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ARAB Banker

The Global Magazine of the Arab Bankers Association (ABA)

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MIDDLE EASTERN BOND MARKETS TAKE FLIGHT

BREXIT AND ARAB BANKS: WHAT YOU NEED TO KNOW

TRACKING THE WORLD'S 'SUPER-WEALTHY'

Arab Bankers Association
جمعية المصرفيين العرب

Volume XXVIII, Autumn 2017

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Arab banking and Brexit

London will remain the centre for Arab banks outside the Middle East, regardless of Brexit.

Who would have thought, twelve months ago, that a large black swan was about to land in our front yard!

Two years ago, British Prime Minister David Cameron had won a parliamentary election with a comfortable majority, and all seemed to be plain sailing for another five years of good and steady growth in a benign political environment. For Arab bankers, that stood in stark contrast to events back home. London was a refuge.

Now we are faced with the prospect of Brexit. Not an event favoured by many bankers, Arab or otherwise.

Worse still is the uncomfortable position of the UK government, which now operates without a clear majority. Not only are we faced with a sea change in the political landscape, but we are facing it with a weak and divided government and leadership that seems to be in power only because the alternative is too scary to contemplate.

What now for Arab banking in London?

I maintain that as a group Arab banks will be among the least affected by Brexit, whether it is a 'soft Brexit' or 'hard Brexit', and by the political turbulence including that which may bring a Labour government.

Arab banks are in London for many reasons.

First, there are historical connections between the UK and much of the Arab world. Many Arab bankers were trained and given banking and financial experience by British banks and other financial institutions. Many spend time in London. It can be safely said that the banking leadership in the area was formed professionally in and by London.

Second, there is the cultural dimension. English is a second language to all the Arabs who have one. This is not recent. English education was an essential element in the development of most of the Arab world.

Third, London is home to significant minorities from various Arab countries. It is also home to some of the Arab world's leading media outlets, publishing houses, cultural associations and culinary establishments.

No wonder, then, that Arab banking has made London its principal international platform. This does not apply only to banking. There are Arab financial institutions of every type, including sovereign wealth funds, family offices, venture capital funds, financial consultancies, among others.

The Arab community in London provides Arab banks with talent, business opportunities and a cultural milieu. However, these banks have a much larger remit.

On the one hand, they provide invaluable services to the corporate sector in Britain. These go beyond lending and the provision of banking facilities to supporting companies' business development.

In addition, Arab banks are providing significant services to the corporate and private sectors back home. They source and fund investments for them. They help them identify trading partners. Of course they also help them with traditional banking operations.

This evidently makes London a centre for Arab banking and finance. This centre has depth as well as breadth. It has variety and contrast. Its constituents follow different strategies conditioned by their markets. They have also adopted various legal structures mostly dictated by historical developments.

Brexit will not change any of that, except with minor but annoying amendments to legal structures. It may lead to the relocation of some banking activities to European centres, but that will be on a very small scale. The bulk of the Arab banking presence in London will stay as it is, and in some respects will even develop and grow.

It is important to note that the decision of Samba, the Saudi Arabian Bank, to withdraw from London was taken before the Brexit vote and was due to concerns over profitability, not Brexit.

There are new roles for Arab banking to play, particularly in the SME sector. SMEs across the region need to develop if the Arab world is to meet its major development objectives. The UK has a flourishing SME sector. Cooperation among SMEs across borders is essential and could be facilitated by an active approach on the part of the Arab banking community.

There is more that can and should be done, and we at the Arab Bankers Association are ready to help in the many ways required. Arab banks are not going to leave London. All that Arab banks wish for right now is for the UK authorities to arrive at solutions that will preserve the success of London and its preeminent position as the global financial centre, and as one of the best places to do business and live in the world.

George Kanaan
Chief Executive Officer
Arab Bankers Association

The best of times and the worst of times for Arab banks

Andrew Cunningham, *Arab Banker*'s Editor, who relaunched the magazine in 2013, considers the state of Arab banking today.

This is an era of exciting and positive developments in some areas of Arab banking and an era when one can only despair of what is happening in others.

Three years since the price of oil halved from $100/b to $50/b most banks in the GCC are still lending money to clients, showing strong capital ratios and making good profits. These are not easy times for Gulf banks but, as a group, they are showing more resilience during this oil price shock than they have been able to show during any time since the modern era of Gulf banking began in the early 1970s.

We are also seeing – at last – some mergers and acquisitions in the GCC that will reduce overlaps and inefficiencies. National Bank of Abu Dhabi and First Gulf Bank – two big banks in Abu Dhabi – have merged. Two Saudi banks, including one that has been struggling to build market share, have announced plans to merge. Three Qatari banks are considering merger plans, having recognised that the Qatari economy is not diverse enough to support ten local commercial banks and seven foreign banks.

In Saudi Arabia, the GCC's largest and most important economy, we are seeing important and very positive developments in the political, economic and social spheres. There is a lot of cynicism about Saudi Arabia's Vision 2030 and its National Development Plan, and it is undeniable that many previous predictions of reform in the Kingdom have been proved over-optimistic. Yet, as one looks at the new generation of leaders who are managing the Saudi economy and financial system and what they have been doing over the last year, there really are grounds to believe that this time is different.

Beyond the GCC, the Lebanese banking system remains robust despite the multiple threats that it faces, both internal and external. Following the election of a new president in 2016 and the creation of a new government, Riad Salamé has been confirmed for a further six years as governor of the Lebanese central bank. Lebanon's leading banks continue to show strong capital ratios, liquidity and profitability, and they continue to be managed by talented leaders with experience beyond their own borders.

Morocco is another success story. As in Lebanon, its banking system is led by a long-standing and highly competent governor, Abdullatif Jouahri. Moroccan banks are innovative in their home market and the leading three are developing profitable new business in West Africa. The amount of capital invested by Moroccan banks in Francophone Africa now exceeds the capital invested by French banks, which have previously seen Francophone Africa as their private fiefdom.

In Egypt, banks have coped well with the upheavals of recent years, including a 100% devaluation of the Egyptian pound in November 2016, and they are now well positioned to take advantage of the stronger economic growth, which, it is hoped, will be the result of the economic reforms and external financial support that are wrapped up in the agreement signed last year with the IMF.

But elsewhere in the Middle East, there are reasons for despair. The most obvious examples are Libya and Yemen, where promising banking developments in the late 2000s have been blasted away by civil war. Even Syrian banking was showing some promise in the 2000s, albeit within a very Syrian universe of crony capitalism tied to the ruling family.

Algeria is perhaps the most disappointing. No civil strife is tearing the country apart, yet bank reform has remained hostage to political paralysis. Even as Algeria's state reserves shrink and government spending tightens, domestic banks are being held in check, and foreign banks given little reason to explore a country that has some of the world's richest hydrocarbon reserves.

Many of these developments are addressed in this issue of *Arab Banker*, the fifth since the magazine was relaunched in 2013. I am proud that each of these five editions has appeared on time, at the end of September, with strong editorial content, and that the magazine is able to make a small profit for its parent, the Arab Bankers Association.

As always, thanks are due to George Kanaan, the Chief Executive Officer of the Arab Bankers Association, for his support and practical help in getting the magazine published.

Thanks are also due to Isla Rosser-Owen for proofreading the text, to Martin Cox, of JPS Print Consultants, for his excellent design and layout, and to Jason Smith, of JPS, who printed the magazine and arranged for its distribution.

Andrew Cunningham
Editor in Chief

Saudi stock market prepares to enter MSCI Emerging Markets Index in 2019

MSCI announced in June that it intends to reclassify its Saudi Arabia Index to 'Emerging Markets' status. The company hopes to make the change in two stages that will coincide with its May 2019 Semi-Annual Review and its August 2019 Quarterly Index Review. In the meantime, MSCI will be soliciting the views of market participants on the proposed change. MSCI will announce its final decision in June 2018.

MSCI broadly classifies its stock market indices into three categories: 'Developed', 'Emerging' and 'Frontier'. Its Saudi Index is currently classified as a 'Standalone Index' under its 'Emerging Markets' category. This means that it uses the same methodological criteria for size and liquidity as the Emerging Markets Index, but is not included in that index.

Saudi Arabia first opened its stock market to foreign investment in June 2015 but there were several conditions that had the effect of limiting the extent to which foreign investors would be able to participate in the market, or would want to. For example, foreign ownership of listed companies was capped at 20%, Qualified Foreign Investors (QFIs) had to show at least $5 bn of funds under management, and there was a T+0 settlement cycle (which smaller investors find difficult to execute).

Since September 2016, a series of measures have been taken to make the market more accessible. The 20% limit on foreign investment has been raised to 49%; the minimum assets under management for QFIs has been lowered to $1 bn and the range of eligible QFIs widened to include, for example, sovereign wealth funds and university endowments; and the settlement cycle has been changed to T+2. Securities lending is now permitted on a bilateral basis, and short-selling has been introduced. All listed companies are being required to use International Financial Reporting Standards with effect from January 2017.

The MSCI Saudi Index currently comprises 32 companies and MSCI says that there would be no changes to the composition of the index if it is reclassified to Emerging Market status. Ten of the 13 domestic commercial banks are included in the Index. (The three that are not are Al-Awwal Bank – formerly Saudi Hollandi, which is currently in merger talks with Saudi British Bank, Bank Al-Jazira, and Gulf International Bank – the Bahrain-based Saudi-owned bank that was granted a licence earlier this year.)

The market capitalisation of the 32 companies was $331 bn in June, of which the ten banks accounted for $104 bn.

MSCI says that the Saudi Arabia Index would have a free float-adjusted market capitalisation of $112.5. A proposed Saudi Arabia Small Cap Index would have 39 constituents with a free float-adjusted market capitalisation of $14.6 bn.

The Saudi Arabia Index would have a potential weight of 2.4% in the MSCI Emerging Markets Index, the company said. This is similar to the weight currently held by Malaysia and Indonesia. The Qatar, UAE, and Egyptian indices, the only three in the Middle East that are currently included in the Emerging Markets Index, have weightings of 0.7%, 0.7% and 0.1%. The biggest is China, with 27%, followed by Korea with 15%.

Inclusion in the Emerging Markets Index is expected to lead to significant new investment as tracker and other passive funds re-balance their portfolios, but the amount of such new investment is hard to judge. In a research note published in May, the Kuwaiti asset manager Marmore estimated that $6 bn–$7 bn could flow into the Kingdom within six months of its inclusion in the Emerging Markets Index. This was based on an estimate that the Saudi Index would have a weighting of 2.57%, and on the assumption that flows would be similar to those into the UAE after its reclassification to Emerging Markets. The UAE's initial weightage was 0.35%, which in theory would have led to inflows of $5.25 bn, although in fact they were closer to $0.85 bn, Marmore said.

The market capitalisation of the entire Saudi exchange was $455 bn in mid-July, according to SICO Investment Bank. Those of Qatar and the UAE were $214 bn and $135 bn, with Kuwait $83 bn and Bahrain and Oman about $20 bn.

Three Qatari banks plan merger

Masraf Al Rayan, Barwa Bank and International Bank of Qatar have announced plans to merge. The merger is expected to be complete by the end of 2017.

Masraf Al Rayan and Barwa are Islamic banks, International Bank is a conventional bank. All are among the more recently licensed of Qatar's onshore banks. Most onshore banks were licensed in the 1970s and 1980s. Qatar International Islamic Bank was licensed in 1991 and International Bank in 2000. Masraf Al Rayan was licensed in 2006 and Al Khaliji Commercial Bank a year later. (The mid-2000s was a time when a lot of new banks were created in the GCC, as a result of the financial liquidity that arose from steadily rising oil prices.) Barwa was the most recent bank to be licensed, in 2009.

At the end of 2016, Masraf Al Rayan had equity of QR 12.9 bn ($3.5 bn) and assets of QR 91.5 bn ($25.1 bn). Barwa had equity of QR 7.3 bn and assets of QR 46.0 bn, while International Bank had equity of QR 4.5 bn and assets of QR 35.8 bn.

Qatar has 10 domestic commercial banks and seven branches of foreign banks that hold their licences from the Central Bank of Qatar. The Qatar Financial Centre also licenses banks, but their onshore operations are restricted to wholesale business and high net worth private banking.

Qatar is not the only GCC state to be anticipating bank mergers. In Saudi Arabia, Saudi British Bank and Alawwal Bank (formerly Saudi Hollandi Bank) were preparing to merge as *Arab Banker* was going to press, and in Abu Dhabi, National Bank of Abu Dhabi and First Gulf Bank completed their merger in the first quarter of 2017.

First Islamic bank opens in Morocco: more on the way

Morocco's first Islamic bank, Umnia Bank, opened its doors in May, five months after Bank Al Maghrib (the Moroccan central bank) authorised the creation of five new Islamic banks.

Umnia Bank is a joint venture between Qatar International Islamic Bank and Crédit Immobilier et Hotelier (CIH) bank. It initially opened two branches in Casablanca and one in Rabat, and announced its intention to open more in the following months.

The four other groups that have been authorised to open Islamic banks in Morocco are BMCE Bank and Saudi Arabia's Dallah Al Baraka; Banque Centrale Populaire with the Saudi property finance company Guidance; Crédit Agricole du Maroc with the Islamic Corporation for the Development of the Private Sector (an arm of the Islamic Development Bank); and Attijariwafa Bank, with an unspecified partner.

Gatehouse Bank makes new senior appointments, including new CEO

Gatehouse Bank, the London-based Shari'ah-compliant bank that focuses on property finance, appointed a new CEO in May, and made further senior appointments in July.

Charles Haresnape joined the bank as CEO in May. Since 2001 he had been Managing Director at Aldermore Bank, an SME-focused British bank that was founded in 2009 and listed on the London Stock Exchange in 2015. Before that he had worked with the real estate agency Connells and with NatWest and Royal Bank of Scotland.

In early July, Danesh Mahadeva was promoted to Chief Financial Officer. He joined Gatehouse in 2013 as Vice President, Head of Finance, having previously worked for Barclays and Ernst & Young. At the same time, Paul Stockwell was appointed Chief Commercial Officer. He had previously worked for TSB Bank and Aldermore Bank, working in both cases on commercial and residential property lending and valuation.

Later in July, Tim Blease was appointed Chief Operating Officer. He had previous roles including Director of New Business Strategy and Innovation at Shawbrook Bank and Head of Retail Credit Risk at Metro Bank.

Sharron Harvey was appointed Executive Vice President, Head of HR, in late July. She was previously working for Habib Bank Zurich and has 20 years of HR experience mainly in the finance industry.

The same month, Andrew Gray was appointed as a Non-Executive Director of the bank. He had previously worked for Barclays as Managing Director of Mortgages and had been Deputy Chairman of the UK Council of Mortgage Lenders. Two directors, Lord Carrington of Fulham and Mohamad Al-Tahawy left the Board at the same time.

Following the appointment of Charles Haresnape, Fahad Boodai, the bank's Chairman, relinquished the CEO position that he had been holding on a temporary basis. He remains the bank's Chairman.

Gatehouse Bank was founded in 2008. It operates in line with Shari'ah principles with divisions in Real Estate Investment Advisory, Real Estate Finance, Treasury, Wealth Management and Shari'ah Advisory.

New head of National Bank of Egypt in London

Yasser Ibrahim has been appointed CEO and Managing Director of National Bank of Egypt (UK), based in London. National Bank of Egypt (UK) is incorporated in London as a wholly owned subsidiary of National Bank of Egypt, and is National Bank of Egypt's only overseas subsidiary, making it a central element in the bank's overseas operations.

Mr. Ibrahim previously spent more than 20 years with Commerzbank, most recently as the bank's Senior Representative in Egypt (and head of its Representative Office in Cairo). Before that, he had worked as Deputy Head for the GCC countries and Yemen, based in Bahrain, as well as working for Commerzbank in Frankfurt.

From May 2012 until November 2014, Mr. Ibrahim also served as the Non-Executive Chairman of the Board of Directors of Mercedes-Benz in Egypt.

He is currently the Vice Chairman of the Board of Governors of the German–Arab Chamber of Industry and Commerce; he is a Member of the Board of Trustees of the German School in Cairo; and he is a founding member of the German-speaking Rotary Club Rhein-Nile.

Rakan Tarawneh acting CEO at London's Jordan International Bank

Mort Mirghavameddin resigned from Jordan International Bank (JIB) in the spring. Rakan Tarawneh, his Deputy, was appointed Acting CEO.

Tarawneh worked as head of JIB's private banking division before stepping up as Deputy CEO in January 2013. He had previously worked for Jordan's Housing Bank for Trade and Finance and for HSBC.

JIB was incorporated in London in 1984. Jordan's Housing Bank holds 75% of its shares and Arab Jordan Investment Bank 25%.

Khaled al-Khayed appointed CEO of Oman's Bank Nizwa

Khaled al-Khayed has been appointed CEO of Bank Nizwa, replacing Jamil al-Jaroudi, who left the bank in July 2016. Khayed has been acting as CEO since Jaroudi's departure.

Before joining Bank Nizwa, Khayed had been Deputy CEO of Jordan Dubai Islamic Bank and Chief Financial Officer of Standard Chartered Bank in Jordan. Jaroudi had led Bank Nizwa since its incorporation as Oman's first Islamic bank in 2013.

New CEO at Dubai's Noor Bank

John Iossifides was appointed CEO of Noor Bank in April. He had previously been Head of Corporate and Investment Banking at Mashreqbank, another Dubai-based bank.

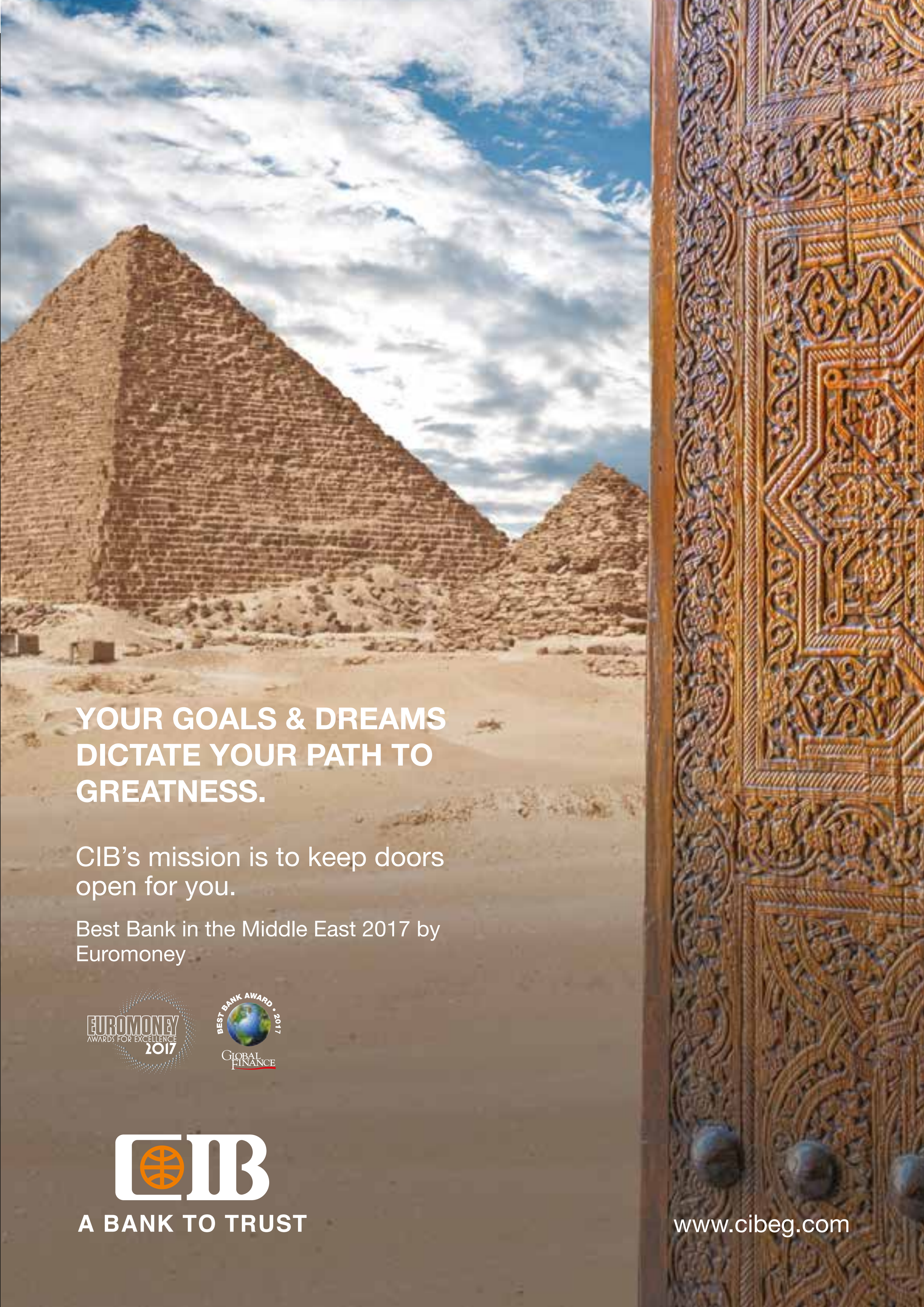
Noor Bank is one of the newest Dubai banks, having been licensed in 2008. It is majority owned by the Government of Dubai and is an Islamic bank. (It was previously known as Noor Islamic Bank.)

ABANA: News from the Middle Eastern financial community in North America

ABANA will present its Achievement Award to H.E. Ahmed Ali Al Sayegh, Chairman of Abu Dhabi Global Market, in New York on 16 October. The presentation ceremony, which will be part of ABANA's annual Gala Dinner, will be held at 583 Park Avenue.

Abu Dhabi Global Market is the financial centre that Abu Dhabi has been building with the aim of attracting international financial institutions to the emirate, and it is a key pillar of Abu Dhabi's long-term economic vision. In addition to his position at Abu Dhabi Global Market, Mr. Al Sayegh is also Managing Director of Dolphin Energy and is a Board member of Etihad Airways.

In separate news, ABANA announced that its members now receive privileged access to the MENA Due Diligence Centre, one of the most comprehensive sources of Middle East and North Africa business information currently available. The Due Diligence Centre is a joint venture between ABANA, Washington-based MENA Consultants and Cedar Rose. ABANA members receive discounted services related to due diligence requests on companies and individuals in the Middle East, and on credit reports and special research.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Qatar National Bank fulfils global ambitions

Having achieved its objective to become a banking icon in the Middle East and Africa by 2017, Qatar National Bank (QNB) is now spreading its wings to the East, with the ambition to become a leading bank in the Middle East, Africa and South Asia by 2020.

Arab Banker reviews the extraordinary rise of QNB to become the Arab world's most international bank.

QNB has long been one of the largest banks in the GCC. Its asset size exceeded $100 bn for the first time in 2013, making the bank the biggest in the region. By June 2017 its assets had reached $211 bn. In terms of equity, which stood at $20.3 bn in June 2017, it is eclipsed only by First Abu Dhabi Bank, the product of a merger earlier this year between two banks with connections to the Abu Dhabi ruling family.

But what marks QNB out from its rivals is not balance sheet size, but global reach. Through subsidiaries, associates, branches and representative offices, QNB is present in 30 countries.

That includes each of the other five GCC states. QNB has a 40% stake in Commercial Bank International, the Dubai-based bank with branches in each of the seven emirates that comprise the UAE, and with its Turkish subsidiary Finansbank it owns a bank in Bahrain. In Oman, Kuwait and Saudi Arabia it has branch representation – the prized Saudi branch opened in May 2017.

In the broader region, the two big subsidiaries are in Egypt and Turkey but the bank is represented in every other Arab country except Morocco. There are subsidiaries or associate banks in Algeria, Jordan, Libya, Palestine, Syria and Tunisia, and branches in Lebanon, Mauritania and Yemen.

The bank's involvement in Sub-Saharan Africa is led by Ecobank, the Togo-based transnational bank in which QNB bought an 11% stake in 2014. The bank has increased its share since then and currently holds 20% of Ecobank, alongside South Africa's NedBank with 21% and the International Finance Corporation and the South African Government

QNB overseas subsidiaries, associates, branches and representative offices

Subsidiaries/associates	Branch	Representative office
Housing Bank for Trade and Finance, Algeria (associate)	France	China (Shanghai Financial Centre)
QNB Finansbank, Bahrain (subsidiary)	Kuwait	Myanmar
QNB ALAHLI, Egypt (subsidiary)	Lebanon	Vietnam
QNB (India) Private Ltd, India (subsidiary)	Mauritania	
PT Bank QNB Indonesia (subsidiary)	Oman	
Mansour Bank, Iraq (subsidiary)	Saudi Arabia	
Housing Bank for Trade and Finance, Jordan (associate)	Singapore	
Bank of Commerce and Development, Libya (associate)	South Sudan	
The Housing Bank for Trade and Finance, Palestine (associate)	United Kingdom	
QNB Suisse, Switzerland (subsidiary)	Yemen	
QNB Syria (subsidiary)		
QNB Tunisia (subsidiary)		
QNB Finansbank, Turkey (subsidiary)		
Ecobank Transnational Incorporated, Togo (associate)		
Commercial Bank International, UAE (associate)		

Source: QNB Annual Report 2016, except for the reference to the Saudi branch, which opened in May 2017.

Employees Pension Fund each with 14%.

Ecobank has the largest Sub-Saharan footprint of any African bank, claiming a leading position in 14 countries, and holding a presence in many more. QNB also has its own lines into Sub-Saharan Africa through its branches in Mauritania and South Sudan.

In one move, the investment in Ecobank projected QNB throughout Sub-Saharan Africa giving it far greater reach on the continent than any other Arab bank.

The investment was a central element in QNB's ambition to become the leading Arab bank in the Middle East and Africa by 2017. With that ambition achieved, the focus has moved to South East Asia.

The bank is already well represented in the region with a branch in Singapore and representative offices in China, Myanmar and Vietnam. It has been present in Indonesia since 2011 when it took a controlling stake in Chunghwa Shangyeh, one of the country's oldest banks. Three years later it increased its stake to 83%.

The subsidiaries in Egypt and Turkey are the most significant of QNB's overseas operations. In Egypt, QNB bought National Société Générale Bank in 2013, and renamed it QNB ALAHLI. By mid-2016, it had become the second biggest private sector bank in Egypt, after Commercial International Bank. QNB holds 97% of the bank's shares.

At the end of June 2017, QNB ALAHLI had equity of $1 bn, and $11.2 bn in assets. It was self-funding, with deposits of $8.9 bn and loans of $5.7 bn. The bank delivered profits of $132 mn in the first half of 2017.

Finansbank was acquired from National Bank of Greece in December 2015 – the Greek bank was selling in order to fill a capital shortfall identified by the European financial authorities. QNB holds 99.9% of the bank's shares.

The acquisition of Finansbank greatly increased QNB's size, as well as giving it a significant position in the region's largest economy. Finansbank had equity of $3.6 bn at the end of June 2017 and assets of $34.8bn. That puts it in the middle tier of Turkey's banks, smaller than the local giants such as İş Bankası and Ziraat, but still very much at the upper end of the scale. At the end of June 2017, QNB Finansbank had deposits of $17.7 bn and loans of $22.4 bn.

International business accounts for nearly 40% of QNB's profits and nearly half of the bank's deposits.

The focus on international should not detract from QNB's dominant position in its home market. The bank has a domestic market share of a little more than 50%, and is five or six times the size of its nearest rivals when ranked by financial indicators such as equity, assets, loans and deposits. This dominant position will not be significantly affected by the proposed merger of three of the smaller Qatari banks, Masraf Al Rayan, Barwa Bank and International Bank of Qatar.

Loans within Qatar account for two thirds of the bank's loans, and local deposits a little more than half of its deposits. Nearly 40% of assets are denominated in Qatari riyals (and a further 30% are denominated in US dollars, to which the Qatari riyal is pegged).

Qatar has been one of the region's fastest developing economies in recent years, initially as a result of investment in the infrastructure needed to exploit the vast natural gas field that lies off its north coast, and then through broader

economic and social development based on the wealth created by oil and those gas exports.

Older readers of *Arab Banker* will remember the days when all significant buildings in Doha nestled around the bay, which was dominated by the pyramid-shaped Sheraton Hotel. Now, Doha extends for miles beyond the bay, with new buildings dwarfing the old Sheraton.

Qatar's successful bid to host the 2022 FIFA World Cup is creating a new construction boom across the country. Nine new sports stadiums are planned, and existing stadiums will be expanded. Tourist infrastructure will be diversified, creating a huge range of new investment and employment opportunities.

QNB has been intensifying its retail banking services in Qatar, for example through the installation of new ATMs that use eye scan recognition to identify customers and which are interactive. It has also been working to strengthen the services that it can offer to small- and medium-sized local enterprises. At the top end of the customer spectrum, the bank has been upgrading its offerings to high net worth clients.

Corporate business remains by far the largest part of the bank's business. This reflects the scale of infrastructural development under way in Qatar and the bank's size relative to its domestic rivals – it is often the only local bank that can underwrite or fund a large transaction.

QNB's relationship to the Qatari government is also a major factor in bringing corporate business into the bank. The Qatar Investment Authority holds 50% of the bank's shares and the other 50% is held by the public. The bank is listed on the Qatar Stock Exchange.

Historically, the Minister of Finance has usually been the bank's chairman. When Ali Shareef Al-Emadi, the bank's former CEO, was appointed Minister of Finance in June 2013, he also assumed the Chairmanship of QNB.

Despite this strong link to the Government of Qatar, QNB is keen to practise strong corporate governance, with a well-functioning board and appropriate risk and audit controls.

All 10 members of the bank's Board are non-executive directors, and four qualify as 'independent directors'. Three new, younger directors were elected in 2016, and a new chairman was appointed to the Board's Audit and Compliance Committee. The Board also created a Group Board Risk Committee.

The effect of all these factors – from business mix to high-level governance – can be seen in the bank's financial performance, which has been consistently strong.

QNB showed a capital adequacy ratio, under Basel III standards, of 15.6% at the end of June 2017. As a Domestic Systemically Important Institution (D-SIB) the bank is required by the Central Bank of Qatar to hold an additional 0.625% of capital beyond what is expected from non-systemic banks. This takes the bank's minimum required regulatory ratio of 14.8%.

As for liquidity, QNB showed a Liquidity Coverage Ratio (LCR) of 131% and a Net Stable Funding Ratio (NSFR) of 93% in mid 2017. These new ratios are still being phased in, so an LCR ratio of 80% on 1 January 2017 would have been sufficient to meet the Basel standard (the full 100% is due on 1 January 2019). As for the NFSR, the standard requires compliance by 1 January 2018.

In recent years, liquid assets have accounted for about a quarter of the bank's total, with 'liquid assets' being defined as the sum of cash and balances with the Central Bank, balances due from banks, and investment securities.

Loans to deposits have ranged from 90% to about 100%. QNB's high credit ratings have enabled it to raise market funds easily.

Business mix contribution, by business line (%, as at 30 June 2017)

	Net profit*	Operating income	Loans	Deposits
Group corporate	93	78	89	76
Group asset and wealth management	4	5	4	9
Group consumer banking	3	17	7	15

** Profit attributable to equity holders of the bank.*
Source: Qatar National Bank

Historically, the bank has enjoyed AA or high A ratings from all three major international credit rating agencies, reflecting the high ratings of the State of Qatar and the assumption that the Qatari government would use its resources to support the bank if it were ever to have a problem.

The bank was able to retain its Aa3 rating from Moody's despite a one-notch downgrade to the Qatari government in May. (The action put the ratings of the bank and the government at the same level.) It was downgraded to A by S&P following a one-notch downgrade of the government in June. (That action retained the two-notch difference between the bank and the government.) As Arab Banker was going to press, Fitch had not changed its AA– rating on the bank, nor that of the government, which was one notch higher. However, all of these ratings had negative outlooks or a negative watch as a result of the diplomatic difficulties between Qatar and some of its neighbours.

Nonetheless, ratings of AA–, or at the higher end of the A range, are high when compared to other counties in region, and should ensure continuing easy access to market funding.

The bank's cost-to-income ratio has been increased by the consolidation of newly acquired foreign subsidiaries, but remains surprisingly low – 29.3% at the end of June 2017. Return (net profit) on average equity has been running at around 18% in recent years, and return on average assets at around 2.2%, though it has been depressed recently by the consolidation of asset-rich subsidiaries.

Non-performing loans (defined as those past due by more than 90 days) have been less than 2% and are fully covered by provisions.

Looking ahead, Ali al-Kuwari, the Group Chief Executive Officer, has stressed the need to continue investing in the Qatari market in order to maintain the bank's leading market position. But the ambition to be a leading bank in the Middle East, Africa and South East Asia by 2020 will drive growth in new and exciting markets.

Since its creation in 1964, QNB has always achieved what it set out to do. There is no reason to doubt it now. ■

Qatar National Bank: key financial indicators (QRmn except for capital ratio)

	June 2017	End 2016
Total assets	768,051.7	719,694.5
Loans	552,238.3	520,417.2
Customers' deposits	562,055.5	506,694.6
Shareholders' equity	73,794.6	70,853.4
Net profit	6,662.5	12,404.3
Capital ratio (%)	15.6	16.0

Exchange rate: $1 = QR 3.64
Source for data: Qatar National Bank annual reports

Geographical distribution of loans and customers' deposits, 31 December 2016

	Qatar	Other GCC	Europe	North America	Other	Total
Loans to customers (QRmn)	356,268.3	18,098.4	96,460.1	2,976.8	46,613.7	520,417.2
Loans to customers (% of total)	68.4	3.5	18.5	0.6	9.0	100.0
Customers' deposits (QRmn)	260,921.1	13,336.0	155,733.8	3,248.0	73,455.7	506,694.6
Customers' deposits (% of total)	51.5	2.6	30.8	0.6	14.5	100.0

Source: Qatar National Bank, Annual Report 2016

Salamé confirmation sets Lebanese banks on safe course for another six years

Lebanese banks – and the wider Arab banking community – have welcomed the reappointment of Riad Salamé as Governor of the Banque du Liban, the Lebanese central bank. The reappointment, for another six years, was announced at the end of May and takes effect from the end of August, when Salamé's current term would have expired.

Earlier in the year, there had been speculation that a change would be made at the top of the central bank.

The Lebanese parliament elected Michel Aoun as President of the Republic at the end of October 2016, two and a half years after the term of the previous president, Michel Suleiman, had expired. As part of the parliamentary deal to elect Aoun, Saad Hariri became Prime Minister and was able to form a government. Amid such high-level government changes, the reappointment of all senior officials was a matter for discussion and negotiation.

What seem to have tipped the balance in favour of Salamé's reappointment were reports in March that the United States was planning to broaden the scope of the Hizballah International Financing Prevention Act, which had been introduced in 2014. The Act requires the US Treasury Secretary to prohibit or limit correspondent accounts or 'payable through' accounts in the United States that are used by foreign financial institutions that knowingly facilitate the activities of Hizballah or its agents, or those acting on their behalf. The Treasury Secretary is also required to inform Congress about any central bank that conducts activity prohibited under the Act.

Hizballah is proscribed by the United States as a terrorist organisation, but many in the Middle East point out that Hizballah has been a feature of Lebanese mainstream political life for so long – it first participated in parliamentary elections in 1992 – that it is impossible to distinguish between associates of the organisation who may be engaged in terrorist activities and those who are conducting normal political activities. With Lebanese banks already making extraordinary efforts to stay on the right side of the Act, any broadening of its provisions would have made life even more difficult for them.

Salamé is known to enjoy the confidence of the US authorities. He has not only taken a strong line on the implementation in Lebanon of international sanctions and related laws, but he has also shown zero tolerance for financial crime in Lebanon. If the US was thinking of broadening the scope of the Hizballah Act, this was not the time to appoint a new central bank governor.

Riad Salamé was born on 17 July 1950. He attended the Jesuit's School of Notre Dame de Jamhour in East Beirut and then graduated in Economics from the American University of Beirut. He joined Merrill Lynch in 1973 and worked in Beirut and Paris. In 1985 he was promoted to Vice President

Excitement as elections to the Association of Banks in Lebanon are contested

Joseph Torbey, the Chairman of Credit Libanais, was elected Chairman of the Board of the Association of Banks in Lebanon on 1 July, following the election of his proposed list of candidates for the Association's Board of Directors. Unusually, the election was contested. Torbey was the incumbent and put forward a full state of 12 candidates, including himself, for the 12 Board positions. Candidates included representatives from the major banks who have historically led the Association such as Bank Audi, BLOM Bank, Byblos Bank, Fransabank and Société Generale de Banque.

Salim Sfeir, the Chairman of Bank of Beirut, proposed an alternative list, comprising eight candidates from smaller banks. Sfeir's list deliberately left four places blank to accommodate others. Sfeir claimed that the Association's Board had not accepted challenges for 23 years. Although he did not explicitly say so, since 1994, only three people have held the Chairmanship: François Bassil of Byblos Bank (four times), Farid Raphael of Banque Libanon-Française (twice), and Joseph Torbey (five times).

Ironically, despite losing the election, Sfeir does have a seat on the Board of the Association – he was included in Torbey's list.

The Association is managed by its Secretary General, Makram Sader, who was first appointed in 1991.

"During Salamé's tenure, the leading Lebanese banks have prospered and expanded overseas."

and Financial Advisor, a position that he kept until his appointment as Governor of the Banque du Liban in 1993. He was reappointed in 1999, 2005 and 2011.

It was while at Merrill Lynch that he got to know Rafik Hariri, the Lebanese businessman who became Prime Minister in 1992 and who is widely credited with reviving Beirut and bringing Lebanon back into the international community after the end of the 15-year civil war in 1990.

Since the mid-1990s, Salamé has been able to maintain the stability of the Lebanese pound's exchange rate and of the banking system despite repeated challenges that have included Israeli aggression, foreign exchange shortages and of course the global financial crisis. The exchange rate of the Lebanese pound to the dollar has remained at $1=LE1,500 for more than 20 years.

During Salamé's tenure, the leading Lebanese banks have prospered and expanded overseas. Some of the smaller banks have been encouraged to merge or allow themselves to be acquired by bigger banks. Lebanon's Banking Control Commission (BCC) has consistently been among the first in the Middle East to implement new banking standards under the Basel Accords and Lebanon played a leading role in the creation of MENA-FATF, the regional affiliate of the Financial Action Task Force that leads international efforts to combat financial crime.

The Banque du Liban is responsible, *inter alia*, for licensing Lebanese banks and other financial institutions. Banks and financial institutions are supervised by the BCC, which has a separate Board of Directors and Secretary General. The BCC is legally independent of the Banque du Liban, but the Governor has a legal right to ask for all the BCC's reports.

The Governor of the Banque du Liban is the Chairman of the Higher Banking Commission, whose role includes imposing sanctions on licensed financial institutions who have violated Lebanon's financial regulations. The Governor is also Chairman of the Special Investigation Commission (SIC), an independent body that investigates financial crimes and, when appropriate, refers cases to the courts and to the Higher Banking Commission. ■

Familiar faces at the top of Lebanon's two big banks

In April, **Amine Awad** was appointed General Manager of BLOM Bank. Awad served as an Executive Board Member of the Banking Control Commission of Lebanon from 2000 until 2015, and was a Member of the Higher Banking Council of the Banque du Liban. While at the Banking Control Commission he played a leading role in the implementation of new Basel standards. His appointment as General Manager of BLOM Bank followed the expiry of the two-year period during which senior banking officials are not permitted to take executive positions with local commercial banks.

Earlier in his career, Awad served as a banker in both Paris and Lebanon and had an academic career teaching economics, statistics, mathematics and operational research at Saint-Joseph University Beirut and as Professor and Dean of the University Institute of Technology.

In July, **Samir Hanna** was appointed Chairman of Bank Audi, replacing Raymond Audi.

This is the first time that Bank Audi has had a chairman from outside the Audi family. Raymond Audi had been Chairman since 1998 and had been a director since the bank's incorporation in 1962. He is one of the most widely respected Arab bankers. He has also been instrumental in developing the Audi Foundation, sponsoring Lebanese artists and undertaking a wide range of other philanthropic work. In 2014, the Arab Bankers'Association honoured him for 'Distinguished Service to Arab Banking'.

Samir Hanna retains his position as CEO of the Bank Audi Group. Hanna has also been involved with Bank Audi since the early 1960s, holding senior management positions since the mid-1980s. More recently, he has overseen the expansion of Bank Audi into Egypt and Turkey.

GIB develops innovative strategies for the future

For 40 years, Bahrain-based Gulf International Bank (GIB) has been one of the flagships of GCC banking, but the bank is firmly focused on the future not its past. After receiving a domestic banking licence to operate in Saudi Arabia, GIB is developing an innovative, technology-led strategy for the Kingdom that can be extended to its home market in Bahrain, and beyond.

Arab Banker spoke to GIB's Chief Executive Officer, Abdulaziz Al-Helaissi about GIB's strategy and its plans for the future.

***ARAB BANKER:* Historically, GIB has focused on investment banking business in the GCC. Will this continue to be your core focus, or do you have a different vision for the future?**

ABDULAZIZ AL-HELAISSI: During the last four decades, one of the fundamental elements of GIB's success has been the bank's enthusiasm to adapt and embrace change in a constantly evolving global financial environment. When formulating GIB's new strategy it was agreed from the outset that innovation is a strategic focus area that we would continue to foster in order to remain a pioneer in the region and beyond.

We have long-term plans for global expansion and diversification – times change, and so do we. The core of GIB's strategy and its board's vision is to be the preferred financial services partner, working in partnership with our clients to deliver innovative banking solutions. We aim to become a leading regional player, offering our clients bespoke services which include our pedigree investment banking services, wholesale banking, treasury, asset management and retail banking.

Investment banking activity is increasing rapidly in the GCC as a result of bond and sukuk issuance and broader capital market activity, and at the same time we are seeing the global investment banks increasing their staffing in the region. How can GIB compete against the global investment banks?

GIB has unparalleled experience in the region. After all, we have been serving our clients for more than 40 years, when many of the other banks now operating in the region were just starting. During the past four decades GIB has endured global economic upheavals, financial crises, market crashes and geopolitical tensions to steadily evolve from a loan-driven merchant bank to a fully-fledged financial services firm. We are optimistic about the future for GIB; our vision and strategies are aligned to the region's outlook, as well as its vision.

As a pan-GCC universal bank, GIB is ideally positioned to be the natural partner for both local and international companies that have a regional GCC focus. Additionally, our long history of supporting governmental ambitions allows us to further cement our position as the 'Gulf's International Bank'. Our regional knowledge and market insight together with our distinct presence in Saudi Arabia, Bahrain, Abu Dhabi, Dubai, New York and London primes GIB to support the GCC nations in all of their shared endeavours.

In April 2017, GIB was awarded a licence to open a commercial bank in Saudi Arabia – the first time in decades that a bank domiciled outside Saudi Arabia has received such a licence. What is your business strategy for Saudi Arabia?

We are very pleased with the granting of a local licence in Saudi Arabia. This facilitates our efforts to further strengthen our operations as a holistic financial institution partner that can meet all our clients' banking needs in Saudi Arabia and across the GCC. We consider this to be a significant turning point for GIB.

In light of the licensing of the subsidiary, we recently reviewed our group strategy and implementation plan, fine-tuned where necessary and revalidated the strategy. Essentially, GIB's group strategy remains unchanged.

In principle, Saudi business will be managed in Saudi Arabia, just as it has been until now. The subsidiary licence enhances our ability and helps facilitate business in the Kingdom, both new and existing.

GIB's standing in Saudi Arabia is historically strong and the local licence further cements our presence in the Kingdom. The licence allows GIB to compete as a peer in the KSA market as a fully licensed and regulated Saudi Arabian subsidiary entity, no longer constrained by its foreign branch status.

In 2014 you launched a technology-based retail Islamic banking offering, called Meem, in Saudi Arabia. How does it differ from other retail banking offerings in Saudi Arabia?

'Meem' (م) is the world's first Shari'ah-compliant digital retail banking service and leads in a completely new direction from traditional banking. We realised early on that the customer profile has changed and their expectations from financial institutions have increased. While their fundamental banking needs remain the same, the way they bank and their service expectations have evolved, demanding institutions to become more available anytime, anywhere. Thus, we created Meemم.

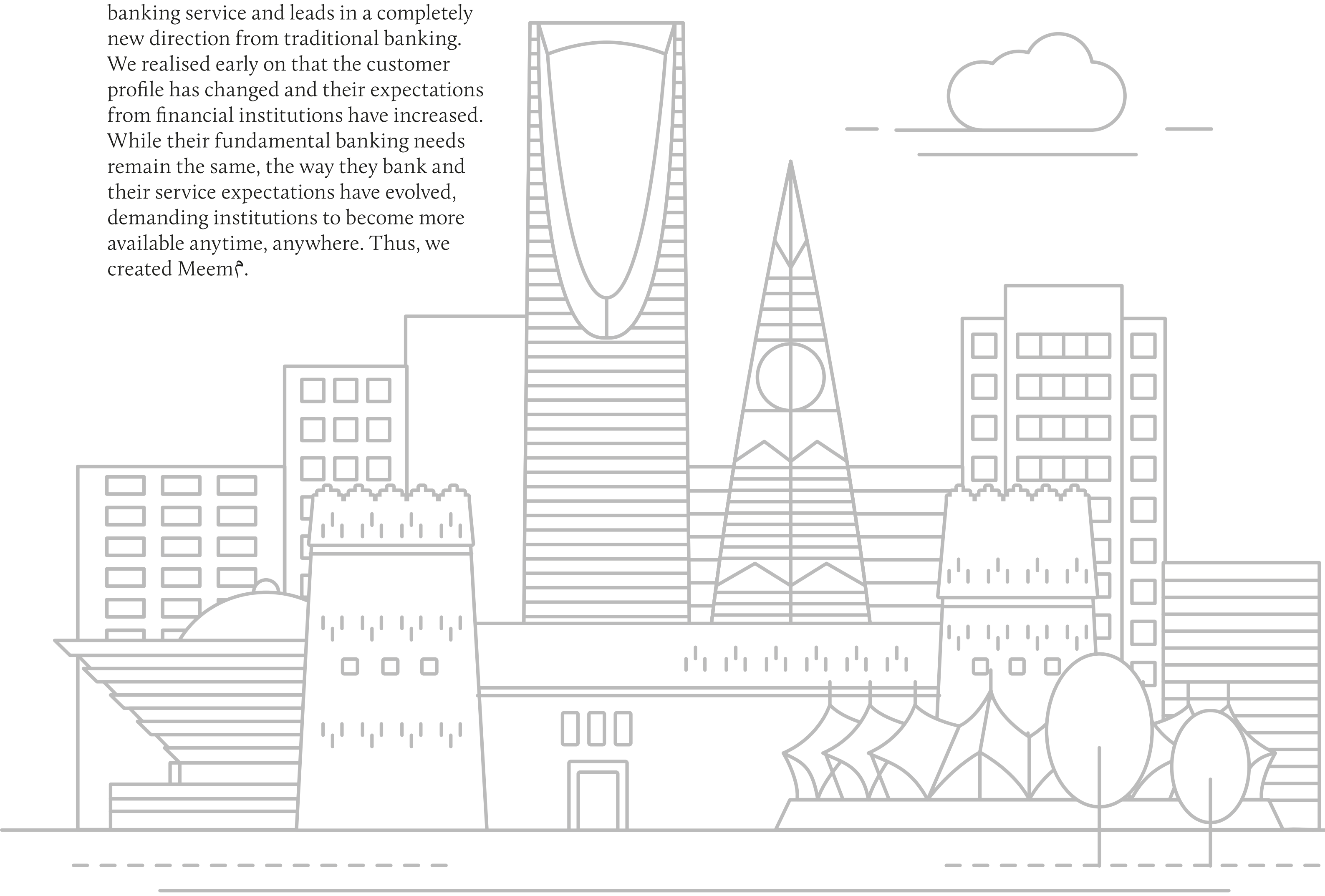
"… since 2011, a new dynamic has emerged resulting in increasingly dense and complex trade and investment ties between the Gulf region and Asia."

FinTech is one of the fastest growing financial segments in the world and we are pleased to be a leader in the region with Meemم. Although Meemم is still in relatively early stages, we are happy to say that the forecast for this model is solid. Last year, Meemم achieved strong growth in Saudi Arabia, by way of client acquisition.

We are delighted to share that in May 2017, the Central Bank of Bahrain granted a retail banking licence to GIB, enabling us to move beyond the borders of Saudi Arabia and begin our regional expansion plan for Meemم. We are positive that Meemم will play an important role in the development of the FinTech ecosystem in Bahrain and the region.

We intend to launch Meemم operations in Bahrain in 2018 and are very excited about this. Meemم will be the first completely and truly digital bank in Bahrain. The favourable regulatory environment in the Kingdom of Bahrain will allow Meemم to leverage a fully digital platform.

Meemم combines online and mobile banking with modern physical locations, catering to the region's increasingly sophisticated retail banking segment, offering convenience, freedom of choice and exceptional value for money. Another differentiator is the innovative customer stores that are fitted



with touchscreens, replacing the traditional bank teller and eliminating virtually all paperwork. By abolishing the costs associated with large physical branch networks, Meem generates significant savings, which GIB passes directly on to customers via higher rates of return for deposits and lower service charges. We believe Meem has helped initiate the transformation of personal banking in the regional market.

How active is GIB internationally beyond the GCC and what is your long-term strategy for this area?

We intend to continue to selectively grow across the region and internationally. Among other things, we are growing our international asset management capability as well as being more active in GCC-related trade financing in Europe and the USA. We will continue to identify potential investors from these markets for GIB and for our clients.

In recent years, we have seen increasing amounts of trade, both oil and non-oil, between the GCC and Asia. How is GIB responding to this development?

The economic relationship between the Gulf Cooperation Council (GCC) countries and Asia has taken time to expand and in the past was fraught with repeated setbacks. However, since 2011, a new dynamic has emerged resulting in increasingly dense and complex trade and investment ties between the Gulf region and Asia. These are expanding beyond the traditional energy-related trade (which is also growing).

For GIB, this presents a number of opportunities as we aspire to be the GCC's preferred financial services partner, delivering bespoke banking solutions to a wide customer base in the region and beyond. The Gulf economies are undergoing momentous structural change towards becoming more diversified and substantially enhancing the role of both the non-oil economy and the private sector. Asian countries are likely to play a key role in this process as evidenced by the numerous bilateral agreements and memorandums of understanding (MOUs) that have been signed between countries in both regions, particularly in the last twelve months and covering sectors from oil and petrochemicals to power, healthcare, telecommunications, housing and construction.

> "We are currently working on increasing our asset management capability on the ground in Saudi Arabia and the GCC…"

Expanding trade finance, contracting finance (arrangement of bonds and performance guarantees given the growing prominence of Asian contractors in GCC infrastructure projects), and treasury and asset management business lines are at the forefront of opportunities for GIB. There are also many other potential avenues including assisting GCC investors and regional sovereign wealth funds, which are increasingly looking towards Asia as part of their diversification strategy, leveraging our regional expertise to be an able partner for Asian corporates looking to expand in the GCC, and financial institution and correspondent banking services to name a few.

The fact that many of the recent economic agreements signed between GCC and Asia are still in the early stages implies that the pipeline of opportunities for GIB is still evolving with the likely expectation of much more to come.

GIB has two operations in London – a branch and a locally incorporated subsidiary. Why are your London operations structured like this?

There is a historical background to the structure and the two entities manage different parts of the business. GIB opened its first representative office in London in 1978, upgrading it to full branch status in 1979. The branch office is in charge of the wholesale banking activity in Europe and North Africa.

In 1999, GIB acquired the London-based Saudi International Bank (SIB), which was subsequently renamed Gulf International Bank (UK) Limited, creating a larger, more versatile, banking group. GIB UK is the key pillar of the asset management function of GIB. GIB UK successfully manages close to US$13 bn of assets on behalf of institutional clients, making us the largest institutional investment manager in the Gulf.

We are currently working on increasing our asset management capability on the ground in Saudi Arabia and the GCC, through our Riyadh-based subsidiary GIB Capital. This will be enhanced by leveraging the asset management capability of GIB UK, and offers us a strategic advantage from a global visibility perspective.

How are you repositioning your London operations for the time when the UK is no longer a member of the European Union?

Brexit brings its own challenges but we believe that the UK continues to be a global financial centre and a gateway to the European region, creating strategic benefits for GIB. This is due to, first and foremost, access to high-calibre talent; second, the regulatory environment; and, third, the supremacy of the British judicial system in upholding the rule of law, including the protection of creditor and shareholder rights.

Having our UK presence supported by GIB's regional presence across the GCC, the universal financial services that we offer together with our renowned capability, allows us to position ourselves as the preferred financial services partner for regional investors for their investments into the UK, as well as UK investors looking to do business in the GCC region.

How will you judge your success in the years ahead? What financial metrics do you use to judge your financial performance?

We use two key financial metrics. First, the return on equity to our shareholders and, second, the cost-to-income ratio. In the short term, we expect a modest return on equity due to our focus on expansion and building GIB for the future. Following the planned growth and break-even of the retail bank in the next two to three years, we envisage the return on equity to improve and close the gap versus our peer group. ■

Saudi Arabia's agenda for change

Saudi Arabia is the world's largest oil exporter, the Middle East's biggest economy, and an increasingly assertive foreign policy player. It is also going through a period of profound change, politically, economically and socially. What happens in Saudi Arabia in the years ahead will have a huge impact on the Middle East region and beyond.

Arab Banker asked Gerald Butt, a long-time observer of the Gulf States and a frequent visitor to Saudi Arabia, to assess the significance of the changes that are under way.

ARAB BANKER: For decades, every time there is a significant and sustained fall in the oil price, talk in Saudi Arabia turns to reform. Yet the structure of the Saudi economy and its society has not changed much over that time. Do you think this time is different?

GERALD BUTT: Yes, the difference is that the current Saudi leadership is convinced that the Kingdom has no option but to lessen its dependence on oil revenue and they believe that goal can only be achieved through reform – social as well as economic. The architect of reform is King Salman's son, Mohammed bin Salman, who was recently elevated to become Crown Prince. He famously said when launching Vision 2030 that Saudi Arabia needed to end its addiction to oil. He's determined that this should happen, despite the difficulties that will inevitably crop up along the way. He also said that reforms would be pushed through whatever the price of oil, whether high or low.

What are the key initiatives that are being taken?

Broadly speaking the idea is to expand considerably the role of the private sector in Saudi Arabia, and to develop the non-oil sector. This will be achieved in large part by the privatisation of up to 5% of the giant state energy company, Saudi Aramco. Capital raised from that initial public offering will be placed in a newly invigorated Public Investment Fund (PIF). The returns from investments made by the PIF will constitute revenue, but not revenue from the sale of oil. At the same time, there will be a push towards creating new industries and new jobs in the private sector in order to encourage young Saudis away from civil service careers. At the moment, around two thirds of Saudis work for the government, and paying them accounts for something just short of a half of government expenditure. The other key initiative is job creation. At present nearly one third of young Saudis are out of work. This isn't sustainable and the government recognises this.

How dependent are these initiatives on the Crown Prince, Prince Mohammed bin Salman?

He's very much the person at the wheel and the person with the vision. He's convinced that Saudi Arabia needs to change its whole economic outlook in the coming two decades. And he's not afraid of taking risks. He has broken with tradition by going live on television programmes and justifying the need for new initiatives and arguing the case for reforms, not all of which will be easy for Saudis to swallow. The Crown Prince crucially chairs the Supreme Economic Council, a body which was set up when King Salman came to the throne in January 2015. This brings together all the key ministers concerned with the economy and the governor of Saudi Arabia's central bank – the Saudi Arabian Monetary Agency. This body meets regularly and decides on key matters relating to the economy. While Prince Mohammed bin Salman chairs these meetings, he's hearing the views of some very experienced and capable young advisers. For example, the Energy Minister, Khalid al-Falih, has had a distinguished career with Saudi Aramco, a firm that plays an important part in the Kingdom's economic life far beyond the confines of oil and gas. Finance Minister Mohammed al-Jadaan is a leading lawyer who headed the Capital Market Authority when the Saudi stock exchange opened up to expanded foreign investment. Minister of Economy and Planning Adel Fakieh has worked in the private and public sectors. It's a strong team, and now that the Council is established it will gain momentum, no matter who's in the chair.

Vision 2030 was launched in April 2016 with the National Transition Programme announced a few months later. Are we seeing any concrete results yet?

The biggest change thus far is the gradual lifting of government subsidies on fuel. More rises in the cost of fuel are likely in the months ahead. The move is obviously not popular in a country where for decades the price of fuel,

Gerald Butt

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

water and other basics has been at rock bottom. But the government urgently needs to cut public spending and this is one way of doing it. But as I said earlier, introducing reform in a country where change has traditionally been very, very gradual isn't easy. Last year the government surprised its citizens by announcing 20% cuts to ministerial salaries and massive reduction in allowances for civil servants. This had a huge impact on the daily lives of millions of Saudis. It meant, too, that consumer spending dried up, endangering the economy. Also, Saudis made it known forcefully via social media that they were unhappy. In April this year, the government reversed the cuts. Some Saudis believed the about-turn undermined the credibility of the whole reform programme. But others say it shows that the government is flexible. It can respond when necessary. I think the answer is somewhere in between: reforms will continue, but maybe not as fast as had been envisaged at first.

What other changes might we see over the short and medium term – for example by 2020?

Crown Prince Mohammed bin Salman's vision is for reform to touch many areas of life. He's already done what most thought would be impossible, cutting the powers of the mutaweei'een, the religious police. The Crown Prince is young, in his early thirties, and is aware that the new generation of Saudis need more outlets for recreation and fun. In Riyadh recently I was hearing from a student how important sport is for the country. "It's our only way of breathing and letting off steam," he told me. The expectation is that cinemas will be allowed to open for the first time, that there'll be more concerts, more in general for young people to do. But of course not all agree with this, there's opposition from the conservative religious establishment.

Do you think the Saudi government is serious about bringing more women into the workforce, and in senior positions?

Yes, I'm certain the authorities are serious. And indeed you can see it happening, in shops and offices, hospitals, in many workplaces. Some women have become high-flying lawyers and hold other senior jobs. But a recent report showed that women's participation in the Saudi economy stands at only around 17%. Change is slow, but it's certainly happening. One of the problems relates to the old chestnut of women not being allowed to drive. In tougher economic times, many women simply can't afford to pay for drivers. If public transport was better, then more would have a chance of getting out to work – even if the ban on driving were to stay.

Saudi Arabia is facing some big foreign policy issues, such as the war in Yemen, the Qatar crisis, the emergence of Iran on the world stage, and so on. Is the Kingdom reacting to foreign policy issues passively or do you see a more proactive and assertive foreign policy?

Definitely more proactive and assertive. Above all else, Saudi Arabia sees Iran as a real threat to the stability of the Kingdom and to the whole of the Arab region. It accuses the Iranians of encouraging unrest among the Shi'a population in the Eastern Province, as well as in Bahrain, Iraq, Lebanon and Yemen. And it feels that the world isn't taking Iran's threat seriously enough – it was very critical of President Obama's overtures to Tehran and the whole nuclear deal. So Saudi Arabia decided it needed to take the lead and become the regional superpower on behalf of the Sunni Arabs. And it's not afraid of being assertive. It has spearheaded joint Arab action against the Houthi-led rebellion in Yemen with the proclaimed aim of stopping Iranian interference there. It's backing rebels in Syria who're trying to oust the Iranian-backed regime of Bashar al-Assad. And it joined with the United Arab Emirates in imposing a blockade on Qatar, in part because of Doha's close ties with Iran. So the Saudi leadership isn't afraid of being assertive. Another recent factor is the election of President Donald Trump with his strong anti-Iran, anti-Islamic State stance. This has emboldened the Kingdom to pursue its regional strategy, confident of Washington's support.

Who are the main players in foreign policy?

The key player again is Crown Prince Mohammed bin Salman who also serves as Defence Minister. While Foreign Minister Adel Jubeir is an energetic and articulate spokesman for Saudi policy, the key decisions are taken by the Crown Prince, with his younger brother Prince Khaled now installed as the Kingdom's Ambassador in Washington with a hotline to the White House. Having said all that, while Saudi Arabia is pursuing an assertive regional policy, it finds itself in some difficulty in Yemen. Finding an exit strategy, in the face of increasing international criticism, is a real challenge for Riyadh. ■

Saudi banks show resilience despite tough economic conditions

The Saudi banking system is confirming its reputation as one of the most resilient in the Middle East. Three years of low oil prices have certainly had an impact, but Saudi banks remain well capitalised and liquidity is starting to improve.

Arab Banker's Editor, Andrew Cunningham, reviews recent developments in the Saudi banking system.

2016 was a difficult year for Saudi banks. It began with oil prices falling below $30/b for the first time in ten years, and continued with rating agency Standard & Poor's downgrading the Kingdom by two notches to A-, the same as Malaysia and Mexico. Government spending tightened and payments were delayed.

There was a clear impact on banks' performance. Eight out of the 12 domestic banks declared lower net profits than in 2015, and ten recorded lower returns on assets. (National Commercial Bank and Al-Rajhi were the two that showed higher returns.) Loan loss provisions increased by 50% across the banking system as a whole and provisions against investment losses more than doubled.

Yet conditions had already begun to improve in the final months of 2016. Banks breathed a huge sigh of relief in September when the government announced that public sector entities, such as the Public Investment Fund, would place $5.3 bn of deposits in the banking system. ($5.3 bn is about 1% of Saudi banks' total deposits.) At the same time, the Saudi Arabian Monetary Agency (SAMA – the Saudi Central Bank) announced that it would provide liquidity to banks through the introduction of seven- and 28-day repurchase agreements. Ninety-day agreements were introduced the following month.

In November, the Kingdom raised $17.5 bn in its first ever sovereign bond issue, and a few days later began clearing delayed payments to contractors with an initial disbursement of $11 bn.

The Kingdom raised a further $9 bn through a sukuk issue in April 2017.

Of greater long-term significance have been the developments in public policy over the last year. Saudi Arabia's Vision 2030 was launched in April 2016 followed by its National Transition Plan (see pages 22–23).

In May 2016, Fahad al-Mubarak was replaced as Governor of SAMA by one of his deputies, Ahmed al-Kholify. (Al-Mubarak had been governor since 2011.) In November, Mohammed al-Jadaan, the Chairman of the Capital Market Authority (CMA), was made Minister of Finance, replacing Ibrahim al-Assaf, who had been in that position for 20 years.

New banking licences issued

Further developments in the banking system occurred in April and May this year, when Citibank was awarded an investment banking licence by the CMA, and Bahrain's Gulf International Bank (GIB) was granted a local banking licence.

The GIB licence was particularly striking not only because SAMA rarely issues domestic banking licences, but also because GIB is incorporated outside Saudi Arabia (although it is 97% owned by the Saudi Public Investment Fund).

The last time domestic banking licences were issued were in 2008, when Alinma was licensed, and in 2005, when Bank Al Bilad was licensed. Prior to that, the most recent banking licence was that granted to Al-Rajhi Bank in 1987. But you have to go back several decades to find the last time when a bank that was not based in the Kingdom received a domestic banking licence.

Further change to the domestic banking scene is expected from a merger between Saudi British Bank (SABB) and Alawwal Bank. In April both announced that they were in discussions and in May SABB said that it had appointed Goldman Sachs to advise on the merger, while Alawwal announced that it would be advised by JP Morgan.

Alawwal was called Saudi Hollandi Bank until the end of 2016. For most of its history, ABM Amro Bank held a 40% stake and operated a management contract, but in 2007 Royal Bank of Scotland (RBS) acquired the stake as part of its acquisition of ABN Amro.

RBS has been reducing its overseas presence and selling subsidiaries around the world in an attempt to rebuild its capital levels after the global financial crisis, so the decision to sell the stake in Alawwal Bank was no surprise. Alawwal was the tenth largest Saudi bank at the end of 2016 and has consistently struggled in recently years to build market share. SABB was the fifth largest bank. Combined, the two banks are expected to be the third or fourth largest.

In March, Credit Agricole appointed JP Morgan to advise on the sale of its 31% stake in Banque Saudi Fransi. It will be interesting to see whether SAMA allows foreign banks to bid for Credit Agricole's stake, or whether it restricts the sale to Saudi buyers. Gulf banks are likely to be interested in buying Credit Agricole's shares, although few have the financial resources to do so.

Financial strength and profitability maintained

Despite the economic strains of recent years, Saudi banks have been able to maintain strong capital levels and

Summary financial statements of Saudi banks, 2015–2016

		Equity	Assets	Net loans	Customers' deposits	Net profit	ROAA	Cost/income	Loans/deposits	Capital adequacy (Basel ratio)
		$mn*					%			
National Commercial Bank	2016	15,984.8	117,765.2	67,644.2	84,189.2	2,511.6	2.12	37.74	80.35	19.20
	2015	14,811.3	119,630.8	67,446.7	86,359.3	2,439.4	2.07	37.44	78.10	17.20
Al-Rajhi Bank	2016	13,856.5	90,616.2	60,015.9	72,712.6	2,167.6	2.48	32.38	82.54	21.98
	2015	12,436.4	84,160.3	56,054.8	68,748.3	1,901.2	2.29	33.88	81.54	20.83
Samba Financial Group	2016	11,411.6	61,748.2	33,405.5	45,900.2	1,335.2	2.15	32.92	72.78	22.50
	2015	10,762.0	62,727.7	34,665.0	45,811.8	1,390.4	2.30	30.93	75.67	20.10
Riyad Bank	2016	10,075.8	58,048.6	38,120.3	41,794.4	891.6	1.52	39.06	91.21	18.90
	2015	9,744.8	59,547.4	38,682.1	44,757.9	1,079.8	1.85	36.35	86.43	18.40
Saudi British Bank	2016	8,343.5	49,629.3	32,266.7	37,514.9	1,038.9	2.08	30.15	86.01	19.62
	2015	7,512.8	50,063.8	33,583.8	39,700.9	1,154.7	2.31	30.32	84.59	17.61
Banque Saudi Fransi	2016	7,922.0	54,263.4	34,532.1	42,267.9	936.3	1.81	33.58	81.70	17.78
	2015	7,328.6	48,990.3	33,003.3	37,825.0	1,076.3	2.17	33.26	87.25	17.16
Arab National Bank	2016	6,381.7	45,348.8	30,812.0	36,252.5	763.4	1.68	38.62	84.99	16.47
	2015	6,034.8	45,443.0	30,703.3	36,200.9	788.4	1.76	38.80	84.81	15.46
Alinma Bank	2016	5,115.8	27,936.1	18,755.3	21,502.8	400.7	1.55	45.07	87.22	20.00
	2015	4,893.9	23,658.5	15,200.6	17,476.8	392.0	1.73	41.60	86.98	23.00
Saudi Investment Bank	2016	3,612.6	25,170.4	16,071.1	17,535.8	280.9	1.12	43.66	91.65	19.13
	2015	3,209.5	24,952.7	16,070.7	18,803.8	354.3	1.42	41.17	85.47	16.94
Alawwal Bank (Formerly Saudi Hollandi Bank)	2016	3,431.1	28,026.9	19,403.8	22,769.0	284.0	1.00	36.24	85.22	17.81
	2015	3,207.1	28,817.1	20,303.8	23,687.2	539.3	1.98	32.20	85.72	15.58
Bank Al Jazira	2016	2,161.6	17,690.3	11,229.6	13,764.6	232.6	1.35	60.74	81.58	19.86
	2015	1,976.8	16,869.4	11,245.7	13,245.5	343.2	1.98	54.24	84.90	15.83
Bank Albilad	2016	1,952.8	14,375.5	9,650.4	10,732.4	215.8	1.54	59.62	89.92	20.46
	2015	1,717.8	13,658.0	9,134.0	11,247.2	210.2	1.63	61.64	81.21	15.88

** Original figures in Saudi riyals have been converted to $s at an exchange rate of $1=SR3.74891*
Source: Financial statements of Saudi banks

reasonable levels of profitability.

All banks show risk-weighted capital ratios of at least 15% – nearly double the international standard. Returns on average assets range from 1% to around 2.5% despite the increased provisioning burden. Cost-to-income ratios for most banks are low: around 35–40%.

In March 2017, Moody's revised its outlook on Saudi banks to stable from negative – it had changed the outlook to negative from stable a year before. The rating agency cited its expectation that economic conditions would improve as a result of government spending as the reason for returning to a stable outlook, although it commented that profitability and loan performance were still likely to deteriorate during the following months.

Saudi banks' performance during early 2017 showed net interest margins widening and operating profits increasing for some, though not all, banks.

Liquidity remains tight. Deposits across the system as a whole have hardly increased since the end of 2014. Private sector credit growth has slowed as a result. Saudi banks' loans-to-deposit ratios increased from 76% to 81% in the year to December 2016 (as calculated by SAMA), prompting SAMA to raise its maximum allowable ratio to 90% in February 2016. Nonetheless, the Saudi government appears to believe that Saudi banks' liquidity is easing – in July the Vice Minister for Economy and Planning confirmed plans to raise SR70 bn from local banks in the form of treasury instruments.

Another area to watch will be real estate lending, which showed a compound average growth rate of 24% in the four years to the end of 2016. The increase has been prompted by new legislation that makes real estate lending more secure for banks, and by government initiatives to make finance more easily available.

A year ago, the government asked banks to reschedule real estate loans to those facing difficulties and this was followed by another request to reschedule credit card loans.

Saudi banks have shown considerable resilience in recent years and they benefit from an attentive and experienced regulator. Their performance in 2018 will depend not only on the price of oil, but on the role that the public authorities ask them to play in maintaining economic prosperity. ■

Recent developments in Saudi finance

April 2016	Saudi government raises a $10 bn loan from foreign banks.
May 2016	Alongside major changes to the government, Ahmed al-Kholify is appointed Governor of the Saudi Arabian Monetary Agency, replacing Fahad al-Mubarak. Al-Mubarak had been Governor since 2011. Al-Kholify had previously been Deputy Governor for Research and International Affairs.
September 2016	The government injects SR20 bn ($5.3 bn) into local banks via deposits from state-run companies. SAMA introduces 7-day and 28-day repurchase agreements (and in October 90-day repurchase agreements). Benefits for public sector employees reduced. SAMA asks local banks to reschedule consumer loans of Saudis who will be affected by the reduction in public sector benefits.
October 2016	Saudi government issues $17.5 bn international bond. SAMA asks local banks to reschedule property loans of Saudis whose incomes will be affected by the reduction in public sector benefits.
November 2016	Mohammed al-Jadaan replaces Ibrahim al-Assaf as Minister of Finance. Al-Assaf had been Finance Minister since 1996. Al-Jadaan had previously been Chairman of the Capital Market Authority.
January 2017	Budget statement announces intention to balance the budget by 2020 through increased non-oil income and reduced subsidies.
April 2017	Benefits for public sector employees that had been reduced in September 2016 are restored. Saudi government issues $9 bn in sukuk. Saudi British Bank and Alawwal Bank (formerly Saudi Hollandi) announce plans to merge.
May 2017	Governor of SAMA says he does not expect to see more bank mergers but that SAMA has an 'open policy' towards the licensing of foreign banks. Bahrain-based, Saudi-owned Gulf International Bank receives local banking licence. Mohammed Al-Tuwaijri, Vice Minister of Economy and Planning says that domestic banks "are pretty liquid now and their ability to invest in government bonds is good," adding that the government plans to raise about SR70 bn ($18.7 bn) from local banks during the course of the year.

Profile of the Saudi banking system, 2012–2016 ($mn, unless otherwise stated)

	End-2016	End-2015	End-2014	End-2013	End-2011
Claims on private sector	374,902	365,953	335,087	299,726	266,511
Claims on government	60,665	33,337	26,394	25,009	21,893
Foreign assets	60,241	84,480	67,116	56,201	56,771
Total assets	601,864	589,176	568,852	505,022	462,572
Deposits	431,328	428,062	420,277	373,970	336,260
Capital and reserves	90,495	83,663	76,894	69,766	64,819
Real estate loans (corporate and retail)	55,182	49,738	42,408	31,943	23,480
Consumer loans	91,181	87,246	83,517	76,793	70,205
Growth in private sector credit (%)	2.4	9.2	11.8	12.5	
Loans/deposits (%)	87	85	80	80	79
Loans/assets (%)	72	68	64	64	62

GCC banks respond to continuing economic strain

The structure of GCC banking was hardly affected by the global financial crisis of 2008–9, but three years of low oil prices have created movement towards high-profile mergers. Yet despite the strains of reduced liquidity and higher loan losses, GCC banks remain profitable and well capitalised.

Arab Banker's Editor, Andrew Cunningham, reviews recent developments in GCC banking, and in the wider region

High-profile bank mergers are due to be completed in the three major GCC banking markets by the end of 2017. National Bank of Abu Dhabi (NBAD) and First Gulf Bank (FGB) have already concluded their merger. 'First Abu Dhabi Bank', as the new institution is named, had equity of $27 bn on the day it was launched, making it the biggest bank in the GCC when ranked by equity, and the second biggest when ranged by assets. (Qatar National Bank is the biggest bank when ranked by assets, but holds second place in terms of equity, with $19.5 bn at the end of March.)

In Saudi Arabia, Saudi British Bank and Alawwal Bank (formerly Saudi Hollandi Bank) announced plans to merge and appointed advisors; and in Qatar, Masraf Al Rayan, Barwa Bank and International Bank of Qatar intend to merge by the end of the year.

The three mergers are driven by different considerations.

NBAD was majority owned by the government of Abu Dhabi, and official Abu Dhabi persons or entities were significant shareholders in FGB. Merging the two banks was a way for the Abu Dhabi authorities to partially reduce the number of their local banking investments.

The merger was announced around the same time that the authorities said they would merge two state-owned investment companies, Mubadala and Ipic.

Even after the bank merger, the Abu Dhabi Investment Council holds majority stakes in three other local banks: Abu Dhabi Commercial Bank (created when the authorities bailed out three small banks in the 1980s), Union National Bank (which the authorities recapitalised after the failure of BCCI bank in the early 1990s), and Al-Hilal Bank, which was incorporated in 2007.

The merger of Saudi British and Alawwal is driven by Royal Bank of Scotland's (RBS) desire to sell the 40% stake that it acquired as part of its ill-fated acquisition of ABN AMRO bank in 2007. RBS has been reducing its overseas operations for several years as it tries to regain sustainable profitability.

The Qatari mergers are driven by a realistic recognition of the size of the local Qatari banking market and the likelihood of being able to compete in the wider GCC market. Masraf Al Rayan is bigger than the other two banks combined and the merger will create the second biggest bank in Qatar, albeit one that remains much smaller than Qatar National Bank. It is worth noting that both Barwa and International Bank of Qatar have been profitable in recent years. Although their long-term prospects may have been challenging, they were under no immediate pressure to seek a bigger partner.

Largest 50 GCC commercial banks, ranked by equity size (end 2016)

	Figures in $ mn except for the capital ratio which is %		Equity	Assets	Net loans	Customers' deposits	Net profit	Capital ratio (Basel)*
1	Qatar National Bank	Qatar	19,475.1	197,818.8	143,044.5	139,272.6	3,409.5	16.0
2	National Commercial Bank	Saudi Arabia	15,984.8	117,765.2	67,644.2	84,189.2	2,511.6	19.2
3	Emirates NBD	UAE	14,667.6	122,002.1	79,081.8	84,625.3	1,971.4	21.7
4	Al-Rajhi Bank	Saudi Arabia	13,856.5	90,616.2	60,015.9	72,712.6	2,167.6	22.0
5	National Bank of Abu Dhabi	UAE	12,664.6	114,570.3	54,609.6	69,002.1	1,442.2	18.1
6	Samba Financial Group	Saudi Arabia	11,411.6	61,748.2	33,405.5	45,900.2	1,335.2	22.5
7	National Bank of Kuwait	Kuwait	11,157.5	79,318.7	44,605.9	41,317.7	1,023.1	17.7
8	First Gulf Bank	UAE	10,254.9	66,748.8	42,422.1	40,007.4	1,653.0	18.3
9	Riyad Bank	Saudi Arabia	10,075.8	58,048.6	38,120.3	41,794.4	891.6	18.9
10	Saudi British Bank	Saudi Arabia	8,343.5	49,629.3	32,266.7	37,514.9	1,038.9	19.6
11	Abu Dhabi Commercial Bank	UAE	8,265.3	70,338.3	43,151.8	42,330.6	1,132.1	18.9
12	Banque Saudi Fransi	Saudi Arabia	7,922.0	54,263.4	34,532.1	42,267.9	936.3	17.8
13	Duabi Islamic Bank	UAE	7,426.1	47,648.6	31,308.4	33,326.2	1,102.9	18.1
14	Kuwait Finance House	Kuwait	6,681.3	54,069.8	36,221.5	34,940.5	530.6	17.9
15	Arab National Bank	Saudi Arabia	6,381.7	45,348.8	30,812.0	36,252.5	763.4	16.5
16	Qatar Islamic Bank	Qatar	5,496.9	38,435.5	26,983.6	26,221.2	580.2	16.7
17	Mashreq Bank	UAE	5,306.4	33,445.0	16,610.0	20,980.0	532.1	16.9
18	Commercial Bank of Qatar	Qatar	5,305.3	35,837.0	21,383.8	19,495.2	137.8	15.2
19	Alinma Bank	Saudi Arabia	5,115.8	27,936.1	18,755.3	21,502.8	400.7	20.0
20	Union National Bank	UAE	4,999.6	28,298.7	20,074.2	21,111.8	431.0	18.9
21	Al-Ahli United Bank	Bahrain	4,539.5	31,322.5	18,606.9	21,703.4	624.3	17.1
22	Arab Banking Corporation	Bahrain	4,260.0	30,141.0	14,683.0	13,234.0	234.0	19.1
23	Abu Dhabi Islamic Bank	UAE	4,209.7	33,302.4	21,298.6	26,909.3	532.0	15.3
24	Bank Muscat	Oman	4,031.9	28,205.3	20,742.7	17,451.6	460.4	17.1
25	Doha Bank	Qatar	3,677.8	24,838.1	16,268.2	15,318.2	289.7	15.6
26	Saudi Investment Bank	Saudi Arabia	3,612.6	25,170.4	16,071.1	17,535.8	280.9	19.1
27	Masraf Al Rayan	Qatar	3,538.5	25,158.6	18,590.4	15,948.7	570.6	18.9
28	Saudi Hollandi Bank	Saudi Arabia	3,431.1	28,026.9	19,403.8	22,769.0	284.0	17.8
29	Burgan Bank	Kuwait	2,771.1	23,820.7	14,013.1	12,247.4	218.6	16.7
30	Commercial Bank of Dubai	UAE	2,363.7	17,450.5	11,427.4	11,920.6	281.3	15.8
31	Gulf International Bank	Bahrain	2,357.4	22,905.8	9,745.1	13,447.5	37.3	16.8
32	Bank Al Jazira	Saudi Arabia	2,161.6	17,690.3	11,229.6	13,764.6	232.6	19.9
33	National Bank of Ras Al Khaimeh	UAE	2,064.3	11,576.5	7,822.7	8,005.8	180.6	24.0
34	Barwa Bank	Qatar	1,996.4	12,657.4	8,185.1	8,239.8	203.1	16.5
35	Commercial Bank of Kuwait	Kuwait	1,978.7	13,518.9	7,375.1	7,280.4	165.2	17.9
36	Bank Albilad	Saudi Arabia	1,952.8	14,375.5	9,650.4	10,732.4	215.8	20.5
37	Al Khalij Commercial Bank	Qatar	1,933.1	16,656.1	9,669.8	8,849.3	117.3	15.8
38	Qatar International Islamic Bank	Qatar	1,835.3	11,695.8	7,485.5	7,322.4	215.7	19.5
39	Al Ahli Bank of Kuwait	Kuwait	1,821.4	14,041.6	9,927.6	9,503.2	106.5	17.7
40	Gulf Bank	Kuwait	1,897.4	17,916.1	11,292.8	11,126.7	140.6	18.5
41	Al-Hilal Bank	UAE	1,495.6	11,826.1	8,785.9	8,766.3	33.9	15.2
42	Ahli United Bank	Kuwait	1,460.6	12,099.6	8,868.1	8,166.1	123.2	18.2
43	Noor Bank	UAE	1,456.9	11,051.5	7,058.2	8,124.6	187.5	17.3
44	National Bank of Oman	Oman	1,403.5	9,208.9	6,960.8	6,254.6	145.5	17.4
45	Bank Dhofar	Oman	1,392.0	10,301.9	7,790.5	7,521.0	124.1	14.4
46	Boubyan Bank	Kuwait	1,386.9	11,410.1	8,247.7	9,651.3	135.3	21.4
47	Ahli Bank of Qatar	Qatar	1,335.9	10,490.3	7,383.3	6,874.6	173.6	14.3
48	Sharjah Islamic Bank	UAE	1,322.5	9,133.5	4,654.3	4,991.4	126.1	21.4
49	Bank of Bahrain and Kuwait	Bahrain	1,267.3	9,895.2	4,722.6	6,664.4	151.5	18.5
50	Bank of Sharjah	UAE	1,252.6	7,379.2	4,649.9	5,374.8	109.5	22.4

** Some regulators require their banks to use Basel III standards and some allow them to use Basel II, so different banks' ratios may not be directly comparable.*
Source for data: Darien Analytics Ltd, based on publicly available information.

Largest two banks (by equity) in selected countries ($ mn)

	Equity	Assets	Loans	Customers' deposits	Net profit	Capital ratio (Basel)
Egypt						
National Bank of Egypt	4,392	79,924	25,074	63,482	1,417	n/a
Banque Misr	3,021	48,887	14,539	38,785	626	11.58
Jordan						
Arab Bank	8,165	39,296	21,898	31,082	533	12.16
Housing Bank	1,484	10,948	5,659	7,907	183	17.03
Lebanon						
Banque Audi	3,789	44,396	17,215	35,955	470	15.30
BLOM Bank	2,946	29,530	7,163	24,637	463	19.00
Morocco						
Attijariwafa Bank	4,019	42,019	26,619	28,054	554	12.50
Groupe Banque Populaire	3,224	34,468	20,958	25,454	298	12.60

Source: Publicly available financial statements.

Looking ahead, we may see mergers in Oman. The Sultanate boasts nine commercial banks in an economy with a gross domestic product of about $70 bn. (Qatar has ten, before the merger, with a GDP of about $160 bn.) Bank Dhofar and Bank Sohar held long-running merger talks that ultimately failed.

In July, there were reports that Kuwait Finance House and Bahrain's Ahli United Bank were in merger talks.

Elsewhere in the region, the Emirate of Sharjah continues to host four banks.

There are 74 active commercial banks in the GCC (after taking account of the NBAD–FGB merger) and in 2016 all except two were able to declare operating profits and net profits.

The exceptions were Alizz Bank, the small Omani Islamic bank that was created in 2013 and which has yet to find its feet, and United Arab Bank, the Sharjah-based bank that is 40% owned by Commercial Bank of Qatar, and had to make large loan loss provisions.

A little more than half of the GCC banks were able to report increased profits in 2016.

All GCC banks remain well capitalised, often as a result of local capital requirements that are higher than the Basel standards, and sometimes as a reflection of their large holdings of local currency government debt, which can attract a zero risk-weighting for capital calculations.

The largest Gulf banks have equity of $10–20 bn (with First Abu Dhabi Bank holding much more, as mentioned above). This places them around 110–120th in the world, and among the biggest emerging market banks, although Chinese banks are much bigger.

GCC banks compare well, in terms of equity size, to Turkish banks – Turkey has a handful of banks with equity of $10–15 bn but most are smaller. As for the other major regional economy, Iran, its banks are much smaller, especially those that are privately owned, although it is reasonable to expect that they will grow rapidly in the years ahead.

Looking to the Arab Middle East outside the GCC, there are well-performing banks and banking systems in Morocco, Lebanon, Jordan and, despite many challenges, Egypt. The largest banks in these countries often have equity of about $3–4 bn, although Jordan's Arab Bank is much larger (please refer to the table).

Yet in Iraq, Syria, Libya and Yemen, normal banking activity is barely possible due to political unrest.

Expectations of bank liberalisation in Algeria have repeatedly been disappointed, as political paralysis continues.

Recent years have seen some exciting acquisitions by Gulf banks in the wider Middle East, particularly in Egypt but also in Turkey. The acquisitions in Egypt were driven by the Egyptian government's bank privatisation programme, the main elements of which are now complete. Morocco offers some choice banking opportunities, but the authorities there have been cautious about allowing foreign banks to enter (although they are more relaxed about direct investment in real estate and tourist projects). There is little need for Gulf capital in the Lebanese banking system.

As a result, the next wave of overseas expansion for GCC banks is likely to occur after the conclusion of political conflicts in Syria, Libya and Yemen. The need for capital and expertise will be great, although Gulf banks are likely to be cautious about investing until peaceful political settlements are well established – the experience of those that rushed into Iraq in the mid-2000s has not been forgotten. ■

Egypt returns to international financial markets

Since Egypt signed its Extended Fund Facility with the IMF in November 2016, it has returned to international debt markets and seen its receipt of foreign investments skyrocket. Some are even calling it 'the darling of emerging markets.'

Arab Banker spoke to Christian Deseglise, HSBC's Global Head of Central Banks, who has been working closely with the Egyptian authorities to strengthen Egypt's profile among international investors, to understand why perceptions of Egypt have changed.

***ARAB BANKER:* Despite holding credit ratings in the low single B range, Egypt has successfully returned to international financial markets over the last year. How has it been able to do that?**

CHRISTIAN DESEGLISE: International financial markets are reacting to the radical policy changes in Egypt over the last year, which accompanied the signing of the IMF agreement in November 2016, namely the floating of the Egyptian currency, gradual elimination of energy subsidies and the introduction of a new value added tax (VAT). Don't underestimate the significance of what has been happening! Egypt has moved away from a system which was distorting the economy and hindering investment, thus preventing the country from fulfilling its potential.

Over the last year the Central Bank of Egypt's foreign exchange reserves have doubled, the current account deficit has declined, exports have reacted well to the lower Egyptian pound and are surging, tax receipts have improved and foreign investment has risen sharply.

Specifically, the Central Bank's foreign exchange reserves stood at $31.3 bn in June, compared to $19.1 in October 2016 and $15.6 bn in July 2016.[1] Since the flotation of the pound last November, there has been no need to dip into foreign reserves to support the currency. On the contrary, capital controls are being removed. In June, the Central Bank lifted the $100,000 limit on overseas cash transfers, a measure that had been in place since 2011.[2] Cash is also coming back into the official system. Since November 2016, US$57 bn have flowed into the banking system.[3]

During the first nine months of the 2016/2017 fiscal year, VAT raised on goods and services increased by 30%, compared to what had previously been raised by the old General Sales Tax.[4]

The current account deficit in the first quarter of 2017 was the lowest since the end of 2014. Tourist receipts and

1 https://tradingeconomics.com/egypt/foreign-exchange-reserves
2 http://www.cbe.org.eg/en/Pages/HighlightsPages/Circular-dated-14-June-2017-regarding-lifting-limits-of-foreign-currency-transfers-.aspx
3 https://www.egypttoday.com/Article/3/10706/CBE-says-57B-cash-flow-into-banks-in-8-months
4 Fitch Ratings

remittances are up.[5] Foreign investment is returning in all its forms.

No one doubts that Egypt still has a long way to go in its structural reform programme but so far, the government has done everything that it committed to do under the IMF Extended Fund Facility, and has exceeded the expectations of many in the international investor community.

As a result, Egypt was able to raise $4 bn in Eurobonds in January this year, and a further $3 bn in May.[6]

Egypt's debt-to-GDP ratio remains very high. When can we expect it to come down?

Be careful with the debt-to-GDP ratio, particularly with the foreign debt-to-GDP ratio. It is true that it has increased and that Egypt has been raising additional foreign debt over the last year, but part of it is mechanical as the debt-to-GDP ratio has been affected by the devaluation of the Egyptian pound at the end of 2016. In dollar terms, GDP was around $330 bn at the end of 2016[7] and we think it will be around $230 bn for 2017, and obviously foreign currency denominated debt does not shrink as a result of the devaluation.

We think that total debt-to-GDP is currently standing at around 100%, but we expect it to decline in 2018 and the years ahead as a result of higher economic growth and fiscal rebalancing. For the first time in many years, we expect Egypt to deliver a primary surplus.

> "The current account deficit in the first quarter of 2017 was the lowest since the end of 2014. Tourist receipts and remittances are up."

How have flows of foreign investment been changing since the IMF agreement was signed last year?

They have changed significantly. Most notably, there has been a lot of foreign investment in the local fixed income market. Foreign capital now represents about 10% of the local fixed income market in Egyptian pounds, compared to about 1% before the IMF agreement.[8] Foreign investors are attracted by the value of the Egyptian currency and the current yield of its Treasury bills and bonds. About US$9 bn has been invested in domestic debt instruments since November 2016.[9] The Central Bank's decision to raise its key interest rates by 2% in July (which indicates how serious it is about fighting inflationary pressures) is keeping current yields at a high level, which is likely to provide a favourable backdrop for continued inflows into local currency debt instruments.

Foreign direct investment has also remained robust, increasing by 12% in the months ending March 2017.[10] It will probably pick up pace in the coming years on the heels of a new investment law which has been recently passed. Note also that the business environment should improve thanks to a new industrial licensing law and a new insolvency law which is being debated in the Parliament.

Both of this year's debt issues have been very well received. Egypt has been one of the most attractive and interesting investment stories in the emerging world in the last 12 months.

What do you think FDI investors will be watching for in the years ahead, in order to retain their confidence in Egypt?

I think they will be looking for continuing improvements in the structure of the economy and further implementation of policy reform. For example, they will want to see the government following through on its plans to carry on privatisations, notably in the financial and energy sectors. They will also be looking for the government to deliver on its commitment to increase VAT to 14% from 13% at the beginning of the 2017/18 fiscal year.

Economic growth remains lacklustre and primarily driven by public expenditure, therefore it will be critical to further encourage private sector activity, which entails a continuous fight against inflation and pursuit of fiscal discipline while protecting the poor and lower segments of the middle class. This is obviously a difficult balancing act but the most painful measures have already been taken.

More broadly, I think Egypt recognises that it has an opportunity to position itself as a low-cost manufacturing and service centre for Europe and as a strategic location on the Belt and Road Initiative (BRI). The recent expansion of the Suez Canal and its Economic Area will capture some of the traffic and investments linked to the BRI. Also, the recent gas discoveries are a game changer for Egypt. The ENI field in particular is expected to come into production by end of this year resulting in huge foreign currency savings that would have otherwise been spent on LNG imports.

Altogether, I think the government, with very active stewardship from the Central Bank of Egypt under the helm of Governor Tarek Amer and from the Ministry of Finance led by Amr al-Ghary, have formed a realistic and coherent vision for Egypt's long-term economic future and have been acting courageously on it. Everyone accepts that there is a still a lot of work to do to strengthen the business environment and ensure inclusive growth with appropriate protection of the poor, but based on what we have seen over the last year, things are steadily moving in the right direction. ■

Christian Deseglise

Christian Deseglise is HSBC's Global Head of Central Banks and Co-Sponsor for Sustainable Finance. He previously held various positions within HSBC Global Asset Management, including Global Head of Emerging Markets. Mr. Deseglise began his career in banking at Crédit Commercial de France in Paris within the Emerging Markets department. In 2000, he became head of Emerging Markets, HSBC Securities New York. Mr. Deseglise is also an Adjunct-Professor at Columbia University's School of International and Public Affairs where he teaches on Emerging Markets, and the co-founder and co-director of Columbia University's BRICLab.

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The IMF and Egypt: off to a good start, but still a long way to go

In November 2016, Egypt signed a historic agreement with the International Monetary Fund (IMF) under which it committed to implement a raft of economic reforms in exchange for $12 billion to be disbursed over three years. The agreement also served as a signal from the IMF to the international financial community that President Sisi's government is on the right track and should be given financial help to implement its economic agenda.

As the first anniversary of the agreement approaches, *Arab Banker*'s Editor, Andrew Cunningham, assesses the state of the Egyptian economy and the role that Egypt's banks are playing in supporting the government and the local economy.

The IMF's Extended Fund Facility (EFF) is worth $12 bn over three years. The first disbursement, of $2.75 bn, occurred immediately after the Fund's Board of Directors approved the deal. The second disbursement, of $1.25 bn, was approved after a staff visit to Cairo in May this year, at the end of which the IMF staff commented that the programme was "off to a good start".

Remaining funds are due to be disbursed in instalments of approximately $2 bn every six months, subject to a review by the Fund of Egypt's compliance with its performance criteria. The final disbursement and review are due to take place in March 2019.

The IMF's funds account for only about one third of the $35 bn funding gap which the IMF believes Egypt will face over the life of its three-year facility. Nearly half of this funding gap occurred during the financial year 2016/2017, which ended on 30 June 2017.

Table 1 shows the extent to which Egypt has been dependent on other donors to cover its funding gap. Of the Gulf States, only the UAE provided cash support. China's currency swap dwarfed the support provided by other G20 economies.

During the second and third years of the IMF facility, reliance on other donors will reduce, with the Fund's disbursements of $4 bn per year covering about half of the funding gap.

Of course, the IMF's money comes at a price. Egypt has committed to a set of significant economic reforms, the success of which will be measured against performance criteria and benchmarks.

The planned economic reforms fall into three areas:

- Exchange rate, money and financial sector
- Fiscal policy, social protection and public financial management
- Structural reforms and inclusive growth

The most significant step taken so far is the liberalisation of the exchange rate. On 3 November, the Central Bank of Egypt (CBE) liberalised the exchange rate, which promptly fell from around $1=LE8.8 to around $1=LE16. This 100% devaluation was greater than the authorities had been expecting (they had been anticipating a rate of around $1=LE13) and is by far the most significant devaluation to have occurred in recent Egyptian history. Over the last 30 years the exchange rate has progressively weakened, but there has never been a sudden devaluation of this magnitude.

The devaluation led quickly to an increase in domestic prices. Urban inflation rose to around 30% in early 2017 and remained at that level through the summer. This was the highest level of inflation since Egypt's economic crises of the mid-1980s. Food prices rose by more than 40%, year on year, in the weeks ahead of Ramadan, when food demand peaks

Table 1: Financing the funding gap

After taking account of the revenue effects of policy measures agreed with the IMF, Egypt will face a funding gap of $35 bn over the three years of the IMF programme. Of this, $16.3 bn occurred in 2016/17. The Egyptian government planned to fill the gap as shown below.

	$mn
IMF EFF Facility	4,000
World Bank	1,000
World Bank (second tranch of existing facility)	1,000
Afreximbank, rolling over existing loan	3,200
African Development Bank	500
Eurobond issue	950
Local banks repo transaction	1,350
UAE	1,000
China, currency swap	2,700
Germany	250
United Kingdom	150
France	150
Japan	50
Total	16,300

Source: Government of Egypt, Memorandum of Economic and Financial Policies

Table 2: Egyptian Government Budget, 2015/16: preliminary outcome

	Billion Egyptian pounds
Revenues and grants	487.9
tax revenue	339.4
non-tax revenue	144.3
Expenditures	810.2
Wages	212.0
Interest on debt	241.5
Subsidies/social benefits	201.1
Deficit*	322.3
Financing by local banks	341.3

Figures do not take account of acquistion of financial assets or external debt repayment
Source: IMF

(because of larger than usual consumption after people have broken their fast). Inflation had been running at around 12% during the three years prior to the devaluation.

The devaluation also had an effect on banks, most of which had been allowing customers to open 'uncovered' letters of credit (LCs) for imports. When the exchange rate fell, the cost of the uncovered portion of the LCs doubled. Banks have been working with their customers to resolve the problem, giving them more time to settle, but it is expected that banks will show losses on their LCs when they publish their June 2017 financial statements.

Egypt took significant steps to address its budget deficit in the weeks before the IMF agreement was signed. Parliament passed the VAT law at the end of August 2016, providing for an initial rate of 13%, rising to 14% during the current financial year, which began on 1 July. VAT replaces the previous sales tax, which stood at 10%, and is believed to be easier to collect and fairer. The government is expecting that VAT will generate about $3 bn more than the sales tax every year.

Electricity prices were increased by 40% in July 2016 and gasoline and diesel prices were increased by 35% in early November. The Egyptian government has committed to eliminating energy subsidies altogether by the end of 2021.

The IMF programme projects that tax revenues will increase by 2.5% of GDP over its three-year term, while primary expenditure will be reduced by 3.5% due to the reduction of subsidies and the containment of the public sector wage bill. (The automatic indexation of public sector bonuses and allowances has already been abolished.) These measures will be offset by additional food subsidies and cash transfers that target the elderly and low income families, and some other social measures such as increasing the number of children who are eligible for free school meals. These offsetting programmes will cost about 1% of GDP.

The scale of the fiscal task facing the Egyptian government can be seen in Table 2, which shows the preliminary figures for the Egyptian Government Budget in 2015/16, which ended on 30 June 2016. Revenues of LE487.9 bn compared to expenditure of LE810.2 bn. Public sector wages, interest on debt, and subsidies each account for about a quarter of total expenditure.

Table 2 also shows the extent to which the government is reliant on local banks to fund its budget deficit.

Egyptian banks are already providing the government with considerable financial support. Table 3 shows that their purchases of government Treasury Bills accounted for 40% of their assets at the end of 2016, down from around 45% in previous years, as a result of the November devaluation. (The devaluation increased the local currency value of foreign currency loans to the private sector, but did not affect the value of Treasury Bills, which are denominated in local currency.)

Banks' holdings of Treasury Bills increased by 44% in 2016 and direct lending to the government doubled.

It is easy to see why banks want to invest in Treasury Bills. Table 4 shows that the spread between 1–3 month deposits and the interest rates on 91-day Treasury Bills has

Photo by MOHAMED OSAMA on Unsplash

Table 3: Aggregate balance sheet of Egyptian commercial banks

Million Egyptian pounds	Dec-16	Dec-15	Dec-14	Dec-13	Dec-12
Treasury bills	1,591	1,106	904	735	613
Placements with banks in Egypt	723	364	222	186	100
Loans to government	296	101	47	42	35
Loans to private sector	1,004	691	582	509	482
Assets	3,962	2,485	1,968	1,684	1,441
Deposits	2,754	1,909	1,555	1,312	1,088
Capital and reserves	253	141	123	113	101
Ratios (%)					
Treasury bills % assets	40.2	44.5	45.9	43.6	42.5
Total loans % assets	32.8	31.9	32.0	32.7	35.9
Total loans % deposits	47.2	41.5	40.5	42.0	47.5
Capital and reserves % assets	6.4	5.7	6.2	6.7	7.0
Capital % risk-adjusted assets	14.1	14.5	13.9	13.7	14.9
Exchange rate $1=Egyptian pounds	*18.2*	*7.8*	*7.1*	*6.9*	*6.1*

Source for data: Central Bank of Egypt
Source for exchange rate: Oanda.com

Table 4: Local currency interest rates: T-Bills and bank deposits

	End December 2016	End June 2016	End June 2015	End June 2014	End June 2013	End June 2012
91-day government bills	19.0	14.0	11.7	10.6	14.2	14.8
1–3 month deposits	10.3	7.5	6.8	6.7	8.0	7.7

Source: Central Bank of Egypt

been widening, reaching nearly 9% at the end of 2016. The attractions of earning such a spread on apparently risk-free assets that carry a low risk weight for capital calculation are irresistible.

Although the amount that banks invest in Treasury Bills has consistently exceeded the amount that they have lent to the private sector in recent years, private sector credit has been increasing. The Central Bank of Egypt is also spearheading efforts to force banks to lend more to small- and medium-sized enterprises.

The Egyptian banking system has been transformed over the last ten years as a result of the privatisation of many of the small banks in which the Egyptian government used to hold a commanding share. Many of these small banks have been bought by well-capitalised and efficient banks from the GCC and Lebanon. Table 5 summarises the most prominent of these transactions.

As a result of this injection of capital and management expertise into the smaller banks, the Egyptian banking system as a whole is much stronger and more efficient than in the past. Yet in terms of resources – either to buy government bonds or make loans to local businesses – it is still the big five banks that matter, and in particular the big two: National Bank of Egypt and Banque Misr. The deposits held by these two are as great as those of all other Egyptian banks combined.

However, the IMF's endorsement of Egypt's economic plans has reopened the door to international debt financing. The government raised $4 bn in January and was planning a further issue as *Arab Banker* was going to press.

Egypt has not always had a good relationship with the IMF. Former President Mubarak once referred to the Fund as a 'quack doctor' when he didn't want to implement the remedies it was proposing for Egypt's economic ills at the time. The Fund is pleased with Egypt's progress during the first year of the current facility, but we should certainly expect some robust discussions and disagreements as the programme moves into its second year. ■

Table 5: Major purchases of Egyptian banks by foreign buyers

2005	Lebanon's BLOM Bank buys Misr Romanian Bank
2006	Ahli United Bank of Bahrain buys into Delta Bank; Lebanon's Bank Audi buys Cairo Far East Bank, Abu Dhabi's Union National Bank buys Alexandria Commercial and Maritime Bank
2007	Abu Dhabi Islamic Bank buys National Bank of Development
2012	Emirates NBD buys BNP Paribas' operations in Egypt
2013	Qatar National Bank buys National Société Générale Bank
2015	Al Ahli Bank of Kuwait buys the Egyptian operations of Pireaus Bank of Greece
2016	Morocco's Attijariwafa Bank buys Barclays' operations in Egypt

Getting to know Francophone Africa: an interview with Nabil Frik

Francophone Africa has long been seen as a French domain that was closed to other international players, but as prospects in many Middle Eastern countries recede, Francophone Africa is being viewed as an interesting and attractive business opportunity for those who are familiar with emerging markets and who are looking for new clients and relationships.

To find out more about how financial markets in Francophone Africa are changing, *Arab Banker* spoke to Nabil Frik, Managing Director for Africa at BACB, a London-based bank that is active in African markets.

ARAB BANKER: Could you clarify for us what Francophone Africa means?

NABIL FRIK: Francophone Africa includes countries which are members of the OIF (Organisation Internationale de la Francophonie). In Africa, Francophonie includes both of the Congos, Côte d'Ivoire, Senegal, Burkina Faso, Gabon, Togo, Niger, Chad and Cameroon.

What binds Francophone Africa together?

As well as language and colonial heritage, they are bound by a single currency, which is pegged to the euro, and guaranteed for conversion and transfer by the French treasury. There are actually two currency zones, one in West Africa and one in Central Africa. The West African Zone is known as the Union Économique et Monétaire Ouest Africaine (UEMOA – the West African Economic and Monetary Union) and comprises eight countries. The Central African Zone is known as the Communauté Économique et Monétaire de l'Afrique Centrale (CEMAC – the Economic and Monetary Community of Central Africa) and comprises six countries. Both zones use a currency called the CFA franc which is technically different in the two different zones, but in practice is interchangeable.

The exchange rate of the CFA franc against the euro, or the French franc, has not changed since 1994.

There is also a common system of business laws known by the acronym OHADA (Organisation pour l'Harmonisation en Afrique du Droit des Affaires/Organization for the Harmonization of Business Law in Africa). OHADA was conceived in 1993 and has been reasonably successful in facilitating intra-regional trade. It is also helpful to those doing business from outside of the Francophone region since it reduces the amount of legal work, because the same law applies across the region. Seventeen Francophone countries are members of OHADA.

Isn't business and finance in Francophone Africa dominated by French companies and banks?

French institutions are still very important players, but, as we say, the region is no longer a French chasse gardée – a private French hunting ground! Companies and banks in the region are much more open now to doing business with other countries. BACB is an excellent example of a British bank which has established a presence in Côte d'Ivoire and serves the whole region. The British Embassy also reopened its doors in Côte d'Ivoire last year and is encouraging British businesses to invest.

Who are the biggest players in Francophone Africa?

The Moroccan government has taken a strategic decision to invest heavily in Francophone Africa and it is achieving this through the export of manufacturing and financial services. For manufacturing, we are seeing major centres such as Renault's factory in Tangier and major construction and telecom companies that are using Morocco as a base to expand further south.

As for financial services, Moroccan banks now have more capital invested in Francophone Africa than French banks. The expansion of the major three Moroccan banks into Francophone Africa has been supported and encouraged by the Moroccan Central Bank and revenues from the region now account for a significant proportion of the banks' profits.

Recently, we have also seen big Moroccan insurance companies expanding into Francophone Africa. They are now present in about a dozen countries, sometimes as a result of acquiring local insurance companies.

Who are the other big players?

China is beginning to embed its footprint in the region. However, Chinese firms differentiate between East and Central Africa, where they focus on building infrastructure, and West Africa, where they invest in the agriculture sectors and mining.

Turkish firms are also investing in infrastructure projects in Francophone Africa.

How active are Nigerian banks?

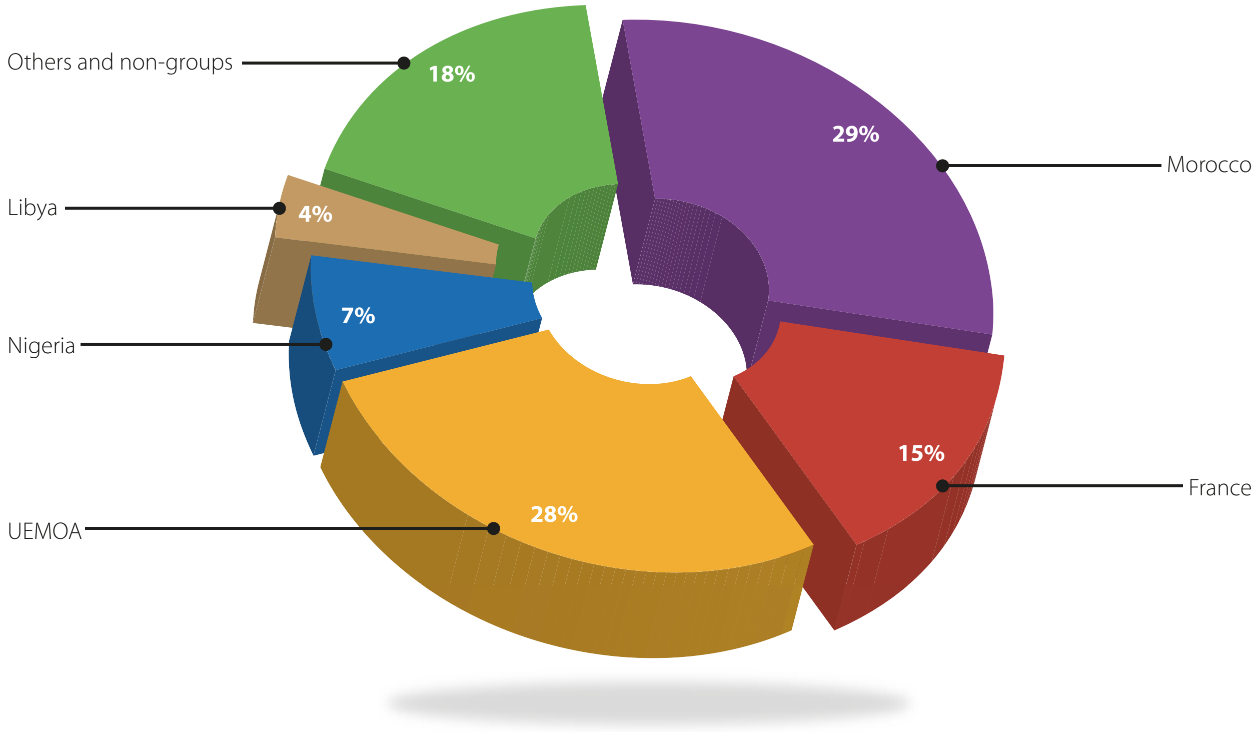
They have a dense network in West Africa, which is not surprising since they are among the biggest banks in Africa, but they are not enjoying a lot of success in Francophone Africa despite their size and numbers. I think this is largely due to cultural issues – Nigerian banks just have a different way of doing business.

Profile of Francophone African countries

	GDP ($bn)	Population (mn)	Member of a CFA Zone?	Member of OHADA?
Benin	8.5	10.9	UEMOA	Yes
Burkina Faso	11.1	18.1	UEMOA	Yes
Cameroon	29.2	23.3	CEMAC	Yes
Central African Republic	1.5	4.9	CEMAC	Yes
Chad	10.9	14.0	CEMAC	Yes
Congo (Dem. Republic)	35.2	77.3	CEMAC	Yes
Congo (Republic)	8.6	4.6	No	Yes
Côte d'Ivoire	31.8	22.7	UEMOA	Yes
Gabon	14.3	1.7	CEMAC	Yes
Guinea (Bissau)	1.1	1.8	UEMOA	Yes
Guinea (Conakry)	6.7	12.6	No	Yes
Mali	13.1	17.6	UEMOA	Yes
Niger	7.1	19.9	UEMOA	Yes
Senegal	13.8	15.1	UEMOA	Yes
Togo	4.9	7.3	UEMOA	Yes

- *Figures for GDP are the World Bank's estimates for 2015, which were the most recently available as* Arab Banker *was going to press.*
- *See the main article for more details on the two CFA zones.*
- *OHADA also includes Comoros and Equatorial Guinea.*

Market share of bank assets in West Africa*



**Share of assets of banks in the 15 countries comprising the Economic Community of West African States (ECOWAS).*

How influential are local banks in Francophone Africa?

One must recognise that, with the exception of regional banks, local banks in Francophone Africa are very small by global standards. Furthermore, life will become more difficult for the small local banks if the central banking authorities of the two CFA zones introduce Basel II or Basel III. At the moment, the two authorities impose a single borrower limit of 75% of capital, whereas the Basel standards specify a 25% limit.

Are multilateral financing institutions active in Francophone Africa?

Yes, we're seeing Afreximbank, based in Cairo, playing a bigger role and making loans to companies and to banks. The African Development Bank, based in Abidjan, finances infrastructure projects. One new development is the increased activity of the Islamic Development Bank (IDB), based in Jeddah. The IDB's Islamic Trade Finance Corporation is filling the gap left by Western banks that are disengaging from the region as a result of 'de-risking' and increased compliance requirements.

What is BACB's business strategy in Francophone Africa?

BACB is becoming an important player in Francophone Africa. We use our capital to finance both sides of a transaction – we call it a 'two-client approach'. For example, we might finance an industrial company to purchase cocoa beans from farmers, and then provide import finance to the company's clients who want to buy the processed beans.

More fundamentally, our strategy is to finance exports that contribute to a country's economic development – an example is cotton, whose export generates foreign exchange; and to finance imports that are of strategic importance such as energy and power generation equipment.

What is your advice to bankers and banks who want to develop a profile in Francophone Africa?

Learn to speak French! It is possible to work in Francophone Africa in English, but it is very difficult and you won't be seen as a serious player if you can't conduct your business meetings in French. Some form of local presence is also essential – you can't just fly in and fly out and hope to develop long-term business relationships. That is why BACB has opened an office in Abidjan in order to be closer to the market and to build long-term sustainable business relationships. BACB is committed to the region and we are there for the long term. ■

Nabil Frik

Nabil Frik is an Algerian living in London and Frankfurt. He took his Baccalaureate in France and then studied engineering and finance in Germany. He is an expert on Africa and structured trade finance and held a number of senior positions in banking before joining BACB in 2013 as Managing Director for Africa.

BACB is an international wholesale bank with a focus on facilitating trade to and from developing markets in Africa and the Middle East. Established in 1972, BACB is a UK-registered bank with its headquarters in London and representative offices in Algiers, Abidjan, Dubai and Tripoli. It is regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

Middle Eastern bond markets come into the mainstream

Over the last two years, the Middle East has asserted itself as the most exciting region for emerging market bond issuance. New issuers, big issuers and innovative structures have been grabbing the attention of international fund managers. Meanwhile pricing on Middle Eastern issues has been tightening, offering regional governments and companies an unprecedented opportunity to raise money at relatively low cost.

Arab Banker spoke to Anita Yadav, Head of Fixed Income Research at Dubai-based Emirates NBD, about the recent trends in Middle Eastern bond markets and what she is predicting for the year ahead.

***ARAB BANKER*: For years, the Middle East was a backwater in international bond markets. Now it's a leader. What changed?**

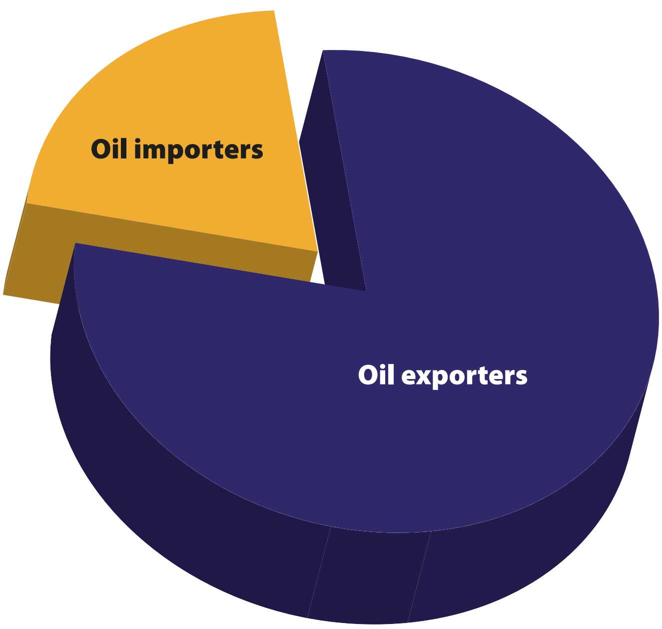
ANITA YADAV: The Middle East is dominated by oil-exporting nations. Historically these countries had little need to raise debt as oil revenues were larger than their spending needs. Also, most large corporates in the region were owned or controlled by their governments and had easy access to government funding, thereby limiting their need to tap capital markets.

This situation has now reversed, with oil prices lingering well below the budget break-even mark for most countries. The six GCC governments alone will record budget deficits of around $80–100 bn this year if oil prices remain below the $55/b mark. With debt-to-GDP ratios well below the global averages, GCC sovereigns here are now choosing to raise debt to fund their budget deficits. Corporates which were earlier receiving funding from the governments are also having to tap the capital market for their funding needs. The total outstanding $-denominated bonds/sukuk in the GCC increased by about 35% in 2016 alone from around $175 bn in 2015 to over $235 bn in 2016.

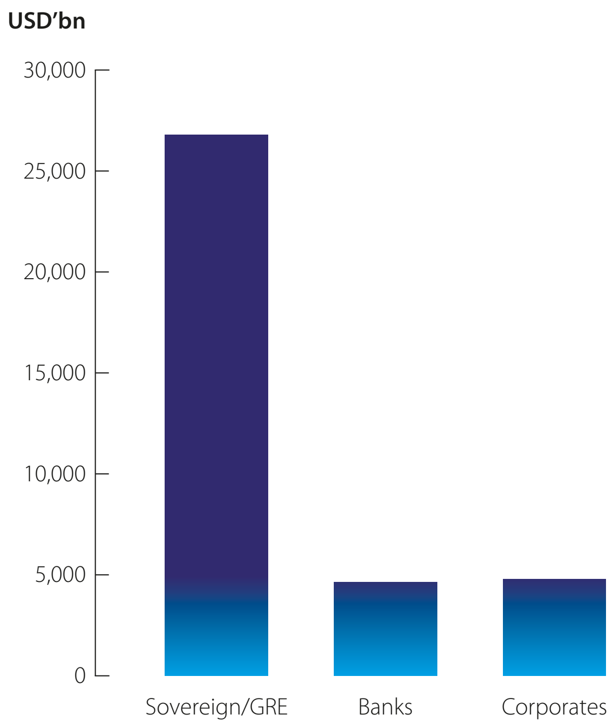
Is the Middle Eastern bond market primarily a sovereign debt market, or are corporates becoming more active too?

Over two thirds of the Middle Eastern bond market comprises issuance by governments or government-related entities. With large budget deficits to fund, sovereigns have been key issuers in the first half of this year, thereby skewing this proportion even further. That said, corporates

Middle East nominal GDP 2016



Fixed rate $-denominated issuance, 1H 2017



are certainly becoming more active in the bond market as banks become more stringent in their lending practices amid tighter liquidity conditions. In the current year, we have seen emergence of several large corporates like Equate Petroleum, Qatar Reinsurance, ACWA Power. Corporate issuers generally have been very successful, receiving 2x–4x oversubscription to their offerings. While government related corporates like Mubadala raised $1.5 bn earlier this year, independent corporates generally have been issuing less than $1 bn in size.

How active are bond markets in the Middle East outside the GCC?

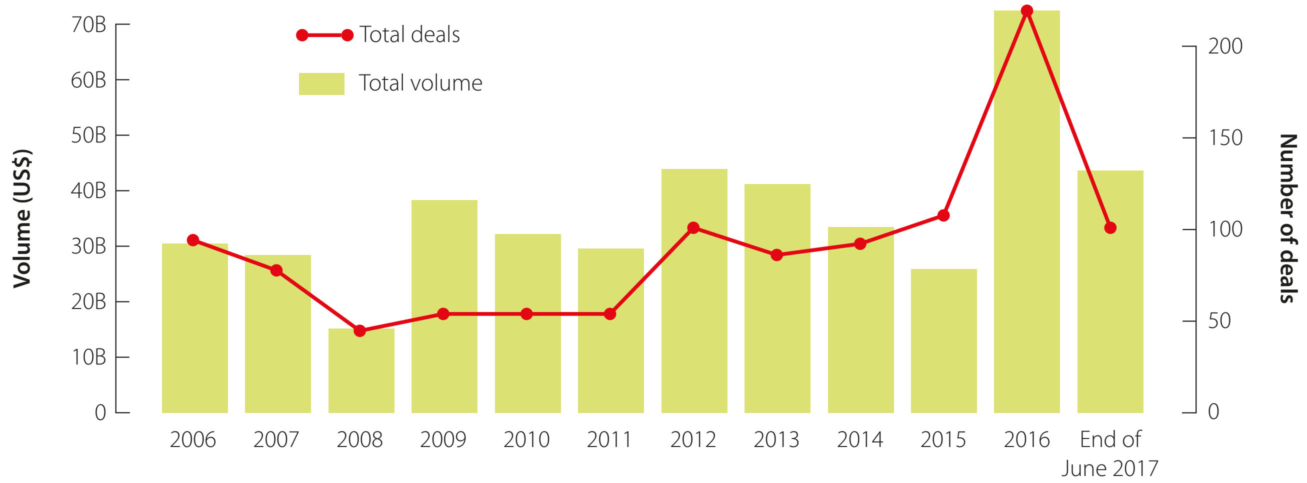
Oil-importing nations in the Middle East generally have lower credit ratings than their oil-exporting counterparts, making it expensive for them to raise money in the international debt capital markets. Middle Eastern countries outside the GCC have nascent capital markets with the $-denominated bond market universe being around $90 bn in total for the nine countries put together (Lebanon, Egypt, Morocco, Algeria, Libya, Iraq, Jordan, Tunisia and Iran).

Political upheavals in these countries had kept their governments more focused on security issues than on the development of capital markets. However recent stabilisation in Egypt and lifting of sanctions on Iran is helping restore investor confidence and boosting capital market issuance. In the ex-GCC arena, about $18 bn of new bonds/sukuk were issued in the first half of this year compared with $24 bn in all of 2016.

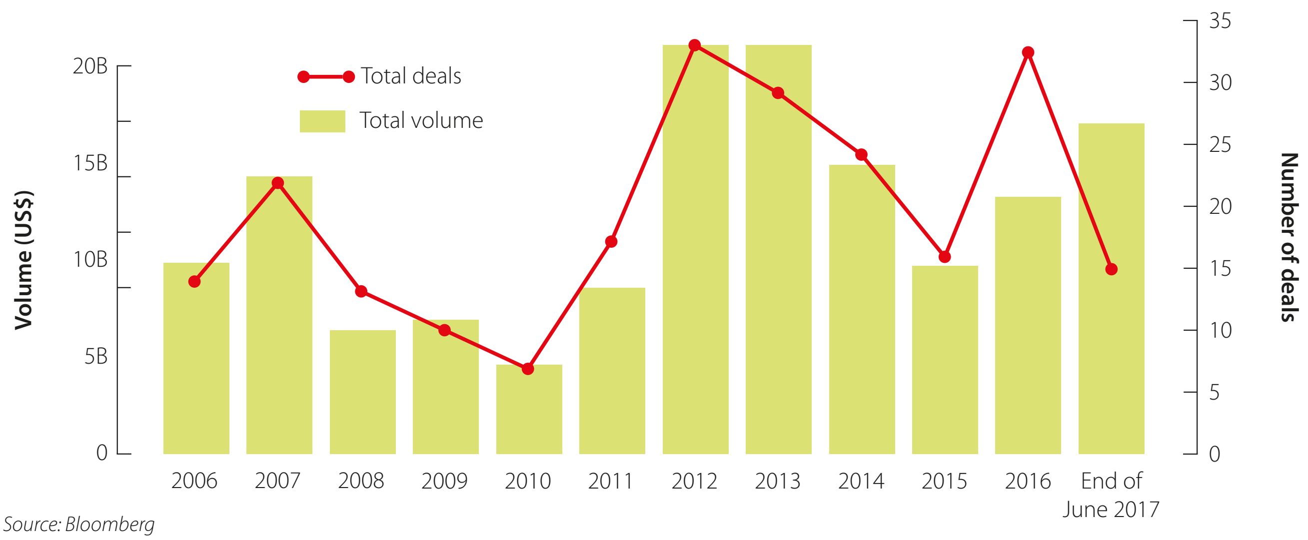
The increase in Middle Eastern bond issuance has occurred during a time when the ratings on GCC sovereigns have been declining. Are ratings still a factor in determining the marketability of bond issues?

Even though credit ratings on GCC sovereigns have been on a downward trend over the last two years, they remain well above the average rating on emerging market countries. Four of the six GCC sovereigns are still rated A or higher and these

GCC bond and sukuk issuance



GCC sukuk issuance



Source: Bloomberg

Anita Yadav

Anita Yadav is Head of Fixed Income Research at Emirates NBD. In her current role, she focuses on global fixed income markets with a particular emphasis on the GCC region, covering rates and products that encompass regional sukuk and bonds. She is on the advisory committee of the Gulf Bond and Sukuk Association and is a frequent commentator on global fixed income issues.

four account for more than 80% of the debt issued in the region. Relatively high credit ratings and healthy economic growth in the region make the bonds issued by GCC sovereigns reasonably attractive for international investors particularly given the historically low level of debt issuance, which adds scarcity value to GCC bonds.

Though credit ratings do affect the price paid for the bonds, currently a bigger factor is the supportive demand–supply dynamics which go in favour of GCC bonds. High demand for GCC sovereign bonds is the main reason why Saudi Arabia could successfully do a jumbo deal like $17.5 bn late last year and $9 bn raised earlier this year.

How has the pricing of Middle Eastern debt been evolving over the last two years?

In the early 2000s, investors demanded a premium for Middle Eastern bonds over pricing on US corporates. Improving regulations and policy landscape in the Middle East, more disclosure and road shows by Middle Eastern issuers, increasing transparency, and the general globalisation of financial markets has led to compression of credit spreads between the bonds from GCC and the developed world. Currently the credit spread on average UAE bonds is around 135bps compared with 113bps for the investment-grade corporates in the US. So the current spread differential between the two is 22bps compared with an average of over 40bps in early 2013 and about 60bps at the end of 2013.

Pricing achieved on recent transactions has been surprisingly good mainly as a result of demand far outstripping the supply. Also all GCC sovereigns now have active curves in the secondary market, which makes it easier to benchmark the new issues. Historically, issuing a sukuk was beneficial for the issuers given the premium that it commanded over conventional bonds, however this differential is now almost negligible.

What is the profile of the investors who have been buying Middle Eastern debt? Are we seeing new classes of investor entering the market?

Until 2014, the biggest buyers of the Middle Eastern bonds were the local banks buying for their Asset and Liability Management (ALM) books. Almost 80% of the bonds issued were held by local banks' ALM books, small family offices and local PB clients. About 20% were held by internal investors mainly hedge funds and real money managers. However, recent issues with longer dated tenures have begun to attract the interest of international pension and insurance funds. Conversely, low oil prices have reduced deposits in the local banking systems, which in turn has reduced the discretionary funds available to banks for investing in bonds. Currently, about two thirds of new issues get placed overseas and tend to remain in overseas investors' hands.

Though international hedge funds remain invested in GCC bonds, they are being dwarfed by the increasing interest of insurance/pension funds from Asia as well as the US. Investment by local banks remains firm, particularly for sukuk and high-yield bonds.

> "High demand for GCC sovereign bonds is the main reason why Saudi Arabia could successfully do a jumbo deal …"

How is the corporate debt market likely to develop in the years ahead?

Infrastructure spending needs in the Middle East are estimated to be over $3 tn over the next two decades. Also government budget deficits are likely to continue for some time to come. So far Middle Eastern issuers were tapping the dollar-denominated market far more than the local currency markets, which remain in a relatively less developed state. Looking ahead we expect local currency debt markets to develop and deepen.

Beside the solid interest from private clients, proliferation of insurance and pension industry investment is expected to create a stable local investor base to support the growth of the local markets.

Credit ratings will probably remain under pressure in the near future, however the region is still expected to remain better rated than most emerging market countries and likely to continue to benefit from capital flows from investors seeking yield.

Currently the market is mainly made of vanilla securities. Looking ahead, corporate issuance would likely include Public Private Partnership (PPP) structures, covered bonds and other instruments.

What is the issuance schedule looking like for 2018?

We expect about $100 bn of $-denominated new issuance in the Middle East this year of which $55 bn has already been issued. The Dubai government has sizeable expenditure relating to Expo 2020 and Qatar is preparing for the FIFA World Cup – and both may tap the capital markets for funding. Saudi companies such as Aramco, Saudi Telecom, Saudi Electricity are likely candidates. Banks will also continue to raise capital via issuance of Tier 1 securities. ■

Using culture to drive performance: the example of Lebanon's Al-Mawarid

Banking culture has become a major issue for regulators as a result of a series of scandals at Western banks and the resulting changes in regulatory requirements.

But is the issue of good culture relevant outside Western Europe and North America? To find out, *Arab Banker* spoke to Nahla Bou-Diab, who is the Chief Operating Officer of Lebanon's Al-Mawarid Bank, and the officer responsible for maintaining and enhancing strong culture in the bank.

ARAB BANKER: Is the current focus on banking culture just a reaction to recent scandals at Western banks?

NAHLA BOU-DIAB: No, it is not. Banks today need to find a way to adapt both to changing regulatory requirements and to a fast-moving global economy by ensuring their organisation, structure and people are resilient enough to implement changes quickly. It is critical to have a strong, resilient culture where the organisation's management is able to face and manage crises that arise. It is also becoming increasingly important for shareholders as they respond to regulatory pressure, and as they recognise how good culture can impact bottom-line performance.

Today's organisations need to worry about multiple factors such as the attraction of high standard skills, retention of these skills, speed in their organisations' abilities to adapt to requirements, keeping their customers at the centre despite all these pressures, and sustainability of this environment. There is no doubt that banks have to do a lot more today to achieve sustainability and profitability and they need to focus on creating cultures that strengthen their abilities to ensure healthy growth and long-term profitability.

Getting the right culture inside a bank can lead to greater productivity, a happier workforce, and better service for customers.

How can good culture do that?

At the heart of good culture is empowerment and cooperation. If you have a flat management structure, rather than an overly hierarchical one with layers and layers of reporting lines, managers and staff will be able to freely collaborate to produce innovative solutions that they own, and which will have more influence on the bank they are working for because they will feel a sense of belonging to the bank that will drive their engagement and commitment. Through this approach, the decisions they make are not being made in a vacuum – they will actually have an effect because they will own them and will implement them.

And if you get people from different parts of a bank working together to solve problems, you will not only get better solutions, but you will also find that your staff are more committed to those solutions.

For example, at Al-Mawarid, if a staff member raises a problem with their manager, we encourage the manager to convene a meeting for all those people who have a stake in that problem being solved and for them all to work out a collective solution that they all support and which will be effective in all the areas for which they are responsible. I recently did this in relation to a question that arose related to controlling high-risk transactions. I got eight people into the room; all of them had a stake in contributing to the solution. We came up with an action plan that we could all support, and which was implemented. By the way, I convened the meeting outside the bank: sometimes that is the best way to trigger thinking and enable collective reflections on an issue, which will ultimately generate innovative solutions.

I encourage organisations not to underestimate the power of collective collaboration. Banks can no longer compete on margins. Having a management team that has a sense of belonging to the organisation and the team is a powerful competitive advantage. This can only be secured by having a healthy culture and it will prove to be a major competitive advantage!

Isn't that just a recipe for endless committee meetings?

What matters is whether you get solutions. Having a manager make decisions on their own might be 'efficient' but imagine the power of having multiple 'brains' collaborate and reflect together to define a solution with no loopholes. The result of multiple thinkers each challenging the information being explored will produce a richer solution.

AL-MAWARID Bank S.A.L.
بنك الموارد ش.م.ل.

This is not just management theory. At Al-Mawarid, we have plenty of examples of how cooperative and empowering culture is benefitting customers.

We found that some of the customers who had loans from us were worried that they might face repayment problems at certain times of year, such as before the school year when they need to pay tuition fees, school suppliers, etc. We thought the solution might lie in offering borrowers the opportunity to take a break from payments for a certain amount of time each year. Despite the complexity of the operational steps needed to launch such a service, the stakeholders, including the business people, IT people, lawyers, etc., sat in one room and considered the process that can be implemented to launch this service and came up with a solution that filled our customers' need. The fact that we have a flat management structure was a big advantage in getting to a solution quickly. The people in the room had the authority and were able to make decisions without having to get sign-off on every little detail from multiple layers higher up.

How do you incentivise your staff to work in this way?

First of all, I think people know that this is how Al-Mawarid works so if they are not interested in working in a flat structure and in a cooperative culture, then they are not going to apply to work here. But we re-enforce the culture though our appraisal system. Annual appraisals are done on a '360 degree' basis, meaning that the opinion of someone's manager is only one among many of the inputs to the appraisal. And the metrics that we use in the appraisal reflect the bank's desire to encourage cooperation and collaboration. For example, metrics include the extent to which someone shares information with colleagues and the extent to which they open up to colleagues if they have made a mistake.

Does this approach have any benefits for shareholders and investors?

The first thing to point out is that we have been committed to this and we have managed to grow from the 22nd biggest bank in Lebanon to being number 15 in 2016. We've done that through organic growth rather than through acquisitions. Furthermore, our culture and flat organisational structure has a direct impact on the speed with which we can bring innovative products to market, such as our mobile banking service and our cash delivery service. It also has resulted in a very low turnover of our top performing staff – about 1% compared to an industry average of 5–7%. As a result of these factors, we have won numerous awards, such as Best Retail Bank and Best Credit Card Services Bank. We have also received an award from Visa for the design of our credit cards. ■

Nahla Bou-Diab has been the Chief Operating Officer of Al-Mawarid Bank since 2000. Before joining Al-Mawarid, she worked for Ernst & Young in Lebanon and before that she worked in Canada on various consulting assignments, including projects for the Bank of Canada and the government of New Brunswick.

Slide in Middle Eastern sovereign ratings slows, but trend still negative

Ratings on Middle Eastern governments continued their negative trend during 2017, but downgrades have been fewer than in recent years. *Arab Banker*'s Editor, Andrew Cunningham, reviews recent rating changes.

No Middle Eastern government has had its rating raised by one of the three international rating agencies since the end of 2014, when Standard and Poor's (S&P) upgraded Egypt out of the C range to B–. Earlier that year, Fitch had upgraded Saudi Arabia by one notch to AA.

Since then, the trend has been relentlessly negative as the agencies adjusted their opinions to reflect a sustained period of lower oil prices and, occasionally, to continuing challenges in some of the Arab Spring countries.

That downward trend has slowed in 2017, but it did not end.

In March 2017, Fitch downgraded Saudi Arabia one notch to A+, bringing it into line with Moody's, but still two notches higher than S&P, which continues to hold the Kingdom at the surprisingly bearish rank of A–.

S&P downgraded Oman by one notch to BB+ in May 2016, three notches lower than Moody's and two lower than Fitch.

S&P downgraded Sharjah by two notches to BBB+ in January, taking it below Moody's, which retains its rating of A3.

The big rating news lies in Qatar, which was downgraded by one notch by both Moody's and S&P in May and June. Both agencies have negative outlooks on their ratings. Fitch put Qatar's rating on negative credit watch in June. All three agencies were reacting to the diplomatic dispute between Qatar and some of its neighbours and the resulting economic sanctions imposed on Qatar by Saudi Arabia, Bahrain, the UAE and Egypt.

As *Arab Banker* was going to press, Qatar continued to be rated in the AA range, alongside Kuwait and Abu Dhabi. Saudi Arabia no longer holds an AA rating from any of the big three agencies.

Changes in sovereign ratings have a significant effect on the ratings assigned to banks, since many are rated at or close to the rating of their governments, based on the assumption that the governments would be likely to support their banks in a crisis. As the credit quality of a government declines, so does the value of that support. Downgrades to the Saudi sovereign ratings had a big impact on the ratings of Saudi banks during 2016, and the downgrades on Qatar are having a similar effect this year.

Outside the GCC, ratings have been stable, with the exception of Fitch's rating on Tunisia, which was downgraded by one notch in February 2017 to B+. Fitch cites slower economic growth and other factors, such as intensification of social unrest, that are having an impact on economic prospects.

As for who might be first in line for an upgrade, the obvious candidate is Egypt, which holds two ratings of B– and one of B. Over the last year, Egypt has been implementing a series of economic reforms as part of a deal signed with the IMF in November 2016 (see pages 32–33). Much will depend on the agencies' willingness to look through the headline debt-to-GDP ratios, and also on the ability of the Egyptian government to continue implementing policy measures that may squeeze the living standards of ordinary people. In June, Fitch affirmed its rating at B and kept its stable outlook.

Lebanon is the other candidate for an upgrade having finally managed to appoint a president in October 2016 and form a government, although not, as *Arab Banker* was going to press, pass a budget bill.

Both S&P and Fitch rate Lebanon at the same level as Iraq. This reflects the low levels of debt owed by the Iraqi government and the correspondingly high levels owed by Lebanon. The debt statistics are irrefutable, but having Iraq and Lebanon at the same level does seem odd. ■

Recent changes to Middle Eastern sovereign ratings*

Oman	In May, S&P downgraded by one notch to BB+, taking the rating into sub-investment grade territory.
Qatar	In May, Moody's downgraded by one notch to Aa3 and in June put the rating on negative outlook. In June, S&P also downgraded by one notch to AA– and put the rating on negative watch. In the same month, Fitch put Qatar's AA rating on negative credit watch.
Saudi Arabia	In March, Fitch downgraded by one notch to A+.
Sharjah	In January, S&P downgraded by two notches to BBB+, citing higher debt due to delayed measures to increase revenues.
Tunisia	In February, Fitch downgraded Tunisia's rating by one notch to B+.

** Accurate up till 10 July 2017*

Ratings on Middle Eastern governments ("sovereign ratings")

	Moody's		S&P		Fitch	
	5 July 2016	6 July 2017	5 July 2016	6 July 2017	5 July 2016	6 July 2017
AAA						
AA+						
AA	Abu Dhabi, Kuwait, Qatar, UAE	Abu Dhabi, Kuwait, UAE	Abu Dhabi, Kuwait, Qatar	Abu Dhabi, Kuwait	Abu Dhabi, Kuwait, Qatar	Abu Dhabi, Kuwait, Qatar
AA-		Qatar		Qatar	Saudi Arabia	
A+	Saudi Arabia	Saudi Arabia				Saudi Arabia
A			Ras al-Kheimah, Sharjah	Ras al-Kheimah	Ras al-Kheimah	Ras al-Kheimah
A-	Sharjah	Sharjah	Saudi Arabia	Saudi Arabia		
BBB+	Oman	Oman		Sharjah		
BBB					Oman	Oman
BBB-			Morocco, Oman	Morocco	Morocco	Morocco
BB+	Morocco	Morocco		Oman	Bahrain	Bahrain
BB	Bahrain	Bahrain				
BB-	Tunisia	Tunisia	Bahrain, Jordan	Bahrain, Jordan	Tunisia	
B+	Jordan	Jordan				Tunisia
B	Lebanon	Lebanon			Egypt, Lebanon	Egypt
B-	Egypt	Egypt	Egypt, Lebanon	Egypt, Lebanon, Iraq		Lebanon, Iraq
CCC or lower						

** Moody's ratings are cited using S&P/Fitch notation*

Ratings on selected non-Middle Eastern governments (Moody's ratings only)*

AAA	USA, Australia, Canada
Aa1	UK
Aa2	France, Korea
Aa3	
A1	China, Japan
A2	
A3	Malaysia, Mexico
Baa1	
Baa2	Italy
Baa3	South Africa, Indonesia, India
Ba1	Turkey, Russia
Ba2	Brazil
Ba3	
Ba3	
B1	Angola
B2	
B3	Pakistan

** Ratings on 6 July 2017. See "Comparison of rating notation" table to compare Moody's notation with that of S&P and Fitch.*

Comparison of rating notation

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

Ratings BBB-/Baa3 or higher are considered 'investment grade' while those below this level are considered 'sub-investment grade'.

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

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

Preparing for Brexit: What Middle Eastern banks should know

The United Kingdom is committed to leaving the European Union in March 2019 and when that happens many of the laws and regulations that have enabled London-based financial institutions to work in the rest of Europe will fall away.

Arab Banker spoke to Mohammed Khamisa QC, a partner at Mishcon de Reya, about the effect that Brexit is likely to have on Middle Eastern and other banks that are based in London.

***ARAB BANKER:* How will the UK's withdrawal from the EU ('Brexit') affect international institutions that are currently working with banks in London?**

MOHAMMED KHAMISA: Through its membership of the European Union (EU), the UK currently enjoys access to the EU single market. EU law has provided a consistent regulatory framework for the financial services market across the EU and because of this financial institutions incorporated within the UK are currently allowed to offer services to any member of the European Economic Area (EEA) – this is known as 'passporting'.

Passporting has enabled a consolidation of financial services providers and ancillary services within the City of London and this in turn provided financial services providers with economies of scale and a depth of capital markets which does not exist anywhere else in the world.

In principle, the UK's negotiations with the EU over the terms of Brexit should be concluded by March 2019 – two years after the UK gave formal notification of its intention to leave – but it is likely that negotiations will extend beyond that date. It is of paramount importance that the UK avoids withdrawing from the EU without any new arrangements in place to govern its relationship with the EU – falling off a 'cliff edge', as it is sometimes known. If the UK was to lose its access to the EU single market, because no alternative arrangements were in place, its trade relationship with the EU would be governed by the World Trade Organization (WTO) terms. But analysis by the National Institute of Economic and Social Research shows that the City of London would lose 60% of financial services business with the EU if this were to happen.

Because of this, the House of Lords European Union Committee has made a strong recommendation that a transitional agreement should be reached with the EU at an

early stage to provide clarity to financial institutions about what will happen after March 2019, and, hopefully, prevent London-based financial firms from relocating or restructuring.

Which financial products and services that are currently offered by UK banks in the European Union will be most affected by Brexit?

The single greatest threat to UK banks is the loss of passporting rights under MiFID, the Prospectus Directive, EMIR, Solvency II, and other directives. Under WTO terms, every product and service would be impacted except for insurance and the delegated management of funds.

Whilst a UK fund management company is not able to provide direct investment advice and portfolio management services to EU-based funds, funds are able to delegate these functions to third parties under both AIFMD (for alternative investment funds) and the UCITS Directive (for EU-based mutual funds).

Even if there is a finding of equivalence, commercial lending is governed by the Capital Requirements Directive IV (CRD) and CRD contains no equivalence provisions. As a result, the ability to provide cross-border lending will be governed by local law, with EU member states able to restrict access to non-EU lenders for prudential reasons.

Due to the consolidation of different financial services, London has become a 'one-stop shop'. This status is under threat with the loss of the passport for certain products. Anthony Browne, CEO of the British Bankers' Association, gives the example of a German company that comes to London to raise finance through a bond issue and syndicated loan in addition to purchasing derivatives to hedge against foreign exchange, currency and interest rate risk. Even if there is a finding of equivalence, they would be able to provide the bond under MiFID and the hedging products under EMIR, however they would not be able to provide the syndicated loan.

Which European cities outside the United Kingdom are best positioned to take over pan-European financial service businesses after the UK leaves the EU?

London was 1st in the Global Financial Centres 20 Index 2016. Unless the entire financial sector congregates in a single EU city, it is unlikely that any will be able to offer the depth of capital markets or the economies of scale that currently exist in London. This poses a significant threat to both the EU and UK as there is a risk of even further consolidation in New York or perhaps in Singapore.

The two European cities which currently appear as front runners are Frankfurt and Dublin. Frankfurt is the second

'Equivalence'

Equivalence will be a crucial concept in determining the extent to which UK-based firms will be able to sell products and serve clients in the EU after Brexit. When assessing whether to allow foreign banks to operate in the EU, the EU Commission assesses whether the standards of regulation and supervision in a firm's home market are 'equivalent' to those in the EU. If the EU does determine that the standards are equivalent, then it may grant foreign firms market access rights inside the EU for some services, and it may also extend more favourable treatment to such firms than to other firms that are based in jurisdictions that are not deemed equivalent. However, equivalence is not a substitute for the operational rights created by the EU system of 'passporting'. Equivalence covers fewer areas and services than passporting. Equivalence is not based on exact transposition of EU laws by the foreign jurisdiction, but on a comparison of the intent and outcome of laws in the foreign jurisdiction with those in the EU.

Source: This summary is based on a briefing published by the British Bankers' Association on its Brexit page.

largest financial services centre in Europe (at 19th in the Global Financial Centres 20 Index). It is the financial capital of the largest economy in the Eurozone, it is home to the ECB, it operates the third largest airport in Europe and has 12% office vacancy. Despite this, it is a small city, home to only 700,000 people and is unpopular with staff, many of whom see it as 'too provincial'. (London bank staff may see it as drab and less appealing than the allure of Paris!) Dublin offers an attractive rate of tax (12.5% for trading, and 25% for non-trading) and is English speaking. However, Dublin would require a massive amount of development to relocate the financial services industry as there is only 6% office vacancy, and there are very limited flight links compared to those on offer from other major European cities.

Paris is the fourth largest financial services centre in Europe (at 29th). It is already home to four of the 10 largest banks in Europe by assets and has 800,000 financial workers. Despite this, many people have said it is out of the running due to France's poor historical relationship with high finance and the high level of income tax. In spite of this, the recent election of Emanuel Macron (a former investment banker) could offer the possibility of reform. Amsterdam is seen as largely out of the running due to its low cap on bankers' bonuses and the lack of office space in its 'financial mile'.

What should Middle Eastern banks be doing now to ensure that they will be able to continue operating effectively in the EU after Brexit?

Pre- and post-Brexit, some predicted that Britain would see a drop in investment from the Gulf, particularly at a time when it was trying to set itself up as a hub for Shari'ah-compliant products. Others predicted a slump in investment in real estate: Middle Eastern banks play an important role in this area.

There was some caution by Gulf investors in the immediate aftermath, but the trend appears to have been temporary. Many now see the lower property prices as a good time to reinvest and speculate on long-term growth. Brexit also presents a unique opportunity for the Gulf. Brexit means that the GCC proposals to trade with Britain are no longer subject of approval of a 28-country trading bloc. Attempts by the Gulf countries to negotiate free trade agreements with the EU since the 1980s may now finally gain some traction with the UK.

Britain's ties to the region have a long history and are strong. In 2016, the GCC's trade with Britain accounted for 2.7% of the region's global trade (according to Moody's). There is a strong economic foundation on which to bolster UK–UAE trade; the UK's trade with the Gulf region is $150 bn, much of which is re-exported to Saudi Arabia and Iran. Many Gulf countries wish to diversify away from an over-reliance on energy-based economies and, again, free of the constraints from the EU, Gulf countries have already begun discussions on trade agreements.

Middle Eastern banks will continue to play a pivotal role in London and could become a very important conduit for the flow of increased investment from the Gulf. The regulatory landscape is unlikely to change significantly for most of these banks, whether they operate as standalone or through subsidiaries. The real challenge for many smaller Middle Eastern banks in Britain is the disproportionate burden placed on them by the UK regulators. They may be small in size here but their reach in terms of potential investors throughout the GCC is huge. It may now be possible to re-examine the 'one size fits all' approach of the UK regulators. If the UK is to seize the opportunities that Brexit presents with the GCC, it must look again at the regulatory framework for banks.

The UK is and will remain a formidable financial centre. We envisage Middle Eastern banks operating as they do now, very much as standalone or as subsidiaries.

How much will it matter to banks in the Middle East whether there is a 'hard' or 'soft' Brexit?

It is clear what a 'hard Brexit' entails: a full withdrawal from the EU on March 2019 with no transitional agreement. In this situation the relationship with the EU member states would be governed on WTO terms, at least initially, with the hope of negotiating a free trade agreement similar to the one enjoyed by Canada (CETA). Qatar, Egypt and the UAE are all members of the WTO and, as such, this could provide an opportunity for Middle Eastern banks as they will be on equal terms with EU banks. On the other hand, if they are taking advantage of the UK's membership to passport products and services within the EU, they may need to relocate and possibly restructure if they desire to retain these rights. The result of the recent UK parliamentary election does perhaps indicate a desire to move away from Theresa May's rhetoric of "no deal is better than a bad deal".

A 'soft Brexit' would involve retaining some or all of the four EU freedoms: free movement of goods, capital, services, and labour. This could possibly be achieved through an 'off the shelf' model such as membership of the European Economic Area (Norway); the European Free Trade Area (Switzerland); or the Customs Union (Turkey). Neither the Swiss model nor the Turkish model provides for the free movement of financial services, and as such Middle Eastern banks would be in the same position as with a 'hard Brexit'. The Norway model would mean that banks were in the same position as before Brexit, although the UK would no longer be in a position to shape EU laws. ■

Mohammed Khamisa QC

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Mishcon de Reya LLP has offices in London and New York and employs more than 800 people, with over 450 lawyers offering a wide range of legal services to companies and individuals. The firm's lawyers work with banks and financial institutions to develop legal and commercial strategies tailored to clients' commercial needs and the challenges they face. The firm acts both for individuals and for institutions. The firm led the legal challenge against the UK Government post Brexit, as to the right to withdraw from the treaties which govern UK membership of the European Union ('the EU Treaties'). It acted for Gina Miller in the High Court and the Supreme Court, winning at every level during the litigation. It was named Best Law Firm and Best Litigation Group in the UK by *The Lawyer* in July 2017.

The gap between data and governance:

What new regulations mean for international businesses

Despite increasing dependency on technology in our day-to-day lives, many people still try to separate the technological world from the business world. For many directors and senior managers, what lurks online does not seem quite as pressing as HR issues, potential losses to revenue or the latest industry scandal. However, the reality is that more and more of what we do is conducted in the digital sphere and companies need to recognise that many of their firm's risks revolve around computers and the internet.

Kevin Hall, a Senior Director at Alvarez & Marsal who advises clients on digital regulation and security, describes how new regulations on cybersecurity will affect companies, and outlines steps that they should take to ensure they are compliant.

Notwithstanding the increasing number of significant corporate data breaches, many firms have delayed or even ignored cybersecurity and governance discussions in the boardroom. This is often because there are very few stakeholders who are willing to take the time to quantify the risks associated with data breaches and cyber threats. After all, how do you justify spending on cybersecurity assets when it is so difficult to predict the cost of a breach and make it seem tangible or urgent?

Further issues arise when it comes to educating members of the boardroom on the reality of the threats which poor information governance can create. In most cases, the majority of board members do not have the technical ability to discuss these issues in detail. Likewise, some Chief Information Security Officers (CISOs) are not experienced enough to be able to convert their messages into a language the board will understand. This can lead to a reporting breakdown, which in turn can lead to a critical error during a data breach.

Furthermore, many directors prefer to be compliant rather than secure. It is not unusual to find organisations that prefer to 'toe the line' until it is absolutely necessary to change their ways, avoiding development or overhauls of data security until it becomes a requirement.

As a result, governments have felt the need to step in and force the issue of heightened security on organisations through regulation.

New regulations across Europe in the form of the General Data Protection Regulations (GDPR) and in the United States in the form of the cybersecurity requirements issued by the New York State Department of Financial Services (DFS) are going to alter the way firms must monitor, store and protect digital information. These new requirements will force companies to comply in a way that makes their digital components secure or, at least, achieve a baseline of security, killing two birds with one stone by benefitting consumers and mitigating the risks around current threats.

So, why should financial organisations who are not headquartered in the US or UK care about these changing rules?

The answer is simple. If you have a presence there, you need to comply. There are also the added and potentially significant penalties for companies that harbour 'toxic data', which apply to nearly everyone. Considering these are unavoidably ingrained in every financial institution, it is imperative that businesses begin to pay attention and prepare for the regulations, or risk facing huge fines by failing to comply. ('Toxic data' is a term used for data that can cause great harm to a firm if it falls out of its control. Examples include intellectual property, personally identifiable information, personal cardholder information and personal healthcare information.)

What you should already know

Most financial organisations should be aware of the upcoming regulations that will affect them in both New York and across Europe.

The DFS's cybersecurity requirements targets financial services companies directly. They will affect any business that is currently licensed by the DFS to operate in New York. The regulation came into effect on 1 March 2017 and has been divided into four phases with four milestones designed to allow for measured implementation.

By August 2017, each organisation had to meet the first set of requirements dictated in the regulations (although, they

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will have until February 2018 to verify that they have met these initial requirements). This will continue across further milestones on 1 March 2018, 1 September 2018 and 1 March 2019. Either the Chairman of the Board or the CEO of an organisation must submit their report of compliance to the DFS, an indication of how seriously this legislation needs to be taken.

The second set of regulations that companies must be looking out for is the EU General Data Protection Regulations. These are the long-awaited updates to the 1995 Data Protection Directive, a directive that pre-dated the way that we use technology now. The regulations are intended to strengthen and unify data protection across the EU and seek to give citizens control of their personal data.

Of course, whether these new regulations are fully enforceable is a different matter. Most professionals in the cybersecurity industry do not feel that understanding where your data risks lie and taking the necessary steps to implement controls is a huge hurdle. That is not to say it can be completed overnight or without reasonable monetary investment, time allocation and management attention, but as long as companies are making serious efforts to protect any data they control and/or process, it is believed these will be taken into account post any breach scenario, although the key here is to remember that a valid effort to protect data must have been made in the first place.

What does this all mean to you?

Generally speaking, dealing with toxic data and financial data is part of the fundamental first steps when implementing an information security framework. Furthermore, the security controls or measures implemented to 'protect' the data of value are not specific to the type of data being protected. Data is data in this instance, and all critical data that a financial services firm is storing should be protected in the same way.

Regarding the DFS cybersecurity requirements, everyone knows that significant fines will be levied if firms are found non-compliant. Accountability is taken very seriously, both from legal and government standpoints.

There are, however, a few significant changes with GDPR that firms operating in Europe or targeting customers in Europe should be aware of when making sure they are compliant. Of particular note, there will be a 72-hour breach notification period which previously did not exist in the EU (outside of critical infrastructure), as well as potential maximum fines for some infringements of up to the 4% of annual worldwide turnover or €20 mn, whichever is higher.

In addition to these, many firms will have to appoint a Data Protection Officer (DPO), whose responsibility will be to ensure compliance with data protection laws for the business. The DPO can be an employee or the role can be held by an external consultant. It is currently not mandatory to appoint a DPO, but the decision not to appoint should not be taken lightly. If a business is found to have failed in its responsibilities around the appointment and support of a DPO, it may face fines up to a half of the maximum fines.

How do you know if you are compliant?

There are three key elements of cybersecurity that should be considered as a minimum to align organisations with GDPR and DFS regulations. These elements include:

1. development and implementation of a thorough information governance strategy, complete with C-suite and board-level buy-in and including an information security framework which defends against current threats within the financial industry;
2. implementation of a fully developed information security and disaster recovery framework, complete with policies and procedures (including a breach reporting plan), to detect and respond to any incidents; and
3. perhaps most importantly, integration of subject matter experts. These people must be in place to address current business risks that the C-Suite and board identify (from a security and governance standpoint) as well as commercial and industrial threats and obligations surrounding the financial services industry itself.

Banks that think they are compliant, or banks such as those in the Middle East that are unsure of how the regulations apply to them, should seek legal advice on the right decision surrounding a DPO. Independent expert advice should also be sought and real-life simulation exercises should be employed to truly test that your experts will be able to handle potential breaches in a way that is both professional and compliant. You cannot quantify the risks or score how your financial firm handles data in relation to the regulations until your company has tried to meet them.

Firms that are not certain about compliance should take immediate action, because the deadlines are fast approaching. With DFS, the work ahead involves aligning your current cybersecurity framework with those of the DFS, or swiftly moving to adopt and implement one if you do not have a framework in place.

For GDPR, it is vital that you act now. Conduct a risk tolerance exercise at the boardroom level to identify and value risks. Boardroom buy-in and participation is essential to the success of the programme. Begin the process of data classification to understand exactly where your toxic data is stored. This may feel like a massive undertaking and, from a time perspective, it could take months or even years. Choosing a dedicated team that has board-level and C-suite backing will ensure cooperation and efficiency throughout the process. Once you know your risks and where your critical data is stored, review your current cybersecurity framework with the idea of performing a gap analysis to identify holes in your policies, procedures and defences.

For most, the new regulations will not change much in terms of information governance, but they do change the requirements for what information is collected, protected and disclosed. Failure to comply carries much higher risks so it makes sense for firms to carefully examine what lies ahead, or risk facing the consequences if data is mishandled. ■

The ranks of the world's super-wealthy continue to grow, despite global uncertainty

These are uncertain times: geopolitical rivalries are resurgent, political populism is changing the face of domestic politics, and economic growth remains lukewarm. Yet the ranks of the world's super-wealthy continue to grow.

There were nearly 200,000 people in the world with net assets greater than $30 mn at the end of 2016 (more than 7,000 of them in the Middle East) and this is expected to reach nearly 300,000 by 2026, with a corresponding increase in the Middle East.

Knight Frank, the international property firm, has been following global investment trends for over a century and has been publishing the results in its Wealth Report for 11 years.

Arab Banker spoke to Liam Bailey, Knight Frank's Global Head of Research and the author of the Wealth Report.

***ARAB BANKER*: You are predicting that the number of Ultra High Net Worth Individuals (UHNWIs – those with more than $30 mn in net assets) will grow by 43% over the next ten years. How will these newly wealthy people be making their money?**

LIAM BAILEY: Technology-based wealth will be a big driver. This will not just be on the west coast of the US, but will increasingly be a global phenomenon. Most global cities have clusters of technology businesses that are creating significant wealth for their founders and investors. Some of the biggest technology clusters are in China where Beijing, Shanghai and Shenzhen are leading the way with significant clusters.

That said, I would caution against thinking that tech companies will be the sole driver of increased wealth over the next few years. We expect the new UHNWIs to come from a wide range of sectors, such as manufacturing, property and leisure industries. With the confluence of technology and farming, agribusinesses are also providing major sources of new money both in developed markets and in less-developed markets as significant investments are made by those attempting to raise agricultural quality and outputs.

Does the rise of technology millionaires mean that the average age of UHNWIs is falling?

The scalability of technology businesses means that there is a real trend for the period of value creation to be shortened, sometimes significantly, compared to more traditional businesses. This means that youth is a notable feature of tech entrepreneurs but let's not overstate this: although we do see some buyers in the prime London property market from the tech sector in their 20s, the majority are in their late 30s and beyond when they make serious purchases in the prime market.

When we look at the Middle East, Knight Frank is estimating that the number of UHNWIs will rise by 39% – from 7,370 to 10,270 – over the next ten years. Where will these additional 2,900 UHNWIs come from?

Most of these new Middle East UHNWIs will come from the GCC markets, with UAE accounting for the lion's share. We expect the number of UHNWIs from UAE and Qatar to grow around 60% over the next ten years – an additional 910 from UAE, and a further 260 from Qatar. There will also be significant wealth creation in Saudi Arabia, although Saudi Arabia is a more mature economy and so wealth creation is unlikely to be at the same rate as in the UAE and Qatar.

Looking at the Middle East beyond the GCC, we do expect to see more UHNWIs, but a lot depends on the pace at which economies become more open and diverse. It is the process of opening and diversifying that presents the opportunities to create wealth – think of China – so if you want to know where the UHNWIs will come from outside the GCC, you need to look at the economic policy environment country by country.

How do you see wealth trends in Iran?

The lifting of UN sanctions last year has improved the forecast for wealth growth in Iran. Increasing international trade will likely provide opportunities for generating wealth. The number of UHNWIs from Iran currently stands around 440 and we expect this to grow to around 620 by 2026.

London property after Brexit and the parliamentary election

Many people predicted that Britain's decision to leave the European Union would puncture the London property market. Further uncertainty was created by a surprise parliamentary election in June this year, and its close result. We asked Liam Bailey *about these events, and the broader long-term prospects for London property.*

How did London residential property prices respond to Brexit?

Prices in London fell, but we think that was more a reaction to the additional rate of stamp duty (property tax) that was introduced in April 2016 than to the Brexit vote. Prices fell first in the prime and super-prime markets (£1 million and above and £10 million and above) and these declines have moved into the wider mainstream markets in parts of Greater London. Our most recent data, showing flat prices in May and June this year, points to a moderation in the recent market downturn.

The Brexit vote did have the effect of making UK property cheaper for overseas buyers, because the pound has lost about 15% of its value against other major currencies.

How do you think the result of the British general election on 8 June will affect the property market?

If we think of the wider UK housing market, I don't think that the election result, in itself, will have much of an effect. Price increases in most regional markets peaked in 2015 and early 2016, and we are now seeing much slower rates of growth. Prices remain relatively high against average earnings and we are expecting more moderate growth over the next few years. The critical issue for the housing market is the trajectory of interest rates. Their current ultra-low level has provided significant support for the market and any radical shift from this level would have more of an impact than the election result.

How are recent changes to the way prime property is taxed affecting the market?

There were two major reforms to stamp duty which had the effect of slowing the top of the London market. The first was the reform of rates of tax paid, in December 2015, and the second was the introduction of the additional rate of stamp duty for second homes and investment properties, which came into effect in April 2016.

The effect of these taxes has been noticeable for higher priced property – for example, if someone bought an investment property for £3 mn in London in November 2015 the tax would have been £210,000, but if they bought the same priced property today the tax would be £363,750.

Changes to stamp duty are only part of the reforms to property taxation that have been seen in the UK. There has also been the removal of exemptions and reforms affecting income, capital gains and inheritance. The market reaction to these changes has been unsurprising and expected: transaction volumes have fallen slightly over the past two years and prices have fallen at the same time.

That said, our experience is clear: when a vendor sets a realistic price, activity will follow. The biggest impact of the reforms has been to reduce the level of aspirational pricing in the market.

It is important to note that changes to property tax in the UK are also part of a much wider trend in favour of higher property taxation in most markets globally which experience international investor demand. Increases in tax or additional reporting requirements have been seen in Hong Kong, Singapore, Canada, Australia, New Zealand and the US.

Where do you see the greatest investment opportunity in London residential property over the next three to five years?

We expect good areas that are just outside the centre of London to show price outperformance in the years ahead. Examples include Bayswater and Pimlico, locations that are convenient for Central London but have traditionally been priced below the golden postcodes in Mayfair or Knightsbridge.

Crossrail, the new underground line that will go from Heathrow in the west to Canary Wharf and beyond in the east, has been strengthening property values in the areas where Crossrail stations are being built, and there is certainly scope for further price appreciation in areas near to these stations.

Where are the hot residential property markets outside Central London?

In the west we have seen strong demand in Wandsworth and Richmond, and in North London, Hampstead. We are also seeing strong demand in East London, particularly along the river, where prices are still relatively affordable.

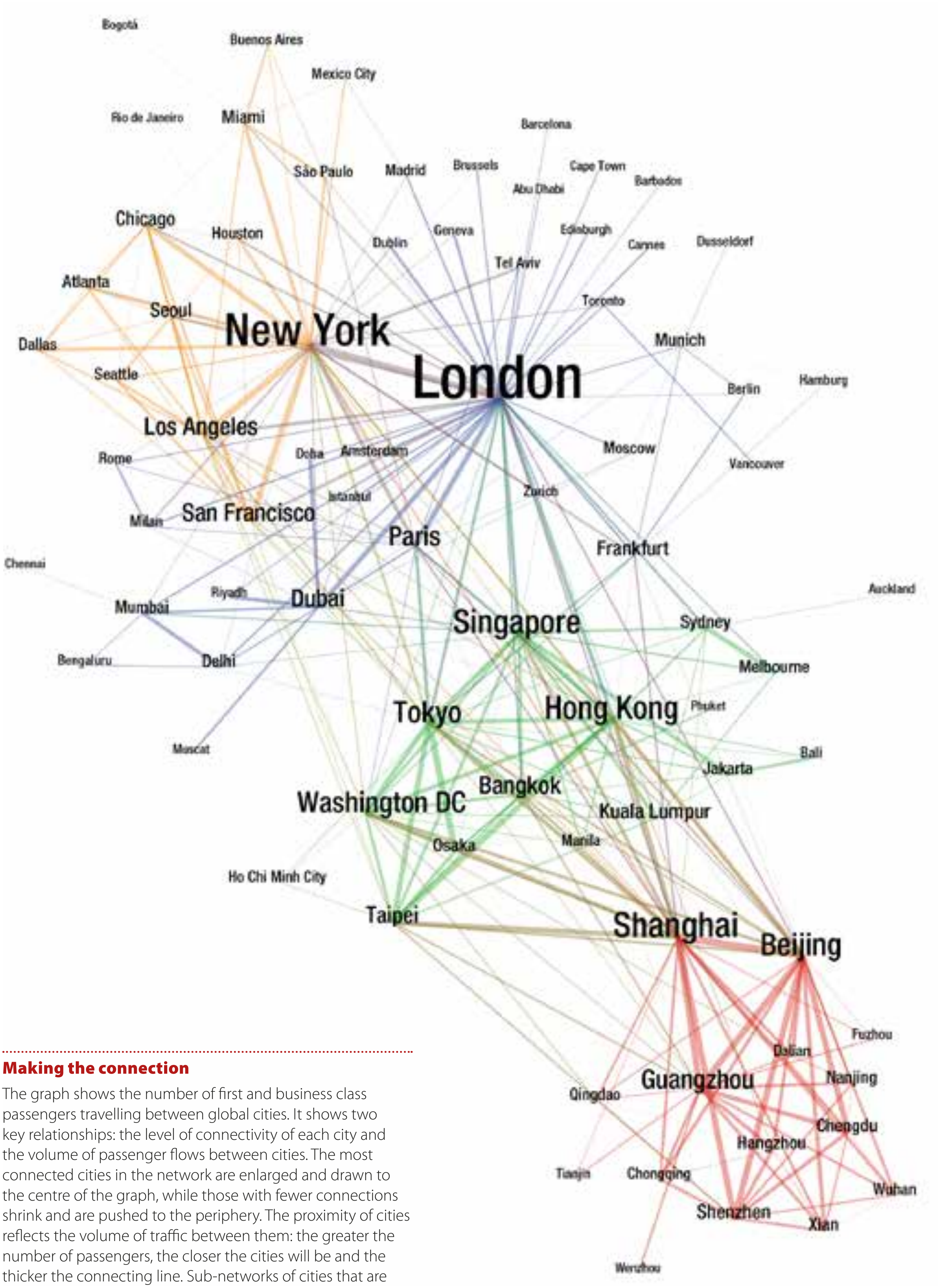
The area around Victoria Park, the site of the 2012 Olympics, is interesting. As a result of the Olympics, there has been significant redevelopment of former industrial areas. It has taken some time for the effect of this redevelopment to feed through into neighbouring areas but there is momentum in terms of development activity and price growth in locations such as Hackney Wick and Stratford.

Where are the hot areas outside London?

Proximity to London has always helped to shape demand and therefore pricing in regional markets. The maximum commute used to be accepted at an hour door to door. Now, that point is rising with the result that the less traditional commuter markets along the main rail lines into London such as Bath to the west or Grantham to the north are becoming more favoured and are seeing price growth.

There is some truth to the super-commute story – there are more people working three or four days in London while maintaining their family home a long way from London. As a result, there is higher demand for some attractive regional cities such as Harrogate, York and Edinburgh.

Of course, not everyone works in London. Oxford and Cambridge are good examples of towns where residents who may not be dependent on a London job can still access high-value jobs based off companies that are connected to the universities – technology companies, for example. Property prices in cities such as these have shown strong growth in recent years.



Making the connection

The graph shows the number of first and business class passengers travelling between global cities. It shows two key relationships: the level of connectivity of each city and the volume of passenger flows between cities. The most connected cities in the network are enlarged and drawn to the centre of the graph, while those with fewer connections shrink and are pushed to the periphery. The proximity of cities reflects the volume of traffic between them: the greater the number of passengers, the closer the cities will be and the thicker the connecting line. Sub-networks of cities that are particularly densely connected are grouped by colour.

Source: Knight Frank Research, published in The Wealth Report.

You are also predicting that the number of UHNWIs in Asia will double by 2026. Is that primarily due to the rise of Chinese entrepreneurs or are there other factors?

China will certainly be the main driver of increased personal wealth in Asia, as a result of the diversification of the Chinese economy and the growth of the Chinese service sector. But remember that over the next ten years, economic growth in India is expected to exceed that seen in China. We are expecting the number of UHNWIs in India to more than double over that time. Personal wealth in Sri Lanka and Malaysia will also increase as their economies develop service industries.

We also expect that the number of UHNWIs in Vietnam will receive a boost from the recent free trade agreement with the EU.

Japan presents a slightly different picture. We do expect a big increase in personal wealth, but this will come from inheritance and from overseas investments, rather than from growth in the domestic economy.

What indicators do you use to track long-term trends in the High Net Worth market?

At Knight Frank, what we are primarily interested in is how money moves around the world and how much of it is likely to move into property. The biggest challenge we face in understanding these trends is in obtaining like-for-like data that is comparable across countries and continents. For example, there is a lot of data about money movement into the US, Europe and Hong Kong, but it may not be comparable. We do have a lot of like-for-like data on property prices and investment, and we try to supplement this with other data points such as private jet usage, volumes of first and business class flights, art investment, purchases of private yachts, and tourist flows. If we can see linkages – wealth moving from one place to another – then we can begin to use this insight as a proxy for future wealth flows.

How is the United Kingdom viewed from both an investment and residency perspective by the UHNWI community?

The United Kingdom has many attractions for foreign investors that are stable and will never go away: it has an attractive business environment and sophisticated financial markets, and it lies in a time zone between North America and Asia. London in particular is arguably the most international big city globally and as a consequence is a comfortable environment for most international investors to make a home.

I would also highlight the British education system as a major draw for wealthy foreign families. A significant number of UHNWIs are looking to have their children educated at British schools and universities. The strong sense of tradition at schools and universities is proving very attractive to Asian families in particular – the Wealth Report this year confirmed that pupils from Asia account for more than half of all overseas pupils in British private schools.

Hasn't the UK's attractiveness been reduced by the decision to leave the European Union ('Brexit') and the recent parliamentary election that led to a coalition government?

There is no denying that the policy environment in the UK has become more uncertain, but remember that many other countries have similar degrees of uncertainty. Coalition government is a quite normal condition in many European countries, and political uncertainty extends into the US and most other parts of the world at the current time.

It is difficult to predict with any confidence how the political environment in the UK will evolve, but investors can draw comfort from the fact that the UK has traditionally been a country that supports regulation that encourages business and investment; and that the UK has always, in recent times, been an open economy. It seems unlikely that these broad policy features will change radically.

Overseas students joining British private schools

	2005/06 School year	2015/16 School year	% change
Russia	343	753	+ 120%
Middle East	190	363	+ 91%
Africa	379	713	+ 88%
Europe	2,373	3,670	+ 55%
Latin America	199	285	+ 43%
Asia	4,454	6,260	+ 41%
North America	362	173	- 52%
Australasia	84	71	-15%
Item: China (as part of Asia)	1,005	2,924	+ 191%

Source: Independent Schools Council, published in The Wealth Report.

Is London property still considered attractive, for both investment and residency, relative to other global cities?

London ranks top of the Knight Frank City Wealth Index 2017 as a destination for investment. In terms of relative value, London's position has been improving against other global cities. Although you still get more square metres for your money in other European cities, over the past year pricing in other European cities has strengthened while London's pricing has softened.

Shifts in currency rates and investment patterns, with the New York market becoming more globalised in recent years, help explain why in many cases new-build property in Manhattan is trading at a premium to the same property in Central London. Step outside the centre of these cities and things become a little more complex with prices in Greater London as a whole sitting at a higher level than those in New York – which in some part is due to differences in planning regulation and the relatively controlled supply of land for development in London.

What are the new asset classes that UHNWIs are likely to focus on in the years ahead?

In recent years, we have seen several new asset classes gaining popularity, but some of these have been driven by personal preferences as well as by investment strategy. Examples include investments in wine, classic cars and even original movie posters. That said, if one is looking at asset classes purely from the perspective of investment strategy, we continue to believe that real estate provides competitive and reliable returns over the long term and the UHNWI community seems to agree with us. ■

A remarkable story: Bahaeddine Bassatne and the oil business

Bahaeddine Bassatne in his office, with a picture of his father in the background

Bahaeddine Bassatne is a quiet man, unostentatious, and with an informal manner. If you saw him outside his new office buildings in Beirut or Kensington, you wouldn't suspect that you were looking at one of the Middle East's most successful businessmen. But that is what he is.

Bassatne's company, BB Energy, is one of the world's largest family-run energy trading companies. It operates globally, with storage and distribution facilities, and will soon be developing powerplants in several countries.

This success is the result of hard work, a punishing travel schedule and an ability to navigate the uncertainties and crises that have plagued the Middle East over the last 50 years.

Arab Banker's Editor, Andrew Cunningham, spoke to Bahaeddine Bassatne about his business and his plans for the future.

Bahaeddine Bassatne was fascinated by oil. At school in the 1950s, and when he started working for his father's trading firm in the early 1960s, he followed the discoveries of oil in the Middle East, the building of pipelines and export terminals, the creation of OPEC and the wealth that oil was bringing to the region.

Based in Beirut, his father was successfully trading in commodities, but in 1963 Bahaeddine persuaded him to diversify into bitumen. The move was well timed. The Lebanese economy was growing rapidly. New roads were being built and old ones upgraded. Father and sons built the first bitumen terminal in the Middle East, in Zouk Mikhael, about ten kilometres north of Beirut. In the meantime, they were diversifying into distributing fuel oil and diesel into the domestic market throughout Lebanon.

In 1967, Bahaeddine executed his first oil trade, buying 18,000 metric tons of jet fuel from Italy and selling it to Total in Lebanon. He made $1 per ton – not a lot by today's standards, but a significant trade for a newcomer. The next year, he established his first oil company, BaBaNaft, in Lebanon with his brother Walid and a third partner. The company's first contract was for 450,000 metric tons of products with EGPC Egypt followed by another one to Sytrol Syria. BaBaNaft sold the products 'short' taking a huge amount of risk, but it judged the market correctly and made money.

In 1972, BaBaNaft signed its first Syrian crude oil purchase contract from Sytrol and sold the oil back to AGIP the Italian oil company.

In 1973, BaBaNaft took its first big risky contract when it bought crude oil from Libya, shipped it to Montedison Refinery in Italy for processing and sold the products to Europe and the United States.

When the Lebanese civil war broke out in 1975, Bassatne opened an office in Athens. Greece was emerging from six years of military rule and was keen to attract foreign businesses. It offered tax holidays and concessions on import duties, and of course it was already a major shipping centre. Here, the family bought its first products vessel, financed by Lebanese banks.

In 1979, the company was prosperous enough to open an office in Curzon Square in London's Mayfair district, and in the late 1980s it opened its first Asian office in Singapore, followed in 1982 by an office in New York.

Bahaeddine got married in 1963, and the following year his son Mohamed was born. Later, after completing his studies at Walton University in the US, Mohamed joined the company and led the Singapore office. A nephew, Khaled (son of Walid and also US educated), began working for the company in London. Bahaeddine's two other brothers also started to be involved. It was one of these brothers, Riad, assisted by another executive of the company, who negotiated a contract to supply oil to Cuba. The company had to finance the contract itself and it was paid in sugar. "We had to wait until the sugar harvest to get paid – it was a high risk contract – but in the end we were able to make some money," Bahaeddine says.

The uncertainties and conflicts in the Middle East have generally been good for oil traders, since they benefit from spikes in prices or sudden increases in demand. Bassatne was able to do good business during the eight-year Iran–Iraq War that began in 1980, and during the first Gulf War in 1991.

But there have been difficulties. "1985-86 was a disaster," he says. "The oil price went down to less than $10/b and the shipping market collapsed. We had bought ships when the market was strong in 1980/81 and had to sell them at a big loss." It was the same for some cargoes of crude oil. The company survived through the confidence of its bankers and the strength of personal relationships.

The company is heavily focused on Asia. "Asia and the Middle East are completely linked together when it comes to oil trading, especially since the Americans started producing shale oil," he says. "Oil products from the Middle East go mainly to the Far East, China, Pakistan, India, Thailand, Korea and Japan. Personally, I've always had faith in Asia. It has a big population and a lot of well-educated people."

Several members of the next generation of children are now working for BB Energy. Mohamed, the oldest child, became CEO seven years ago. Khaled, is Managing Director of the Middle East and Arabian Gulf area, and Bashir (the second son of Walid) is Head of Hypco Lebanon (the downstream distribution company owned by the family since 1972). Karim, the second son of Bahaeddine, is Head of Corporate Communications based in Dubai, and Reem, his only daughter, works in the Athens office. Malek (the son of Riad) is the Global Head of Trade Finance of the Group, and Ali (son of Adib) will join the Dubai office in the LNG trading department.

Bahaeddine is the oldest family member and family is important to him. Every year, he and his three brothers, their wives, children and grandchildren spend a week together on holiday. "It works very well. Children who live in different locations will get familiar and friendly with each other. There are no arguments!" He jokes. Family members also spend a lot of time together during Ramadan and holy holidays.

Bahaeddine spends over 150 days a year travelling, but says he doesn't find it tiring. His hobbies are walking, swimming or watching films at home (sentimental films or thrillers are his favourites).

The family is also a big benefactor of charities and the arts both in London and Lebanon. His wife, Gabriella, is a big supporter of the Royal Opera House, the Barbican Centre and Santa Cecilia Academy in Rome.

The Bassatne Charitable Foundation in Beirut provides scholarships in the UK, the US and Singapore for children from poor families who cannot afford to go to school or college. The foundation has also been supporting refugees in Lebanon and Greece.

The American University in Beirut has recently opened a department for oil and chemical engineering, named the 'Bahaeddine and Walid Bassatne Chemical and Petroleum Engineering Department'. It aims to give future generations the opportunity to pursue specialised oil and energy education in their homeland and to develop a pool of talented Lebanese young people.

As for the business, Africa is a current area of focus. The company is already working in West and East Africa – Nigeria, Mozambique, Zimbabwe, Ghana, Rwanda and Kenya – but is keen to expand and deepen its footprint in all African and North African countries. It is also working on power plants in several countries.

Bahaeddine is now 80 years old, and it has been 50 years since he completed his first oil trade, but he has no thought of retiring. "My business has always been based on meeting people, communicating with them and building relationships. That's the right way to do business, and it's also enjoyable. I have no plans to stop!" ■

Broadening our range, staying close to our members

The Association continued to expand the range of its activities during 2017, putting increased emphasis on bank regulation while maintaining regular briefings and seminars for members, as well as social activities.

Meetings with London's Prudential Regulation Authority and Financial Conduct Authority are now regular events to which the CEOs of all Arab banks in London are invited. The meetings have clear agendas and are held under the Chatham House Rule to ensure that views can be exchanged freely and frankly.

In February, one of our corporate members, Alvarez & Marsal, brought five of its senior staff – all of whom have recently worked for bank regulators – for a question and answer session that was open to members and friends.

Our corporate members also benefitted from a briefing on how Brexit might affect foreign banks in London, delivered by the British Bankers' Association (BBA), led by its Chief Executive, Anthony Browne. The BBA team came armed with detailed briefing documents and made themselves available for informal discussions at the end of the question and answer session.

The effects of new bank regulations, both prudential and conduct, are consistently identified by our members as key concerns for them. This is particularly true for smaller Arab banks, who face the full force of the increased volume of new regulation, despite posing no systemic threat to the UK economy or banking system.

We held our annual evening seminar on real estate in mid-July, attracting a large audience to what is one of our most popular events.

Our social events have been more successful than ever this year. Our 2016 Christmas party was held at the Jumeirah Carlton Tower hotel rather than at the Arab British Chamber of Commerce Building and attracted the largest ever number of members and guests. Our Eid holiday party, shortly after the ending of the month of Ramadan in late June, was also well attended.

We created a new class of membership of the Association: Member Emeritus. This is awarded by the Association's Board to those who have given good service to the Association and who are now retired or semi-retired. Members Emeritus do not pay a membership fee, and they are entitled to attend our evening seminars and our Christmas party for free.

Our website, www.arab-bankers.co.uk, introduced a new feature in April. 'The Cultural Scene', written by Pamela Ann Smith, summarises some of the Middle East-related events in London that are likely to be of interest to our members. Located on the 'Events' tab of the website, 'The Cultural Scene' will be updated every few weeks. The website's 'Gallery' feature, introduced last year, is enabling us to post a large number of photographs from our events. In the spring, we redesigned the Corporate Members page on the website to make it more attractive and easier to navigate.

Arab Banker magazine has maintained its end-September publication date. The edition in your hands is the fifth since the magazine was relaunched in 2013. All have created a small profit for the Association.

Membership of our LinkedIn group has continued to grow despite heavy policing by the Association's editor to ensure that only those with clear connections to Arab banks are accepted as contacts.

Over the summer, we began producing some marketing material for the Association. Initially, we printed a general brochure with an insert about our Gala Dinner. Over time, we will develop a series of inserts detailing the full range of our activities. These will be used when meeting with potential new members and when seeking sponsors for our events.

The Arab Bankers Association is led by George Kanaan, the Chief Executive. George is assisted in the London office by Joumana Karam, Membership Secretary, Esin Erdil, Accounts and Administration, and Riem Mroue, Business Development. Carol Hovsepian, Business Development, works for the Association in Beirut. Andrew Cunningham is the Association's Editor in Chief, overseeing and writing content for the website, and producing brochures and publications, including *Arab Banker*.

L-R: Esin Erdil, Accounts and Administration; Joumana Karam, Membership Secretary; George Kanaan, CEO; Riem Mroue, Business Development

Carol Hovsepian, Business Development

Board of Directors

The ABA's Board of Directors is elected at the Annual General Meeting, which is usually held in September. A list of serving Board members, as of August 2017, is given below.

Abdulaziz Al-Khereiji (ABA Chairman. Board member since 2012)

Abdulaziz has been working within London's financial services sector for over 25 years. He joined Riyad Bank's London branch in 1996 and is now its Chief Manager. He is also Riyad Bank's Senior Vice President for Overseas Units, and in this capacity he manages the bank's international corporate relationships in the United States, Europe and Asia, focusing on clients' business activities in the Kingdom of Saudi Arabia and the GCC as a whole.

Fawzi Dajani (ABA Vice Chairman. Board member since 2008)

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

Hani Salem (ABA Treasurer. Board member since 2016)

Hani is a Senior Manager in PwC's Banking and Capital Markets assurance practice. He has more than 12 years' experience auditing and advising international banks, sovereign wealth funds, real estate funds and other financial services firms in the UK, the Channel Islands and the Middle East. He is currently providing strategic consulting services to a number of banking and financial services organisations. Hani is a Certified Public Accountant from the New Hampshire Board of Accountancy.

Vivien Davies (ABA Company Secretary. Board member since 2012)

Vivien is a partner in the London law firm Fieldfisher. During her career she has specialised in company, banking and commercial disputes, including complex cross-boarder disputes and international arbitration. In addition to general commercial clients, she regularly acts for foreign banks and enterprises from the hospitality, construction and healthcare sectors, together with media organisations. She is an active member of the UK's Middle East Association and is fluent in Arabic.

George Kanaan (ABA CEO. Board member since 2009)

George was appointed Chief Executive Officer of the Arab Bankers Association in August 2009. He began his banking career with Citibank in New York in 1975 and spent three years with First Chicago in London from 1984. He returned to Citibank in 1987 to establish and become General Manager of the London branch of Saudi American Bank (which was managed and partly owned by Citibank) and its associated investment company. After leaving Saudi American Bank, he established and managed a family office and acted as a consultant to Arab companies and high net worth individuals.

Ziyad Akrouk ABA Board member since 2012)

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

Farid Barakat (ABA board member since 2010)

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

Stephen Blyth (Board member since 2016)

Stephen is the General Manager of Arab National Bank's (ANB) London branch. He was appointed to this role in October 2016 having previously been acting General Manager and Deputy General Manager. He is a seasoned banker with more than 37 years' experience, much of which is in the Gulf region. He has been with ANB in various senior roles since 1991 and between 1994 and 2004 was based in the bank's head office in Riyadh, Saudi Arabia. Stephen has held a variety of roles during his banking career, and for the last 12 years, in addition to jointly running ANB's London branch, much of his time has been focused on regulatory change.

Paul Jennings (Board member since 2016)

Paul is Managing Director and CEO of ABC International Bank plc. Previously, he was Deputy CEO of ABC International Bank plc and Group Head, Global Trade Finance, of Arab Banking Corporation (B.S.C.). Paul joined ABC International Bank plc in September 1999 and has over 30 years' experience in the international wholesale banking sector. He also represents Bank ABC as Deputy Chairman of ABC Islamic E.C. and is a Director of Banco ABC Brasil S.A.

Hani Kablawi (Board member since 2010)

Hani is an Executive Vice President at BNY Mellon and the head of the bank's EMEA asset servicing division. He is based in London. Hani previously managed country and client relationships across EMEA for BNY Mellon and co-chaired 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.

Charbel Khazen (ABA Board member since 2014)

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

Ralph Al Raheb (ABA Board member since 2016)

Ralph is a Managing Director at Morgan Stanley and is Head of Fixed Income for Middle East and North Africa. He is based in London and is a member of Morgan Stanley's MENA Management Committee. Ralph transferred from Paris to London in 2005 to cover the MENA region. In 2007 he was named Vice President and in 2009 became an Executive Director. In 2010 he was appointed Head of Fixed Income Sales for MENA and in the same year became Head of Fixed Income for MENA. In January 2015 he was made a Managing Director. Ralph has a Master's in Economics and a Master's in Finance and Asset Management from Paris IX.

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, focused on providing private banking services, property finance and documentary credits. With over 30 years in the UK, Amr has developed an in-depth knowledge of the financial system and he has established links with many corporations and individuals seeking banking services in London.

ABA annual Gala Dinner:
HE Saddek el-Kaber honoured for work as Chairman of Bank ABC and as Governor of Central Bank of Libya

Our annual Gala Dinner for 2016 brought together nearly 300 members of London's Arab banking community on 27 November and included speeches from leading Middle Eastern and British figures from the world of finance and politics.

Held at the Jumeirah Carlton Tower in London's Knightsbridge on 27 November, our annual Gala Dinner kept its place as the premier social event for London's Arab banking community. The evening included the presentation of the Association's annual award for Distinguished Service to Arab Banking, to HE Saddek el-Kaber, the Governor of the Central Bank of Libya and the Chairman of Bank ABC.

Introducing the evening, George Kanaan, the Association's CEO noted that the Middle East was facing almost unprecedented challenges, both political and economic, but said that he was optimistic that the current problems would pass and that work would begin to rebuild Arab economies and societies. Closer to home, he spoke about the increasing regulatory burden being placed on Arab banks in London, even though they are small and pose no systemic threat to the UK banking system or economy.

Dr. Farouq El-Okdah, the former Governor of the Central Bank of Egypt, introduced HE Saddek el-Kaber, who was the recipient of the Arab Bankers Association's 2016 award for Distinguished Service to Arab Banking.

In his acceptance speech, Mr. el-Kaber spoke of his work to maintain the Libyan banking system even during the current civil war, and of the formulation of a new strategy for Bank ABC that included upgrading many areas of its operations and a rebranding.

The Palestinian representative in London, Ambassador Manuel Hassassian, then introduced the keynote speaker, Tom Tugendhat, Conservative Member of Parliament for Tonbridge and Malling.

Throughout the evening, guests were entertained at their tables by two magicians, Spencer Wood and Stephen James, who performed a variety of tricks including (appropriately for a banking dinner) making ten-pound notes disappear!

'Joy Refill' a jazz duo comprising Lena Margareta (singing and playing the trumpet) and Pietro Dalla Vecchia (guitar) entertained the guests with a variety of traditional and modern songs.

Five institutions bought premium tables at the dinner: The Capital Partnership (Libya Holdings), Riyad Bank, Bank ABC, National Bank of Kuwait and National Bank of Abu Dhabi. ■

HE Saddek el-Kaber receives the 2016 award for Distinguished Service to Arab Banking from ABA CEO George Kanaan and Chairman Abdulaziz al-Khereiji

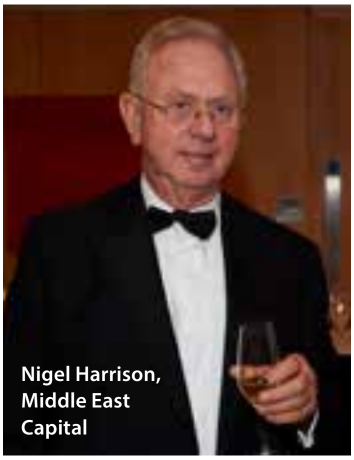
Khaled Kawan, Group CEO of Bank ABC and Farouq El-Okdah, former Governor of the Central Bank of Egypt

From Mishcon de Reya: Polly Blenkin, Matthew Hancock, Adam Kennedy, Stephen Bostock and Sarah Abdel-Malek

Magician Stephen James makes £10 notes disappear!

'Joy Refill' entertained the guests with songs old and new

Keynote speaker Tom Tugendhat MP with Ambassador Manuel Hassassian and George Kanaan



Nigel Harrison, Middle East Capital

Mrs Diala Dajani, Mrs Taghreed Hanna, Mrs Myrna Barakat and Mrs Soulaf Kanaan

Mrs Mony Saad and Mrs Gabi Fadel

Mohammad Murrar and Chirin Dikou, Europe Arab Bank


Antoine Zananiri, Member Emeritus

Shaf Ali, Belleveue Mortlakes


Peter Aylwin


Anis and Tasmina Ahsan, Mrs Lincoln and Mrs Soulaf Kanaan


The food was delicious!


Claire Harper entertained the guests with songs

Christmas party at the Jumeirah Carlton Tower

Our annual Christmas party was held on 15 December.

In a departure from tradition, we held our Christmas party at the Jumeirah Carlton Tower, and it proved a great success. The hotel spoilt our guests with excellent hors d'oeuvres, and the large reception room gave them plenty of space to spread out and mingle. It was the largest Christmas party we have ever held.

Guests were entertained by singer Claire Harper and pianist Bob Holloway. More than 20 local retailers and firms donated gifts to the prize raffle. ■

Regulators' question time

Our first technical seminar of 2017 addressed recent trends in bank regulation and was held on 13 February.

Alvarez & Marsal sponsored our first technical seminar of 2017, offering participants the opportunity to pose questions to four former British banking regulators, who now hold senior positions with Alvarez & Marsal, and two of the firm's managing directors from the US and from Dubai.

Participants were urged to ask the questions that they might be afraid to put directly to British regulatory officials, and the result was a lively and wide-ranging discussion in which many concerns that Arab banks have about bank regulation in London were raised.

The panelists were Paul Sharma, a former Deputy Head of the PRA and Executive Director of the Bank of England; David Lawton, a former Director of Markets at the FCA and Alternate Member of the European Securities and Market Authority's Board of Supervisors; Jeremy Heales, a former Head of Authorisations and Head of Regulatory and Supervisory Change at the FSA and FCA; Saeeda Jaafar, based in Dubai, a former principal at Bain & Company focusing on retail, wholesale and digital banking strategy; Craig Stone, a former Deputy Ombudsman for the (US) Comptroller of the Currency and a National Bank Examiner; and Suzanne Maughan, a former Advanced Associate within the Enforcement and Financial Crime Division of the FSA and FCA. ■


Bert de Ruiter, Stormbridge International; Kumar Harish, Alvarez & Marsal; Chahnaze Farhat, QIB (UK)


Rachel Johnstone, National Bank of Abu Dhabi


Paul Sharma, former Deputy Head of the Prudential Regulation Authority and now Managing Director at Alvarez & Marsal


Phil Beckett, Managing Director, Alvarez & Marsal, introduced the seminar


Jeremy Heales, former senior regulator with the UK FSA and FCA and now Managing Director at Alvarez & Marsal


Masarrat Hussein, Abu Dhabi Islamic Bank, and Seif Abdel Hafez, St James's Place

Acting as a bridge between Arab banks in London and the UK banking regulators

We organise meetings between Arab banks in London and financial regulators approximately every six months. The most recent was held on 3 April 2017.

Representatives of Arab banks in London meet with officials from the Financial Conduct Authority

Arab banks in London repeatedly voice their concerns about the extent of regulation to which they are now subjected. The burden is far greater than in the past and many Arab banks believe that the burden is disproportionate to the risk that Arab banks pose to the British financial system or economy.

As the only professional body in the UK that represents the views of the Arab banking community in London, we take the initiative to arrange meetings between Arab banks in London and the British financial regulators, both the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA).

The meetings are held under the Chatham House Rule to ensure confidentiality and facilitate open discussion. The feedback that we have received both from the regulators and from the banks is that the meetings are useful. The meetings take place approximately every six months.

On 3 April 2017, Arab bankers met with four officials from the Financial Conduct Authority. The four FCA officials were, Julia Hoggart, head of the wholesale and investment banking division; Duncan Sloan, a manager in the investment banks division; Anthony Marsh, a manager in the financial crime division; and Dr. Susana Carcia-Cervero, a manager in the wholesale banking division.

On 28 November 2016, Arab bankers met with officials from the Prudential Regulation Authority. Topics discussed during the meeting included the PRA's approach to supervising subsidiaries and branches of foreign banks, the implementation of the UK Senior Managers' Regime, liquidity reporting for branches and subsidiaries of non-European banks, and improving the quality of Common Reporting returns.

The ABA was making plans for another meeting with the PRA as *Arab Banker* was going to press. ■

Biggest ever Eid holiday party

Our annual Eid holiday party was held at Maroush Gardens on 28 June.

Our 2017 Eid holiday party was our biggest ever, with more than 120 members and their guests attending the dinner at Maroush Gardens, London's premier Lebanese restaurant, in Mayfair.

Guests were served a variety of Lebanese starters, main courses and desserts; and were entertained by jazz musicians.

The event was sponsored by Ahli United Bank, Bank ABC, BNY Mellon and NBK International. ■

Vivien Davies, Fieldfisher LLP, and Fadi Halout ,Head of Private Banking, Europe Arab Bank

Stephen Blyth and Olga Davidenko, Arab National Bank

Margaret Jackson and Emilie Dandan, National Bank of Kuwait (International)

Europe Arab Bank staff enjoy the meal

Hiam El Tarabey, National Bank of Kuwait (International)


George Kanaan, Stephen Blyth, Arab National Bank London, Yousel al-Awadi, Yasser Ibrahim, National Bank of Egypt (UK)


Andrew Sneddon, Trowers & Hamlins


Tony Sarkis, TITAN RP


Gabi Fadel, Byblos Bank


L–R: Fuad Shakshir, QIB (UK); Anthony Duggan, Knight Frank; Michael Rahme, BLOM Bank


Najwa Abozaki; Najla al-Hassani, NBI (I)

Annual real estate seminar considers post-Brexit world

Our annual real estate seminar held this year on 19 July focused on the effects of Brexit on the London property market.

Our annual seminar on real estate is always one of the best attended and this year was no exception. Anthony Duggan, Head of Capital Markets Research at Knight Frank, reviewed trends in the London property market since the UK's decision to leave the EU, and argued that London's position as the most international global city will continue despite the UK's changing relationship with the rest of Europe.

Bassam Khazen, from National Bank of Kuwait (International) reviewed some alternative investment classes, such as student accommodation and care homes, and gave a list of dos and don'ts to those thinking of putting their money into these areas. Misam Fazal, Head of Commercial Finance at Al Rayan Bank, described recent developments in the Shari'ah-compliant property market. Finally, Andrew Sneddon, a partner at Trowers & Hamlins gave a detailed account of recent tax changes that affect both residential and commercial property purchases in the United Kingdom.

After the presentations and discussion, participants were able to raise questions with the panellists during a buffet supper.

The event was sponsored by National Bank of Abu Dhabi, Al Rayan Bank, National Bank of Kuwait (International) and Towers & Hamlins. ■

Invitation-only corporate briefings enable members to discuss topical issues in detail with subject matter experts

We held two special briefings for our corporate members in the first half of 2017. More are planned for the second half of the year.

Our corporate briefings programme gives our members access to subject-matter experts on issues that are of immediate relevance to their institutions. These are invitation-only events which are offered to our corporate members. Often they are held over lunch at the ABA offices, but they can also be afternoon events. Either way, the setting is informal so that discussion can flow freely and members have the opportunity to raise issues of direct concern to them.

The first corporate briefing of 2018 was given by four senior officials from the British Bankers' Association (BBA), who described their preliminary assessment of how British banks will be affected by Britain's impending withdrawal from the European Union ('Brexit'). The event was led by Anthony Browne, the BBA's Chief Executive. The other members of the BBA team were Ronald Kent, a Managing Director, Diederek Zandstra, a Senior Policy Director, and Nemanja Eckert, a Policy Director.

The briefing lasted for an hour and a half, after which the participants had an opportunity to meet informally with the BBA team.

Another corporate briefing took the form of a lunch meeting with Bradley Hall, the CEO of Icon, a company that is using Blockchain technology to enable customers to own and use gold as a currency. Bradley explained how Icon customers own physical gold and, through an arrangement that Icon has with Mastercard, are able to use that gold to pay for high-value purchases. The briefing was particularly interesting for those Arab banks in London who conduct a significant amount of private banking business for their high net worth customers in London. ■

The British Bankers' Association team, with George Kanaan

Bradley Hall, CEO of Icon, with George Kanaan

Bringing Lebanon to London: Marouf Abouzaki and Maroush

If you stand at the crossroads of Edgware Road and Seymour Street in London's West End you can't miss Maroush Gardens, London's leading Lebanese restaurant, and Maroush Bakehouse, its younger sister standing opposite. Turn to your right and you'll see Maroush Express, a fast-food cafe. Keep turning and look 50 yards down the street, and there is Sidi Maarouf, a Moroccan restaurant that is part of the same group. In fact, this part of London is host to no fewer than seven Maroush restaurants, and another nine are scattered further afield in Knightsbridge and Chelsea.

This extraordinary collection of restaurants is the creation of Marouf Abouzaki, a modest man who arrived in London in 1975 with a few thousand pounds in his pocket.

Arab Banker's Editor, Andrew Cunningham, spoke to Mr. Abouzaki about how his business has developed since the 1970s, and his plans for the future.

Managing a restaurant is a notoriously high-pressure profession with long hours, intense competition, and unforgiving customers. But when Marouf Abouzaki sits down to talk to *Arab Banker* in the mid-afternoon lull between the end of lunch and the start of dinner, he appears relaxed and at ease with the world around him.

Marouf Abouzaki is the owner of 16 Lebanese restaurants and cafes and, though he would not say so himself, he is probably more responsible than anyone for the popularisation of Lebanese food in Britain.

Abouzaki was not born into the restaurant trade, and his first job was not in a restaurant, but in the gift shop at Beirut's St George Hotel. That was where he first learned to speak English. Then he moved to the Excelsior Hotel in Beirut, where he started helping to make the sandwiches for guests relaxing by the pool (guests who included Frank Sinatra and Dean Martin – this was when Beirut was the only Middle Eastern city that could attract the international jet set).

He quickly moved to other hotels where he worked as a manager and also oversaw the kitchens. At one point he managed the kitchen at a German-run orphanage in the Bekaa Valley.

In 1975 an opportunity arose to move to London to work in a recently opened Lebanese restaurant in Sloane Street, called Lebanese Food Centre. Abouzaki had always wanted to travel, so he took the job.

The timing was auspicious – the Lebanese civil war had begun that year, destroying much of central Beirut and driving many of its richer inhabitants to London, where they longed for the cooking of their homeland.

In 1979, Abouzaki became the manager of the first Lebanese restaurant to open in Edgware Road (at number 60) and in 1981 he moved a few doors down the street and opened his own restaurant at number 21. He thought Maroush would be an easier name than his own name, Marouf (which in Arabic has a glottal stop in the middle), so he called his first restaurant 'Maroush'.

These were exciting times for Abouzaki, but it was hard work, with him and his wife, Houda, working punishing hours to build the business. Abouzaki pays tribute to Houda, an accomplished chef in her own right, who worked alongside him, supporting him all the way.

In 1983, he opened the first Lebanese fast-food cafe at number 33 Edgware Road (he called it 'Ranoush' after his first daughter, Rana) and a second Maroush Restaurant in Beauchamp Place.

Maroush Gardens, now the group's flagship restaurant, opened in March 2003.

The 16 restaurants and cafes that now make up the group comprise seven brands that can be broadly divided into four types. There are four full-scale restaurants, serving lunch and dinner, called 'Maroush' and a smaller restaurant in Kensington called 'Randa'.

Maroush Bakehouse, is modelled on a Lebanese boulangerie and serves sandwiches, pastries and salads. Unlike the other cafes and restaurants, it opens for breakfast and then remains open all day. (If you think you know Lebanese food well,

try the Bakehouse breakfast menu – it will give you new perspectives on Lebanese food, and on breakfast!)

Maroush Express, Beirut Express and Ranoush offer informal eating from mid-morning till late.

Finally, there is Sidi Maarouf, a Moroccan restaurant that opened on Edgware Road in 2007.

Abouzaki says that most of his clients are Arabs from the Gulf States or from Lebanon, but the British clientele is now significant. “In the early days, we really only had an Arab clientele,” he says. “It wasn’t until the early 1990s that British people started eating Lebanese food in any numbers.”

If you think you know Lebanese food well – try the Bakehouse breakfast menu

“The early British customers were usually people who had worked abroad in the Middle East, or who had been invited by Middle Eastern friends. Now, we see more British people who don’t have any connection to the Middle East, but who want to try something different.”

In recent years, the British clientele has included many celebrity customers, such as the Chelsea football team, teen pop band The Saturdays, and a variety of stars from the sporting and entertainment world.

And what do British people eat? “With one exception, they usually like the same things as the Lebanese and Gulf clients,” he says. “That’s hummous, mutabel, falafel, chicken livers and grilled meat.” The exception is kibbeniyeh – raw meat minced with herbs. With all the focus on ‘health and safety’ these days, British people are cautious about eating raw meat. “It’s a shame,” he says. “We’re very careful about how we source our meat and how we treat it in our kitchens, and kibbeniyeh is a really distinctive Lebanese dish.”

Abouzaki wishes that his clients – including those from the Middle East – would sometimes be a little more adventurous. He points out that Lebanese stews, made with aubergines, okra, or green beans, are delicious and nutritious. Mulukhiyya, a thick vegetable soup traditionally eaten on Sundays, and sayedieh, spiced fish and rice, are dishes that should be more widely eaten, he says.

And how does Abouzaki maintain a consistent quality in all his various outlets? “I’ve been doing this for 40 years,” he says. “When a dish passes in front of me, I can tell whether it is right just by looking at it, but I also spend a lot of time in the kitchens. On a typical day, you’ll see me going from one restaurant to another, talking to the kitchen staff and also the customers.”

Despite the growing British clientele, business is still heavily influenced by Middle Eastern business cycles. Summer is the busiest time, when many Arabs, particularly those from the Gulf States, spend several weeks in London. Turnover at the Edgware Road outlets increases by 30% over the summer.

During Ramadan, turnover goes down because many from the Middle East are fasting during the day.

Maroush is increasingly sought after for outside catering. It was one of the caterers for the Queen's 90th birthday celebrations in 2016, and it is widely used for diplomatic and other private parties in London.

So what does the future hold for Maroush and for Abouzaki himself?

Abouzaki is currently working to create a chefs' academy through which he will be able to train his own staff. This will be based at the Park Royal Business Park in North West London.

He is also gradually bringing his family into the business. He has four daughters, all grown up. Randa, his second daughter, now manages two of the restaurants, including the eponymous Randa in Kensington Church Street. Ranya, the third daughter, handles some of the group's administration.

After 40 years in the London restaurant business, is retirement really a possibility? Abouzaki looks much younger than his 68 years. "I don't really believe in retirement!" he says. "I have no regrets. There is nothing that I have wanted to do but have been unable to do. Food is my passion, and I have been able to follow it through the restaurant business." ■

Crocker's Folly: a labour of love

Crocker's Folly opened in 2014 and is rather different from the rest of the Maroush restaurant group. Previously a hotel, it now offers both western and Lebanese cuisine in a traditional English setting.

So why is it called 'Crocker's Folly'?

The story dates back to the 1890s, when Britain's railway network was expanding rapidly. A man called Frank Crocker discovered that the Great Central Railway was going to end in St John's Wood (a few hundred yards west of Regent's Park). So he built a new hotel to cater for the travellers who would be ending their journeys at the new station and would need somewhere to eat and perhaps spend the night. He spared no expense, using 50 different kinds of marble, and even a included a bar that was open only for women. It was called the Crown Hotel.

There was only one problem.

The railway route changed and it didn't end in St John's Wood. The hotel continued in business, but was never the success that Crocker had hoped it would be.

After many adventures, the building was bought by Marouf Abouzaki in the early 2000s. He describes it as "love at first sight". Over several years, he restored the original building, retaining the high ceilings and fireplaces. There are still 50 different types of marble in the bar. The building is listed by English Heritage.

Crocker's Folly now offers a bar, a restaurant, and an outdoor terrace, and a combination of classic Lebanese cuisine with grills and steaks. (You might like the burger and chips, but if you're vegetarian, there is also a main course with aubergines – the owner is Lebanese, after all!)

It is a fascinating set of rooms, with a dining experience to match. You'll regularly find Mr. Abouzaki there, overseeing the kitchen. He will be happy to tell you more about the building and its history.

Inside Maroush Express

Interest increases in rare Middle Eastern books

The trade in rare Middle Eastern books is flourishing, as new collectors enter the market and interest in the region grows as a result of recent events.

Arab Banker spoke to Bernard Shapero, who has been dealing in rare books for nearly 40 years, about the Middle East book trade and how non-specialists can get involved.

ARAB BANKER: We are seeing a surge of interest in collecting rare books about the Middle East. Why is that?

BERNARD SHAPERO: Firstly, there are more people taking an interest in the Middle East these days. That's not surprising in view of everything that has been happening there in recent years. If you go to a good bookshop, you'll see a large number of books on display about contemporary events in the region – the Arab Spring, Islamic State, Syria, etc., and that trend is also being seen in the field of rare books. Clearly, the number of people wanting to buy a rare book on the Middle East is much smaller than those who are now taking an interest in the 'Middle East Politics' table at Waterstones or Daunt Books, but that number is getting bigger.

Prices for rare books can run to many tens of thousands of pounds, but it is also possible to buy interesting and beautiful books on the Middle East for a couple of hundred pounds. Many people start collecting with a limited budget and then develop a taste for collecting, become more sure about what they want, and start to buy more expensive books.

For example, there is a large range of books with beautiful steel engravings, written in the mid-nineteenth century, by travellers to the Middle East. These can cost between £200 and £1,000 and are a good way of starting a collection. Examples include Carne's *Syria and the Holy Land*, Williams' *Views of the Mediterranean*, and books by Bartlett on Egypt, Syria and the Holy Land.

I would add that despite the trend for people to read books on Kindles, iPads and even on their mobile phones, sales of real books are not decreasing and this is especially so for rare and collectible books. The industry is seeing something of a boom at the moment, and not just for Middle Eastern books.

What sort of people are buying rare Middle Eastern books?

The typical profile of someone buying 'top end' rare books – which we would define as books costing more than £10,000 – is a wealthy Western-educated man, between 50 and 70 years old. Most are European or American, although there are many good collectors in Lebanon, Egypt and the Gulf States.

These people are generally building libraries. They have a good idea of what they are interested in, but they also use us to help them develop a collection.

We are seeing a lot more younger people collecting books these days, although they are not necessarily looking for Middle Eastern books. Often they are looking for science books, particularly if they've made their money in the tech industry. There is currently big demand for children's books – first editions of Harry Potter, Roald Dahl, Winnie the Pooh, for example – because these younger collectors often have small children.

London and Paris are the centres for buying and selling books, although the two markets are very different. Books about the Gulf, Egypt and the Levant are bought and sold in London, while those on Morocco, Tunisia, Algeria and Libya are more often found in Paris.

What types of books have shown the greatest price appreciation in recent years, and what lies behind that price appreciation?

Books on the Gulf have appreciated the most in recent years, because there has been an increase in demand but supply remains limited. The increased demand is being driven by the arrival of new collectors and new institutions, such as libraries and universities. Supply is limited because there are fewer books written about the Gulf than about regions such as Egypt, the Nile and the Holy Land. There was very little in the Gulf that people wanted to write about before the 20th century and the books that we have tend to be by merchants or colonial officials who were passing through the region. However, by the early 20th century we have T. E. Lawrence books (either by him or about him) and books by Philby on

Saudi Arabia – that's H. A. R. Philby, by the way, not his son, Kim, the notorious Russian spy!

Do you think books are a good asset class for investment?

Over the long term, books do appreciate in value. If you'd bought a full set of *Description de l'Égypte* 20 years ago, you might have paid £35,000. Now you'll pay about £225,000 – that's a compound average growth rate of 9.75%! On the other hand, there are trends. Right now, science and children's books are very popular, but interests may change in a couple of years. Success in any area of investing is all about timing, and that applies to the book trade.

That said, one must bear in mind that a book is not a very liquid investment. A collection of books on a certain topic or country is likely to be easier to sell than single volumes, but books are not things that you can easily liquidate for cash at any time while still being sure of getting a good price.

So, I say to people that books will probably turn out to be a decent financial investment, but the main reason to buy them should be a love of books and collecting, rather than the prospect of financial gain.

Is there much demand for books in Arabic or Persian?

The market for books in Arabic and Persian is like the sea tide – it comes in and goes out! The market is far more volatile than Western books, but whenever you have something good, demand can be extremely high and prices go through the roof. The types of books that are in demand are copies of the Quran, other religious texts, and stories such as Kalilah wa Dimnah. It is a very different market from the market in Western books and has a different group of collectors.

How important is a book's binding to its price?

Bindings on books can be very important. Collectors usually want books to be as near to their original condition as possible, so rare books with their original bindings will always command a premium. On the other hand, one does have to be realistic – if you have been looking for a particular book and one becomes available, then you might have to grab it even if it has a poor binding. There will always be the possibility to upgrade the binding later – in fact, binding books is one of the services that we provide, in addition to buying and selling them.

Is it realistic to find rare books to give as presents, if one is not a collector oneself?

Yes it is. In fact it's quite common. Sometimes people know exactly what they want and they come to us and say, "Can you get me such-and-such a book with a good binding?" But then another might say, "I have a friend who loves reading travellers' histories of Lebanon, what can I get him for a special occasion?" Unless a book is very rare, we can usually source it in a few days. If the customer wants bespoke work – a new binding with a dedication, for example – the whole process could take up to a month, but if we are just sourcing the book and getting it into the customer's hands, it is usually much quicker than that. And it doesn't cost as much as you might think – you can get a very presentable book for about £200.

There are so many ways to find books on the internet now – even rare books – aren't book dealers like you going to become a thing of the past?

I don't think so. Firstly, there are a lot of rare books that just are not going to appear on internet search engines. They are in private collections, and unless you know where they are you won't find them. For example, we might know that a buyer in the Gulf acquired a collection 15 years ago, but that he is now getting old and is interested in selling – his books won't be in any catalogue, but we know they are there and can make an offer for specific books in response to customer requests. More generally, we do guide our customers who are building collections and libraries, and we protect them against mistakes. ■

L'Art arabe d'après les monuments du Kaire depuis le VIIe siècle jusqu'à la fin du XVIIIe **(Arab Art through the Monuments of Cairo, from the Seventh Century to the End of the Eighteenth), published in Paris, 1877.**

Emile Prisse d'Avennes travelled in the Middle East for more than 40 years, returning to his native Paris in 1860 with a wealth of drawings, photographs and sketches.

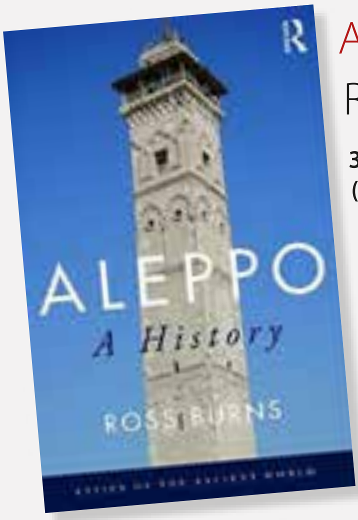
This four-volume work comprises three volumes of lithograph plates and one of texts. As *Arab Banker* was going to press it was available from Shapero Rare Books for £25,000.

Illustration from *Description de l'Égypte*, published in Paris, 1809–13.

Description de l'Égypte **is the first comprehensive description of ancient and modern Egypt and the outstanding achievement of the savants who accompanied Napoleon's expedition to Egypt (1798–1801). The work came about as a French military force under Napoleon made plans to colonise Egypt. Preparatory to this, it was felt necessary to learn everything possible about this relatively unknown land.**

This first edition comprises 26 volumes and includes the complete set of 894 plates of which 38 are wholly or partly printed in colour and/or hand-painted. As *Arab Banker* was going to press it was available from Shapero Rare Books for £225,000.

Book reviews



Aleppo: A History

Ross Burns

340 pages. Routledge £110 (Hardback)

This is a detailed history of Aleppo that transcends its immediate focus to place the city within a wider geographical and historical context.

Ross Burns is a former Australian diplomat who was Ambassador to Syria and Lebanon (based in Damascus) from 1984 to 1987. After retiring, he completed a PhD in aspects of Middle Eastern architecture. His detailed knowledge of architectural forms shines through this book. He is also the author of *Damascus: A History*, and *Monuments of Syria*.

Burns notes that Aleppo did not lie on a major waterway (the quweiq barely qualifies as a river) but that it did lie on the routes from Antioch on the Mediterranean to the Euphrates and to the 'Royal Road' running through Persia to the East. Though prosperous, it lived for centuries in the shadow of Antioch until Baybars, the Mamluk ruler in Egypt, sacked Antioch in 1268.

By the fourteenth century, Aleppo had become the main entrepôt linking Europe to Mesopotamia (a caravan from Aleppo to Baghdad took 45 days) – a position it would not lose until the nineteenth century.

Burns is excellent on the buildings and architecture that flourished under the dynasties of the Zengids (1127–74), the Ayyubids (1174–1260) and the Mamluks (1260–1516). The chapter on the first Ottoman centuries (1516–1750) illuminates the early success of the Ottoman Empire as a whole, and the causes of its decline. The city's Byzantine heritage is also well described.

Burns identifies three iconic buildings constructed along the spine of the ancient city during the early Ottoman years: Al Khosrofiye Mosque-Madressa; the Mosque of Dukukinzade Mehmet Pasha ('al-Adliye'), and the Khan al-Jumruk.

The final chapter begins to assess the damage done to Aleppo's architectural heritage, while acknowledging that, at the time of writing, the conflict was far from over.

In places this book is too detailed for the general reader (as might be the price, although a paperback version can be expected and will be much cheaper), but the narrative is well structured and the table of contents and index are detailed. As a result, those interested in particular periods of Aleppo's history will be able to identify relevant chapters and sections. The book contains more than 150 photographs and maps, and has detailed street plans from various periods. It is an essential item for any Middle East bookshelf. ■

Andrew Cunningham

Guardians of the Arab State: When Militaries Intervene in Politics, from Iraq to Mauritania

Florence Gaub

272 pages. Hurst £30

Browse the Middle East shelves of any big bookstore and you'll be presented with endless new titles about ISIS and contemporary jihadism, but within the field of contemporary Middle Eastern studies, few books have been published about the role of armies in the Middle East, despite the numerous conflicts that are being fought in the region.

Yet, as Florence Gaub points out on the first page of this new book, in 2011 armies in Egypt and Tunisia deserted their governments, those in Yemen and Libya disintegrated, the army of Syria began a war against its own people, and the forces of Qatar, Saudi Arabia and the UAE collectively intervened in Bahrain and to some extent in Libya.

Historically, we have considered the role of the military in Middle Eastern politics in terms of coups d'état, successful or otherwise. Many of the key political developments of the 1950s and '60s resulted from military coups – Nasser's assumption of power in Egypt in 1952, the succession of regimes in Syria culminating in Hafez al-Assad's seizure of power in 1970, Saddam Hussein's rise to power in 1968 and in 1979. Conversely, King Hussain's control of the military enabled him to repulse threats to his regime in 1958 and 1970. Armed forces played a crucial role in the early years of Algeria's independence, and an even larger role when it took control of the country during the 1990s.

All of these events – and many others – are studied in this book, but Gaub brings the story up to date with detailed analyses of armed forces in Iraq under former Prime Minister Maliki; of the role of the Egyptian armed forces during and since the overthrow of Presidents Mubarak and Morsi; and of the Syrian army – depleted but still following orders from President Assad after five years of civil war. The reasons for the disintegration of the standing armies in Libya and Yemen over the last six years are also addressed.

Gaub's encyclopaedic knowledge of both very recent and more distant Middle Eastern history yields many interesting points: about one quarter of all Iraqi military personnel are absent (without leave) at any time, and this increases to about 50% when units are deployed for combat outside their usual area of operations, such as during the IS assault on Mosul and Takrit in 2014; Syria's armed forces made 17 coup attempts between 1949 and 1982, of which 13 successfully toppled the existing regime; only 1% of officers in the Egyptian army had a university education in 1967, but this figure had risen to 70% by 1994.

Those interested in Saudi Arabia will find a coherent seven-page review of military–civilian relations in the Kingdom. Military-civilian relations in Lebanon are well covered.

Gaub structures her analysis through four themes that, in her view, determine the propensity of military forces to intervene in policies. The first is Institutional Capacity – the ability of the military to intervene. The second is Military Interests – is there a reason, from the military point of view, to intervene? Third is the civil–military relationship – does the civilian government fail to manage the military forces effectively? Fourth is the military's relationship with civil society, which either calls for military intervention or acquiesces in it.

This is a densely written and highly detailed book, but it is easy to read. The text is 185 pages, and is followed by 90 pages of notes and bibliography. The index is good so it is easy for readers to focus on areas of particular interest.

Gaub notes in her introduction that the decline in the frequency of coups since the 1980s has led to the assumption that Arab armed forces have been removed from politics. Her book shows that – with or without coups – the Arab military remains a significant actor in the Middle East today. ■

A.C.

Algeria Modern

Luis Martinez and Rasmus Alenius Boserup

165 pages. Hurst £45

A History of Algeria

James McDougall

432 pages. Cambridge University Press £23.99

As Algeria approaches the end of the Bouteflika era, it is hard to know whether to expect continuity or change in the years ahead. Both these books provide insight on this question.

McDougall's *A History of Algeria* is a detailed chronological account which gets into its stride at the start of the sixteenth century, when North Africa was buffeted by the re-conquest of Muslim Spain in the west, and the rise of Ottoman power to the east. McDougall describes the almost accidental way in which France occupied Algiers and then consolidated its rule, and he then takes the story through the struggle for independence and the early years of the Algerian state before devoting the final 50 pages to the civil war of the 1990s and more recent political developments, including the removal, in September 2015, of General 'Tewfiq' Mediene, the long-standing and hugely powerful head of the DRS, the internal security service.

This is a deliberately dry history, the latest in a series of authoritative histories of Middle Eastern countries published by the Cambridge University Press. For example, McDougall meticulously describes the ideological and institutional development of Algerian independence movements immediately after the Second World War. The description will be too granular for those interested only in the broad themes that shaped the Algeria that we see today.

But McDougall puts his detailed knowledge to good use when describing the current political paralysis in Algeria. He describes the removal of Mediene as 'disarmingly insignificant', not only because Mediene's replacement was 'Bachir' Tartag, a career soldier who had been number 2 in the DRS and a counsellor to Bouteflika, but also because it follows a pattern of power running through personal cliques rather than through institutions.

McDougall notes that in the post-colonial era the informal, personal and factional interior realities of the state had always been more important than its formal, impersonal and constitutional appearance, but he adds that now, power is exercised not through 'shadow institutions' (such as the DRS) that are capable of reproducing themselves, but rather through personal cliques that are not. That, McDougall seems to say, is the most worrying feature of the contemporary political scene. Bouteflika is now the last of the generation born in the 1930s and formed through their involvement in the independence war of 1954-62. For all their failings, Bouteflika's generation provided continuity and stability: who now can take their place?

Algeria Modern is a collection of seven essays on different aspects of contemporary Algeria. They are written by academics who are keen to ground their work in political theory. The general reader can usually bypass the academic scene-setting and get straight to the meat. In their introduction, the editors' identify the sacking of Mediene as an example of how power has been moving towards the army – a different conclusion from that of McDougall. Boserup's essay on popular protest shows the extent to which protests are tolerated by the regime as a useful, and harmless, pressure valve to relieve discontent. Also worth reading are McAllister's essay on the views of young people living in the Bab al-Oued suburb of Algiers, and Boukhars on Algeria's southern regions and borders.

The general reader should not attempt to read either of these books from cover-to-cover. This reviewer found the central chapters of McDougall's history heavy going, although there is little doubt that they will continue to be an essential resource for researchers for many years to come. One or two of the essays in *Algeria Modern* are aimed squarely at the academic reader. Nonetheless, it is possible to dip in and out of both books, using the index to identify areas of particular interest. ■

A.C.

The Fix
Liam Vaughan and Gavin Finch

200 pages. Bloomberg Press £19.99

The Spider Network
David Enrich

479 pages. WH Allen £14.99

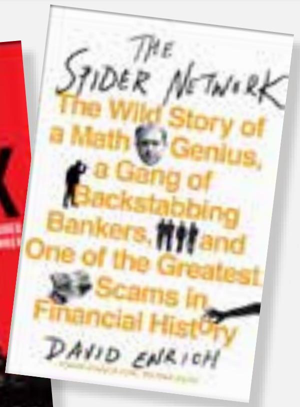
These books tell the story of how bankers and brokers allegedly conspired to manipulate Libor, the interbank benchmark that governs the price of billions of dollars of financial products. More specifically, they tell the story of Tom Hayes, the only person to have been jailed in the United Kingdom in relation to the Libor scandal.

Anyone who has worked in financial markets over the last few years is familiar with the basic story, but these books provide details on how the manipulation of Libor was effected, and they describe the culture and practices that pervaded trading rooms and certain brokerage houses at the time, and that made the manipulation of Libor possible.

Tom Hayes was an outsider. He was socially awkward as a result of Asperger's Syndrome (a condition that was formally identified shortly before his trial), but he had a facility with numbers that both drew him into the world of complex financial products and made him very good at trading them.

For many years, traders had allegedly been leaning on colleagues on their cash desks to change their Libor submissions in the hope that a rise or fall in their bank's submission would affect published Libor rates (which are a composite of many banks' submissions), and so enhance the value of their trading positions. What Hayes realised was that by leaning on brokers, he could affect the Libor submissions of several banks rather than only the one submitted by his own.

The difference between these two books, apart from their length, is that David Enrich, of the *Wall Street Journal*, has had access to Tom Hayes. Hayes began speaking to Enrich 'off the record' in January 2013, shortly after he was arrested by British police, and Hayes' wife also spoke to him. They both agreed that after Hayes' trial, everything they had said could be put 'on the record'. In contrast, Vaughan and Finch, from Bloomberg, had to rely primarily on public information, such as trial documents, but these do contain a lot of detail, such as emails and transcripts of phone calls between Hayes and his brokers and with other traders.



Both books describe Hayes' success at UBS, his move to Citibank, his firing by Citibank when they discovered evidence that he had been trying to manipulate Libor, his arrest by British police in December 2012, the tussle between British and US authorities over who would bring Hayes to trial, and Hayes' last-minute decision to plead 'not guilty' and make his case to a jury.

Vaughan and Finch also consider the alleged Libor fixing by Barclays and the bank's efforts to show that it had been told by the Bank of England to post lower Libor submissions in order to demonstrate that Bank of England measures to calm money markets during the financial crisis were being effective.

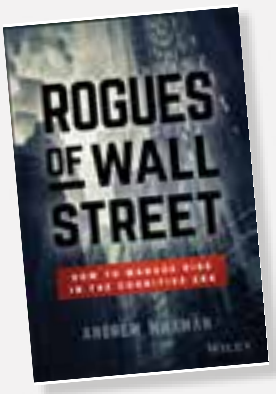
Both books are worth reading. If you have the time to read Enrich's book, you will certainly find plenty of colour and detail. For those with less time, Vaughan and Finch tell the story well and give a good account of all its significant aspects.

Having read these books, one can't help feeling some sympathy for Hayes, who is currently serving an 11-year jail sentence. Although he himself admitted to his own dishonesty, there can be no doubt that plenty of others, including senior managers, knew what was happening and did nothing to stop it. ■

A.C.

Rogues of Wall Street
Andrew Waxman

220 pages. Wiley £39.99



This book takes a broad view of what constitutes a 'rogue' of Wall Street, and it is all the more refreshing for taking such an expansive approach. Of course, the usual suspects are described: Nick Leeson, who brought down Barings Bank, Bruno Iksil, the 'London Whale' whose team caused billions of dollars of losses at JPMorgan, and Bernie Madoff, the high-society fund manager whose Ponzi scheme collapsed in 2008. But Waxman also considers the perils of badly written Excel sheets and inappropriate usage of social media. In between, he addresses cybersecurity, IT risk and litigation risk.

The book describes measures that banks and their managers can take to guard against the losses threatened by these 'rogues' and suggests ways to identify them before they can do damage. The text does not go into great detail, but the footnotes point the way to original documents for those who want to follow the stories more closely.

It is a shame that this book has been so badly edited. Poor grammar and punctuation abound, and there are some sloppy factual errors: Kweku Adoboli hailed from Ghana not Nigeria; Libor is not the London Interbank Lending Rates. Nonetheless, this book gives a useful overview of the wide range of risks that banks face, and helpful ideas on how to address them. ■

A.C.

COMMISSION des SCIENCES ET ARTS d'ÉGYPTE. Description de l'Égypte. Paris, Imprimerie Impériale [then] Royale, 1809-13, 1817-30.

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