resolution and the protection of intellectual property. A full member of the EU Single Market, it provides a gateway to Arab and international institutions looking to set up or expand their European operations. The UK is also a leading world player in infrastructure finance and in the use of private capital and expertise to deliver public services. As the nations of the Gulf make huge investments in health, housing, transport and educational development and seek to diversify their economies, we in the UK look to share our expertise. Moreover, as Qatar prepares to host the World Cup in 2022 and as the UAE bid to host the 2020 World Expo in Dubai, the UK’s success in delivering the London 2012 Games is a model on which others can draw. British companies

have experience of working on such large-scale projects from design to delivery and are keen to help turn vision into reality.

The key is partnership – mutual trade and investment between friends. We are keen to encourage the Gulf States to invest further in the UK. Many sovereign wealth funds including the Abu Dhabi Investment Authority and the Kuwait Investment Office have operations in London, while Arab investments in land and property have made a dramatic and much valued contribution to the London skyline.

But people are at the core of the relationship: Arab nationals work not only in Arab banks but also in European, American and Japanese institutions, bringing their insights and experience to global businesses dealing with cross-border capital flows, managing multi-currency funds and financing projects involving clients and suppliers in different countries and continents.

Many of these professionals will first have become acquainted with the UK as students, taking advantage of secondary, higher, post-graduate and professional education here – a central element in London’s international mix, and one that is still key to attracting and retaining the talent which firms will need to sustain growth in the future.

The diversity which begins in our student population continues throughout the City’s workforce. London is one of the most diverse cities in the world, where 300 languages are spoken. London is also Europe’s financial centre, and we want to remain the gateway to the European economy, and that is why I agree with the Prime Minister that the UK should remain at the heart of the European Single Market. The successful negotiations undertaken by the UK government on banking union and the EU budget underscore how we continue to play an influential role in the debate on making Europe ready to meet the challenges of the twenty first century.

London’s rich cultural life itself reflects the diversity and excitement of the city’s international population. That cultural life is part of what makes London a great place to live – but it is also a significant economic contributor. In the City of London alone, the arts generate £225 million and support 6,700 jobs. The City is the home of the Barbican Centre, Europe’s largest arts centre and the home of the London Symphony Orchestra, and of the Museum of London, as well as one of Europe’s finest conservatoires, the Guildhall School of Music and Drama. Our successful cultural model is itself one we can share with our partners in

the Gulf as they plan their own arts complexes.

London is a business centre with world class expertise on all areas of financial services, law and consultancy, but London is also more than just the sum of its institutions: it is a cultural destination for millions each year, and a beacon of

diversity and international business where all professionals can meet and create new ideas that drive innovation, create value and prosperity. Our partnerships with the peoples and institutions of the Arab world are a much valued element in that international character and reach. ■



The City of London Corporation

The City of London Corporation provides local government services for the "Square Mile" – the area of London in which most of the capital's financial activity takes place. The head of the Corporation is the Lord Mayor.

In addition to providing day to day services such as policing within the "Square Mile", the City of London Corporation also supports and promotes the financial services industry within London as a whole, and more broadly within the U.K. The Lord Mayor acts as an ambassador for the City and for U.K. financial services. He promotes the City as a financial service centre while also fostering goodwill and seeking to boost British trade abroad.

There are about 10,000 permanent residents of the City, but about a third of a million people work there.

The Lord Mayor of the City of London is elected by City residents

and representatives of local businesses and trade associations. He serves for one year. The current Lord Mayor is Alderman Roger Gifford. During his year in office, the Lord Mayor is based at the Mansion House, a large eighteenth-century building facing the Bank of England on the junction above Bank Underground Station.

The first Lord Mayor took office in 1189.

The Lord Mayor of the City of London is not the same as the Lord Mayor of London (currently Mr. Boris Johnson) – the Lord Mayor of London is responsible for a much larger area.

Alderman Roger Gifford has spent most of his professional career as a banker, and since 2000 has been the U.K. Country Head of Sweden's Skandinaviska Enskilda Bank. He was Chairman of the Association of Foreign Banks from 2007 until 2011.



The City of London and Europe: Assessing the Prospects of a Troubled Relationship

London is recognised as the pre-eminent financial city in Europe and is matched only by New York in global markets. Yet London’s position is under threat from new regulations being proposed and implemented by the European Union. Designed to prevent weak financial institutions compromising the economies of the E.U.’s nation states, the new regulations also challenge the entrepreneurial and laissez-faire approach to finance which has enabled the City to achieve its pre-eminence.

In the following article, a Special Correspondent reviews the City’s troubled relationship with Europe.

The City – and London’s financial services industry as a whole – presents an easy target to its detractors. Lionised in the decades that preceded the global financial crisis of 2007–2009, London’s banks accounted for some of the most notable failures when the crisis occurred.

The failure of Northern Rock, one of the UK’s largest mortgage lenders with a balance sheet of around £100bn, was the first indication of what was to come. HBOS, one of the biggest U.K. banks, had to be rescued by Lloyds, while Royal Bank of Scotland (RBS), one of the largest banks in the world with a major franchise in the US, survived only with tens of billions of pounds in government assistance. Several medium sized British mortgage lenders had to be taken over by their peers. And of course, it was in London that AIG Financial Products racked up the liabilities that were to jeopardise the giant US insurance company.

RBS has become emblematic of all that was allegedly wrong with UK financial services before the crisis. Strategically aggressive, over-confident, intent on rapid growth and thin capital ratios, the bank made a hostile bid for ABN-Amro – based only on publicly available information – just weeks before tightening money markets undermined the funding of even the most conservative banks. Fred Goodwin, the bank’s high profile and hard riding C.E.O. had been knighted by the Queen in 2004 for “services to the banking industry.” In 2012, disgraced, his knighthood was annulled.

Britain was hardly alone in seeing bank failures. Dexia, the Franco–Belgian lender, has required capital injections, Fortis the Belgian–Dutch bancassurer had to be taken over, several German regional and specialised banks failed and many of Spain’s savings banks had to be absorbed into a newly created institution, Bankia. And then of course, there are the Greek and Cypriot banking systems.

After the failure of Lehman Brothers in September 2008, several major U.S. banks were on the point of collapse and some, such as Wachovia and Washington Mutual, had to be rescued.

Yet within Europe, the London finance market is seen by many as being most heavily implicated in the alleged excesses that preceded the crisis. It is therefore hardly surprising that London often seems to be the market most threatened by measures being put in place with the aim of preventing financial crises happening again.

As the tables on the accompanying pages show, the assets of British-based banks, as a whole, account for one quarter of all banking assets in the European Union and British banks are among the biggest in Europe in relation to the size of their domestic economy.

The EU Will Restrict the Size of Bankers’ Bonuses

Bankers’ pay and bonuses are a financial issue that resonates loudly at the political and popular level. In simple terms, tax payers saw bankers making huge sums during the good years,

and then found themselves being asked to pay to rescue their banks when things turned bad.

The whole system of awarding huge bonuses based on short-term performance indicators was blamed for creating the incentives that led to what is now seen as reckless financial behaviour.

In February the European Union agreed to limit bonuses to the equivalent of one year’s fixed salary, or twice fixed salary if shareholders approve.

The measure caused howls of protest from London. (British officials had vigorously opposed the proposal but found they had almost no allies among other governments, within the European Commission or in the European Parliament).

British protests were hardly surprising.

Research by the European Banking Authority (EBA) shows that in 2011 more British-based bankers were paid more than €1mn than all those in all 26 other EU countries combined. Two thousand four hundred and thirty six were paid more than €1mn according to the EBA, compared to 170 in Germany and 162 in France. (See the table on page 32).

London is home to far more foreign banks and bankers than Paris or Frankfurt, so the fear was that traders and others who typically earn high bonuses might move to jurisdictions outside the EU – Switzerland, Singapore and of course the U.S. were mentioned. Yet six months later, there seemed to be no evidence that any material re-location was taking place. For one thing, British tax rates remain highly competitive compared to those in many other countries.

Three Streams of Financial Regulation in Europe

The re-regulation of financial markets following the global financial crisis has been led by the G20, with specialised standard setters drafting specific proposals. (For example, the Basel Committee on Banking Supervision drafts bank regulations.) National regulators then incorporate those standards into national law.

In Europe, standards are usually adopted by the European Union, which either then imposes its interpretation on national governments (though a regulation) or requires them to incorporate it into national law with some room for national interpretation (through a directive).

There have been three streams of financial sector regulation within Europe. The first is related to the



“It is clear that much of the European Commission’s regulatory wish list will not be fulfilled during its current term.”



High Earning Bankers in the EU, 2011 (Number earning more than €1mn, and ratio of variable/ fixed remuneration)

	Bankers earning more than €1mn	Variable remuneration as % of fixed remuneration (average)
United Kingdom	2,436	346%
Germany	170	263%
France	162	373%
Spain	125	185%
Italy	96	90%
Netherlands	36	132%
Denmark	33	64%
Ireland	21	336%
Norway	19	146%
Sweden	15	56%
Portugal	11	240%
Austria	10	93%
Luxembourg	10	158%
Belgium	8	118%
Hungary	9	293%
Cyprus	4	74%
Poland	4	277%
Finland	3	136%
Greece	2	75%
Slovakia	2	1,911%
Bulgaria	0	-
Czech Republic	0	-
Estonia	0	-
Latvia	0	-
Lithuania	0	-
Malta	0	-
Romania	0	-
Slovenia	0	-

The percentage of 1,911 for Slovakia is correct.

Numbers for Poland were contributed by sources outside Poland

Source: European Banking Authority, "High Earners 2010 and 2011 data"

Percentage of E.U. banking assets held in various countries, end 2011

Total assets €44,818 billion

U.K.	24.9
Germany	17.8
France	14.9
Spain	8.7
Netherlands	6.3
Italy	6.2
21 other countries	21.2

Source for data: European Central Bank

implementation in Europe of the international regulatory agenda – for example, the Basel III standard. The second relates to additional measures that are seen as particularly relevant in Europe, such as restraints on short selling and on high frequency trading. Third has been the harmonization of financial regulation through the creation of European regulatory bodies, such as the European Banking Authority for banks, and the European Securities and Markets Authority for capital markets.

The measures to implement the international agenda are unlikely to have a detrimental effect on the City in particular.

For example, in the realm capital markets, the international focus has been on bringing greater transparency and standardisation to the trading of financial instruments. The European Market Infrastructure Directive (EMIR) requires that standard derivative instruments should be traded on exchanges (rather than over the counter), cleared through central counterparties and registered on trade depositories

This hugely important new regulation does not in itself threaten London's dominance of global financial market trading – the use of OTC derivatives will decline, but volumes of exchange-traded instruments will increase.

Two factors will likely determine London's position under the new regime. The first will be the outcome of mergers and acquisitions among Europe's clearinghouses and trade repositories. Regulations requiring "open architecture" for clearing trades are supposed to enable new entrants and smaller operators to compete against the larger players, but it also offers larger institutions greater opportunities to take advantage of economies of scale.

The second factor concerns regulations on the domicile of clearing houses. The European Commission is arguing that clearinghouses that conduct certain amounts of business in Euros must be based in the Eurozone so that they will have access to central bank liquidity in a crisis. The U.K. government is challenging this in court.

Another example lies in the implementation of Basel III. The Report of the UK's Independent Commission on Banking (also known as the "Vickers Report" after its chairman) proposed capital requirements that went far beyond the European Commission's Capital Requirements Regulation and Directive. The Vickers Report was adopted almost unchanged by the British Government.

The Reach of European Laws and Regulations has been Increasing

The City's troubled relationship with Europe lies less in the detail of financial regulation (though as the clearing house issue shows, sometimes it does) but rather in broader issues related to loss of independence and regulatory approach.

The European Union has for years been extending its reach into the laws and regulations its member states. For many who work in the European Commission or who are active in other European bodies, this is seen as a good and natural course of events.

In the City, the extension of European authority over British institutions and their conduct is rarely seen as either good or natural. While the need for co-operation is recognised, along with the need to minimise opportunities for regulatory arbitrage, it is taken as almost axiomatic in some City circles that a regulatory approach which is based on standardising the provision of financial services throughout Europe, and the conduct of financial services

firms themselves, will stifle the flair and innovation which has enabled the City to achieve its current status.

The volume of regulation emanating from the European Commission is another key factor in the City's unease with Europe. Beyond Basel III, EMIR, new regulations for insurance companies ("Solvency II"), plans to extend the scope of regulation of "shadow banking", restrictions on short-selling and algorithmic trading, the possibility of a Financial Transaction Tax (now being taken forward by nine member states, rather than the Union as a whole), there is the whole question of banking union.

Proposals for banking union apply primarily to banks within the Eurozone, so would not directly affect British banks based in London, although the regulation of banks (as opposed to supervision) is handled by the European Banking Authority and the Authority has significant power to determine how banks are run throughout the European Union, not just inside the Eurozone.

European Banking Union falls into three strands: the creation of a Single Supervisory Mechanism to supervise all large banks in the Eurozone; agreement on the conditions and mechanisms for rescuing failing banks and bailing in shareholders, bondholders and depositors; and the creation of a Europe-wide deposit insurance scheme.

The European Commission produced truly prodigious volumes of new regulatory proposals during 2011 and 2012 – and it was then that the alarm bells really started ringing in the City – but the likelihood that many of these proposals will be implemented in the short or medium term is being compromised by the European election cycle.

For much of 2013, the approach of German federal elections dampened the willingness of German politicians to push for Europe-wide measures that could require German taxpayers to bail-out banks in other countries. The next elections to the European Parliament will be held in June 2014, and the Parliament indicated in early 2013 that it would be unwilling to accept new legislative proposals after mid-year. After the Parliamentary elections, a new Commission will be appointed.

It is clear that much of the European Commission's regulatory wish list will not be fulfilled during its current term.

The City wants to Remain Part of the European Union

For all the City's anguish at the European Commission's approach to financial regulation, there is little enthusiasm for withdrawing from the European Union. The City wants to remain at the heart of European finance, rather than becoming an offshore competitor to it.

City bodies consistently argue that London's financial services industry is an asset to European finance not a liability; that its skills and innovation far outweigh the risks that British banks assume; and that only a European financial market that includes the City will be able to compete against the U.S. and against emerging regional centres in Asia.

The next Parliamentary elections in Britain will take place in 2015, and it is likely that a referendum on Britain's continued membership of the European Union will follow shortly afterwards. It is entirely possible that Britain will vote to withdraw, forcing the City into that "offshore" position that it seeks to avoid.

But two or three years are a long time, not only in finance but also in politics. It remains very hard to predict what the City's relationship with Europe will look like in the years to come. ■

Biggest Ten European Banks (2010 Assets), Size Relative to National and EU GDP

	Assets % national GDP	Assets % GDP of EU 27
1. BNP Paribas	103	16
2. Deutsche Bank	77	16
3. HSBC Holdings	107	15
4. Barclays	102	14
5. Credit Agricole	90	14
6. Royal Bank of Scotland	99	14
7. ING Group	212	10
8. Santander	116	10
9. Lloyds Bank	68	9
10. Société Générale	59	9

Memo Item: Bank of America was 16% of US GDP, JP Morgan Chase was 15%, Citigroup 13%, Wells Fargo 9% and Goldman Sachs 6%.

Employment in Financial and Related Professional Services in E.U. Member States (prepared by The City U.K.)

	Per cent employed in financial services	Number employed in financial services
Luxembourg	17.9	42,600
Cyprus	10.2	39,600
United Kingdom	7.0	2,095,700
Ireland	6.7	123,000
Malta	6.3	10,900
Austria	5.9	247,300
Netherlands	5.8	487,600
Greece	5.8	213,300
Sweden	5.7	262,500
Italy	5.6	1,287,800
France	5.5	1,427,000
Germany	5.4	2,187,000
Denmark	5.4	143,900
Belgium	5.1	230,900
Spain	4.8	808,400
Slovenia	4.8	44,600
Hungary	4.6	178,100
Czech Republic	4.5	222,700
Latvia	4.4	39,500
Finland	4.0	98,000
Poland	3.8	596,800
Slovakia	3.8	87,000
Portugal	3.7	168,500
Croatia	3.4	48,300
Bulgaria	2.9	84,900
Lithuania	2.8	35,500
Romania	2.5	230,100
Estonia	2.4	15,300
European Average % and Total	5.3	11,493,200

Source: The City UK



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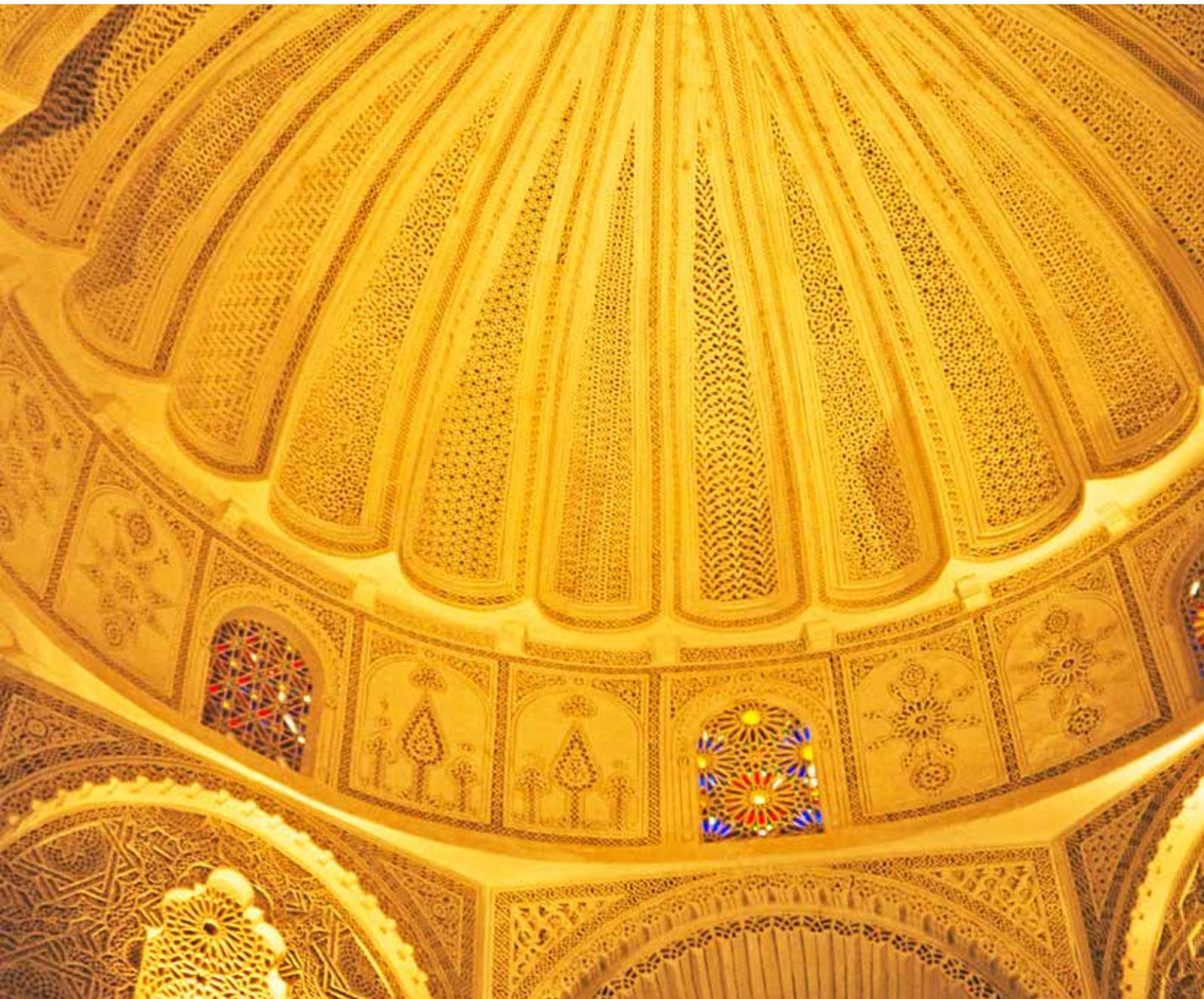
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Islamic Banking: Religious Tourism or Faithful Commitment?

As ethical standards and questions of conduct become increasingly important in international finance, many believe that the moral underpinning of Islamic banking may give it an advantage. But Islamic banking faces many practical challenges in its efforts to capture the moral high ground as Mustafa Hussain, a Partner in the International Wealth Group of law firm Taylor Wessing, explains

In July 2013, just a few weeks before this edition of the *Arab Banker* went to print, the Archbishop of Canterbury (the senior bishop and principal leader of the Church of England) boldly declared financial war on 'payday lenders', branding the practices of these companies 'sinful'. The archbishop announced his battle plan: the church will back credit unions

(community based financial collectives). He was effectively using market competition as his strategy and the national media as the battleground for this showdown between the church and the short-term corporate lenders who provide small loans (averaging £300 in the UK) for a week or two at a very high rate of interest (reportedly 5,000 per cent or more).



The might of the church faces a sizeable opponent in this ethical finance fray, notwithstanding that it is taking the ethical high ground. Economic challenges have forced low income citizens to turn in vast numbers to payday lenders, who reject fewer applicants (and take the higher risk of default), generating industry growth of hundreds of millions of Dollars from the USA to UK since the global economic crisis began. The archbishop's valour was, however, swiftly tarnished with embarrassment: it emerged almost immediately that the church (which claims a strong ethical investment policy) invests in a venture capital firm that is a key backer of arguably the most prominent British payday lender. The church was forced to acknowledge a "serious inconsistency" and the lesson learnt was clearly that if you choose to throw stones in full view of the media, you had better not live in a glass house, even if religion is on your side.

Islamic Banking As an Ethical Alternative

Pundits commenting on the church's challenge were quick to cite Islamic banking as being a fellow stalwart in the ethical alliance. But the question increasingly being asked in the context of Islamic banking is whether Shariah-based finance faces the same criticisms as its fellow Abrahamic faith has just met with.

Banks are cautiously optimistic about global growth. But their challenges include the increasing sophistication of clients, the need to maintain earnings streams, the role of technology and the demand for quality of services. Bankers seeking to maintain their client relationships, profitability and market share (particularly being mindful of the rise of emerging markets) have to diversify and offer a full service that includes Islamic banking. But just how far does their commitment extend?

Appealing to a catchment Muslim market that starts on the high street and extends to some of the richest companies and most influential sovereign wealth funds in the world might seem a perceptible advantage to harnessing banking business from retail to commercial and state industries. In fact, it is arguably the case that not having an Islamic banking practice could mean your bank is not even on a level playing field when it comes to market competition amongst banks and finance houses. Many have engaged to establish Islamic windows offering retail, trade and commercial Islamic banking and some institutions, particularly in the Arabian Gulf and Malaysia, have even been incorporated as fully Shariah compliant undertakings. From Musharaka real estate finance to Murabaha investment accounts, Sukuk bond issues and an engineered spectrum of financial services in between, the market has been lauded as growing in the billions. Global

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"Global financial centres such as London and Dubai have sought to become Islamic finance hubs and predictions of Islamic corporate growth are probably as true as they are bold."

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financial centres such as London and Dubai have sought to become Islamic finance hubs and predictions of Islamic corporate growth are probably as true as they are bold.

Practical Challenges

Of course the practical perspective is that ensuring compliance with religious law that dates from 1,400 years ago (notwithstanding its partial codification and development through analogical reasoning and consensus in the early modern era) and which remains subject to interpretation through different schools of thought by a small group of scholars, remains a pertinent challenge. Efficiency and scale is achieved in banking through systems integrated to the interest-based economy and adjusting those systems, procuring Islamic fatwas, audits and complying with both Islamic and Western laws is an expense that prices Islamic banking above its non-religious counterpart. Retail customers then face the stark choice of paying more for their banking services to adhere to their faith or choosing interest-based services and reconcile themselves with the 'sin'.

Several years ago the UK wave of Islamic retail banking sought to cross-sell to Muslim customers by pulling in their business on the assurance of faithfully adherent Islamic products and services. But the visibility of those services, at least through the prominent high street names, has arguably diminished and indeed one of the largest Islamic retail divisions of a household name bank has recently closed in the West. Profitability is the ceiling on the faithful commitment of even the largest banks and coupled with the increasingly discussed perception that Islamic financial transactions (which often use inter-bank interest rates as contractual measures and build in penalties and profits in similar formats to conventional finance) are synthetic or even sham-like, this poses a serious reputational risk to the industry and those in it.



The glass house extends to Islamic financial institutions and corporates. They can absorb higher compliance and transactional costs within their scale and cross-border deals. But they cannot hide from sticky legal points such as conflict of laws and reputational damage (which impacts on goodwill – arguably their most valuable asset).

The last 18 months have seen the bankruptcy of a major Islamic bank whose customers include high-profile investors from across the Muslim world. Having contracted with the bank on the representation that all its affairs are Shariah compliant, they have found themselves subject to American bankruptcy proceedings. Under such proceedings Islamic refinance facilities are approved but Islamic law is not the governing law and there is no obligation on the court to follow Shariah in substance or spirit in determining the outcomes for Muslim investors under Islamic contracts in Shariah transactions.

Family Businesses and Patriarchs Dominate the Business Landscape

Short-term wins by contracting parties battling out Islamic contract terms in Western courts who do not heed the intended spirit of Shariah are exactly that – short-term triumphs that are sure to be Pyrrhic or empty victories. The very nature of the emerging markets in the Muslim world that banks have sought to build their market share in is that they are dominated by private family businesses and patriarchal investors. They have the financial wherewithal of Fortune 500 investors and they also have individual moral compasses. Antagonising these investors by touting Islamic arrangements with them and then withdrawing from the market, or dismissing the spirit of religion that forms the way of life of your customers when matters end up in court, does not bode well for the future of the market that is dependent on commitment from Muslims who (unlike their retail counterparts) are rich enough not to have to deliberate whether to “go Islamic” or not when considering service costs.

Private banks have the advantage of pursuing other avenues to secure their client relationships with wealthy Muslims. The merchant trading families are now moving into their second and third generations since the discovery of oil in the 1950s, creating the opportunity for Islamic compliant wealth planning, succession structures that have shareholdings in Shariah proportions and corporate governance that is tailored to the religious and cultural needs of Muslim families. I have worked on a number of family constitutions and wealth holding structures that strictly adhere to Islamic principles whilst giving the



Mustafa Hussain

Mustafa Hussain is a partner in the international Wealth Group at law firm Taylor Wessing LLP. He specialises in advising Muslim merchant trading families and private family businesses on their corporate commercial matters, family governance and organisational planning. Mustafa is listed as a leading lawyer in his field in ‘Chamber’s Global: The Client’s Guide’ and is listed in Private Client Practitioners’ ‘Top 35 Under 35’. Mustafa is based in London but advises patriarchs and families across the Middle East, Europe and Asia. Mustafa is the author of ‘The Family Business Passport’, has written contributions for three textbooks and feature articles for ‘Wealth Briefing’, ‘The Lawyer’, ‘Legal Week’ and ‘The American Journal of Islamic Finance’ amongst other publications.

certainty and peace of mind that patriarchs seek when passing on the leadership and wealth of their families. Robust Islamic solutions like these that are tailored to client needs are a better means to building market share and entrenching valuable client relationships in banking. But, as the archbishop discovered, if taking the ethical stance, the competitive field of battle will not be without its unexpected challenges. When it comes to a head, institutional goodwill is more likely to be eroded than a customer’s devoted faith. Reconciling the two is perhaps the greatest challenge of all for Islamic banking. ■

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What's Next for Saudi Banking?

The Saudi banking system showed its resilience during the global financial crisis. Cautious lending, and a firm hand by the regulators, resulted in 11 of the Kingdom's 12 banks declaring net profits for 2008, 2009 and 2010 (and the 12th suffered a net loss only in 2009). In the three years since the crisis, Saudi banks have resumed their growth and recorded further increases in profitability.

But what is next for Saudi banks? In the following article, the Arab Banker considers the opportunities and challenges that lie ahead for banks in the Arab world's biggest economy.

This is an exciting time for Saudi banks. Economic growth in the Kingdom is robust, several large new projects have recently been announced, and new areas of retail lending are opening up. All this is happening at a time when Saudi banks are already showing sound profitability and strong capitalisation.

The price of crude oil has remained around \$100/B for more than two years, generating substantial budget surpluses for the Saudi government. Despite the excitement over the new "fracking" technology and the possibility that the U.S. will cease to be an oil importer over the medium term, industry experts are not predicting that fracking will result in a structural decline in oil prices. (See the article by Walid Khadduri on page 58)

The International Monetary Fund's 2012 Article IV Report on Saudi Arabia predicted nominal GDP will grow by 3.7% on average from 2014–2017, with real growth averaging 4.15%. Current account surpluses will remain more than 12% of GDP, while the central bank's gross foreign assets will increase from \$703bn at the end of 2012 to \$1,215bn at the end of 2017, the IMF report predicts.

Macro economic trends and government finances are important for any banking system, but they are crucial for the Saudi banking system, given the extent to which government spending drives economic activity. (And, conversely, when government finances are strained, liquidity throughout the economy becomes tight.)

In early August, the Saudi government awarded initial contracts for the \$22bn Riyadh Metro. Smaller scale metro systems are expected for Jeddah and Mecca. The Saudi Electric Company will be another source of large projects, with other areas of infrastructure such as wastewater also providing lucrative opportunities.

But the opportunities for Saudi banks are not confined to the business that the government can provide. Perhaps the most exciting development of recent years has been the passing of the long-awaited mortgage financing law. (The Saudi Cabinet approved the law in July 2012.)

Chiradeep Ghosh, a senior analyst with the Bahrain investment bank SICO, notes that 35% of the Saudi workforce is below the age of 30. "There will be a significant demand for mortgage loans due to Saudi Arabia's demographic make-up," he says.

Melanie Lovatt, a Cyprus-based commentator on Middle East finance, points out that the law permits the creation of institutions that will securitise mortgages and sell them to investors, so opening the possibility of new forms of bond

and sukuk issuance in the Kingdom.

And of course, since mortgages are long-term instruments, banks will need to raise long-term liabilities to match them (to the extent that they don't securitise them off their own balance sheets). Hopefully, greater issuance of medium and long-term liabilities will strengthen domestic debt markets, which everyone recognises are currently weak: issuance is low, secondary market trading is thin. The lack of sovereign debt issuance (an unfortunate consequence of the government's healthy financial position) has prevented the emergence of a sovereign yield curve for Saudi Riyal debt.

The success of the Saudi mortgage market will depend in part on banks' ability to enforce the legal contract that underpins any mortgage agreement. In simple terms, if the borrower does not keep up to date on payments, then the bank can re-possess the borrower's house. If the courts will not grant repossession and enforce it, then the rationale on which banks can make such long-term loans at low rates of interest ceases to exist.

Historically, the Saudi legal system has been unsympathetic to banks. "Everyone knows that the Saudi legal system is poorly developed, especially from the commercial perspective," notes a senior Saudi banker, who wished to stay anonymous, adding, "This will continue to be an issue for the banks."

Another area of opportunity for Saudi banks will be lending to small and medium sized enterprises (SMEs).

As is the case in most countries, SMEs account for a huge percentage of the number of registered firms in Saudi Arabia. In the case of Saudi Arabia they also account for about 25% of total employment. Enabling SMEs to flourish and grow is a big priority for the Saudi government.

Bank loans to SMEs account for 15–25% of total bank loans in most middle income and high income countries, according to the World Bank. Yet in the GCC, including Saudi Arabia, the percentage is less than 5%.

The drive to provide finance to Saudi SMEs is being pioneered by the Kafala Programme, a joint initiative of the Ministry of Finance, represented by the Saudi Industrial Development Fund (SIDF) and the commercial banks. Under the programme, the banks offer loans of up to SR2mn (\$533,333) and receive a government guarantee of up to 80% of the amount extended.

So how much capacity do the banks have to increase their lending and take advantage of these new opportunities, both corporate and retail? The Saudi Arabia Monetary Agency (SAMA, the central bank) imposes an 85% limit of

Saudi Arabian Commercial Banks: Summary of Financial Condition, 2011–2012

SRmn, unless otherwise stated		Equity	Assets	Loans	Investments	Customers' Deposits	Operating Income	Net Income	Equity % Assets	Loans % Deposits	Net income % avg. assets
National Commercial Bank	31/12/12	37,704	345,320	163,479	116,428	273,530	13,603	6,613	10.9	59.8	2.0
	31/12/11	34,165	301,198	135,289	120,489	239,457	12,134	6,106	11.3	56.5	
Al-Rajhi	31/12/12	36,469	267,383	171,941	40,880	221,343	13,983	7,885	13.6	77.7	3.2
	31/12/11	33,489	220,731	140,313	38,802	177,733	12,502	7,378	15.2	78.9	
Riyad Bank	31/12/12	31,964	190,181	117,471	36,254	146,215	6,786	3,466	16.8	80.3	1.9
	31/12/11	30,158	180,887	112,973	36,616	139,823	6,276	3,149	16.7	80.8	
Samba Financial Group	31/12/12	31,739	167,485	104,786	52,576	148,736	6,694	4,332	19.0	70.5	2.6
	31/12/11	28,257	164,517	89,111	60,175	137,257	6,562	4,305	17.2	64.9	
Banque Saudi Fransi	31/12/12	22,687	157,777	102,785	27,498	115,571	5,010	3,015	14.4	88.9	2.0
	31/12/11	19,655	140,480	92,325	16,669	109,963	4,585	2,911	14.0	84.0	
Saudi British Bank	31/12/12	20,066	156,652	96,098	27,587	120,434	5,166	3,240	12.8	79.8	2.2
	31/12/11	17,166	138,657	84,811	22,200	105,577	4,899	2,888	12.4	80.3	
Arab National Bank	31/12/12	17,910	136,639	86,329	24,323	107,560	4,757	2,371	13.1	80.3	1.9
	31/12/11	16,730	117,574	72,844	26,082	87,859	4,541	2,171	14.2	82.9	
Al-Inma Bank	31/12/12	16,664	54,014	37,187	1,960	32,214	1,826	733	30.9	115.4	1.6
	31/12/11	15,894	36,783	25,260	3,428	11,776	1,388	431	43.2	214.5	
Saudi Investment Bank	31/12/12	9,379	59,067	34,051	10,912	40,414	1,722	912	15.9	84.3	1.6
	31/12/11	8,557	51,946	27,114	8,893	36,770	1,616	708	16.5	73.7	
Saudi Hollandi Bank	31/12/12	8,306	68,506	45,276	11,366	53,914	2,219	1,253	12.1	84.0	2.0
	31/12/11	7,408	57,197	37,410	11,503	44,689	2,005	1,032	13.0	83.7	
Bank Al Jazira	31/12/12	5,186	50,957	29,897	9,099	40,675	1,601	501	10.2	73.5	1.1
	31/12/11	4,937	38,898	23,307	5,397	31,159	1,208	303	12.7	74.8	
Bank al-Bilad	31/12/12	4,371	29,778	18,256	1,537	23,741	1,737	942	14.7	76.9	3.3
	31/12/11	3,416	27,727	13,780	951	23,038	1,374	330	12.3	59.8	

Exchange rate: \$1=SR3.75

Source: Bank Reports

loans to deposits. Some care is needed when calculating this ratio, since the eligibility of “deposits” is not intuitive but according to SAMA’s own figures, the aggregate ratio of the commercial banks was 81.51% at the end of June 2013, implying “headroom” of about SR60bn (\$16bn).

Benefitting for rising international interest rates

Deposit-taking presents a huge opportunity for Saudi banks. SICO’s Ghosh explains: “Saudi banks hold large amounts of low-cost demand deposits so they stand to see their net interest margin expand as global interest rates rise in the years ahead.”

Provided that asset quality doesn’t decline at home (leading to increased provisioning levels) the international monetary environment should enhance Saudi banks’ profitability.

There is another feature of Saudi banks that acts to their advantage: there are only 12 of them, operating in the biggest economy in the Arab world. True, a few foreign commercial banks are now allowed to operate in the Kingdom, and there is a fairly large number of foreign banks now licensed to compete for investment banking business, but Saudi commercial banks still enjoy a competitive environment which is the envy of their peers in the GCC and further afield.

SICO’s Ghosh expresses the consequence like an equity analyst: “Getting a new Saudi banking license is difficult, thus the existing banks deserve a premium.”

The last time a new banking license was issued was 2008 (to Al-Inma Bank), and the time before that was in 2004 (to

Bank al-Bilad). The banking license before that was issued to al-Rajhi Bank in 1987!

But banking concentration brings perils as well as advantages. All the banks tend to participate in all the big deals, leading to a lack of diversification. That’s not a problem when all is well, but if a big borrower finds itself in difficulties, then the consequences tend to appear at every single bank.

No assessment of the Saudi banking system is complete without reference to SAMA, Saudi Arabia’s central bank, and the institution that is responsible for both macro-prudential and micro-prudential bank supervision.

SAMA has always been a strict regulator domestically and has been keen to be part of new international regulatory trends. Under Basel 2, SAMA was quick to require good Pillar 3 disclosure (and this in a region where financial disclosure is often poor) and it has enthusiastically embraced Basel 3.

Saudi bankers may sometimes chafe at SAMA’s rules (“You don’t interpret, you implement”, was how one senior Saudi banker expressed his bank’s response to SAMA’s rules) but in recent years they have proved effective not just for the banks, but for other areas of financial activity, such as insurance and capital markets where SAMA initially took a regulatory lead.

So what does the future hold for Saudi banks? A stable macro-economic environment, probably – but that assumes that our predictions about robust oil prices come true; opportunities to develop new business at home, certainly; and a robust regulatory environment, undoubtedly. ■

Saudi Commercial Banks: Summary of Aggregate Balance Sheet Position (2008–June 2013)

Selected Balance Sheet Items (SRbn)	End June 2013	End 2012	End 2011	End 2010	End 2009	End 2008
Total Assets, of which	1,808	1,734	1,544	1,415	1,370	1,302
Claims on private sector	1,082	999	858	776	734	735
Claims on government and quasi government	266	221	210	214	182	242
Foreign assets	214	213	209	193	211	154
Total Deposits	1,327	1,261	1,104	985	941	846
Total Capital Accounts	251	243	221	204	190	162
<i>Memo item: Consumer and credit card loans</i>	321	292	242	199	180	174
Selected Ratios (%)						
Claims on private sector % total deposits	81.51	79.26	77.78	78.77	78.06	86.81
Capital and reserves % total assets	12.82	12.08	12.31	12.58	11.94	10.12

Exchange rate: \$1= SR3.75 (30 June 2013)

Source: Saudi Arabian Monetary Agency, Quarterly Statistical Bulletin



Bank Nizwa: pioneer of Islamic banking in Oman

The Sultanate of Oman has been the “hot topic” in Islamic finance circles during 2013 following the Central Bank of Oman’s decision last year license Islamic banks and permit conventional banks to open Islamic “windows.”

The Arab Banker spoke to the Dr. Jamil al-Jaroudi, the C.E.O. of Bank Nizwa, Oman’s first Islamic bank, about the bank’s plans for the future and the prospects for Islamic banking in Oman.

Arab Banker: Who are the founders of Bank Nizwa and why did they decide to establish an Islamic bank in Oman?

Dr. Jamil al-Jaroudi: The initial founder and the person in whose name the preliminary license was given is Sheikh Saud Al Khalili, a prominent Omani businessman who was the minister of education and then a special Ambassador of his Majesty the Sultan before he dedicated his full time for personal business. After receiving the preliminary license, he invited additional 92 prominent Omani business people from all over Oman who, like him, believed in the importance of Islamic Finance, to join him as founding shareholders and owners of 60% of the bank’s permitted capital of OR150million (\$390mn)

Omani law requires that a minimum of 40% of Omani banks’ capital must be offered to the public through an IPO. The IPO took place in April/May 2012 and it was very successful. Even though there was only limited time to market the offering, and only a few road-shows took place, 37,000 subscribers applied for shares, resulting in an oversubscription of 11.3 times. A year later, the number of shareholders is still in the range of 25,000 showing that speculators were in and out very quickly.

Arab Banker: What are the long-term strategy and goals of Bank Nizwa? Do you have a particular focus on retail or corporate banking?

Dr. Jamil al-Jaroudi: Since Oman was the last gulf state to embrace this industry, which seems to be awaited with

passion by the people of Oman, our strategy as “the first Islamic bank in Oman” is to ensure a proper penetration into the overall market; to help create awareness about the industry and its potential contribution to the whole economy; to prove that Islamic Finance is not just wishful and emotional thinking but rather a professional service-oriented industry that is part of a one’s daily life; and to eventually have Oman play a role in the continued development of the Islamic finance industry.

To summarize, our long-term strategy is to be “a global leading Islamic bank born in Oman.” Banking in Oman in general – and especially the ratio between corporate and retail banking – is governed by regulations from the Central Bank of Oman (CBO) and Islamic banks are no different, so Bank Nizwa will address both corporate and retail banking, at least on the consolidated level.

Arab Banker: Do you intend to build a business in the rural and remote areas of the Sultanate? If you do, what products will you offer in these areas and what distribution channels will you use?

Dr. Jamil al-Jaroudi: Our intention is to ensure proper penetration into the market and this can be achieved through a physical and geographical expansion in the form of branches, and alternative channels such ATMs, mobile banking, internet banking and a direct sales force.

Accordingly, we will have an appropriately sized network of branches in locations that we have researched thoroughly.



On the day the bank opened (10 January 2013) we had three branches, and before the end of this year we will have eight branches. We plan to open five new branches every year for the next few years while assessing what will be the ideal number for us and how well the alternative channels are providing the coverage we need. Of course, the bank will be offering its full range of products in every branch and in every area it can reach but the emphasis on certain products or services will differ from one location to another based on the clients' appetite and requirements. It is well known in the banking industry that there are certain branches that are known as deposit/investment takers and others as funding branches.

Arab Banker: Do you have any long-term plans to open offices outside Oman? Do you plan to build partnerships or alliances with non-Omani banks?

Dr. Jamil al-Jaroudi: If we are to ultimately achieve our stated vision of being a global bank then yes we need to start looking into branching outside Oman, and that should be done not only in the Islamic hubs of the world but also wherever we feel we have an advantage and can bring value to the bank. However, at Bank Nizwa we are determined to make sure we can walk before we run: the alternative to branching outside Oman will be to build strategic partnerships or alliances with leading and successful non-Omani banks. We have already started some dialogues on these points.

Arab Banker: At the end of the first quarter of 2013, you had assets of OR158mn (\$411mn). How quickly you plan to increase your balance sheet size?

Dr. Jamil al-Jaroudi: Our intention is to grow our balance sheet as quickly as possible but in a prudent manner. Because we were the first Islamic bank in Oman all eyes are focused on us, although they are also looking at the Islamic "windows" being opened by conventional banks. People in Oman are eager to use Islamic finance products and forms, but it does take time for them to become familiar with how deals are structured and their legal implications. So we, as providers of Islamic products, and customers, as consumers of Islamic products, are getting to know each other at the

moment, but I think that you will see a growth in Islamic finance in Oman that you will find surprisingly fast.

Arab Banker: Bank Nizwa is one of two Islamic banks in Oman, and some of the conventional banks are starting to offer Islamic products. Do you think Islamic banking will become a significant feature of Omani banking?

Dr. Jamil al-Jaroudi: I certainly believe that Islamic Finance will be a significant feature of Omani banking given the feedback we feel from the people interacting with us directly in our branches or through our 24/7 call centre. The impressive oversubscription of our IPO and the number of accounts opened with us during the first six months of our operations are lively testimony to the expected future.

That said, Islamic banks and Islamic windows have to deliver and meet clients' expectations. The fact that there is demand for Islamic finance in Oman doesn't mean that we can offer poor performance in the hope that clients will just continue to walk through our door.

The rigorous training that we gave to our staff before we opened our first branches – including intensive Shari'a training – will apply to staff in all of the new branches that we will be opening. I should mention that we can issue ATM cards and cheques books to new account holders in 15–20 minutes – before they have even left the branch – and this makes us the fastest bank in Oman when it comes to account opening. As for other banking products, we believe that we have already proved ourselves to be competitive with the more established players. Our challenge now is to achieve a rewarding return to depositors/investors and our shareholders.

Arab Banker: Does the Central Bank of Oman (CBO) provide any guidance on Shari'a compliance, or does it leave questions of Shari'a compliance to your Shari'a board?

Dr. Jamil al-Jaroudi: So far, the CBO has not got involved in the workings of Shari'a Supervisory Boards and their related functions of compliance, structuring, audit and training. However, the CBO had set out general guidance and governance parameters for the operation of Islamic banks through its "Islamic Banks Regulatory Framework". The Framework was based on an amendment to the Banking





Law in Oman to permit the establishment of Islamic banks, and it drew on the experience seen in other countries that enabled the establishment of Islamic banks some time ago. It remains to be seen whether the CBO will decide to create a central Shari'a Supervisory Board to serve the whole country

Arab Banker: Are there any significant differences between the structure and terms of financial instruments approved by Shari'a scholars in Oman and those approved by scholars in other GCC countries?

Dr. Jamil al-Jaroudi: Structuring of Islamic financing deals is a science today and is based on several schools of fiqh jurisprudence. Accordingly, deals should not differ from a fundamental point of view, although there is always room for innovation and creativity within certain bounds. Nevertheless, the CBO has been more restrictive so far on certain issues that have been under discussion in other markets. For example, it banned the "tawarroq" structure and the commodity murabaha (the latter being a tool for liquidity management particularly between banks).

Arab Banker: What are the prospects for Takafol (Islamic insurance) in Oman?

Dr. Jamil al-Jaroudi: Historically, the development of insurance has lagged the development of banking business and this has been the case with takafol. But, there are now very serious efforts to establish takafol firms in Oman, and these efforts are being overseen by the Capital Markets Authority (CMA). The Authority has granted in principle approval to three companies to establish themselves as takafol companies subject to their successful IPOs. We expect them to start operations soon.

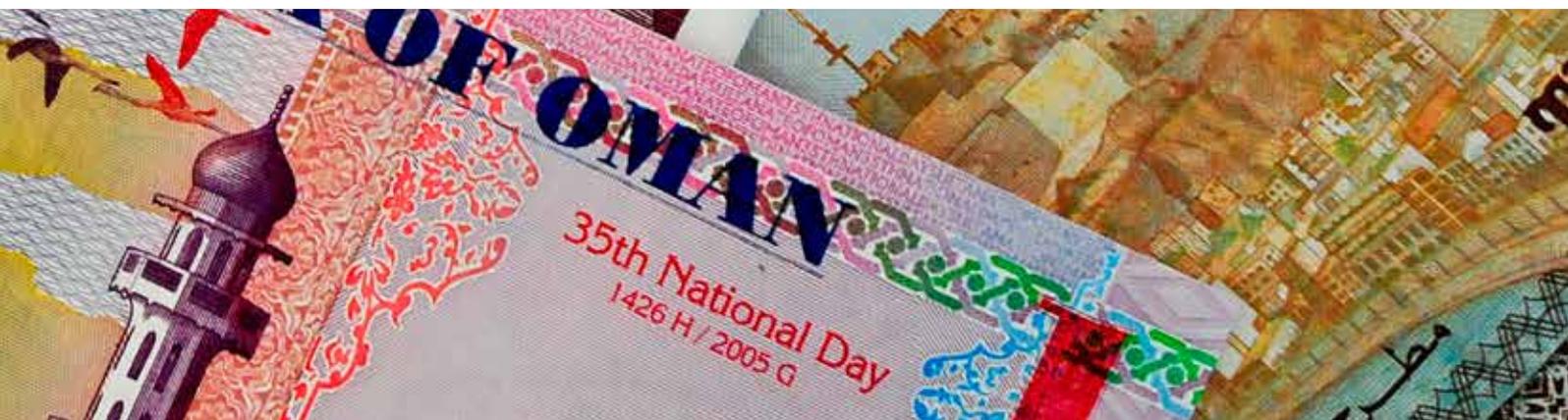
Before finishing this interview, could I add that although Oman has been the last Gulf state to adopt Islamic Finance, the potential for Islamic finance here is great because Oman enjoys a stable and steadily growing economy and its people are true believers in Islamic finance. It falls to us – as the first Islamic bank in Oman, to the financial regulators, to educational institutions and to the media – to cooperate together to ensure full awareness of what Islamic finance can offer. ■



Dr. Jamil El Jaroudi, Chief Executive Officer, Bank Nizwa, Oman

Dr. Jaroudi was appointed as the first CEO of Oman's first Islamic bank, Bank Nizwa, in April 2012. He has a wealth of experience in Islamic Banking and Finance having worked in various capacities in this field and also having established key Islamic banks. Previous assignments have included the Middle East Capital Group in Lebanon, the region's first merchant bank with a pan-Arab focus, Arab Finance Bank in Lebanon and most recently Elaf Bank in Bahrain, where he was the Chief Executive Officer.

Dr. Jaroudi holds an MBA from Columbia University, and a PhD in Finance from Kellogg School, Northwestern University, USA. Among other activities for NGOs and charitable organizations, he is a Board member of the Beirut Islamic University, a member of the Board of Trustees of the Lebanese American University Institute of Family Businesses and a member of the Governing Council of INCEIF, the Global University of Islamic Finance in Malaysia.



Sovereign Wealth Funds in the Middle East: a Custodian's View

One investment sector that has escaped the global economic malaise in recent years is Sovereign Wealth Funds (SWF). SWF assets have grown by a third in just three years, much faster than public pension fund assets and are now estimated at around \$5.5 trillion globally, according to the Sovereign Wealth Fund Institute. In the Middle East, SWF assets have kept growing largely due to current account surpluses that have been fuelled by high energy prices. Nearly 40 per cent of SWF assets are in the Middle East and North Africa (MENA) region.

As the world's largest custodian, BNY Mellon is uniquely placed to provide an insight into custody and asset servicing for SWFs and to assess how they are dealing with rapidly changing market requirements and evolving global regulations. The Arab Banker asked Hani Kablawi, BNY Mellon's Executive Vice President for Asset Servicing in Europe, the Middle East and Africa, to comment on how the business of servicing SWF assets is changing.

SWFs are one of the fastest growing segments of BNY Mellon's sovereign business, which also includes central banks and sovereign pension funds. The sovereign sector is a core focus area for us globally, particularly in the Middle East. BNY Mellon is well established in the Middle East and we have been serving clients in the region for nearly 100 years. We set up our first office in Beirut in 1963 and currently have five offices in the region. This has allowed us to build local relationships with many of the top funds in MENA.

SWFs in the Middle East have tightened their risk governance in recent years and typically use a multi-custodian model. They are increasingly aware of counterparty risk and the need to minimise their exposure to a single financial counterparty. SWFs are looking for greater transparency on how their assets are held, transacted and settled, particularly where assets are segregated and collateral is managed. Our scale and robust balance sheet means that we are one of the most secure custodians a fund can entrust their assets to.

Doing business with SWFs in the Middle East is relationship driven; it's much more than just a commercial or contractual arrangement. This is why we adopt a collaborative partnership approach with SWFs. For example, we are committed to the training needs of our clients by supporting the delivery of their own initiatives particularly the development of local talent. We deliver bespoke training sessions to groups from individual SWFs from all over the world to showcase our investment capabilities. This is not a short-term initiative; our intention is to build domestic experience over a period of years, allowing the financial service sector in the region to reduce its dependence on expatriate staff.

Middle East SWFs are Driving Innovation

SWFs in the Middle East are some of the most established and experienced in the world, and have been key participants

in driving innovation. They have transformed their business models to control costs; adapt to new regulations; mitigate risk; and strengthen their corporate governance. The boundaries between the traditional areas of expertise of businesses are dissolving and we are working on multi-faceted solutions that help them deliver low risk and long term investments with sustainable income streams. We have simplified our operating and service delivery platforms to ensure better support for clients, and created full-service teams which are focused on the region and specifically our own clients. We have also developed our custody relationship with many SWFs to support this evolution by offering other business lines such as transition management, treasury services and asset management. We are also seeing a strong trend in SWFs increasing their exposure to alternative investments, which is an area we support and service as one of the world's largest fund administrators.

New Regulations Pose Big Challenges

Since the financial crisis, one of the biggest challenges for investors has been adapting to the plethora of new regulations such as the Dodd-Frank Act in the US and the European Market Infrastructure Regulation (EMIR) in Europe. Both of these new regulations will affect SWFs in the Middle East, because they invest heavily in Europe and the US due to their mandates to invest outside the region. SWFs are active investors in European stock markets and derivatives. Under Dodd-Frank and the EMIR, credit default swaps, derivatives and interest rate swaps are moving from settle over-the-counter (OTC) which means they are directly traded between two parties, to trading through Central





Hani Kablawi

Hani Kablawi is Executive Vice President and C.E.O. of Europe, Middle East and Africa (EMEA) Asset Servicing at BNY Mellon.

Hani is a member of the corporate Operating Committee and the EMEA Executive Committee, and is Chief Executive

of BNY Mellon (International) Ltd, the company's London-based U.K. bank and also a board member of BNY Mellon SA/NV, the company's Brussels' based European Bank. Hani also sits on the company's Sovereign Advisory Board, overseeing relationships with sovereign wealth funds and central banks globally.

Since joining BNY Mellon in 1997, Hani has held a number of senior country and client management positions based in New York, Abu Dhabi, Dubai and London. Before joining BNY Mellon, Hani worked for HSBC and Mashreqbank in New York. He is a Board member of the International Securities Services Association and a member of the International Financial Conference. He is also currently Chairman of the Arab Bankers Association.

Counterparties (CCPs). We are consulting with our clients and sharing our experience about how these new regulations will affect them. This involves helping them optimise and administer their collateral around trades. New regulations are also encouraging investors to be more transparent about where their holdings are, which is likely to affect SWFs.

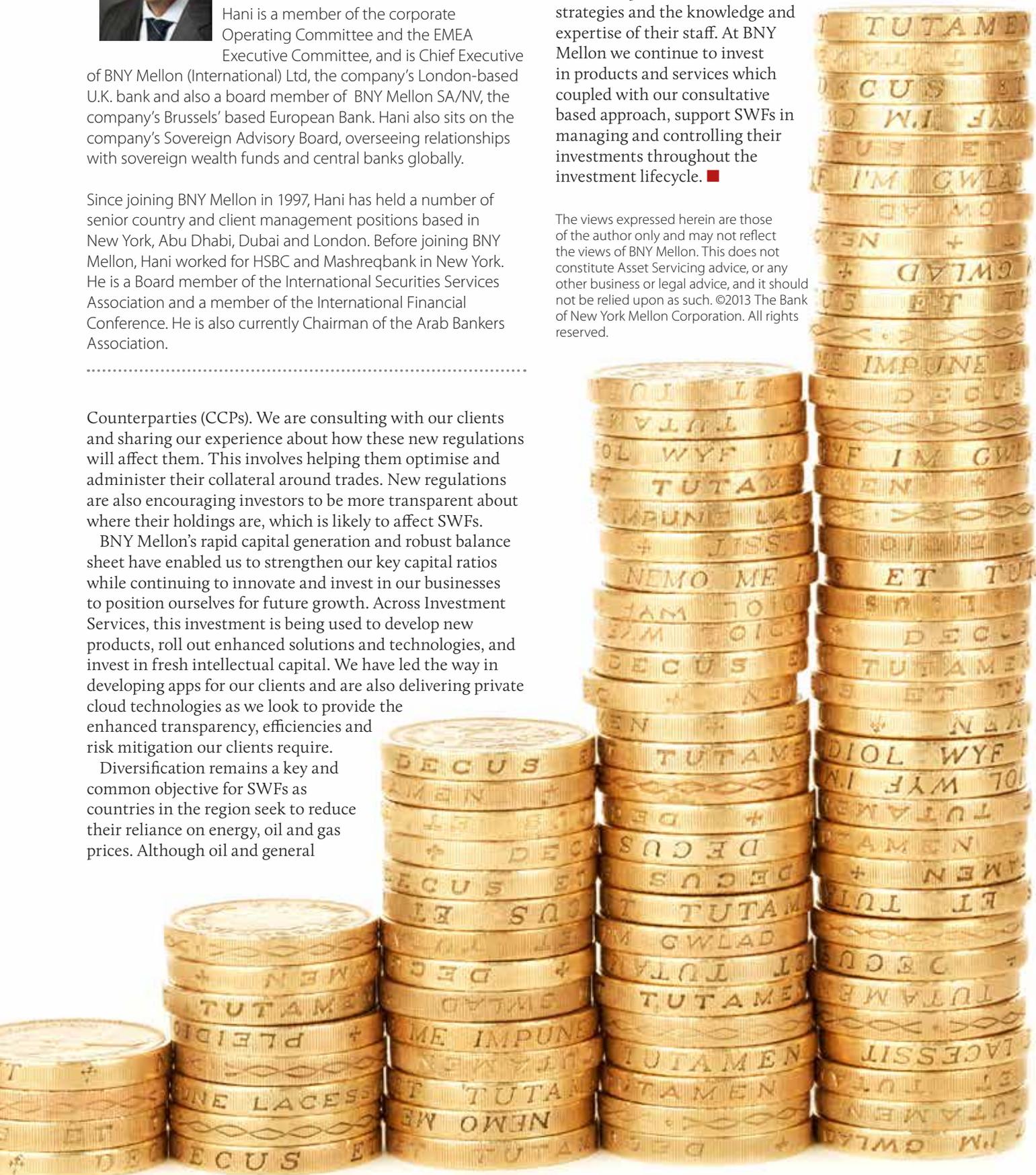
BNY Mellon's rapid capital generation and robust balance sheet have enabled us to strengthen our key capital ratios while continuing to innovate and invest in our businesses to position ourselves for future growth. Across Investment Services, this investment is being used to develop new products, roll out enhanced solutions and technologies, and invest in fresh intellectual capital. We have led the way in developing apps for our clients and are also delivering private cloud technologies as we look to provide the enhanced transparency, efficiencies and risk mitigation our clients require.

Diversification remains a key and common objective for SWFs as countries in the region seek to reduce their reliance on energy, oil and gas prices. Although oil and general

commodity prices have cooled from their recent highs we nevertheless see continued growth in SWF assets in the medium term. As this asset pool continues to expand in size and importance, so does the impact of SWFs on the future of the global economy.

We have seen SWFs become more sophisticated both in the development of their investment strategies and the knowledge and expertise of their staff. At BNY Mellon we continue to invest in products and services which coupled with our consultative based approach, support SWFs in managing and controlling their investments throughout the investment lifecycle. ■

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Pioneering the Fight Against Financial Crime: An Interview with Dr. Mohammed Baasiri

The fight to prevent banks being used by terrorists and financial criminals is now a major part of the financial landscape. But it was not always so. Laws, central bank regulations and commercial banks' own internal controls have changed dramatically in the last ten years as efforts to combat money laundering and counter the financing of terrorism have intensified. Internationally, these efforts were led by the Financial Action Task Force (FATF). In the Middle East, MENA-FATF was created in 2004 to provide a regional platform for the fight against financial crime.

As MENA-FATF nears its tenth anniversary, The Arab Banker spoke to Dr. Mohammed Baasiri, Vice Governor of the Banque du Liban, and the first Chairman of MENA-FATF, about the creation of MENA-FATF and its work over the last ten years.

What factors led you and others to establish MENA-FATF in 2004?

Ten years ago there was a lot of work being done by international regulators on measures to stop the financial system being used by criminals and by terrorists – it was becoming a really big issue. In the Middle East we needed a body that could be part of this discussion about anti-money laundering (AML) regulations and about efforts to counter the financing of terrorism (CFT). MENA-FATF was created so that the Middle East would have a voice in global discussions about AML/CFT and also to lead and coordinate the implementation of AML/CFT measures in our own region.

What challenges did MENA-FATF face during its first years of existence?

In fact, MENA-FATF quickly gained respect in the region so the challenges we faced were not great. We worked hard in the first year to get political commitment in the Middle East for what we were doing and also to raise awareness of our work. Perhaps the biggest challenge was related to cultural issues – in the Middle East we tend to be more cautious about disclosing financial information.

How is MENA-FATF able to help governments and individual banks in the fight against financial crime?

We have been explaining what controls and compliance standards need to be implemented in order to conform to FATF and other international standards. We do this by organising seminars in the Middle East and making presentations at regional conferences and gatherings. We

also undertake “mutual evaluations” of AML/CFT standards applied by individual countries.

How has the fight against financial crime in the Middle East changed in recent years?

There has been a quantum leap in the fight against financial crimes in the Middle East since the creation of MENA-FATF. There have been significant improvements in national regulations, and banks and other financial institutions have strengthened their controls significantly. That said, more needs to be done. Political commitment needs to be re-enforced and solidified – the fight against financial crimes is a continuing process; and adequate resources need to be allocated both by regulators and by financial institutions themselves.

Is the fight against financial crimes in the Middle East different from the fight against financial crimes in other regions of the world?

The fight against financial crimes is mostly universal but there is a certain emphasis on the specific circumstances of particular countries and regions. For example, in cash-based or semi-cash-based economies there has to be a particular emphasis on issues related to cash transmission – though fortunately the number of such economies is diminishing.

Do you think Middle Eastern banks are doing enough to reduce the possibility that they can be exploited by financial criminals?

The ever-increasing risks arising from financial crime and the huge penalties that we have seen being imposed on



international banks, and sometimes on local banks, has led Middle Eastern banks to invest resources in compliance and due diligence, and many have upgraded their internal controls significantly. However, such upgrading needs to be a continuous process, so directors and senior managers need to give this subject their utmost priority. For their part, regulators should stay alert to emerging risks and ensure adequate compliance standards in financial institutions. Finally, and most importantly, a robust AML/CFT regime is predicated on the existence of strong political will and efficient law enforcement.

Next year, MENA-FATF will be 10 years old. What do you think will be seen as its greatest achievement?

MENA-FATF's greatest achievement (which, by the way has also been its greatest challenge) is that it has become a respected and sustainable institution in the MENA region.

If you had one piece of advice to give to banks in the Middle East that are trying to make sure that they are not used by financial criminals, what would it be?

Banks should award AML/CFT the utmost priority, since their reputation is the key to their survival. Prioritisation of AML/CFT should be confirmed at the highest level and I would strongly suggest that board committees be established and given full power and independence to ensure that their banks are complying with international standards. ■

More information on MENA-FATF can be found at www.menafatf.org

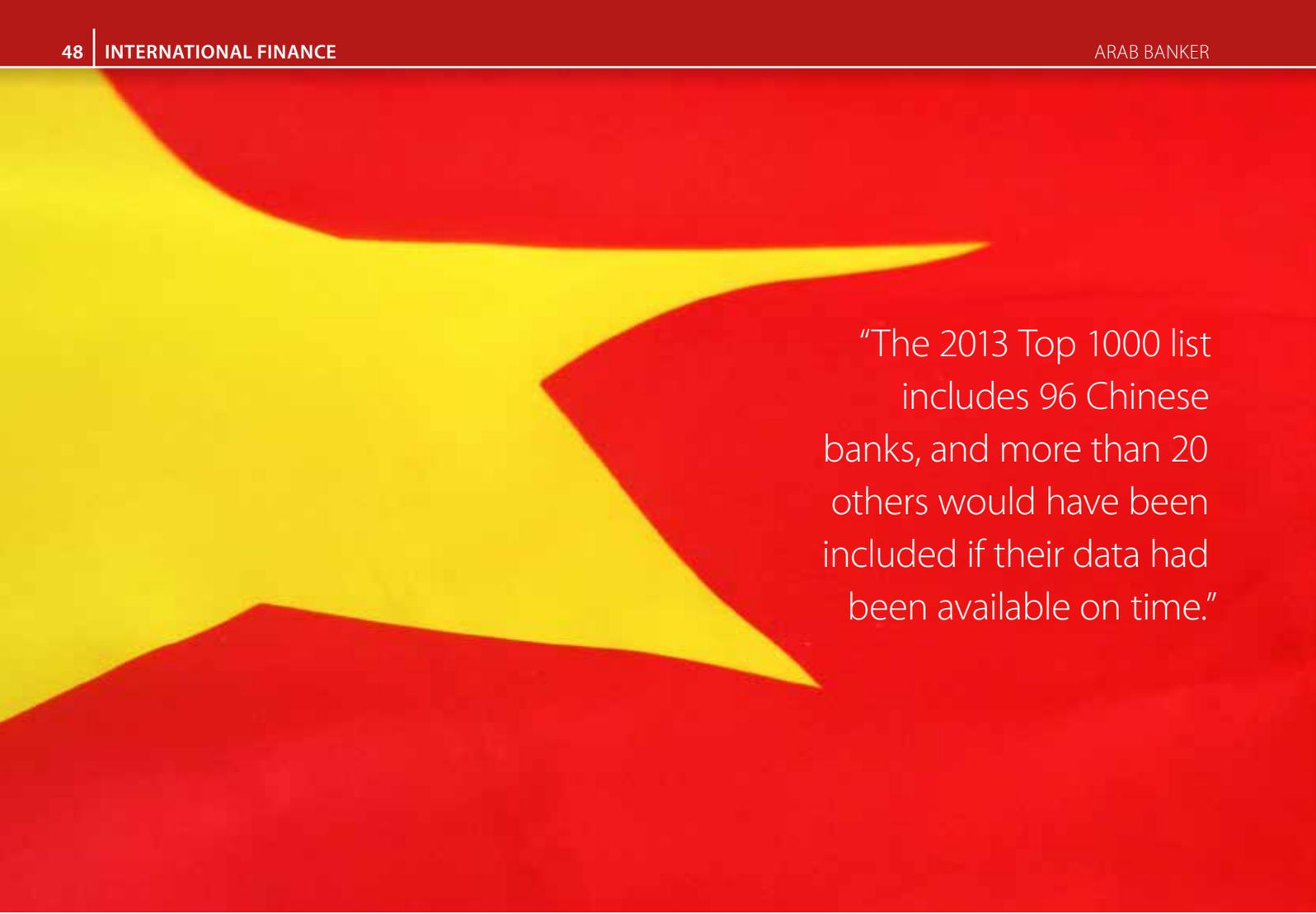
Dr. Mohammed Baasiri



Dr. Mohammed Baasiri is a Vice-Governor of the Banque du Liban, the Central Bank of Lebanon, and is a member of Lebanon's Higher Banking Commission. He is also the Chairman of the National Committee for Coordinating AML policies.

Dr. Baasiri served as Chairman of the Lebanon's Banking Control Commission (the bank regulation authority) from 1990 until 2000 and in 2001 he was chosen to be the first Secretary of Lebanon's newly created Special Investigation Commission (SIC), Lebanon's financial intelligence unit. During his tenure as Chairman of the SIC, Lebanon was removed from FATF's NCCT (Non-Co-operative Countries and Territories) list and SIC joined the Egmont Group (the informal international grouping of financial intelligence units). Dr. Baasiri was instrumental in the creation of MENA-FATF and was elected to be its first Chairman.

Dr. Baasiri graduated from the American University of Beirut and earned his CPA from the University of the State of New York. He is a co-founder of the Lebanese Association of CPAs.



“The 2013 Top 1000 list includes 96 Chinese banks, and more than 20 others would have been included if their data had been available on time.”

The New Banking Order

Over the last 20 years, a significant new banking order has emerged: Chinese banks now account for around 10% of the biggest banks in the world, in terms of Tier 1 capital, compared to less than 1% in 1990. In contrast, western banks now account for only half of the world's biggest, compared to more than three quarters in 1990.

In the following article, **Stephen Timewell**, Editor Emeritus of The Banker magazine, the authoritative global banking magazine of the Financial Times Group, charts the rise of Chinese banks and of banks from other non-western countries.

Global banking trends over recent years and decades show not only the rise of banks in Asia and key emerging markets, including the Middle East, but also the consistent decline of banks in the West as banks in Europe, the US and Japan lose their previous dominance.

The 2013 ranking of the Top 1000 World Banks, published in early July this year by The Banker, shows that not only has China's largest bank, Industrial and Commercial Bank of China (ICBC), become the largest bank in the world (by Tier 1 capital), pushing the US's JPMorgan Chase & Co into second place, but also that China's four largest public sector banks occupy four of the Top 10 places amongst the world's largest banks.

Since the global financial crisis of 2008–2009 there have been significant changes to the world banking order, albeit changes that are consistent with previous long-term trends. China's banks now account for around 10% of the Top 1000 World Banks compared to less than 1% in 1990, and Western banks (based in Europe, US and Japan) account for only 532 banks or 53.2% of the banks in the 2013 listing, compared to 778 or 77.8% of the listing in 1990. (See the table.)

Between 1990 and 2013, listings of European banks declined from 444 to 283 banks in the Top 1000 – meaning that 161 European banks are no longer big enough to be included in the Top 1000 rankings. US banks fell from 222 to 152 – meaning 70 banks have dropped out.



Simply put, the place of these European and US banks has been filled by Asian banks. Two hundred and fifty three Asian banks are included in the 2013 Top 1000, compared to 104 in 1990, an increase of 149. Middle East banks rose from 58 in 1990 to 92 in 2013, an increase of 34 banks or 58.6%.

To fully grasp the importance of the changes in the last 23 years it is useful to analyse the figures in detail.

In 1990, the Top 1000 was dominated by Japanese banks with six out of the Top 10 being Japanese. Sumitomo Bank led the list, followed by Dai-Ichi Kangyo Bank and Fuji Bank.

Japanese banks accounted for nine of the top 20. French banks accounted for three, and the UK and Switzerland two each. At that time the Japanese economy was booming and Japanese institutions were at their peak.

In examining the overall 1990 Top 1000 landscape, banks from the 'West' were omnipresent, accounting for nearly 80% of total capital funds and 80% of the Top 1000 banks. Led by Europe with 444 banks, the US with 222 and Japan with 112, the Western bloc accounted for 778 banks. (The number had been 800 the previous year). In contrast, Asia (excluding Japan) accounted for just 104.

By 2000, new patterns were emerging. US banks were asserting themselves in the Top 20. Citigroup and BankAmerica Corporation headed the leading banks and US presence in the Top 20 had doubled to four. The number of Japanese banks had slipped to seven and France, China and Switzerland each had two.

It was not just the top of the chart that was showing significant change in 2000. The picture was changing throughout the Top 1000 and across all regions of the world. The position of western banks was declining.

The number of US banks in the Top 1000 slipped from 222 in 1990 to 199 in 2000, and the number of European banks dropped sharply from 444 to 388. Those 388 were made up of 288 European Union banks and 100 from the rest of Europe. Japanese banks, meanwhile, rose slightly to 116 bringing the total number of "Western" banks in the Top 1000 to 703 compared to 778 in 1990 – a 9.0% decline. On the other hand, Asian banks (excluding Japan) were increasing their presence, rising to 150 from 104 in 1990.

Meanwhile the banks from BRIC countries (Brazil, Russia, India and China) were slowly increasing, rising to 43 in 2000 from 33 in 1990, and with much more to come.

The number of Asian banks in the listing rose to 193 in 2009, a 32.2% rise over the 146 recorded a decade earlier. Much of this was explained by the inclusion of 52 Chinese banks in 2009, up from nine a decade earlier.

In The Banker's Top 1000 for 2010, banks from the US and UK led the listing with Bank of America Corp first, followed by JP Morgan Chase & Co and Citigroup, and then two British banks, Royal Bank of Scotland and HSBC Holdings.

Of the Top 20 banks, five were from the US, four from the UK, four from France and three from China.

The table paints a very clear picture in relation to banking trends in the West, Asia, and China as well as the other four large emerging economies, Brazil, Russia and India known collectively as the BRICs.

The key conclusions are:

- The banks from the Western bloc are in terminal decline as the downward trend from 778 banks in the 1990 Top 1000 to 703 in 2000 to 586 in 2010 and 532 in 2013 would suggest;

The Banker magazine's Top 1000 World Banks, 1990–2013 (ranked by Tier 1 capital funds)

	2013	2012	2011	2010	2009	2000	1990
"Western" Countries, of which	532	546	575	586	621	703	778
• Europe	283	281	296	319	365	388	444
• United States	152	165	176	168	159	199	222
• Japan	97	100	103	99	97	116	112
Asia (ex-Japan)	253	249	241	224	193	150	104
Middle East	92	91	83	89	88	77	58
Latin America	73	62	53	44	49	50	40
Rest of the World	50	52	48	57	49	20	20
BRICs, of which	172	170	169	146	130	43	33
• Brazil	19	13	12	11	13	18	18
• Russia	24	21	24	21	33	4	0
• India	33	32	32	30	32	12	7
• China	96	104	101	84	52	9	8

Source: *The Banker*

- Asian banks are expanding rapidly on the world stage, rising from 104 in 1990 to 150 in 2000, 224 in 2010 and 253 in 2013;
- Chinese banks are a growing force, reflecting the fact that the Chinese economy is now the second biggest in the world. Eight Chinese banks qualified for inclusion in the 1990 listings. By 2009, this had risen to 52 and by 2010 there were 84. The 2013 Top 1000 list includes 96 Chinese banks, and more than 20 others would have been included if their data had been available on time.
- The BRIC countries are on a solid growth path. Taken together, they accounted for 33 of the Top 1000 in 1990, 146 in 2010 and 172 in 2013.

In short, a new world order in banking is emerging with Western banks, traditionally the dominant players in the post-war period, no longer playing the role they were. And just as banks in Asia, China and the other BRIC states are on the rise, other regions are also growing and providing significant banking institutions. The oil-rich Middle East had 89 in the 2010 listing and 92 in the 2013 listing, well ahead of the 58 they recorded in 1990. With the rapid growth of Islamic finance, banks from this region are on an upward path.

Likewise, in an increasingly globalised world other areas are expanding their influence. While the number of Latin American banks decreased to 44 in 2010 from 50 in 2000, their number has since risen to 73. Banks from other major emerging market economies such as Nigeria, Kazakhstan and South Africa also have an increasing role to play. Banks in the "Rest of the World" category accounted for 57 banks in 2010 and 50 in 2013, compared to 20 in 2000. The financial balance in the world is shifting.

In looking forward and making a forecast of the Top 1000 in 2020, the trend suggests a further significant shift from West to East with strong growth expected in Asia (including

China) and a continuing decline in the western bloc banks. These core assumptions indicate that the West's share of the Top 1000 will fall to less than half of the listing compared to nearly 80% of it in 1990. Asian banks will increase their influence, perhaps reaching 300 banks in 2020 – nearly three times their showing in 1990. China's banks can be expected to reach at least 120, and for the BRIC countries 215 would be a conservative forecast.

The key conclusion is that Western banks as we know them are in serious decline and this century looks like the turn of Asia and in particular China. We shall see. ■



Stephen Timewell
Editor Emeritus
The Banker

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 2003–09 when he retired. In his 23 years at *The Banker* he has written about banks in all corners of the world and in particular on the Middle East.

Before joining *The Banker*, Stephen had been Editor of *The 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 The University of Chicago.

New Buildings, New Infrastructure and More Adventurous Clients Bring new Energy to London Property

The London property market – both retail and commercial – has always attracted investors, and particularly those from the Middle East. Robust financial returns are one part of what lies behind that continuing attraction; the size of the market is another – London is by far the biggest city in Europe. But the London market is now also benefiting from a series of new buildings and commercial developments, a major rail project, and a willingness of residential customers to consider buying and renting in less traditional areas.

The Arab Banker spoke to two senior executives at Knight Frank, the world's largest privately owned property agency and consultancy, about the factors driving the London property market today.

We first spoke to James Roberts, Knight Frank's Head of Commercial Property Research, about the market for commercial property. On page 55 we hear from Liam Bailey, the firm's Global Head of Residential Research about factors driving the retail market:

Arab Banker: Are there ways in which the London commercial property market is different to those in Europe and to other big markets such as New York?



James Roberts: There are some major differences between London and continental Europe. Typically in London leases tend to be longer. The occupier base is more international, with a greater number of US and Asia Pacific firms than you would find

in most other major European cities. Rents on commercial property in Europe tend to be linked to inflation, so once the lease is signed the rent just maintains its value in real terms. In London most leases have five yearly open market rent reviews, so there is the possibility of an above-inflation increase if the market has improved when the review takes place. However, the rent reviews are upwards only, so if rents have fallen the landlord does not face a cut in rental income.

From an investor's perspective, the London market is larger and more liquid than most other continental European cities. This gives an investor more options when buying and greater freedom to exit. London is also a more intensely researched market with a lower volume of off-market transactions than some continental cities, so it is a more transparent place to do business.

Turning to New York, this is a market that London perhaps has more in common with than Europe. But notable differences between London and New York do exist. One is lot size, with London better positioned to cater for investors wishing to place smaller sums; and another is the type of stock – Manhattan has more skyscrapers and London has

more “period” buildings. Anecdotally, we hear from some investors from emerging markets that they find London more welcoming of overseas money from new economies.

Arab Banker: What are the key property developments occurring in London right now, or foreseen for the next five years?

James Roberts: London has a number of new skyscrapers under construction at present. The Leadenhall Building (commonly known as “The Cheese Grater”!) is a 617,000 square foot tower of 45 floors which is already half let to insurance industry tenants. Number 20 Fenchurch Street (commonly known as “The Walkie Talkie”!) is a 670,000 square foot skyscraper of 34 floors, of which nearly 60% is let, again to insurance tenants. A major low-rise scheme is 5 Broadgate – a 700,000 square foot building, currently under construction and which is already fully let to UBS for their new London headquarters. Also, Bloomberg has a new 750,000 square foot headquarters building under construction near the Bank of England.

It may appear that there are a lot of office buildings going up in central London at the moment, but bear in mind that a third of all office space presently under construction is already let.

Future schemes worth watching include the plans to redevelop the Elizabeth House site next to Waterloo Station, where two buildings totalling 740,000 square feet are proposed. Also, Goldman Sachs is planning a new 840,000 square foot headquarters in Shoe Lane (near Chancery Lane/Holborn Viaduct).



Arab Banker: How good is the investment performance of London commercial property?

James Roberts: London office prices have seen a significant rebound since their low point in early 2009. Prime city offices saw yields climb to 6.75% in the first quarter of 2009. (“Prime” in this context means a building that is modern and let on a lease of ten years or more to a strong covenant tenant.) That said, they have since fallen back to 5.00% now – and are a bit lower than that for smaller lot sizes or prestige buildings.

For the West End, prime yields peaked at 6.00% in the first quarter of 2009 and are now down to 4.00% – although buildings that may have the ability convert to residential usage may trade at lower levels. However, increasingly investors are moving away from prime stock and towards short income assets or development sites. This is in order to gain exposure to the rental cycle, by refurbishing and redeveloping in order to catch the rising tide in the occupier market as the economic recovery unfolds in the coming years.

Arab Banker: Are there any tax changes that will change the complexion of the market in the near term?

James Roberts: The UK rate of corporation tax is scheduled to fall to 20% in 2015 from 23% today. Five years ago it was 28%. In theory, this should make London a more attractive place to base a company and that could result in some upside for the occupational market.

Arab Banker: There’s a lot of talk about role of technology, media and telecoms (TMT) firms in driving commercial property prices and rents these days. Is the influence of TMT companies being felt in London?

James Roberts: They are certainly important – a major trend worth noting is the rise of the TMT sector in the occupier market. In the last year we have seen major deals in London by Amazon, Google, Skype, and LinkedIn. Interestingly, a lot of the activity is occurring in the City office market – TMT firms accounted for a third of all deals in the City office market this year. A year ago, TMT activity was concentrated in the northern City districts of Shoreditch and Farringdon, but activity has been steadily moving southwards into areas more commonly associated with City’s traditional industries of finance and law.

Residential Property: Traditional Areas Remain Strong, but New Infrastructure Creates New Areas of Opportunity

Liam Bailey, Knight Frank's Global Head of Residential Property Research speaks to the Arab Banker about the main factors affecting the London Prime Residential Property market.

Arab Banker: How has London's residential property market been affected by the economic recession?



Liam Bailey: We've seen a succession of economic challenges in Europe and the UK in recent years but the London market has remained very strong. Lehman's bankruptcy affected the property market badly in all major financial cities, but by early 2009 prices and rents in London were already starting to recover.

It's true that many jobs have been lost in London's financial sector – up to 100,000 by some estimates – and financial sector staff are important to the prime residential market, as renters and investors, but many of those job losses have been offset by the arrival of the TMT companies, many of whose staff are also big prime property customers.

Arab Banker: What are the property hot spots in London right now?

Liam Bailey: Areas such as Mayfair, Kensington and Knightsbridge are always popular, for reasons of convenience, and they show consistently strong returns. (See the accompanying table.) But we are seeing an increasing number of foreign buyers – particularly European buyers who might be fairly familiar with London – moving out of central London into South West London – areas such as Richmond and Wimbledon.

The Crossrail development is also having a big impact on certain areas. The new line will run from Heathrow in the west to Canary Wharf in the east, via Paddington, Oxford Street and the City. It is due to open in 2018 and we are already seeing increasing interest in accommodation located

within ten minutes walking distance of the Central London Crossrail stations.

The development at Kings Cross is a good example of the large scale regeneration schemes around the edge of central London which are having a significant impact by stretching the boundaries of the prime market.

Arab Banker: Last year the British government introduced two measures to increase its tax revenues from residential properties valued at over £2 million: an increase in regular stamp tax to 7% from 5%, and an increase to 15% for properties bought by some corporate bodies (for example, if an investor uses a non-natural legal entity to purchase their property for them). How is this affecting the prime residential market?

Liam Bailey: The new tax rates have had the effect of increasing transaction activity in the sub-£2million bracket. Sales in the £2million-£3million bracket are down marginally on historic levels, but above £3million the market has been relatively unaffected.

Arab Banker: How do changes in currency values affect the residential property market?

Liam Bailey: The exchange rate against the pound of currencies such as the US dollar does make a big difference to investment performance. For example, earlier this year, the weakening pound made entry into the London market more affordable to dollar-denominated buyers and those whose currencies are pegged to the dollar. Over the longer term, we think that continuing weakness in the pound will act to draw in overseas investment in the central London residential market. ■

	Increase in prices, year to June 2013	Yield (rental income in year to June 2013 % property value in June 2013)
Belgravia	6.3	2.9
Chelsea	4.1	3.3
Hyde Park Estate	9.4	3.0
Kensington	5.7	2.6
Knightsbridge	7.8	2.9
Marlyebone	3.9	2.9
Mayfair	4.0	2.4
Notting Hill	7.4	3.4
South Bank	10.1	3.2
South Kensington	5.1	N/A
St John's Wood	1.5	3.6
Average	6.9	3.0

Source: Knight Frank

Knight Frank is the world's largest privately owned property agency and consultancy. Its global network, including US-based Newmark Knight Frank, encompasses 244 offices. Founded in 1896 as a valuations, surveying and auctions business, the firm now has more than 7,000 professional staff and handles over £500 billion of commercial, agricultural and residential real estate annually, advising clients who range from individual property owners to major developers, investors and corporate tenants. The firm operates as a Limited Liability Partnership with 60 Proprietary Partners.

Finding Property Finance Solutions in a Difficult Market

Five years may have passed since the failure of Lehman Brothers ushered in the darkest days of the global financial crisis, but banking markets are still suffering from its effects and from the continuing poor conditions in the global economy. All types of financial activity have been affected by the reduced availability of bank debt in recent years.

In the following article, Raed Hanna, the Managing Director of Mutual Finance, the largest boutique financial intermediary in the U.K., considers the challenges that difficult economic conditions and lack of bank finance have presented to the Real Estate market and he gives two examples of innovative solutions that can be used overcome those challenges.

In recent years, market conditions have meant that some borrowers have – through no fault of their own – found themselves in breach of their loan covenants. This might be due to breaking a Loan-to-Value (LTV) ratio or a shift in asset values. Alternatively, the breach might arise in a debt service covenant because a tenant is having problems and then fails to pay rent. In many instances the loan taken out by the borrower is still performing, but it is nonetheless in breach of covenants, and that is a serious matter.

Mutual Finance has been working with banks and borrowers for over 20 years and has forged strong relationships built on trust, honesty, and high quality execution. As a result, the firm has been successful in working with banks to reach amicable solutions for problems

facing borrowers today.

Working with banks to cure or solve covenant breaches is a “two way street” and requires a willingness by all parties to co-operate in finding a solution. Mutual Finance’s “can-do” attitude has been a key factor in our ability to cut through difficulties.

There are many ways, other than a simple cash or equity injection, to resolve debt problems. The examples below show how it can be done through capital restructuring or through an interest rate swap.

Example One: capital restructuring to cure breaches of loan covenant

The client purchased a shopping mall in a strong retail



Raed Hanna, Founder and Managing Director of Mutual Finance

location in 2006, paying £120mn for the asset. Bank debt was readily available at the time and the client borrowed £100mn towards to purchase. The loan was provided with a seven-year tenor on an interest-only basis.

On revaluing the asset in 2011, it was found the value had fallen to £80mn, resulting in an LTV ratio of 125%. As a result, the loan facility covenants were breached.

Mutual Finance worked with the client and the bank to agree the following strategy:

The client produced a five year business plan showing how, with prudent asset management, the shopping mall could be improved both in terms of rental income growth and in terms of tenant profile. At a time agreeable to the bank and the client the shopping centre would be sold at a profit.

The bank agreed to provide a new five-year committed facility for £65mn. The client would inject £15mn. The bank would have to write down or “postpone” £20mn of the original facility. Any surplus income from the shopping mall would be used to amortise the bank’s new facility.

With the bank facility now reduced to £65mn, the LTV ratio was reduced to 81%.

It was also agreed that the client’s £15mn injection would attract 7% interest and that the following “waterfall” of payments would take effect after the sale of the shopping mall:

1. Repay bank debt of £65mn, after taking account of any amortisation.
2. Repay client’s injection of £15mn.
3. Pay the interest on the client’s injection.
4. Split the remaining profit of the sale 50:50 between the client and the bank.

This arrangement – and variations on it – have worked well in practice and enable both the client and the bank to recoup losses without the need to appoint a receiver and see proceeds from the sale of the asset diminished by legal and other professional fees.

Example two: “blend and extend” interest rate swap

Interest rates are a crucial factor determining the viability of a loan facility and in the years before the global financial crisis many clients arranging leveraged facilities relied on fixed interest rates to secure the highest LTV rates for their transactions.

Regardless of a client’s sophistication as a property investor, their understanding of structured interest rate products is often limited, and this often leads to misunderstandings about the cost of maintaining and, if necessary, breaking interest rate agreements.

In mid-2007, a client purchased a hotel portfolio for £65mn. The financing was agreed and a £50mn five-year term facility provided for the client along with a ten-year interest rate swap priced a 5% plus margin.

In 2012, the banking facility expired and was due for repayment. Unfortunately, the client’s decision to over-hedge the facility left him with a significant “break cost” that made repaying his debt by selling the asset or by refinancing the asset impossible: the hotel portfolio had fallen in value and the break cost to get out of the interest rate swap was prohibitive.

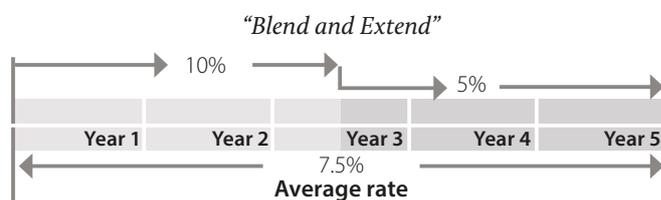
The bank agreed to provide the client with a new facility over ten years. The remaining interest rate structure (that



Mutual Finance arranged the £260mn senior debt for Standard Chartered’s worldwide head office in London.

had five years to run) was blended with the current interest rates (which were lower than the original 5% rate) to produce a new 2.85% rate plus margin.

This process is known as “blend and extend.”



Assume that you have a mortgage priced at 10% with 2½ years to run and that current interest rates for a new five-year term are 5%. If you were to renew your mortgage today for a new five-year term, the new mortgage would extend 2½ years beyond the original maturity date. You would still suffer the 10% rate for the first 2½ years and then enjoy the lower 5% rate for the remaining 2½ years. But rather than actually charge you this, your financial institution will “blend” the two interest rates into an average rate for the 60 month term.

With a reduced interest rate on the facility the client’s amortisation profile was changed to allow for more rapid repayment. There were no losses and the client regained control of the asset. There was no need to involve third parties and incur fees and other costs.

The real estate financing market is starting to recover

The banking market for real estate finance is starting to recover although lenders continue to want to secure loans on prime property, and particularly London property, and on assured and stable income. This means that there are significant elements of the property market that banks still deem “off limits”, especially property that is outside London and in less attractive sectors.

The U.S. commercial mortgage backed securities (CMBS) market also offers some promising signals, with margins on AAA-rated securities now as low as 80 basis points (0.8%). The margin on equivalent securities in the U.K. is three times higher at around 250bps.

We at Mutual Finance do see light at the end of the tunnel. New lenders are coming into the market while others are returning after an absence of some years. Nonetheless, we still have some way to go before the volume of transactions returns to that seen in 2003–2007. ■

Mutual Finance is the largest boutique financial intermediary in the U.K. and is based in Old Park Lane, London. It was founded by Raed Hanna over 20 years ago. www.mutual-finance.co.uk

Creating sustainable growth across the MENA region

The impact of political upheaval since early 2011 has differed widely across the MENA region. Regional uncertainty has added a premium to global oil prices that has largely favoured MENA oil exporters. In contrast, Arab countries undergoing political transition have faced protracted political uncertainty that has exacerbated macroeconomic vulnerabilities. Although MENA oil exporters appear better insulated, thanks to generous financial cushions, implementation of structural reforms remains a high priority across the entire region.

Brahim Razgallah is JP Morgan's Chief Economist for the Middle East and North Africa in the bank's emerging market group. In the following article, he assesses – and puts into historical context – the economic challenges facing countries in the Middle East region.

The MENA region has one of the youngest populations in the world with 30% of the population aged below 14. The labour force is thus expected to rise rapidly over the decade adding substantial pressure to labour markets. Up to 60 million jobs will need to be created by MENA countries by 2020. Such challenges will not only affect oil importers, but also oil exporters that continue to enjoy considerable fiscal space.

MENA public sectors have often served as employers of first resort. Yet, the size of new entrants into the labour force will need to be absorbed mainly through the development of the private sector. Thanks to large capital expenditure plans and better political and social stability, countries of the Gulf Cooperation Council are better positioned to achieve these goals. To this end, GCC countries embraced ambitious plans to diversify away from oil dependence with total medium-term planned projects worth 66% of their GDP. While capital expenditure will boost real GDP growth in the coming years, GCC labour markets remain highly segmented. In particular, the wage gap and skill mismatches have hindered labour mobility between the public and private sectors.

Fiscal expansions to level off in 2014

Political turmoil has delivered a large blow to confidence across the region, and the economic impact has been severe in countries most affected by the unrest. Social tensions along with the heavy election calendar over the previous two years led to a rapid increase in current public spending. As a result, fiscal space has been substantially reduced in MENA oil importers including Tunisia, Egypt, Morocco, and Jordan. In particular, the wage bill increased rapidly in Tunisia while energy subsidies pushed the Egyptian budget deficit to its highest level since the late 1980s. Jordan also suffered from recurrent disruptions to the gas pipeline from Egypt, which weighed heavily on public finances.

Fiscal consolidation will become increasingly urgent across the region in 2014. Jordan has already started with a decision in late 2012 to adopt cash-based subsidies. Jordan remains highly reliant on external financial support and further fiscal

consolidation will likely be needed next year. Thanks to ambitious political reforms, Morocco has also embarked on subsidy reforms that will remain steady-but-gradual. Fiscal consolidation will be pressing in Egypt and Tunisia where macroeconomic vulnerabilities increased substantially. For example, public debt-to-GDP reached 90% in Egypt after fiscal reforms suffered repeated delays. Financial support from the Gulf Cooperation Council will cover financing needs through year-end. Yet, the country's twin deficits will add downside risks should structural reforms and an IMF program be delayed in 2014.

MENA oil exporters, especially the GCC, enjoy substantial fiscal space. With oil prices above \$100/bbl, most countries will be able to sustain the pace of public spending in order to diversify their economies from oil dependence. However, the oil price needed to achieve a breakeven budget has increased rapidly in recent years, exposing most oil producers to an oil price correction. While accumulated wealth (estimated at \$2.2 trillion) will cushion these risks, the steady increase in current spending (mainly transfers and wages) will likely level off next year.

Saudi Arabia: Not easy to be a swing producer

As a swing producer, the Kingdom has played a critical role in the stability of global oil markets. For example, Saudi Arabia increased supply almost 2mb/d above its OPEC quota in the aftermath of the Libyan conflict. Despite the quasi-full recovery in Libyan production, Saudi output has remained high, offsetting the decline in Iranian oil exports. These actions limited the swing in global oil prices and boosted Saudi oil revenues. Since the outlook for crude production in Libya and Iran remains uncertain, the Kingdom will continue to play a critical role in stabilizing oil markets.

The stabilizing role played by Saudi Arabia in global oil markets exacerbates the volatility of the country's business cycle. In other words, the transmission of external shocks is amplified by the Kingdom's role as a swing producer. For instance, during periods of global economic expansion, OPEC countries often increase crude production in order to



stem the increase in oil prices; global recessions weaken oil demand, often resulting in cuts to OPEC quota. Volatility in global oil markets also feeds into the Saudi non-hydrocarbon sector. In fact, the business cycles of the oil and non-oil sectors are closely correlated, and we estimate that they move in the same direction 60% of time. Conservative economic policies, a highly credible currency peg, and more flexible labor markets compared to non-GCC countries helped to reduce macro-economic volatility.

While fiscal surpluses have boosted fiscal space, higher current expenditure has reduced the flexibility of fiscal policy. In fact, the oil price breakeven that balances the budget increased fourfold in less than a decade, exposing public financing to corrections in oil prices. Most incremental spending is driven by higher spending on education, which has become the biggest item in total spending after defense. Large infrastructure investments have also contributed to the uptrend in spending. It is noteworthy that the wage bill could be difficult to reduce in response to an oil price correction. An oil price correction could therefore reduce public capital spending, a cornerstone to the Kingdom's medium-term diversification efforts (worth 1.25 times Saudi 2012 GDP).

According to our estimates, the Kingdom can sustain a prolonged period of macroeconomic imbalances thanks to sizeable financial cushions (94% of GDP). Even the North American shale oil expansion is unlikely to derail the country's medium-term outlook. Subsidy reform will, however, become necessary. Ultimately, if diversification efforts successfully help the non-oil sector to become the engine of job creation in the private sector, the economy will be in much stronger shape to face a prolonged period of lower oil prices after 2020.

Egyptian transition takes a new turn

Egypt's extended political transition took a new turn after the removal of former President Mursi from office on 3 July. Although political and social tensions remain high, we believe the new transition period will likely stabilize Egypt's

medium-term outlook. According to the World Economic Forum's annual survey, policy instability represented the most problematic factor to do business in Egypt since the revolution. A sustainable economic recovery is inherently related to policy stability.

Egypt's current economic challenges are not exceptional by historical standards. The budget deficit was close to 20% of GDP in the 1980s when the government defaulted on its debt and the financial system was at a low stage of development. The scope for structural reforms is therefore not exceptional. However, lingering social tensions and vested interests will likely challenge the energy subsidy reform, which represents a cornerstone of fiscal consolidation. To this end, an IMF program will be pivotal to boost confidence although GCC financial support (\$12 billion announced by UAE, Saudi Arabia, and Kuwait) will reduce short-term refinancing risks. In our view, IMF negotiations will actively resume by year-end and the size of the loan could be increased up to 600% of Egypt's IMF quota. ■

Brahim Razgallah



Brahim Razgallah is Chief Economist for the Middle East and North Africa region in the Global Emerging Markets Research Group. Before joining J.P. Morgan he spent two years in the research department of the Arab Monetary Fund, and his prior roles included teaching positions at the University Panthéon-Assas (Paris II), the European Business School, the Group ESA-Paris, an Economist position at Bank of America, and a Research position at Edhec Business School. Brahim holds a PhD in economics from the University Panthéon-Assas in Paris.

Shale Petroleum and Arab Oil

The commercial production of shale petroleum, both oil and gas, in North America has raised questions about the impact that this new phenomenon will have on conventional petroleum production in general and Arab oil in particular.

In the following article, Dr. Walid Khadduri, one of the most experienced and distinguished journalists writing about OPEC and global energy markets, assesses the likely impact of shale petroleum production.

What has been the progress achieved by the shale petroleum industry during the past five years? It has led to a substantial increase in US oil production.

Projections by the US Energy Information Administration (EIA) indicate that production of crude oil and hydrocarbon liquids rose by approximately 7% in 2013. The US Department of Energy expects the production of crude oil and liquids to rise to 11.4 mn b/d by end 2013. Saudi production capacity is around 11.5mn b/d and that of Russia is 10.3mn b/d. Projections by Citibank suggest that US production will hit 13–15mn b/d by 2020.

Oil markets are taking a careful look at the increased supplies from shale oil as well as expected increases in supplies from Iraq and Kazakhstan, alongside the slowdown of global demand growth for oil because of the world economic crises since 2008. The International Energy Agency (IEA) projects a decline for the demand on OPEC crude oil during the next five years. It does not expect demand for OPEC oil to increase again to its current level of around 31mn b/d until 2017.

The IEA also projects that the spare production capacity of several OPEC member states will increase even further during the next few years – another indication of weaker oil prices. Spare production capacity is normally used during political or industrial emergencies. The larger the capacity available, the weaker will be oil prices during normal times. However, during emergencies, the higher the spare capacity, the less is the threat of rapidly rising prices. Spare capacity is the cushion the markets depend on to replace a sudden shortfall of supplies.

OPEC will defend an oil price of \$90–100/B

The IEA estimates that there are presently around 300 billion barrels of shale oil and tar sands that can be produced at a cost of around \$40–80/B, compared to the current Brent price of around \$100–110/B. Most OPEC member states have adopted a crude oil price of \$85–95/B for their public budgets. This means that OPEC states will do their best to defend an oil price of around \$90–100/B to avoid a budget deficit, and to honor their domestic and foreign obligations.

Evolution of the shale petroleum industry in North America indicates that the discovery of plentiful oil supplies in the US – albeit non-conventional oil – is the realisation of the long-sought dream to achieve “energy independence”. This objective is essentially to decrease the import of Arab oil that usually constitutes around 10% of oil imported by the US. Most of the imported Arab crude oil to the US originates from Saudi Arabia and is destined in large part

for US refineries that Riyadh owns or in which it is a part-shareholder.

Some in the US oppose exporting oil and gas

The fact that the US will be a hydrocarbon exporter is a novel idea, requiring major changes to the country’s laws and state-of-mind. These changes will take time to materialize. There is already domestic opposition to the export of either oil or gas, with some arguing that exports will lead to higher domestic hydrocarbon prices, hence a higher cost of production for the US industry and services.

US hydrocarbon exports will provide an opportunity for Arab National Oil Companies (NOCs) to partner International Oil Companies (IOCs) in joint ventures in the new exports and markets. In fact, this partnership is already taking place with planned shale gas exports.

However, despite the fact that the US is destined to become a hydrocarbon export country, it will continue to import either oil or gas from neighbouring countries, Canada and Mexico. The fact that the US will both import and export hydrocarbons means it will continue to interact with global markets, influencing and being influenced by world supply, demand and prices. The US also imports a lot from Asia so an increase in global energy prices will be seen in the production costs of industrial and consumer products that are high energy users.

“Energy Independence” is in fact a goal that can be achieved only by a country that neither imports or exports, if such a country ever exists.

The big question is whether the US will continue to extend its security commitments to the Gulf countries and to the oil transport routes in the Arabian Gulf. A disruption of supplies from the Arabian Gulf will continue to impact global oil prices, including those in the US. The current strategic debate in the US military indicates a greater focus on East Asia. However, the debate does not exclude US interests in the Arabian Gulf. What is evolving is more commitment by US allies – both financially and militarily- in Gulf security, along with that of the US.

The emergence of shale petroleum is not the first challenge that conventional oil has had to meet. Conventional oil has also been challenged in the past by non-conventional oils and renewable energy. Energy demand is increasing annually. Despite the presence of non-conventional oils and renewable energy, conventional oil has been able to compete, providing global markets with stable supplies at competitive prices. These important factors, security of supply and competitive prices, will assure the long-durability of the conventional oil industry. ■



Dr Walid Khadduri

Dr Walid Khadduri was the Editor-in-Chief of *Middle East Economic Survey* ("MEES") and continues to work for the publication as a consultant. He joined MEES in 1981 after working for seven years as Director of Information and International Relations at the Organization of Arab Petroleum Exporting Countries (OAPEC) in Kuwait. He was also a member of the Political Science Department at Kuwait University (1973–1975) and prior to that he served as Director of Research at the Institute for Palestine Studies in Beirut (1970–1973).

Born in Baghdad, he received a BA in Social Science Studies from Michigan State University in 1963 and graduated from The Johns Hopkins University School of Advanced International Studies (SAIS) in 1972 with a PhD in International Relations. Dr. Khadduri has published and lectured extensively on the oil industry and the Middle East situation and is the recipient of several journalistic awards including the King 'Abd Allah Bin 'Abd al-'Aziz Al Saud Award "Petroleum Journalism Excellence", Riyadh, Saudi Arabia, 2007 and the first OPEC Award for Journalism "Outstanding Career in Oil Reporting", Vienna, 2009.

Economic Power in the Middle East: the Rise of the Gulf and the Importance of the non-Arab Periphery

The Arab Spring and its aftermath have brought huge changes to the political map of the Middle East. Long-standing leaders in Egypt, Libya, Tunisia and Yemen have been overthrown while a civil war rages in Syria. Some of the Gulf States were affected by the unrest seen in neighbouring countries and all Gulf governments have made policy changes to strengthen their positions.

But do these political shifts presage changes in the long-term economic and financial map of the Middle East? In the following article, the Arab Banker's Editor, Andrew Cunningham, charts the long-term trends in the region's economic composition, and argues that the economic and financial relationships established forty years ago with the first oil price shock are unlikely to change soon.

When the American naval officer Alfred Mahan coined the term "Middle East" in 1902, he referred to an area in which economic activity was concentrated in Turkey, Egypt, the Levant and Persia.

The economic importance of Arabia was negligible and was based in the small settled communities of the Gulf littoral and the Hejaz.

For the first half of the twentieth century, this pattern of economic activity changed little. Turkey and Egypt remained the dominant economic powers and Iran and Iraq grew in importance as they began exporting oil.

The gathering pace of oil exports during the 1950s began to shift the weight of economic activity towards the Arabian peninsular but it was not until the mid-1970s, and the quadrupling of oil prices that followed the 1973 Arab-Israeli war, that the Arabian Gulf states emerged as the major players in the economic system of the Middle East.

The process of economic realignment has continued over the last 40 years. In 1970, the six GCC states accounted for about a quarter of the Arab World's GDP – less than that accounted for by the countries of the Maghreb (not including Egypt). At that time, Egypt was by far the largest single economy, accounting for about one sixth of the Arab world's total.

The economies of Lebanon and of the U.A.E. were about

the same size. Today, the U.A.E.'s GDP is eight times that of Lebanon.

By 1979, the GCC accounted for about half of the Arab world's GDP, while Egypt's share had halved. Movements in the price of oil have led to fluctuations in the share of Arab GDP contributed by the GCC states, but over the last 30 years the underlying trend has continued to be upwards. In 2000, the GCC accounted for just over 50% of Arab world GDP and the most recently available figures from the World Bank imply a current share of 55%.

One must exercise some caution when speaking about the GCC's share, since economic activity in the six states is overwhelmingly concentrated in Saudi Arabia and the U.A.E. Saudi Arabia alone represents about one quarter of all economic activity in the Arab Middle East.

The economic dominance of the Gulf States since the 1970s has been based only in part of their increased oil production and the long-term increase in oil prices. Economies outside the Gulf have generally performed poorly. In the decades before the Arab Spring many were making half-hearted efforts to dismantle the state-controlled economies that previous governments had erected during the 1950s and 1960s, but these economies remained mired in the dysfunctions and inefficiencies of state control, and weighed down by burden of large and ineffective state bureaucracies.

.....

"The process of economic realignment has continued over the last 40 years."

.....

GDP of Arab 18 Arab Countries	\$2,508 billion
Total aggregated assets of commercial banks in 18 Arab Countries (includes offshore banks in Bahrain)	\$2,585 billion

GDP figures refer to 2012 or most recently available. Asset figures refer to end 2012 or most recently available.

Assets and Equity of Middle East Banking Systems

Figures taken from Central Banks' Disclosure of Assets and Liabilities of Commercial Banks/Deposit Taking Banks

	Assets, \$bn (End 2012)	Equity, \$bn (End 2012)
Algeria	122.5	8.3
Bahrain, Retail and Islamic Banks	105.0	10.5
Bahrain, Wholesale Banks	114.6	Na*
Egypt	229.5	16.0
Iraq	107.6	8.0
Jordan	55.4	8.2
Kuwait	167.5	22.5
Lebanon	151.9	12.6
Libya	65.6	4.6
Morocco	125.9	11.4
Oman	54.2	7.0
Qatar	224.3	28.1
Saudi Arabia	461.8	64.7
Sudan	14.3	2.2
Syria	30.8	3.3
Tunisia	44.6	3.2
UAE	488.5	81.4
West Bank/Gaza	10.1	1.3
Yemen	10.6	0.9

Notes

- The Bahrain Monetary Agency Statistical Bulletin does not give an exact number for capital and reserves of wholesale banks (a figure including other items is given).
- Figures for Iraq refer to end-2011
- Figures for Sudan refer to September 2012 and have been converted at the a rate of \$1=SP4.4
- Figures for UAE refer to national banks only and not branches of foreign banks.

Sources: Central Bank reports

Quite simply, these economies had grown rapidly in the 1950s and 1960s but soon afterwards they could do so no longer.

The banking map of the Middle East follows the region's economic geography, but with even greater concentration in the Gulf region. The GCC States account for a little more than 60% of the \$2.6 trillion in assets shown by commercial banks in the region. This overweighting reflects the greater sophistication of GCC banking markets, which have long welcomed foreign shareholders and managers, and also the higher international credit ratings of Gulf banks, giving them greater access to international banking and capital markets. (See story on Middle East credit ratings on page 63.)

Outside the GCC, Lebanon's banking system punches above the country's economic weight: Lebanon accounts

GDP and Population Size in the Middle East

	GDP (\$mn) 2012*	Population (mn) 2011	GDP/capita (\$)
Algeria	207,955	37.8	5,501
Bahrain	22,945	1.3	17,650
Egypt	257,286	79.4	3,240
Iraq	210,280	31.8	6,613
Jordan	31,243	6.2	5,039
Kuwait	176,590	3.1	56,965
Lebanon	42,945	4.4	9,760
Libya	62,360	6.1	na
Morocco	96,729	32.1	3,013
Oman	71,982	3.0	23,927
Qatar	172,982	1.9	91,043
Saudi Arabia	576,824	27.8	20,749
Sudan	58,769	36.4	1,615
Syria	73,672	22.0	3,349
Tunisia	45,662	10.7	4,267
UAE	360,245	8.9	40,477
West Bank/ Gaza	4,016	3.9	na
Yemen	35,646	23.3	1,530

• Figures in italics refer to 2011 or 2010. All figures refer to nominal US\$

• Figure for Libya GDP is from the World Bank and refers to 2009

• Figure for West Bank/Gaza GDP is from the World Bank and refers to 2005

Sources for GDP and Population data: World Bank Development Indicators Database

for about 2% of Arab world GDP but about 6% of its banking assets. In contrast, the Iraqi banking system is small in relation to Iraqi GDP.

So will the events of the Arab spring and its continuing repercussions change the economic architecture of the region?

No they won't.

In fact, in the short term, the dominance of the Gulf States is likely to increase.

Egypt's economic prospects are as unsure as its political future, and few would bet that its long-awaited economic resurgence will occur in the next few years. Iraq is in an even worse position as sectarian battles derail efforts to modernise the banking and financial system.

Syria and Libya are not major economies – they account for 2–3% of Arab GDP each – and they are unlikely to become so any time soon.

Of course, there is more to the Middle East than the Arab States. The biggest economy in the region is that of Turkey. Iran was steadily catching up with Saudi Arabia until international sanctions began to stifle economic growth. The

Israeli economy is the sixth largest in the region after Turkey, Saudi Arabia, Iran, the UAE and Egypt.

The Arab economies account for about 60% of this “Greater Middle East” economic zone. Turkey accounts for nearly 20% alone, and Iran about 13%, though Iran’s share has fluctuated over the last 20 years as a result of the changes to its oil output, the international price of oil, and changes to its own exchange rate.

Would Alfred Mahan recognise the economic configuration of the region that he named, over a hundred years ago? Within the Arab Middle East, not much would be familiar – the rise of oil and gas exports has completely re-orientated the economic weight of the region; and Israel has sprung up as a new economic power, albeit one that is isolated from its Arab neighbours. But Admiral Mahan would see that much of the Middle East’s economic activity continues to be conducted on its periphery, in Turkey and in Iran. ■



Andrew Cunningham

Andrew Cunningham is Editor in Chief of the Arab Bankers Association and is Editor of the Arab Banker magazine. In addition to his work with the Arab Bankers Association, Andrew works as a consultant for the IFC on corporate governance and with the Global Association of Risk Professionals on bank credit risk. He is the founder of Darien Middle East, a financial consulting firm. Andrew previously led the Middle East operations of the Financial Services Volunteer Corps, a New York-based NGO, and before that he spent nine years with Moody’s Investors Service. He is proficient in Arabic and French and has a good working knowledge of Greek.

Statistical Indicators for Economies and Banking Systems in the non-Arab Middle East

	Assets of commercial banks End-2012 (\$bn)	Equity of commercial banks End 2012 (\$bn)	GDP (\$mn) 2012	Population (mn) 2011	GDP/capita (\$)
Iran	624.3	29.6	<i>514,060</i>	75.4	6,817
Israel	317.9	20.4	242,929	7.8	31,145
Turkey	660.9	88.5	<i>789,043</i>	73.1	10,794

Notes

- GDP figures in italics refer to 2011 or 2010.
- Commercial bank figures for Israel refer to End-June 2012.

Sources: sources of data are the same as for tables on page 61.

GDP Shares in the Arab World and in the Greater Middle East

Share of Arab World GDP	2012	2007	2000	1990	1979	1970
GCC	55	58	51	46	52	25
Maghreb	16	22	22	31	24	38
Egypt	10	9	15	10	8	17
Iraq	8	4	4	6	10	9
Other	11	7	8	7	6	11
Saudi Arabia share of total	23	26	28	28	34	11

Share of Greater Middle East GDP	2012	2007	2000	1990		
Arab Middle East	62	57	57	56		
Iran	13	11	9	16		
Israel	6	7	11	21		
Turkey	19	25	23	21		
Saudi Arabia share of total	15	15	16	16		

Nominal Dollar-based GDP data for developing countries have to be treated with care, especially for earlier periods when many governments used unrealistic exchange rates. Even today, movements in exchange rates can cause material fluctuations in a country’s apparent economic size. Nevertheless, given a long enough time period, broad historical trends do become visible.

The source for data for the years 2000 and after is the World Bank Development Indicators. The source for data for the years 1970 and 1979 is Yousef Sayigh’s “The Arab Economy” published in 1982. The World Bank does not provide a figure for Iraqi GDP in 1990, so an estimate was made.



The Ups and Downs of Sovereign Ratings in the Middle East and in Europe

When the international credit rating agencies started assigning ratings to countries and banks in the Middle East in the mid-1990s, there was a collective gasp of horror and astonishment from the region's bankers and government officials. The ratings awarded to the Gulf States were barely above investment grade, while those awarded to others such as Lebanon and Jordan were firmly in "junk" territory.

But over the last 15 years, the ratings of the Gulf States have drifted steadily higher, while the Eurozone crisis has sent the ratings of many European countries spiralling down to levels that not long ago would have been inconceivable. On the other hand, the Arab spring has taken its toll on non-Gulf Middle East countries, many of whose ratings now sit lower than ever before.

The Arab Banker's Editor, Andrew Cunningham, worked for Moody's when the agency first assigned ratings in the Middle East. In the following article he charts the changing fortunes of Middle Eastern and European ratings.

Unbelievable though it may seem today, the question for the international rating agencies assessing the GCC in the mid-1990s was whether the Gulf States were investment grade or sub-investment grade. In the end, most were assigned investment grade ratings, but not by much.

Those ratings may seem harsh, but remember that at the time Qatar was embarking on a debt raising programme to build its LNG infrastructure and further expand its downstream petroleum industries. Saudi Arabia's budgetary challenges had been widely reported in the international press, and there were no signs that policy changes would be taken to address them.

The price of oil had been fluctuating between \$15 and \$20 per barrel, which for some states was barely enough to cover annual expenditures.

Politically, there were questions over the ruling families' ability to organise orderly succession to aging rulers, and, more broadly, the Gulf neighbourhood was looking extremely dangerous. Saddam Husain had invaded and occupied Kuwait in 1990, having picked a fight with Iran in 1980 that led to an eight-year war; and he was still in power. Relations with Iran were, as always, strained.

These challenges were well known to everyone in the region. Gulf policy makers hardly needed rating agency analysts to point them out. Yet the reaction from the Gulf when the international agencies started to assign their ratings was furious. It was even reported that the Saudi Arabian Monetary Agency banned its banks from speaking to Moody's.

Some in the region may have been lulled into a false sense of security by the ratings that had been handed out by Capital Intelligence, a Cyprus-based ratings firm that pioneered credit analysis in the Middle East and other emerging markets. Capital Intelligence had given solid investment grade ratings to many Gulf banks and some in the region saw those ratings as an indication of where ratings from the bigger agencies were likely to fall.

But more important was a general lack of understanding of what credit ratings meant. Of course, the Gulf States and others were hardly alone in struggling to work out the analytic factors that were driving the ratings. Misunderstanding over what ratings mean, and what they don't, persists widely to this day, even in some of the world's most advanced financial systems.

Senior officials sitting in GCC Ministries of Finance and Central Banks remembered times when their cities comprised dusty low-rise buildings; where medical facilities and schools were basic; and life was hard. Now, they worked in air-conditioned offices of glass and concrete; they drove to work in expensive cars; perhaps they had been educated at an American university (certainly their sons would be); and they had more money than their fathers or grandfathers could have imagined. How could such countries not receive the highest credit ratings?

The answer of course, lay in budget deficits, debt service projections, and dysfunctional political systems, but it was a bitter pill to swallow.

So what changed to enable the ratings to rise in recent years?

Very simply, the price of oil.

From \$15-\$20/B, where it had been during most of the 1990s, the price of oil doubled (Brent Crude averaged \$29/B in 2003) then doubled again (Brent averaged \$65/B in

2006) and then, after an unsustainable boom and bust in 2009/2010, reached the \$100-\$110/B level where it has been for the last two or three years.

The budgetary positions of the Gulf States were transformed. In some cases, revenue-generating infrastructure was built – LNG facilities in Qatar being the most striking example. Regimes also showed that they were capable of handling political storms, both internal and external. (Saudi Arabia dealt effectively with an internal terrorist threat; and no GCC government was caught off balance by the American and British invasion of Iraq.)

Today, Kuwait, Qatar and Saudi Arabia and the U.A.E. enjoy AA ratings. Oman is at the higher end of the A range, and Bahrain sits at the higher end of the BBB range. (See the accompanying table.)

.....

“The answer of course, lay in budget deficits, debt service projections, and dysfunctional political systems, but it was a bitter pill to swallow.”

.....

Now contrast this upward march of ratings on GCC countries with the downward spiral that has characterised the ratings on European countries in recent years.

Countries which joined the Eurozone when it was created on 1 January 2009 moved to AAA status or very close to it. The assumption was that they would enjoy support from the European Central Bank, which would have an interest in not allowing any member of the zone to default on its debts.

Economic and budgetary conditions in the peripheral countries of the European Union were strengthening at this time, in part as asset prices in the periphery converged with those of the core, and also, in the case of the Eurozone countries, as previously-high interest rates converged with lower rates at the core.

Cyprus was rated high single-A or low-AA until the Eurozone crisis hit. Greece had been rated in low investment grade territory until it joined the Eurozone in 2004, when it rose to high single-A.

Of course both Greece and Cyprus now sit at the bottom of the rating scale, close to Egypt, which has been repeatedly downgraded in recent months, and well below Lebanon and Jordan.

But consider other examples. It was as recently as October 2011 that Spain lost its AA rating. Spain now sits in the lowest investment grade rank (according to Moody's) – around the same level of Bahrain, Morocco and Tunisia.

S&P cut its rating on Portugal from A+ to A- in April 2010. Moody's and Fitch, which at that time had AA-ratings on Portugal, followed soon after. Portugal now sits in low BB territory, several notches below investment grade.

Nonetheless, a significant number of European countries remain highly rated. Five Eurozone countries remain at AAA and France is at AA+. The United Kingdom, which is not part of the Eurozone, is rated AA+. Yet, five Eurozone countries

now hold sub-investment grade ratings from Moody's – Cyprus, Greece, Ireland, Portugal and Slovenia – while Italy and Spain are in the lowest rungs of the investment grade range.

Of course, the story of ratings in the Middle East has not always been positive. Ratings on the Gulf States may have moved steadily higher, but those on countries affected by the “Arab Spring” have moved down.

When ratings on North African countries were first put in place, Tunisia was generally considered investment grade (though only just), Egypt was always considered sub-investment grade (but not by much), and Morocco sat somewhere in the middle.

Egypt is now considered to be on the point of default and carries one of the lowest ratings available while Tunisia has lost its investment grade status. But the ratings on Morocco have hardly changed.

S&P assigned an A- rating to Libya in 2009 but cut it to junk status during the uprising against Ghaddafi and then suspended the rating. In May this year, the Governor of the Central Bank of Libya, Saddek el-Kaber, said that he had

contacted the agency about resuming rating coverage. Fitch also assigned an investment grade rating to Libya before the revolution but subsequently withdrew it.

Jordan and Lebanon have always been rated deep in sub investment grade territory and their ratings have been largely unaffected by the Arab Spring.

Lebanon provides one of the more intriguing rating stories in the Middle East. When single-B ratings were assigned to the Republic and to Lebanese commercial banks in 1996–1997, key analytic issues included the conflict with Israel in the south; a fear that the unrest of the civil war would resume and in so doing constrain the ability of the government to service its debt; and concerns over the fragility of the exchange rate.

Concerns over conflicts and unrest were well founded, though the government has continued to service its debt.

As for the exchange rate, after falling from 850 to the dollar to 2,800 in 1992, the pound recovered to around 1500 in the mid-1990s and has stayed there ever since.

Yet 15 years later, Lebanon's ratings remain stuck in the single-B range. ■

Credit Ratings on Sovereigns

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

Ratings in the C category have been simplified. Egypt is rated Caa1 by Moody's and CCC+ by S&P (the equivalent ratings). Cyprus is rated Caa3, which is below the Egypt ratings, and Greece is rated C which is significantly below the Egypt ratings.

For ease of comparison, Moody's ratings have been cited using the S&P and Fitch notations.

Ratings cited on 30 July 2013.

Sharing Information, Improving Understanding: The Arab Bankers Association is at the heart of London's financial community

The Mission of the Arab Bankers Association is to foster improved relations, information sharing and understanding between the private and public sectors of the Arab World and the United Kingdom. Looking at the Association's programme of events over the last year, few would doubt that the mission is being fulfilled.

Events for members and their guests have included detailed briefings on changes to U.K. tax law and to employment and immigration rules, as well as a discussion on the U.K.'s role in the Middle East led by former British Chancellor Lord Lamont and the renowned journalist and author Patrick Seale

The first seminar of 2013, on U.K. property, was a good example of how the ABA's events address members' professional requirements as well as their personal interests. Law firm Trowers & Hamblins explained how legislation in the U.K.'s 2012 budget had changed the status (and likely profitability) of legal structures often used to finance residential property; then Knight Frank gave a briefing on how prices and rents in the Prime London property market have been changing and where the "hot" areas are. The event was followed by a reception, enabling participants to speak informally to the panellists, and to catch up with their friends and associates.

The ABA held four such technical seminars during the first half of the year. Pictures can be seen on the following pages.

In late December, KPMG hosted a roundtable on bank regulation and accounting for ABA Corporate Members. Five KPMG partners/directors briefed the participants. Jeremy Fern, from the City of London Corporation, spoke about the Corporation's work to maintain London's position as the leading international financial centre.

The Association has also been active in organising social events for its

members. The flagship event is always the Annual Dinner, held in October or November. Two hundred and twenty people attended the October 2012 dinner, which not only honoured Michael Tomalin, the outgoing Chief Executive of National Bank of Abu Dhabi, but also raised thousands of pounds for Al-Fanar – an Arab NGO promoting education in the Middle East – though a charity auction.

In July, Abu Dhabi Islamic Bank sponsored the Association's Iftar held at Maroush Gardens in London's Mayfair district. Over a hundred members and friends attended. And in mid-December, the Association held its Christmas Reception at the East India Club in St. James's Square.

The ABA is led by George Kanaan, the Chief Executive Officer. George is assisted by Houda Lahiani, Accounts Officer, and Nezha ElHaloui, Business Development Officer, both of whom work in the ABA's offices at 43 Upper Grosvenor Street, in the same building as the Arab British Chamber of Commerce, right by the American Embassy. Anesta Farhoud assists George from Beirut on administration and events management. Publications, including the website, are handled by Andrew Cunningham, the ABA's Editor in Chief. Andrew also led the re-launch of the Arab Banker magazine.

The ABA's board comprises 13 members, all of whom are well-known figures in the London Arab Banking Community. There are four Board meetings per year, and an Executive Committee meets as necessary in between Board meetings. The Executive Committee comprises Hani Kablawi (the Chairman of the ABA), Duncan Steele-Bodger, (the Treasurer), Vivien Davies, (the Board Secretary), Abdulaziz al-Khereiji and George Kanaan (C.E.O.).

The Association's Annual General Meeting for 2013 was held on 9 September. ■



George Kanaan,
Chief Executive
Officer of the
Arab Bankers
Association

The Board of the Arab Bankers Association, Summer 2013

Hani Kablawi (ABA Chairman. 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.

Duncan Steele-Bodger (ABA Treasurer. Board member since 2010)

Duncan is the Country Head, U.K. and Jersey, for Emirates NBD Bank. He joined National Bank of Dubai in 2004 as their Senior Manager in London and assumed his current role following the merger of National Bank of Dubai and Emirates Bank in 2010. He had previously worked for Barclays, Credit Suisse and Discount Bank. For much of his 29-year banking career, he has been specialised in Private Banking.

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 U.K.'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.

Abdulaziz Al-Khereiji (ABA board member since 2012)

Abdulaziz has been working within London's financial services sector for 22 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.

Farid Barakat (ABA board member since 2010)

Farid is the European Regional Manager of National Bank of Abu Dhabi 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.

Mahmoud Difrawy (ABA board member since 2010)

Mahmoud is Vice Chairman of JPMorgan Chase MENA with oversight over all lines of business in the Middle East and North Africa. He is based in London. He was formerly Chairman of the Board of J. P. Morgan International Bank and a Director of The Saudi Investment Bank. Before moving to London in 2000, Mahmoud spent many years in Bahrain as Chase Manhattan's Regional Manager for the Middle East.

Gaby Fadel (ABA board member since 2005)

Gaby is the London Branch Manager of Byblos Bank Europe. Gaby began his banking career with Credit Lyonnais in Beirut and later moved to the Brussels office of Byblos Bank and then to the London office of Banque Française de l'Orient (which was partly owned by Credit Agricole). In 1999, he returned to

Byblos Bank in his current position. Gaby's work has covered international trade finance, property & corporate finance, and correspondent banking as well as dealing with high net worth individuals; and it has taken him not only to the Middle East but also to East, North and West Africa.

Samer Hijazi (ABA board member since 2012)

Samer is a Director in KPMG's Financial Services Audit practice. He is currently responsible for a portfolio of U.K. 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.

George Kardouche (ABA board member since 1988 for several board terms)

George served as ABA Chairman for several years. He began his career with Royal Bank of Canada in Beirut and then worked for Dillon, Read in New York and London developing client relationships in the Middle East. George also worked for United Gulf Investment Bank and Drexel Burnham Lambert before concluding his banking career with Schroders in London. His publications include The UAR in Development; The Competition for Savings (USA); and Wage & Price Controls in Canada?

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 U.K., 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.



Finance and Fun Combine at ABA's Annual Gala

Two hundred and twenty financial professionals and friends attended the ABA's annual Gala Dinner at the Jumeirah Carlton Tower Hotel in Knightsbridge on 25 October 2012. The evening included the presentation of a distinguished service award to Dr. Michael Tomalin, the C.E.O. of National Bank of Abu Dhabi, a fund-raising auction in support of the London-based Al-Fanar charity, and a dazzling performance by three opera singers, the "Sirens Encore" group.

George Kanaan opened proceedings on the night by welcoming the guests and was followed by the Rt. Hon. David Mellor Q.C. who amused guests with wry comments on the political scene, but also drew on his long experience in Government to warn about the dangers of seeking simple solutions to the complex problems of the Middle East.

The Association's Chairman, Hani Kablawi, then joined George in presenting the Association's first ever award for distinguished service to Michael Tomalin, who was soon to retire from National Bank of Abu Dhabi after 13 years of service. In his address to the Gala, Tomalin described not only how National Bank of Abu Dhabi has been transformed in recent years, but also how the economy of Abu Dhabi as a whole has been developing and expanding.

Then, as the Jumeirah's staff cleared the tables after the dinner, guests were surprised to see one of the senior waitresses take the stage to make an announcement. Apparently, one of her colleagues was soon to leave the hotel to get married, and the Jumeirah's tradition was that leaving staff had to sing a song to guests. Fortified by a glass of wine,

the young waitress stepped forward ... and launched into a professional rendition of classic opera songs! Joined on stage by a third colleague, it was soon obvious that these were not real waitresses, but "Sirens Encore," a team of professional singers who delight dinner guests with songs ranging from the operatic to the popular.

After the excitement of the Sirens, it was time to focus on those in the Middle East who need our help. Mirna Attallah took the stage to describe the work done by the London-based charity Al-Fanar to foster the growth of innovative, self-reliant social purpose organisations in Egypt and beyond. She then described the stunning fibreglass hippopotamus – almost life size – designed and painted by the Egyptian artist Rania El-Hakim that would be auctioned to raise funds Al-Fanar.

Fourteen corporate sponsors bought tables at the Gala Dinner: ABC International Bank, National Bank of Abu Dhabi, KPMG, Mutual Finance, Byblos Bank, Emirates NBD, Riyadh Bank, Gulf International Bank, BNY Mellon, Samba, National Bank of Kuwait, Blom Bank France, Europe Arab Bank and Qatar Islamic Bank. ■



Left to right: Mr. Farid Barakat, Regional Manager, National Bank of Abu Dhabi, London, Mrs. Barakat and the Rt. Hon. David Mellor QC.



Left: George Kanaan, the ABA's CEO and Hani Kablawi, the ABA's Chairman present Dr. Michael Tomalin with the Association's Distinguished Service Award. Right: Mr. Nazmi Auchy, Mrs. Auchy and Mrs. Soulaf Kanaan.



Left: Mr. Baha Basatneh, BB Energy, and Mrs. Basatneh. Right: Mr. Duncan Steele-Bodger, Country Head UK and Jersey, Emirates NBD, and Mrs. Soulaf Kanaan



Left: Michael Tomalin accepts his award. Right: Rania el-Hakim's hippopotamus raised thousands of pounds for the Al-Fanar Charity
 Below left: She may look like a waitress, but she's actually a professional opera singer! One of the three singers from "Sirens Encore."
 Below right: Everyone joined in!



100 ABA members and friends attend briefing on U.K. property

There was a big turnout for the ABA's first event of 2013 – a briefing on the new tax regime affecting residential property in the United Kingdom, and current trends in the prime residential market.

The event was held on 24 January at the ABA's offices in London's West End. It was sponsored by Trowers & Hamlins and by Knight Frank.

The tax regime for high-value U.K. property has changed as a result of measures introduced by the U.K. government in 2012. The government has targeted the way companies were being used to reduce the tax burden on residential properties worth more than £2 million.

Andrew Seddon, a partner at Trowers & Hamlins and head of the firm's tax department outlined the changes announced by the government and how the new regime will be applied.

Liam Bailey, the Global Head of Knight Frank's Residential Research Department gave a detailed presentation of trends in the high-end London property market and spoke about the prospects for future growth.

The event, which was followed by a buffet supper, was open to all ABA members free of charge, and to non-members for a fee of £50. ■



1. George Kanaan with Fadi Khouri, General Manager of Samba Financial Group London branch, and colleagues
2. Andrew Seddon, Trowers & Hamlins
3. Liam Bailey, Knight Frank
4. Over 100 members and friends attended the seminar

Detailed Briefing on Recent Changes to U.K. and International Tax Regulations

Fifty ABA members attended a briefing on recent changes to U.K. tax law and regulations, held at the ABA's offices in Upper Grosvenor Street on 14 February.

The event included presentations by two former officials at the U.K. tax authority (HMRC), currently working for financial advisors Smith & Williamson; a tax partner at law firm King & Spalding; and BNY Mellon's Head of EMEA Tax Services.

Jawad Ali, the Managing Partner of King & Spalding's Middle East offices chaired the event and led the question

and answer session.

Following the question and answer session, participants enjoyed a buffet supper and the opportunity to speak informally with the speakers.

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



Clockwise from top left: Jawad Ali, King & Spalding; George Kardouche; Carol Duncan; The panel discuss the agenda for the seminar; The seminar was highly interactive; Guests enjoy the post-seminar buffet.

Distinguished Panel Leads Discussion on U.K.'s Role in the Middle East

Lord Lamont of Lerwick and Patrick Seale prompted a lively discussion about Britain's role in the Middle East on 7 March. Both speakers called for a more independent British approach to the Middle East, with Lord Lamont focussing his remarks on British relationship with Iran, and Patrick Seale concentrating on the situation in Syria, Iraq and Palestine.

The event, entitled, "The Middle East in Turmoil: What Can Britain Do?" was organised by the Arab Bankers' Association in partnership with the Conservative Middle East Council. Following the presentations and discussion, members enjoyed a buffet supper and the opportunity to mingle with the speakers.

The event was sponsored by BB Energy, Mutual Finance and Zakhem.

Lord Lamont of Lerwick is a former British Chancellor of the Exchequer, who has a keen interest in the Middle East and particularly Iran. Patrick Seale has written extensively on the Middle East, including the authoritative biography of former President Hafiz al-Asad of Syria. Leo Docherty, the Director of the Conservative Middle East Council, introduced the speakers and moderated the discussion. ■



The panellists: Lord Lamont of Lerwick, Leo Docherty, Director of the Conservative Middle East Council, and Patrick Seale



Guy Oppenheim and George Zakhem



George Kanaan, Yousef Awadi and David Dao



Ian Walker, MEC International



Zaki Shihab, Arabs Today



Elie el-Hadj asks a question

Topical Seminar on U.K. Employment and Immigration Issues

The Lewis Silkin Law firm and Europe Arab Bank sponsored the seminar on U.K. Employment and Immigration Issues, held on 4 July.



The first speaker was Ms Maxine Walton, Acting Deputy Director at the U.K. Border Agency, who outlined current U.K. policies related to the granting of visas to those wishing to visit, live and work in the United Kingdom. She was followed by four senior executives from Lewis Silkin who gave detailed presentations of recent developments in employment and visa regulations, including new measures affecting pay-offs to employees who have been dismissed and the financial requirements attached to certain categories of resident visa.

The meeting was chaired by Kevin Holt, the Head of HR, Marketing and Communications at Europe Arab Bank.

The seminar was followed by dinner and refreshments.

The presentation of the Lewis Silkin team was posted on the ABA's website. ■



Mr. Habib Faris



Ms. Maxine Walton, U.K. Border Agency



Guests mingle on the terrace



Mr. Rakan Tarawneh, Jordan International Bank



The panellists

The London Middle East Institute: Providing Access to the Middle East for All

SOAS is well known for the breadth and quality of its academic research on the Middle East, but what is less well known is the work that the School does to promote understanding of the region to a non-academic audience. In fact, SOAS has a large programme of events, open to everyone, ranging from musical concerts, films, and book launches to conferences on Middle East subjects aimed at interested members of public from different backgrounds.

At the centre of this outreach is the London Middle East Institute, set up by SOAS but funded in part by other sponsors, and led by Dr. Hassan Hakimian, who combines his role as Director of the Institute with his work as an academic economist. The Arab Banker spoke to Dr. Hakimian about the work of the Institute.

The London Middle East Institute (LMEI) was founded in 2002 as a successor to SOAS's Centre of Near and Middle Eastern Studies. A full-time director was appointed thanks to a generous gift from Sheikh Mohamed Bin Issa Al Jaber – a renowned philanthropist whose MBI Al Jaber Foundation aims to promote links between the Middle East and the wider world through educational and cultural activities. LMEI was given a mission to enlarge the range of activities and the scale of outreach that had already been achieved by the Centre over many years.

With over 50 events organized directly by the Institute, or in partnership with others, during the course of a year there can be little doubt that LMEI is succeeding in that mission.

“We are in the enviable position of being able to promote understanding of the Middle East for specialists and also for the general public,” says Hakimian.

For specialists, he cites a two-day seminar on the future of Yemen, organised jointly with the British Yemeni Society and a conference on Education in Egypt, funded by the British Egyptian Society and held simultaneously (through video conferencing) in London and Cairo University. Both attracted high-level academics from the region and from Western Universities.

For non-specialists, he cites panel discussions on the Arab spring and the monthly Iranian film evenings. Earlier this year, the Centre organized a celebration of the life and work of the famous Iranian musician Homayoun Kharram, bringing the legendary singer Ahdieh from Spain to London as part of the concert's line up.

Perhaps more eye-catching was a session last year with the pianist and conductor Daniel Barenboim. Known for his work to bring together young musicians from Israel, the Arab world and Iran, Barenboim discussed with Channel 4 presenter Jon Snow the role that culture and the arts can play in the Middle East at the present time. (The conversation can be viewed as a podcast on LMEI's website.)

A new initiative – an intensive summer school – brought

together students from around the world to study Arabic alongside Politics and Government of the Middle East over a five-week period in July.

All of the events organised or sponsored by the Institute are listed in its bi-monthly magazine, “The Middle East in London.” Each edition has a series of articles around a central theme (the next issue is focused on “food and culinary tradition of the Middle East” and recent titles have included “religious minorities in the Middle East”, “Saudi Arabia”, and



Dr. Hassan Hakimian, Director of the London Middle East Institute



“Protest in the Middle East”), and also contains a comprehensive listing of Middle East related events in London, with a shorter listing of events happening in the UK outside London.

Hakimian is passionate about presenting the Middle East as a region that, while distinct, shares common features with other areas of the world. He has no time for the arguments about Middle Eastern “exceptionalism” – the idea that the forces and trends seen in the Middle East are somehow “different” from those seen anywhere else in the world.

When a book entitled, “What is really wrong with the Middle East?” was published in 2009, Hakimian quickly issued a repost asking, “What is really right with the Middle East?” “All regions have their own distinctive characteristics,” he said, but the Middle East’s challenges are “remarkably similar if not identical to those in the rest of the world.” Democracy and human rights, poverty eradication, environmental degradation and women’s rights were among common challenges that he cited.

Hakimian is committed to bringing the Middle East to a wider audience. He laments the way in which Middle East Studies used to be tucked away in parochial departments drawing on out of date and narrowly focussed research. It’s a passion based on personal experience: arriving from Tehran in 1973 to study at the London School of Economics he found that mainstream economics had little to offer about widespread global poverty and the economic disparities which Hakimian had seen for himself in the Shah’s Iran.

It was while completing his MPhil and PhD at the Institute of Development Studies (IDS) at Sussex University that

he saw the power of an interdisciplinary approach and of comparative regional and area studies to answer the questions faced in a particular country. It is an approach that he has taken with him throughout his career.

It is not surprising that a conversation with Hakimian ranges widely, from the nature of Erdogan’s rule in Turkey, to economic sanctions against Iran, to demography and resource constraints in the Gulf, and then to the contemporary Arab art scene in London. Yet, despite his impeccable academic pedigree – his term at LMEI was preceded by four years as Associate Dean at the Cass Business School and he has a series of heavyweight books on global economics to his name – his conversation is free from academic jargon.

So what does the future hold for the London Middle East Institute? Hakimian identifies two key areas for development. The first is to build more alliances with organisations in the Middle East. He is clear on what the Institute can offer: access to a large number of top academic specialists that cover the full range of Middle Eastern studies and an infrastructure which has proved its ability to organize a wide range of events for audiences with diverse tastes and different levels of expertise.

The second is to expand the range of sub-centres within the Institute. Currently there are two – the Centre for Palestine Studies and the Centre for Iranian Studies – but there is clearly scope for more.

Whatever the future may hold for the Institute, it looks set to remain the premier access point for those wanting to understand and engage with the Middle East in London. Take advantage! ■

The London Middle East Institute is based at SOAS, University of London, Thornhaugh Street, WC1H 0XG, in London’s Bloomsbury district. The full name of SOAS is the “School of Oriental and African Studies.”

Annual subscriptions to The Middle East in London cost £30: contact Vincenzo Paci-Delton at lmei@soas.ac.uk

A Small London Publishing House with Big Middle Eastern Ambitions

Five years ago, when the American University in Cairo (AUC) Press was looking for a partner to sell its books in Britain, it settled, somewhat improbably, on a small German-owned publishing house operating out of a former fabric and design store behind London's Sloane Square.

Founded in 1992 by Barbara Haus Schwepcke, who had begun her career as a German TV journalist and had more recently worked as an editor with Harvill Press, Haus Publishing specialised in history titles and had also launched a series of up-market travel books under the imprint of, "The Armchair Traveller."

Although new to Arabic fiction, Schwepcke offered to take on the AUC's entire fiction catalogue rather than cherry picking the well-known authors that already enjoyed some recognition in the U.K. That clinched the deal, and in April 2008 AUC and Haus signed a three-year co-publishing and distribution agreement.

Under the agreement, Haus's new imprint, Arabia Books, was able to republish any of the Arabic fiction works in the AUC's back catalogue under a joint Arabia Books/AUC label.

It was an exciting time for Arabic fiction. The Middle East was the theme of the 2008 London Book Fair and the International Prize for Arabic Fiction had just been launched (with the first award being made to the Egyptian writer Bahaa Taha for *Sunset Oasis*).

Among Schwepcke's first choices for the joint label were: *Gold Dust*, by the Libyan writer, Ibrahim al-Koni, *Tiller of Waters*, by Lebanese Hoda Barakat and *The Zafarani Files*, by the Egyptian writer Gamal al-Ghitani (who Schwepcke, and others, have described as "the successor to Najuib Mahfouz.")

Since 2011, Arabia Books has been free to publish its own fiction titles in addition to co-publishing and distributing the AUC list. The first title to be launched by Arabia Books as a stand-alone venture was *The Dark*

Side of Love by the Syrian writer Rafik Schami.

Schami was already well known to Schwepcke because she had published one of his travel books in 2006 but she was unable to publish his fiction until the three-year agreement with AUC press expired in 2011. (See separate box)

It was Schami who urged Schwepcke to publish fellow Syrian writer Samer Yazbek and in 2011, Haus published *Woman in the Crossfire*, Yazbek's harrowing account of the early months of the Syrian civil war. Last year, Arabia Books published *Cinnamon*, Yazbek's 2008 novel about illicit love in Damascus.

"We publish good fiction, not niche fiction – our books should just be good reading," says Schwepcke.

She is also passionate about the art of translation. "The books we publish are good English texts," she says. "If I try to sell an unreadable literal translation (of a good Arabic novel) then I will fail."

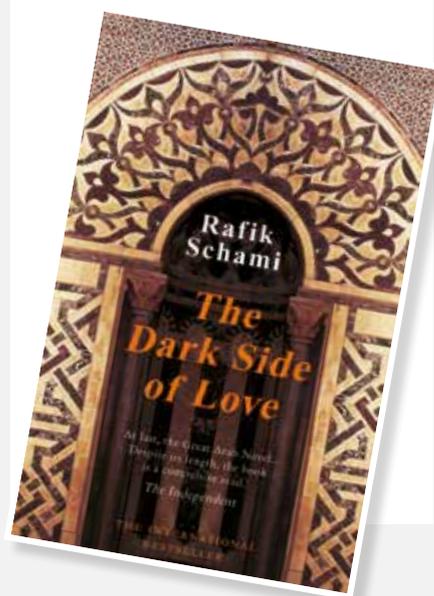
Has the "Arab Spring" been helpful in selling Arabic fiction? Schwepcke doesn't deny that the increased interest in the Arab world has helped raise the profile of Arabic literature, but she cautions that it is too early to speak of a "literature of the Arab spring". "Right now, writers can just capture the moment, and that's reportage, not literature," she says. It will take much longer for the first literary novel about the Arab spring to appear.

Nonetheless, Schwepcke believes that reading Arabic fiction, even that written some years ago, can help us understand what has been happening in the region. Reading (Libyan author) Ibrahim al-Koni can help us understand the psyche of the people



The Arab Banker asked Barbara Schwepcke to name the five fiction titles that she is most proud of having published. Here is her list, in alphabetical order:

- *Gold Dust* by Ibrahim al-Koni (Libyan)
- *Sarmada* by Fadi Azzam (Syrian)
- *The Dark Side of Love* by Rafik Schami (Syrian)
- *The Tiller of Waters* by Hoda Barakat (Lebanese)
- *The Zafarani Files* by Gamal al-Ghitani (Egyptian)



who rose up against Ghaddafi and what is happening in Libya now, she says. "No one who has read al-Koni should have been surprised at the way in which Ghaddafi was hunted down and killed."

Three Initiatives for Young Writers, Translators and Publishers

Despite its young age, Arabia Books has a keen eye on the future of Arabic literary publishing. The company offers three-month internships to enable graduates of Arabic Studies to learn the business of publishing. It is also supporting the mentoring scheme for young translators offered by the British Centre for Literary Translation. Arabia Books commissioned the scheme's first Arabic mentee, Emily Danby, to translate *Cinnamon*, under the mentorship Marilyn Booth, the

Professor of Arabic and Islamic Studies at Edinburgh University.

Perhaps the most exciting recent initiative is the launching of Swallow Publications, an imprint for translations of fiction by young writers. The initiative for Swallow came from Rafik Schami who told Schwepcke that he wanted to find a way to publish translations of young writers, avoiding, as he put it, "oil, dictatorship and boredom," three themes that he thinks get too much prominence in Arabic fiction.

Fadi Azzam's *Sarmada*, a tale of life in a Syrian Druze village from Ottoman times to the rise of the Baath Party, was Swallow's first publication.

Library of Arabic Thought

There is one more project in progress at Arabia Books that reaches beyond

fiction to the whole question of East-West relations. It is a plan to publish a 100 volume library of Arabic thought. The project was the brainchild of Werner Mark Linz, the former Director of the AUC Press, and the person who was behind its transformation into one of the leading publishing houses in the Middle East.

At the end of 2012, Linz won the support of Jordan's Prince Hassan bin Talal who suggested that the project extend beyond the Middle East to West Asia and North Africa.

Tragically, Linz died in February 2013, but Arabia Books is moving ahead with the project undeterred. Ten books on each of ten different categories such as politics, economics, ecology and sociology will be published in the years ahead. The first, which will be dedicated to Linz, will have a forward by Prince Hassan and an introduction by Joachim Sartorius, a former General Secretary of the Goethe Institute.

Sartorius' introduction will include a call for a new "West-East Divan" – a reference to the cycle of poetry about West-East relationships written by Goethe in the early nineteenth century, a time of increasing western involvement in Middle Eastern and Muslim lands.

Schwepcke hopes that the Library of Arabic Thought will serve as a bridge to greater understanding between the West and the East and also for increased understanding within the Middle East itself.

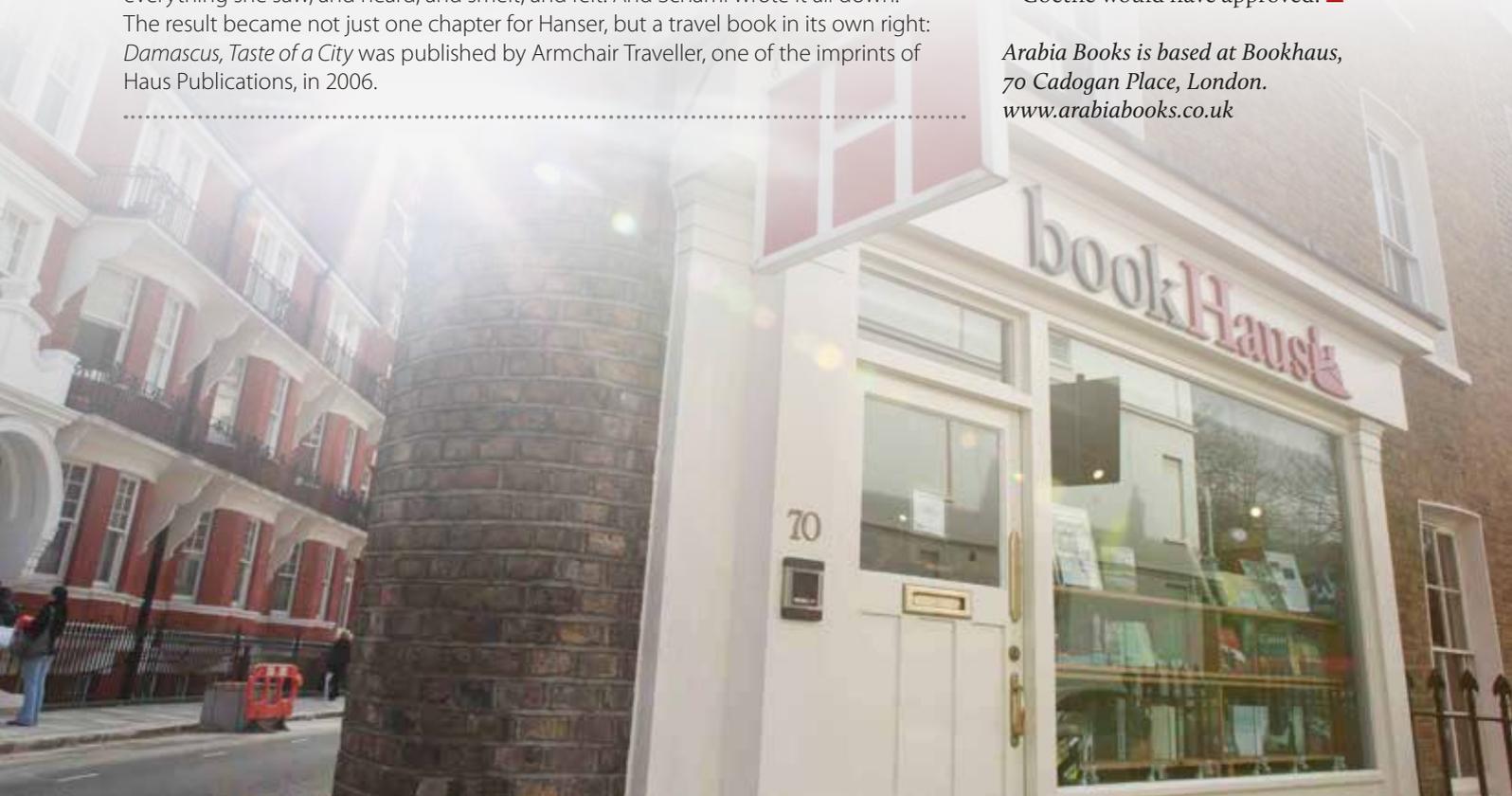
Goethe would have approved. ■

Arabia Books is based at Bookhaus, 70 Cadogan Place, London.
www.arabiabooks.co.uk

Rafik Schami: Capturing the taste of a city

Rafik Schami had mixed feelings when he was asked by the Munich-based publishing house Hanser to contribute a chapter on Damascus to a forthcoming travel book. Schami had fled Damascus in the 1970s after publishing anti-government material on a "Wall Newspaper." (He was told that if he were still in Syria the next day, he would not live to see the day after that.) Arriving in Germany, Schami studied for a PhD in chemistry at Heidelberg University before turning, successfully, to fiction.

Hanser Press was asking some of its best authors to describe the most evocative sites, sounds and smells of their home cities. Schami loved Damascus, relished the opportunity to share it with others, but of course could not return there. So he phoned his sister, who was still living in the city, and they found a solution. As his sister walked through the streets and alleyways of the old Damascus, she relayed down the phone everything she saw, and heard, and smelt, and felt. And Schami wrote it all down. The result became not just one chapter for Hanser, but a travel book in its own right: *Damascus, Taste of a City* was published by Armchair Traveller, one of the imprints of Haus Publications, in 2006.



Ayyam Gallery: A Dynamic Force in the Contemporary Art Scene

Not just a centre for international finance, London is also a centre for international art including, increasingly, art from the Middle East. Earlier this year, Ayyam Gallery, founded by collectors and cousins Khaled and Hisham Samawi, opened a new gallery in London, following successful openings in Damascus, Beirut and Dubai. They also opened a gallery in Jeddah. The Arab Banker spoke to Hisham Samawi about Ayyam Gallery and the contemporary Arab art scene.

What are the origins of Ayyam Gallery?

My cousin Khaled and I started out as collectors before co-founding Ayyam Gallery in Damascus in 2006, as part of our mission to foster Syria's nascent contemporary art scene. We chose Syria as we had become increasingly aware of the numerous talented emerging and mid-career artists there, but there was a lack of proper platforms for them to show their work. We really wanted to provide the support and exposure they deserved and at the time Ayyam Gallery Damascus acted as the much-needed space for these artists to exhibit their work locally. As Ayyam Gallery has expanded into Beirut, Dubai and earlier this year, London and Jeddah, we've been able to offer these artists more international exposure as well. We've since gone on to expand our artist roster beyond solely Syrian artists and the gallery now represents artists from all around the Arab world and Iran.

As the situation in Syria has deteriorated, the original Damascus space has temporarily shifted from acting as a gallery to a refuge and shelter for our artists remaining in the city, though we've now helped most to relocate outside of Syria.

Ayyam Gallery began in Damascus. How are Syrian artists responding to the turmoil in their country?

Artistic practice has become a vehicle for many artists to express their social concerns and a pattern of more overtly political work in Syrian art has developed in recent times. Some artists have

definitely made a conscious decision to make work about the crisis and become the 'voice of the revolution'.

For example, Tammam Azzam was working in Damascus for seven months at the start of the troubles – eventually he left with his wife and daughter for Dubai as the army were conscripting people and he had no intention of fighting. As a result of leaving Syria, Tammam lost his studio and needed a way to express the sadness he felt towards the unfolding turmoil. He began making digital work which served as his form of protest. In 2012, we showed this new work at our Al Quoz space in Dubai and the exhibition acted as a direct critique on the Uprising and destruction of the country.

Other artists prefer to reflect on the situation in a less direct way. Safwan Dahoul, originally from Hama, also relocated to Dubai with his family after the Uprising began, yet he has adopted an entirely different approach to Azzam.



Hisham Samawi (left) and Khaled Samawi

He takes the view that the world has abandoned Syria and as a result refuses to use victims of the Uprising as his subject matter. Dahoul feels his art cannot impact the revolution in a direct sense, but at the same time, his most recent work does reflect a sense of melancholy.

How have Arab artists responded to the “Arab Spring” and are you seeing greater interest in Arab art as a result of this?

Not every artist wants to make political work, but of course some artists do choose to make work that clearly reflects the events of the ‘Arab Spring’.

Social media has played a key role in the ‘Arab Spring’, providing new platforms for ideas to be communicated which cannot be easily controlled by the regime and have been crucial in shaping many individuals’ political decisions. I think Arab artists have responded and adapted to the huge new audiences that have become available and are sharing their work in different, less traditional ways. For example Tammam Azzam’s photographic work *Freedom Graffiti* (2012) – which superimposed Gustav Klimt’s iconic work *The Kiss* over a bullet-ridden wall in Syria – was remarkable in the fact that it went viral online and had a huge public response almost overnight. The image’s message is instantly recognisable and translatable across the world’s borders and that had an impact on its widespread distribution. Graffiti in cities has also gained a much wider presence, as it is one of the most immediate and visible artistic responses to the revolution.

Outside of social media, given that the world’s attention

is very much on events in the Middle East, inevitably this has meant a rise in interest in work being made in the region. However, even before the Arab Spring, the Middle East’s growing art scene was already receiving a great deal of international interest and the market for work by Arab artists was very healthy.

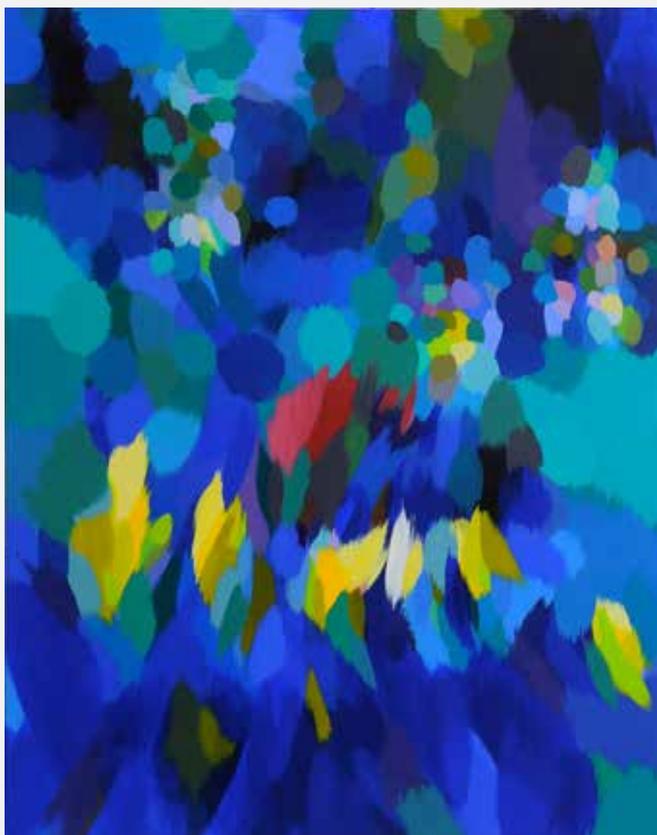
Are there any artists who you think are particularly noteworthy at the moment?

Ayyam Gallery has recently been embarking on a series of new relationships with artists whose work we have been interested in working with for some time. Our first show with the Palestinian artist Khaled Jarrar (which ended on 3 August) received a lot of attention. Jarrar has constructed a huge concrete wall within the gallery, dividing the space. The wall is actually constructed from concrete secretly chipped by the artist from the Israeli-built separation wall running from Jerusalem to West Bank. His work is incredibly powerful and moving; it tells very human stories of Palestinians living with the wall as part of daily life. His film *The Infiltrators* has just had its UK premier at the Edinburgh Film Festival a couple of weeks ago where it was positively received.

We have also started working with two hugely significant Saudi artists: Faisal Samra and Abdalnasser Gharem. Faisal Samra is from the generation of artists preceding Gharem and is widely regarded as the ‘father of conceptualism’ in Saudi Arabia. We’re doing a show with him that will mark our first exhibition with a Saudi artist in the Jeddah space (opening 23 September), and also Samra’s first time exhibition

Whole in the Wall, Khaled Jarrar at Ayam Gallery London, 2013





in Saudi Arabia in almost 15 years, so it will be an important moment for both the artist and Ayyam Gallery Jeddah.

Ghareem is also hugely influential – he is the highest-selling living Arab artist after his work *Message/Messenger* sold at a 2011 Christies auction in Dubai, and has been a pioneer of new approaches to artistic production in Saudi Arabia. Ghareem is credited with inspiring a new generation of artists to take their practice to the streets, which is becoming one of the most immediate and visible artistic responses to the Arab Spring. He's interesting from an educational perspective as he's so committed to supporting emerging artists in Saudi Arabia, which echoes Ayyam Gallery's own ethos from when we set up the Damascus space. He will have his first major exhibition outside of the Gulf this October at Edge of Arabia's space in London, a non-profit organisation dedicated to raising international awareness of Saudi art, of which he's also a co-founder (opening 8 October).

Out of an older generation of artists who we've worked with for many years now, I would say Samia Halaby and Safwan Dahoul are both important. Dahoul is one of the most significant Syrian artists working today and taught many of the younger generation of Syrian artists during his time as a professor at the Institute of Fine Arts in Damascus. Palestinian artist Halaby is now in her late-70s and has been a major innovator of abstract painting for the last 50 years; her work is held in numerous museum collections including The Guggenheim Museum in New York; The British Museum, Institut du Monde Arabe in Paris, and Mathaf Arab Musuem of Modern Art in Qatar.

Earlier this year you opened new galleries in London and Jeddah. Why did you pick those two cities above others?

We chose London because it's the centre of the art world and this reflects strongly on our desire to further our



Left: *Flowers in Darkness*, Samia Halaby, 2013 courtesy of the artist. Above: Private view, Safwan Dahoul, *Repetitive Dreams*, Ayyam Gallery, 2013

artists' careers internationally. Having a base in London has increased our presence in the UK and we also now have Europe on our doorstep.

Jeddah's location was chosen as a response to the recent revival of international interest in the Saudi art scene. Our space in Jeddah is particularly exciting as it is the first international gallery operating in the Kingdom of Saudi Arabia. We opened with a group show featuring artists from Syria, Lebanon, and Palestine, and this acted as a fantastic overview of the new wave of contemporary Arab art being produced throughout the Middle East.

As I touched upon before, we've started working with a lot of Saudi artists, from Ghareem and Faisal, both of whom are from generations that paved the way for today's young artists, to that younger generation, which includes artists like Shaweesh and Ahaad Alamoudi. We're looking forward to continuing to be involved in the flourishing Saudi arts scene and showing more Saudi artists in the Jeddah space.

What advice would you give to someone who is interested in starting to collect Arab art?

I would advise anyone, before buying art, to take advantage of the expansive knowledge that galleries have about artists they work closely with and can provide background information on. Galleries will also be able to advise you everything from art work selection, to commissioning new pieces, right through to the optimum way to display and protect your work so that it retains its value. It is also very important to conduct your own thorough research – if you're looking for an investment there's a wealth of knowledge available on auction prices for artists, reviews of shows they have had and so on.

But at the centre of starting to collect, for me at least, I think it's important to follow your passion rather than solely subscribing to market trends, and collect something that's worth more to you than just a financial investment. The best collectors are usually those who have found a balance between what they love in art and what makes a good financial investment. ■

Book Reviews

Oil for Food, The Global Food Crisis + the Middle East

Eckart Woertz

Oxford, April 2013
319 pages. £55 hardback

The origins of this book lie in what the author terms the “global food crisis” of 2008 that saw huge rises in food prices and, in some cases, restrictions in food exports. The crisis prompted intense debate in the Middle East, and particularly the Gulf, about food security. The achievement of “privileged access to food production” in nearby friendly countries is often seen as the solution.

Woertz spent several years living in Dubai and working at the city’s Gulf Research Centre and his detailed knowledge of the Gulf is evident throughout the book. After leaving Dubai, he moved to Princeton University and then to the Barcelona Centre for International Affairs where he currently works.

Woertz compares the Middle East’s desire for food independence to the west’s desire for energy independence. “If ‘drill baby drill’ is regarded as a panacea for the energy challenge by some in the US, ‘plant baby plant’ is the rallying cry of an equally convinced crowd in the Middle East” he says.

But the author argues that although Gulf countries are heavily dependent on food imports, their substantial oil revenues make them food secure. Rather, the main food issues in the region at the moment relate to micro-nutritional deficiencies (as opposed to lack of calories), obesity and unhealthy diets.

The early chapters focus on Saudi Arabia’s complex relationship with agriculture, starting with the Arabian peninsula’s position within colonial food networks and then moving on to describe food shortages during the second world war and the post war efforts by American experts to transplant western farming techniques



into the Kingdom through the model farm at al-Kharj. The story continues as agriculture is used (unsuccessfully) to try to strengthen rural development and slow urbanisation, though the extraordinary rise of Saudi Arabia’s indigenous wheat production, to the more recent policy of phasing out domestic production of water-intensive crops such as wheat, barley and alfalfa (“more crops for less drops” in the words of a Saudi Minister of Agriculture).

There is an excellent overview of the use of food as a diplomatic weapon. Woertz describes the use of the P.L. 480 programme – whereby the U.S. sold wheat to developing countries – in the U.S.’s tortuous diplomatic relationship with Egypt during the 1960s and 1970s. He describes how the U.S. considered using a food embargo to retaliate against OPEC’s oil embargo in 1973 and then considered a food embargo during the Iranian hostage crisis. In both cases, the food embargo was not used, both for practical reasons as well as humanitarian. Outside the Middle East, Henry Kissinger tried unsuccessfully to persuade the Soviet Union to barter wheat for oil (“bushels for barrels”) in an effort to secure non-OPEC oil supplies.

Sudan’s efforts to turn itself into

a “breadbasket” are chronicled in depressing detail. Woertz notes the fallacy that vast tracts of Sudan laid idle – an illusion maintained even in a 2010 IMF report – when in fact they were being productively tended either by small farmers or pastoralists. Large industrial projects, often but not always financed by the GCC, displaced such farmers and pastoralists, but poor governance, under-investment and political instability often meant that these projects did not progress beyond their feasibility studies.

There are many reasons for the “implementation gap” that characterises these major agro-investments. Countries such as Sudan, Ethiopia and Pakistan, that are the principal targets for Gulf agro-investors, suffer from water shortages and political instability, and they typically feature low down in the World Bank’s Ease of Doing Business Index. Whatever the reasons, the implementation gap is large – Woertz points out that few of the big agricultural investment projects announced in the wake of the 2008 global food crisis have ever seen the light of day.

For all the concerns in the Gulf over food security, Woertz points out that in a global food system that is “organized around the poles of obesity and hunger” the Gulf states come down firmly on the pole of affluence. Rates of obesity and diabetes are among the highest in the world, putting considerable strain on the Gulf economies. The GCC states have many ways to preserve their ability to purchase food. What they do not have is an ability to control the market conditions in which they will make those purchases. Attaining greater leverage over that will be dependent on diplomacy and international relations, he says.

This is a fascinating book, well written and easy to read. It puts facts and numbers around issues that are widely discussed but often poorly understood. Let’s hope it is widely read, both inside the Middle East and outside. ■

Andrew Cunningham

Business Politics in the Middle East

Steffen Hertog, Giacomo Luciani,
Marc Valeri (Editors)

Hurst Publishers, April 2013

377 pages. £25 paperback

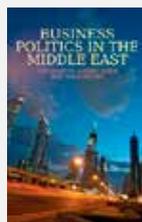
The eleven essays in this book address the changing relationship between the business communities in various Middle Eastern countries, and the governments and ruling families of those countries.

The economic reform programmes initiated by many Middle Eastern governments during the 1990s form the backdrop to several of the articles, with the contributors analysing the extent to which such programmes actually resulted either in a changed relationship between political elites and the business community, or in a more open and inclusive business environment.

Most of the research was conducted before the events of the Arab Spring, although Robert Springborg's essay on Egypt ("The hound that did not bark") analyses the marginal role of Egypt's business leaders in the events that led to the overthrow of Hosni Mubarak. If the business community had been truly empowered by the so-called economic reforms of the Mubarak era, they would have had a larger role to play in the revolution, Springborg convincingly asserts.

Several of the articles focus on the GCC states. Nathan Hodson provides an excellent overview of the economic and fiscal dynamics of the GCC states and how they have been changing over the last 30 years. The article includes numerous tables and is written in an accessible style.

Essays on the merchant communities of Bahrain and



Oman (by Marc Valeri), the U.A.E. (by Khalid Almezaini) and Kuwait (by Rivka Azoulay) provide background and context to political events and business personalities that will be familiar to any regular traveller to the region. Kevan Harris provides a sound overview of the political factors driving privatisation in Iran.

If a single theme emerges from this diverse set of essays, it is that the business communities of the Middle East have remained dependent on political elites and the state, even though the composition of those business communities, its leaders, and the way that they organise themselves has often changed.

In a damning indictment of state-led economic reform programmes in the Middle East, Giacomo Luciani states that economic liberalisation has led to greater inequality of incomes and wealth in the Middle East and an increase in the number of people living below the poverty level ("Business and the Revolution").

This is an academic publication but one which aims for a wider audience than the academic community. Nonetheless, some of the contributions are heavy on the jargon of political science and development studies.

The book was produced with assistance from the Geneva-based Gulf Research Center Foundation, which is part of the Gulf Research Center in Jeddah.

Surprisingly, there are no biographies of the contributors – an omission that should be easy to correct in future editions.

The publishers, Hurst, are based in London and have an interesting catalogue. The Middle East list is strong, and there are numerous books about developing countries and the early development of European states such as Greece and Serbia. ■
A.C.

Islamic Finance in Europe

Edited by Valentino Cattelan

Edward Elgar, 2013

247 pages. £75



The first chapters of this book are heavily academic but later contributions offer more practical studies related to the obstacles that Islamic finance faces in Europe and the successes that it has achieved.

Jonathan Ercanbrack from London's SOAS provides a good account of how U.K. financial regulators have been tackling Islamic financial institutions and Islamic products. He points out that the U.K.'s approach to taxation is that treatment should follow economic substance rather than legal form – the multiple transfers entailed in many Islamic products would make them tax inefficient on a purely "legal form" basis. He also considers the Treasury's treatment of Islamic investment deposits.

On the issue of Shari'a-compliance, Ercanbrack cites the regulator's comment that, "It would not be appropriate, even if it were possible, for the FSA to judge between different interpretations of shari'a law." He also addresses the tricky issue of shari'a scholars' position within a bank. If shari'a scholars were to hold an executive role, then the regulator would have to opine on whether they were "fit and proper",

but if they are merely "advisors" then it does not. All of this is well referenced and sourced, enabling readers to delve deeper if they wish.

The essay on Luxembourg's approach to shari'a-compliant investments is an excellent primer for anyone who needs to know how such investments will be treated from a legal, regulatory or tax perspective. It is followed by short essays on the compatibility of Islamic finance with French law, and the reasons behind the dearth of Islamic financial institutions, or even investment funds, in Germany. On Germany, the author observes that British financial regulators have made efforts to encourage the development of Islamic finance whereas German regulators have not.

This book typifies the difficulties of writing about Islamic finance. Some of the literature is so theoretical that it can be of no interest outside the most obscure corners of academia. (One of the essays begins with a statement from Wittgenstein and proceeds to its discussion of Islamic finance via the Vedic utterances of a ninth century Hindu philosopher.) At the other end of the spectrum, writers produce descriptions of Islamic finance that are obvious or already well-known to practitioners. A few are able to bridge the gap and provide accounts of Islamic finance that are more robust than every-day reportage but present the industry in a way that is recognisable to those who practice it from day to day.

This book contains examples of all three. ■
A.C.

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