ARAB Banker

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The Global Magazine of the Arab Bankers Association (ABA)

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Looking towards a brighter future

Life has not been easy for Arab banking! Arab banks seem destined to live a continuous real-time stress test.

Over the past few years, we have reflected on the tough conditions facing Arab banks. We have also wondered how they have managed to survive, and even thrive, despite great adversity.

It is now time to reconsider this environment and the prospects for our industry. Our argument, set out below, is that the difficulties that Arab banks continue to face do not hide improvements in the general situation, and a brighter future.

First, the price of oil, a simple number that drives all the economic health of the region, has risen to a healthy level – one that seems sustainable over the medium term. This helps with liquidity and credit quality, and provides a benign atmosphere for commerce and investment, with the attendant opportunities.

Second, the ever more complex regulatory pressures seem to have reached their climax. The increasing regulatory pressure could not continue indefinitely, and may have already been overdone. Banks are due some relief and they are about to get it. This will result in a shifting of the focus of management towards business expansion, and hopefully in a reduction of the cost of doing that business.

Third, Brexit, which as of the time of writing remains a mystery to one and all, seems to have had little impact on the behavior of Arab banks. There will certainly be little or no diminution of their presence in London. Some of these banks will augment their presence in Europe, particularly in France, but London will remain the global centre for Arab banking and its preeminent platform.

Finally, there is the politics of the area. The long suffering of the 'Arab Spring' seems to be abating. Tunisia is calm and Egypt is doing well, with big reforms already achieved. Peace efforts continue elsewhere. Most exciting for Arab banks is Iraq, where ambitious reforms are expected, both at the Central Bank (under new leadership) and in the banking sector.

Unfortunately, we still have significant tensions in the Gulf, no end in sight to the war in Yemen, a continuation of the Palestinian problem, and increasing unease as a result of the US withdrawal from the JCPOA with Iran. Sanctions continue to put pressure on banks and de-risking remains a huge problem in the area and beyond.

In all of this, the ABA continues to play a constructive role.

We continue to hold very useful meetings between Arab bank CEOs and senior teams from the UK bank regulators. Through these meetings and others, we have upped our game as interlocutors between the Arab banking community in London, in its great variety, and regulatory, governmental and other professional bodies. This role is destined to grow.

Our lunches for corporate members are a manifestation of how professional bodies are using us as a forum to test new ideas, services and products. A case in point was an event at which the World Platinum Investment Council tested new Islamic banking products based on the use of platinum, on

an audience of our members. We cherish this role, and we invite our members to take advantage of it.

We are also performing a valuable social function. Events such as our last Eid dinner have been a smashing success. We added a new event this year, a summer party. The ABA is a serious organisation, but we are also a fun organisation!

At our forthcoming gala this autumn we will be granting our sixth 'Banker of the Year' award to Mr. Nemeh Sabbagh, Chief Executive Officer of the Arab Bank in Jordan. Mr. Sabbagh's award recognises his achievements as chief executive of a number of Arab banks, including Arab National Bank in Riyadh and BankMed in Beirut. He has run banks with sophistication and care, introducing reforms and building exceptional management teams. His reputation is unblemished and does Arab banking proud.

Enjoy this issue of *Arab Banker*. I thank all of our advertisers and contributors, and all those who make it the premier publication of its genre. Special thanks go to our Editor in Chief, Mr. Andrew Cunningham, whose tireless and intelligent work make the magazine the success that it is.

I also thank all our corporate members, especially those on our board, for their guidance and support. May that continue and increase.

I welcome warmly our individual members and greatly appreciate and encourage their participation in all that we do.

George Kanaan
Chief Executive Officer
Arab Bankers Association

Positive, well-informed and realistic

Andrew Cunningham, *Arab Banker's* Editor, describes the magazine's editorial policy, and how it is fulfilled in this new edition.

When we relaunched *Arab Banker* in 2013, our aim was to present a positive, well-informed and realistic view of Arab banking. I believe we achieved that aim in the previous editions of the relaunched magazine, and that we have achieved it again in this, the sixth edition.

Our lead article this year is about Arab Bank, one of the most resilient institutions in the Middle East and one which has protected its customers' deposits through times of uncertainty and conflict. Within the article is a description of the bank's recent legal victories in the US courts, successfully fending off charges brought under anti-terrorism legislation and 'Alien Tort' legislation. Arab Bank's victories bring benefits not only to other Arab banks but also to banks and businesses worldwide.

We are also carrying an interview with Saad Azhari, the Chairman and General Manager of Lebanon's Blom Bank. Mr. Azhari takes a positive view of recent political developments in Lebanon, which include the election of a president and the holding of elections, and he offers detailed policy suggestions for ways in which the new government can strengthen the Lebanese financial sector and the economy as a whole.

Later in the magazine, Dr. Marwan Barakat, the chief economist of Lebanon's Bank Audi explains the mechanics by which the Central Bank of Lebanon has reduced the country's debt burden and the cost of its debt through innovative swap operations.

Egypt is another Middle Eastern country with a new government. On page 42, Akef El Maghraby, the Vice Chairman of Banque Misr, Egypt's second biggest bank, identifies some of the economic priorities that will characterise President Sisi's second four-year term.

We have two articles on Saudi Arabia. The first, by Georges Elhedery of HSBC, considers the implications of MSCI's decision to upgrade the Saudi stock market to Emerging Market status, while in the second, Chiradeep Ghosh of the Bahrain investment bank SICO predicts higher profits for Saudi banks, based on rising oil prices and domestic reforms.

I am pleased to be able to include three articles about fintech. The first considers whether fintech will disrupt the operations of traditional banks, both in the Middle East and globally, and it offers suggestions for further reading so that readers can make up their own minds. Then, Harris Irfan, a banker with years of experience on the front lines of Islamic finance, describes how he is promoting Islamic fintech companies in the UK. Finally, Tarek Zacharia, who heads an executive search firm in London, provides advice on how bankers and others can transition into a fintech career.

This edition of *Arab Banker* also stays true to its mission of being realistic about the challenges that we face. On page 30, AbdulMagid Breish describes the difficulties that he has had in bringing a more professional approach to the management of the Libyan Investment Authority, Libya's sovereign wealth fund. On page 57, Shakeel Aslam notes that regulatory pressure on banks in London will continue and offers some suggestions on how to address this continuing pressure.

There is much more in this magazine than I have cited above: I would draw your attention in particular to the article on page 76 about Arab philanthropy and the work that many wonderful Middle Eastern organisations are doing to give young people more opportunities for better education.

As in previous years, thanks are due to George Kanaan, the Chief Executive Officer of the Arab Bankers Association, for his indefatigable support for the magazine. Thanks are also due to Isla Rosser-Owen for proofreading the text.

I am sad to have to report that Martin Cox, who designed and typeset *Arab Banker* since its relaunch in 2013, died earlier this year after a short illness. Martin's sharp and consistent design has been a crucial factor in the success of the magazine. Our thoughts are with his family.

We are fortunate that Antony Gray has been able to take over Martin's role and I am grateful to him for maintaining the quality of *Arab Banker's* appearance and for efficiently preparing it for printing. The final thanks go to Jason Smith, of JPS, who printed the magazine and managed its distribution.

Andrew Cunningham
Editor in Chief

Western shareholders withdraw from Saudi commercial banks, but Arab banks are keen to enter

Foreign involvement in Saudi Arabia's banking system is changing as many of the long-standing Western shareholders reduce their stakes in local commercial banks, and as non-Saudi GCC banks expand their networks in the Kingdom.

JP Morgan announced in late June that it would sell its 7.49% stake in Saudi Investment Bank back to the bank. Earlier this year Crédit Agricole sold a 16% stake in Saudi French Bank to Kingdom Holding, one of the investment vehicles of the Saudi prince Walid bin Talal. Crédit Agricole retains a 14.91% share.

Royal Bank of Scotland has been trying to divest or reduce the 40% stake in Al-Awwal Bank that it received as part of its acquisition of ABN AMRO in 2007. Al-Awwal used to be named Saudi Hollandi Bank. Al-Awwal announced earlier this year that it will merge with Saudi British Bank, with the result that Royal Bank of Scotland's holding will be diluted.

There are only two other domestic Saudi banks with significant foreign shareholders: Arab National Bank, in which Jordan's Arab Bank has a 40% stake, and Saudi British Bank, in which HSBC has a 40% stake. HSBC's stake will be diluted by the Awwal–Saudi British merger, but not to the same extent as Royal Bank of Scotland's, since Saudi British Bank is more than twice as big as Al-Awwal in terms of equity size.

In the early days of Saudi banking there were many foreign banks operating independently in the Kingdom. The first was the Netherlands Trading Society, which became Saudi Hollandi Bank, which opened in Jeddah in 1926. (At that time, the Netherlands governed territories in Asia, from where many Muslims made the annual pilgrimage to Mecca and Medina.) In 1976, foreign banks in Saudi Arabia were required to incorporate as joint ventures with local investors, and their shareholding was capped at 40%. Nearly all Saudi banks had significant foreign shareholders: Samba (Citibank), Saudi French Bank (Banque Indosuez, now Crédit Agricole), Saudi British Bank (British Bank of the Middle East, now HSBC), Arab National Bank (Arab Bank), Saudi Hollandi (ABN AMRO, now Royal Bank of Scotland), Bank Al-Jazira (National Bank of Pakistan), Saudi Investment Bank (a consortium led by Chase Manhattan, now JP Morgan Chase). United Saudi Commercial Bank, which is now part of Samba, had three foreign shareholders including Bank Melli Iran; and Saudi Cairo Bank, which was taken over by United Saudi Commercial Bank, had Banque Misr as a 20% shareholder.

Starting in the late 1980s, bank mergers diluted the foreign stakes, and foreign banks began to reduce their holdings. Citibank sold its remaining stake in Samba in 2004.

Higher capital requirements have been a major factor in pushing foreign banks to reduce their risk-weighted assets overseas, but at the same time it has become easier to do business in the Kingdom without a local presence based on equity investment in a local bank. The Kingdom's financial markets have become more open and sophisticated as the country's financial requirements have grown. In 2017, Citibank returned to Saudi Arabia with an investment banking licence issued by the Capital Markets Authority (as opposed to the Saudi Arabian Monetary Agency, the bank regulator).

As Western banks have been reducing their physical presence in the Kingdom (even if they have been stepping up their efforts to win advisory and underwriting mandates), other Middle Eastern banks have announced plans to increase their presence.

Foreign shareholdings in Saudi commercial banks

	Major foreign shareholders	Total foreign shareholding (16 July 2018)
Al-Awwal	Royal Bank of Scotland, 40%	41.81
Alinma	–	3.41
Al-Rajhi	–	5.91
Arab National Bank	Arab Bank, 40%	41.07
Bank Albilad	–	0.71
Bank Al-Jazira	–	5.32
Riyad Bank	–	1.05
National Commercial Bank	–	1.98
Samba Financial Group	–	5.91
Saudi British Bank	HSBC, 40%	40.90
Saudi French Bank	Crédit Agricole, 14.91%	16.19
Saudi Investment Bank	JP Morgan, 7.49%	10.21

Source for information: Tadawul (Saudi Stock Exchange website), accessed on 17 July 2018.

Bahrain-incorporated Gulf International Bank was awarded a full Saudi commercial banking licence in 2017. Although GIB is incorporated in Bahrain and licensed by the Central Bank of Bahrain, Saudi Arabia's Public Investment Fund holds 97% of its shares. The other shareholders are government organisations from the five other GCC countries. These five were heavily diluted through a capital injection by the Public Investment Fund following the global financial crisis.

Emirates NBD is in the process of opening three new branches in Saudi Arabia, in Jeddah, al-Khobar and an additional branch in Riyadh. This will make the bank's branch network its biggest outside the UAE and Egypt. First Abu Dhabi Bank announced in March that it had been given permission to open three branches.

SAMA's monthly bulletin for May 2018 shows eleven foreign banks (not including GIB) that have branches in the Kingdom. The GCC is represented by National Bank of Bahrain, National Bank of Kuwait, Qatar National Bank, Emirates NBD and Bank Muscat. Various countries have a single representative office: BNP Paribas, Deutche Bank, JP Morgan Chase, National Bank of Pakistan, Ziraat Bankasi, and ICBC of China. SAMA shows State Bank of India having a branch until the end of 2017.

Changes at the top of London-based Arab banks

Paul Hartwell was appointed CEO of First Abu Dhabi Bank's London branch in June. He had previously been CEO of British Arab Commercial Bank (BACB), a London-based bank with a big focus on trade finance in emerging markets, particularly North Africa and areas of sub-Saharan Africa. Before that, he was the CEO of Mitsubishi UFJ Securities, and he held Chief Risk Officer and Chief Operating Officer positions at Standard Bank, Barclays and West LB.

First Abu Dhabi Bank was created in early 2017 through the merger of National Bank of Abu Dhabi and another Abu Dhabi-based bank, First Gulf Bank.

Paul Hartwell effectively replaces Farid Barakat, who retired after leading National Bank of Abu Dhabi's operations in London for many years and heading First Abu Dhabi Bank for a few months after the merger.

Hartwell has been replaced at BACB by Suzie Aliker, who was previously the bank's Chief Financial Officer. Aliker joined BACB in 2014 after a long career with Credit Suisse, during which she held several global management roles and was responsible for new business for all divisions of Credit Suisse across Europe, the Middle East and Africa. She has particular experience of East Africa.

Ziyad Akrouk left his position as CEO of Europe Arab Bank in March, returning to Amman to take up new responsibilities in Arab Bank's head office. Akrouk had led Arab Bank's operations in London since 2011. Mohammed Memon, Europe Arab Bank's Chief Financial Officer, was acting as CEO as *Arab Banker* went to press.

Houssam Barakat has replaced Mohammed Afrine as Managing Director of BMCE Bank International in London. BMCE International is a subsidiary of Morocco's BMCE Bank. Mr. Afrine has transferred to Paris to lead BMCE Euroservices.

Jordan International Bank moved to new premises in May. The bank's new office is at 24–25 King Street, just south of Piccadilly in London's prime West End district. CEO Rakan Tarawneh, who was appointed in October 2017, says that the move was needed to accommodate the planned expansion of the bank's activities, which covers both personal and corporate business.


Paul Hartwell


Suzie Aliker


Houssam Barakat

New CEO for Lebanon's Bankmed

Raoul Nehme became Executive General Manager of Bankmed in June, replacing Mohamed Ali Beyhum who had led the bank since 2010.

Nehme was previously the Chairman of the Executive Committee of Astrobank, a Cypriot bank formerly known as Piraeus Bank Cyprus. Piraeus Bank Cyprus was acquired in late 2016 by Maurice Sehnaoui and rebranded as Astrobank in March 2017 with a new board of directors led by Shadi Karam, a prominent Lebanese businessman who has acted as an advisor to former prime minister Tamam Salam.

Before taking his position at AstroBank, Nehme had been General Manager at BLC Bank, in which Mr. Sehnaoui holds 18%, with Lebanon's Fransabank being the majority shareholder with 69%.

Nehme's appointment came at the same time that OLT Holding, which is owned by Jordanian businessman Alaa al-Khawaja, bought a 42.24 % stake in GroupMed Holding, the company that owns all of Bankmed's shares. Khawaja acquired the shares from Ayman Hariri and press reports put the value of the sale at $535 mn, which would value Bankmed at $1.3 bn.

Ayman Hariri is the brother of Saad Hariri, the current Lebanese prime minister, and both are sons of Rafic Hariri, the former prime minister who was assassinated in 2005. Saad Hariri continues to hold 42.24% of the bank, and the remaining shares are held by Mrs. Nazek Hariri, the widow of the former prime minister.

Bankmed has existed since 1944 but as Banque de la Méditerranée rose to prominence in the late 1980s and 1990s.

Alaa al-Khawaja is a successful investor who is reported to have held stakes in several financial institutions in Egypt, but he is also known for his stake in Egyptian telecoms companies and in regional hotels and leisure companies. In a press release issued by GroupMed, Khawaja was quoted as saying that his acquisition of the GroupMed shares "will pave the way for increasing and diversifying the ownership structure of GroupMed Holding which could result in an initial public offering in the near future". Neither GroupMed nor Bankmed is currently listed on the Beirut stock exchange.

New CEO at National Commercial Bank

Saudi Arabia's National Commercial Bank announced in May that its CEO, Mr. Saeed al-Ghamdi had been appointed Chairman of its board of directors. He has been replaced by Faisal Al-Sakaf, who had been Head of Strategy and Business Development.

National Commercial Bank is the biggest bank in Saudi Arabia and one of the biggest in the Middle East, with equity of $17.2 bn at the end of 2017.

Ahli United Bank and Kuwait Finance House discuss merger

In an announcement to the Kuwait stock exchange on 16 July, Kuwait Finance House said that it had sent a letter to Bahrain's Ahli United Bank inviting Ahli United to sign a memorandum of understanding and non-disclosure agreement to begin valuation studies and other tasks to assess the feasibility of creating a new banking entity. Ahli United's announcement to the Bahrain stock exchange noted that the bank was considering steps that would lead to the combination of the banks through a share swap to create a major regional banking institution.

The banks were reported to have begun discussions on a merger in 2017, but were unable to reach an agreement due to differences of opinion on valuations.

Kuwait Finance House is a shariah-compliant bank. It had equity of $7 bn at the end of 2017, making it the second largest in Kuwait. Ahli United Bank had equity of $4.9 bn at the end of 2017, making it the biggest Bahraini bank. Kuwait Finance House's market capitalisation was $12.8 bn and Ahli United's was about $5.4 bn in mid July.

Kuwait Finance House has significant subsidiaries in Turkey and Malaysia. Much of Ahli United's consolidated balance sheet comprises its majority ownership of a shariah-compliant bank in Kuwait (with equity of $1.6 bn at the end of 2017). It also has significant operations in Egypt, Oman and the UK. Ahli United is also reported to be acquiring a 7% stake in Saudi Arabian Bank al-Jazira.

GCC merger and acquisition activity continues

Merger and acquisition activity in Saudi Arabia, and the possible tie-up between Kuwait Finance House and Ahli United, may be the most exciting M&A prospects in the GCC, but they are not the only ones.

After more than 18 months of talks, Qatari banks Barwa, International Bank and Masraf al-Rayan announced in June that they were unable to reach agreement on a merger, but Barwa and International Bank then announced that they would proceed alone. Barwa and International Bank are the smaller of the three. Barwa is a shariah-compliant bank (as is Masraf al-Rayan) and although mergers between conventional and shariah-compliant banks are complicated, they are not impossible and have been done before.

Commercial Bank of Qatar has been trying to sell its 40% stake in Sharjah-based United Arab Bank to the Abu Dhabi private equity vehicle Tabarak Investment.

Oman Arab Bank is reported to be in talks to acquire alizz Bank, one of the two small shariah-compliant banks in Oman. Jordan's Arab Bank and the state-owned Ominvest are the major shareholders in Oman Arab Bank.

Omani banks change CEOs

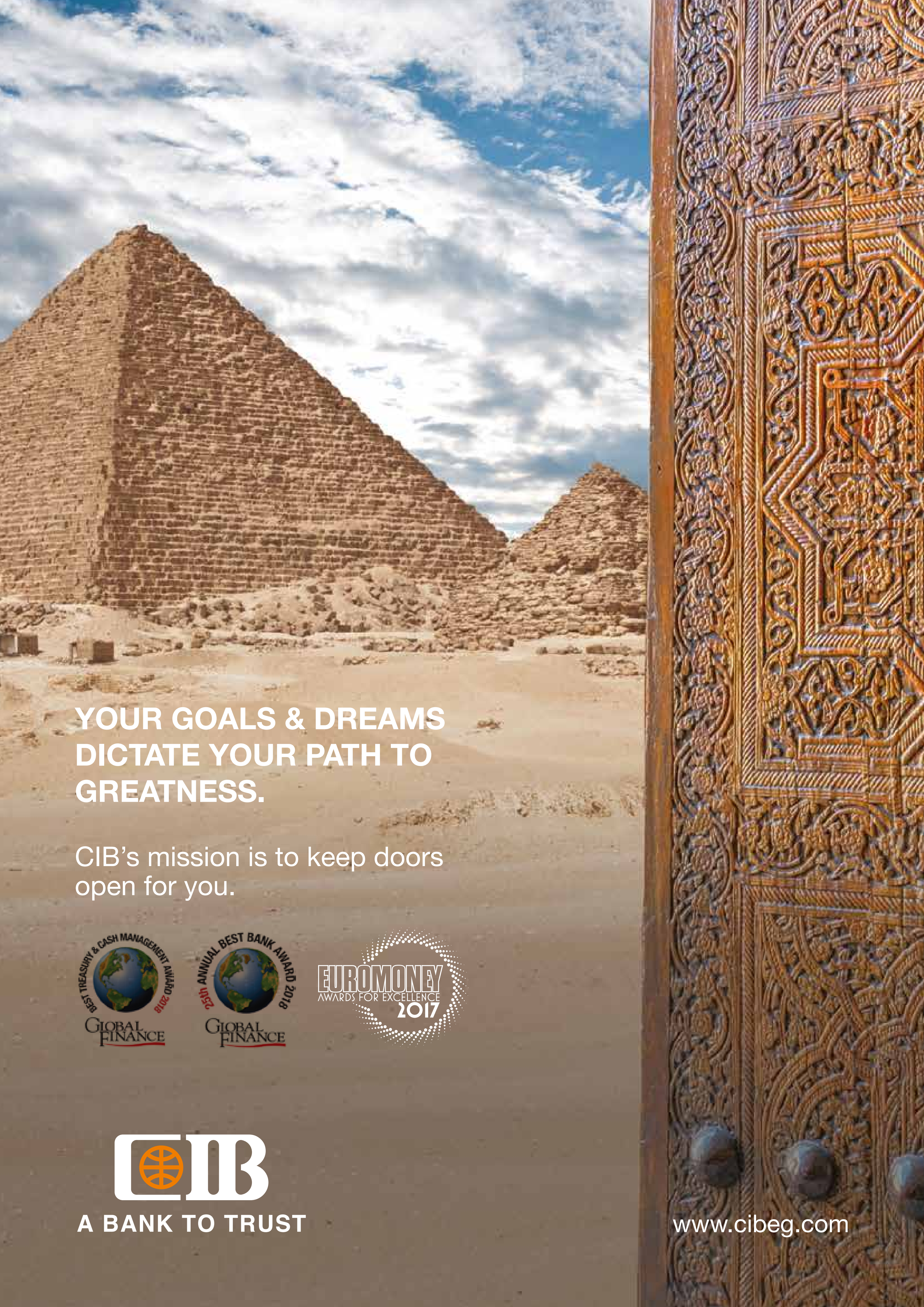
Bank Muscat announced in July that Sheikh Waleed al-Hashar will succeed Abdul Razzak Isa as Chief Executive on 1 January 2019. Ahmed Al Abri, the current Chief Operating Officer will retire at the same time. Al-Hashar has been serving as Deputy Chief Executive of Bank Muscat.

The executive changes will be accompanied by a new organisational structure that has been prepared by Abdul Razzak Isa and his team.

Abdul Razzak has been one of the longest serving CEOs in GCC banking: he was appointed in 1994. Under his stewardship Bank Muscat successfully navigated the consolidation of Omani banks, as well as expansion into neighbouring countries. Bank Muscat is now by far the biggest Omani bank, with equity at the end of 2017 of $4.7 bn, more than three times the size of its nearest rival.

Oman's Bank Sohar appointed Ahmed al-Musalmi as its new CEO in May. Musalmi replaced Sasi Kumar, who had served as CEO for more than ten years. Musalmi had served as CEO of National Bank of Oman since 2014. Sayyid Wasfi al-Said, National Bank of Oman's Chief Investment Officer, was appointed as the bank's acting CEO.

Ahli Bank appointed Said Abdullah al-Hatmi as CEO in June, replacing Lloyd Maddock, who left the bank for personal reasons. Hatmi had previously been Ahli Bank's senior general manager.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Sharp strategic focus and long-term performance: Arab Bank keeps its eyes on the future

Arab Bank is much more than a bank. Since its foundation nearly 90 years ago, it has been trusted in the region as a safe haven during times of trouble, and it has never betrayed that trust. In its home market, Arab Bank is a symbol of strength and continuity, while further afield, it has been building bridges between Arab economies.

But for all that, Arab Bank is still a bank – one of the largest in the Middle East – and banks are judged on their capital ratios, their liquidity and the profits that they earn through serving their customers. *Arab Banker* spoke to Arab Bank's CEO, Nemeh Sabbagh, about the bank's strategy for the future, how it judges its performance, and how it is able to combine its responsibilities to customers, staff and shareholders with its wider sense of responsibility to Jordan and the Arab world.

Nemeh Sabbagh is clear about Arab Bank's strategy. "We are a commercial bank. We fund ourselves primarily through customers' deposits, and we provide credit to major companies and finance the personal needs of consumers."

Arab Bank has one of the biggest international networks of any Middle Eastern bank and exploiting the linkages in that network is the key to the bank's international strategy.

"We are very good at trade finance and cross-border lending," says Sabbagh. "It is what our customers need, and it is something that produces consistent revenues for us. We do investment banking principally in our home markets in the Levant."

Arab Bank has significant asset management operations, led by its subsidiary in Switzerland which has nearly $3.5 bn under management. Islamic finance is led by its local subsidiary in Jordan, Islamic International Arab Bank, which is wholly shariah-compliant.

During 2017, half of the bank's operating income was generated in the six GCC states, another 13% in North Africa and 9% in other Middle Eastern countries. About a quarter was generated in the bank's home market of Jordan, leaving Europe and the Far East accounting for about 4% of operating income.

These figures do not always reflect the volume of business that the bank does in each region: some regions are more profitable than others. For example, the GCC accounts for only about a quarter of loans and deposits, but this is profitable business, in part due to Arab Bank's entrenched position, which includes a 40% stake in Arab National Bank in Saudi Arabia, but also as a result of the low tax environment. In contrast, Europe accounts for about 10% of loans and deposits, but strong competition and higher taxes reduce the share of income that Europe can produce.

Sabbagh says that Arab Bank is currently in nearly every country that it wants to be in. It is doing a lot of business in the Middle East with Chinese contracting companies and so hopes to strengthen its presence in China in the near future – the bank currently has a representative office in Shanghai.

The bank does not have a presence in Kuwait, but Sabbagh sees Kuwait as a well-served market which offers few opportunities to newcomers. As for Iraq, the only other Arab country where Arab Bank is not represented, Sabbagh is set on a cautious approach.

He is similarly cautious when it comes to acquisitions. "We certainly want to grow our businesses and will look at acquisition opportunities," he says, "but organic growth has been serving us well for decades, and I see no reason to change that now."

This is a significant point, and one that is sometimes lost on those new to the region and its financial markets. There has been a lot of merger and acquisition activity in the Middle East recently, particularly in Egypt, where the Egyptian government has been selling the stakes that it held

As of 31 December 2017	% Loans	% Deposits	% Revenue	% Net operating income
Jordan	30	35	29	24
GCC	28	24	37	50
North Africa	17	16	15	13
Other Middle East	10	13	11	9
Europe	10	10	6	3
Far East and other	5	2	2	1

Source: Arab Bank

in local banks, but also in Tunisia, and even in the GCC, where regulators have become more willing to approve cross-border acquisitions. This has enabled several of the larger Arab banks to expand their footprints through acquiring and then growing small local firms. Yet Arab Bank has always grown organically, expanding its existing branch networks, some of which were first created in the 1940s, '50s or '60s.

The impending British withdrawal from the European Union ('Brexit') is forcing Arab Bank to change the structure of its operations in Europe. At the moment, European business is centred in London, with operations in France, Germany and Italy being branches of the London subsidiary. As a result of Brexit, the bank is creating a subsidiary in France, and Germany and Italy will be branches of the new French subsidiary.

Domestic responsibility

The significance of Arab Bank's international operations should not mask the role that it plays in Jordan, its domestic market. Arab Bank accounts for more than 30% of all lending and deposits in Jordan and has a balance sheet and equity several times larger than the next biggest bank. Its market capital accounts for almost 25% of the total market capital of the Jordan stock exchange.

"We live and work in a turbulent region, but we know how to keep our balance and keep doing business even during times of great uncertainty and upheaval."

"This places great responsibility on us," says Sabbagh. "A lot of Jordanians are relying on us to safeguard their savings and to help them fulfil their financial needs. They trust us, because they know that we have never let them down, ever, since the day we were founded in 1930, and despite all the turmoil that the region has seen – and particularly this part of the region has seen – in the years since then. We never underestimate the responsibility that we have to these customers."

Arab Bank's history is indeed a history like no other. It was founded in Jerusalem by Abdul Hameed Shoman and six other investors. In 1930, Jerusalem was part of the British Mandate of Palestine. When war broke out following the creation of the State of Israel in 1948, the bank lost its branches in Haifa and Jaffa and had to transfer its head office to Amman. But when customers who had been forced to flee Haifa and Jaffa came to Arab Bank to redeem their deposits, they were paid out in full.

Arab Bank expanded during the turbulent decades of the '50s and '60s, always meeting its obligations even though its operations in several Middle Eastern countries were nationalised. War in 1967 led to the loss of branches in the West Bank and Gaza, but again, when customers of the occupied branches claimed their deposits, they were paid out in full.

Sabbagh is philosophical about the challenges that Arab Bank has faced and continues to face in the Middle East. "We live and work in a turbulent region, but we always have done, and we know how to keep our balance and keep doing business even during times of great uncertainty and upheaval."

This sense of social responsibility extends into the bank's community investment work towards sustainable development. In 1978 it created the Abdul Hameed Shoman Foundation to fund scientific research, education and cultural activities. The Foundation's works are ubiquitous in Jordan and have a major impact on the nation's social and cultural environment. Arab Bank also dedicates some of its profits to corporate social responsibility programmes outside the orbit of the Shoman Foundation.

The road ahead

So what do the next five years hold for Arab Bank?

Sabbagh is enthusiastic about the opportunities presented by new financial technology. Arab Bank has recently set up an 'Innovation Hub' with a mission to use 'fintech' to find solutions to current banking problems, and to find a way of performing existing transactions and processes more efficiently and cheaply.

The focus on corporate business will continue, but retail operations will be strengthened in a few territories where they appear underweight. At the end of 2017, 60% of the bank's credit facilities were extended to large corporates, about 12% to small- and medium-sized enterprises, and about 23% to consumers. Those proportions are unlikely to change much in the years ahead.

"Our objective is to achieve sustainable profits and a healthy return on equity," Sabbagh says, adding, "When

	End-2017	End-2016	End-2015	End-2014	End-2013
Key financial figures					
Total Assets	48,163.7	47,460.4	49,044.6	48,812.6	46,399.6
Loans	23,488.6	21,898.1	22,181.0	22,002.0	20,971.4
Customers' deposits	31,080.5	31,082.2	32,799.2	32,065.3	30,722.8
Shareholders' equity	8,409.3	8,164.5	8,015.6	7,888.7	7,767.7
Net profit	533.0	532.7	442.1	577.2	501.9
Key performance ratios					
Total capital adequacy	14.1	14.4	14.2	14.8	15.2
Cost/income	39.7	41.9	42.3	42.3	42.0
Loan/deposit	74.4	70.4	67.6	67.7	67.1
Return on assets	1.1	1.1	0.9	1.2	1.1
Return on equity	6.3	6.5	5.5	7.3	6.5

Source: Arab Bank

we talk about profits, the key is that they are sustainable. We will continue to focus on our areas of strength and to continuously work to improve the efficiency of what we do."

Sabbagh says the bank is focused on clear and measurable Key Performance Indicators (KPIs), such as the cost-to-income ratio (which is currently around 40% across the consolidated group) and return on equity (which has been running at around 6% and which has been impacted by the cost of litigation for the New York legal cases which were finalised in early 2018). Maintaining a clean balance sheet through low non-performing loan ratios is another KPI.

"When we talk about profits, the key is that they are sustainable."

As Sabbagh looks back over nearly nine years at the helm of Arab Bank, he picks out two events that he is particularly proud of. "I think this bank did a good job of navigating the Arab Spring. We kept lending where we could, we pulled back where we had to, and we came through those years with one of the cleanest balance sheets of any commercial bank in the Middle East. I'm proud of the dedication that our staff showed during those difficult times and I'm pleased that the effects of that dedication can be seen by all in the financial results of the bank over those years."

He also picks out Arab Bank's success in concluding the law suits opened against it in the United States (see separate box, on page 15). "Those cases had been going on for 14 years and we had to work extremely hard to overcome them. Don't underestimate how important the final judgements – which were in our favour – were, not only for us, and not only for Jordan, but also for the Arab banking community."

As Arab economies expand, as their financial markets deepen, and as Arab companies spread their wings overseas, there will be plenty more work for Arab Bank to do in the years ahead. Sabbagh is confident that the bank will continue to meet the needs and the ambitions of its customers, both new and old: "We know who we are and what we are good at, and we know from our own experience that long-term focus on sustainable profits and meeting customers' changing needs is the best way to achieve lasting success."

Distribution of credit facilities by sector*

	$mn	%
Consumer banking	4,955	22.6
Corporates, small and medium	2,592	11.8
Corporates, large	13,038	59.5
Government and public sector	1,205	5.5
Banks and financial institutions	107	0.5

Dsitrbution of customers' deposits by sector

	$mn	%
Consumer banking	19,264	62.0
Corporates, small and medium	3,183	10.2
Corporates, large	6,092	19.6
Government and public sector	2,541	8.2

**Net direct credit facilities at amortised cost. Source: Arab Bank*

Arab Bank's legal victories have wide and positive implications for banks and businesses

After fourteen years of contested litigation, Arab Bank plc recently secured two decisive victories in the US Supreme Court and Second Circuit Court of Appeals. The court rulings issued in favour of Arab Bank have been described as "landmark rulings" because of their far-reaching implications for the banking sector, in particular, and all businesses incorporated outside the United States (US), more generally.

The first complaint was filed against Arab Bank in 2004, and additional suits soon followed against other international banks. While the facts sometimes varied, the cases presented common theories of distress they incurred as a result of a terrorist attack.

The American plaintiffs' case came to trial in 2014 during which a district court precluded the Bank from presenting its defense, thus, the trial resulted in a verdict adverse to the Bank. The Bank, however, remained confident that the appellate courts would decide the issues in its favour. On 9 February 2018, the Second Circuit Court of Appeals issued its opinion in *Linde* v. *Arab Bank*, vacating the adverse verdict entered against the Bank after concluding that the district court committed prejudicial error by improperly instructing the jury. In its decision, the Court of Appeals made it clear that defendants may only be found to have committed a primary violation of the statute if their conduct was itself "dangerous to human life" and done with an appearance of intending to "intimidate or coerce a civilian population". Obviously, plaintiffs could not satisfy these elements against Arab Bank, or any other bank.

The non-US plaintiffs brought their claims under the US Alien Tort Statute, which dates back to 1789, and is one of the oldest and most controversial US laws. It permits non-US citizens to assert civil claims for violations of "the law of nations or a treaty of the United States".

On 24 April 2018, the US Supreme Court issued its opinion in *Jesner* v. *Arab Bank*, affirming an earlier ruling dismissing all claims brought by the non-US plaintiffs under the Alien Tort Statute. The Supreme Court held that foreign corporations cannot be sued under the Alien Tort Statute.

The *Linde* and *Jesner* decisions were sweeping victories for Arab Bank, but they should also be viewed positively by all banks and businesses because they impose limits on and supply much-need clarity on the application of the Anti-Terrorism Act and the Alien Tort Statute.

A career on the front line of Arab banking

For nearly nine years, Nemeh Sabbagh has been the CEO of one of the Middle East's most significant financial institutions, but his banking career spans nearly 40 years, beginning with the internationalisation of Arab banking in the late 1970s, and including the leadership of some of the biggest banks in the Gulf and Lebanon.

Arab Banker spoke to Nemeh Sabbagh about some of the high points of his career so far.

There was never much doubt that Nemeh Sabbagh would become a banker.

Despite medicine being the preferred career for many of his close family members, Nemeh was drawn to finance, beginning his undergraduate studies in economics and French at Austin College in Texas in 1968 and then taking a master's in international economics at Johns Hopkins University in Washington DC.

Significantly, he had an uncle, Munir Haddad, who was a prominent Arab banker and who was one of the founders of the Arab Bankers Association.

After taking his master's, Nemeh applied for PhD programmes in economics and was accepted by some of the leading US universities, but he knew that a PhD would lead to a career in teaching and research and he had always been drawn to the corporate world, so he registered for the MBA programme at the University of Chicago.

"It was a fascinating time for a young Arab to begin a banking career," he says. "While studying I had witnessed the quadrupling of oil prices after 1973, and the way in which increased wealth transformed the Arab economies, in particular those in the Gulf. There were new banks being established in the region, and bankers and officials in London, Paris and New York were looking for ways to do business there."

After receiving his MBA, Nemeh joined First Chicago, but a year later he moved to Kuwait to work for the Industrial Bank of Kuwait.

Kuwaiti finance was leading the way in the Middle East at that time. Kuwaiti investment funds and banks had been working overseas for longer than those from other Gulf states and were already doing quite sophisticated transactions.

In 1979, Nemeh moved to National Bank of Kuwait (NBK) as a Senior Manager in the International Banking Department. "It was a very exciting time," he says. "The early '80s were when NBK began to establish itself as one of the premier Middle Eastern banks. We were expanding rapidly, and I was brought into a wide range of different areas. I particularly remember the opening of our London branch, the creation of NBK's wealth management function and the foundation of our office in Geneva."

Nemeh had kept in the back of his mind the possibility of returning to the US or moving to London, but the opportunities in the Middle East were so much greater that he decided to stay with NBK in Kuwait. It was a prescient decision.

In 1982, the Kuwaiti stock market crashed, throwing the economy into turmoil. But Nemeh and his colleagues at NBK had seen it coming and had positioned the bank well. "NBK became the best capitalised bank in Kuwait. We were able to continue building our business and our share of international banking business in Kuwait went from 20% to 80%."

But only a few years later, an even bigger challenge appeared, one that not even NBK had foreseen.

Saddam invades Kuwait

"I was attending a Senior Executive Programme at Stanford over the summer of 1990, and at 10.30pm on 2 August, as I was studying in my dorm room, I got a call from our Singapore office to say that Saddam's armies had entered Kuwait. The next day, a Friday, the United Nations froze all Kuwaiti assets, to prevent Saddam getting his hands on them."

Nemeh continues: "I flew to Washington and spoke with government officials, urging them to release some of our assets outside Kuwait so that we would be able to continue servicing the financial needs of Kuwaitis abroad, and not least the Kuwaiti government in exile. At 8pm on Sunday night, 5 August, our assets were unfrozen. I then flew to New York to meet with the Federal Reserve before flying to London where NBK staff, including our CEO, Ibrahim Daboub, were congregating.

"I returned to Kuwait in March 1991 after it had been liberated. The air was still thick with smoke from fires in the oil fields but our bank's head office was relatively undamaged."

A move to Saudi Arabia

A few years later, Arab National Bank, in which Arab Bank holds a 40% stake, was looking for a new CEO and they approached Nemeh.

After more than 20 years in Kuwait, Nemeh recognised that it was time to move on. He did not regret the decision.

"I thoroughly enjoyed working in Saudi Arabia. We restructured the bank, taking the return on equity from 10% to 30%, and it was a very interesting time to be in the Kingdom. Liquidity was strong, there were lots of opportunities. And my time there gives me some insight into what is happening there now: I believe the vision that has been set out for Saudi Arabia over the next decade is correct. Change is never easy, so execution of the vision will be key to the long-term prosperity of Saudi Arabia."

In 2006, Nemeh moved to Lebanon to run Bank Med. It was the first time that he had lived in Lebanon since leaving for Texas nearly 40 years before. His family had moved to Lebanon two years previously and Bank Med was one of the most prominent local institutions, so these were fulfilling years, both personally and professionally. However, there was always an expectation that the posting at Bank Med would not last beyond a few years.

Sure enough, in late 2009, Arab Bank knocked on Nemeh's door. They already knew him well from his years running their subsidiary in Saudi Arabia and now they wanted him to run Arab Bank itself, as CEO.

"Arab Bank is a fascinating institution," Nemeh says. "We're active in 28 countries and three quarters of our revenues come from outside our home market. But inside Jordan, Arab Bank has huge significance for the economy and for society as a whole. In Jordan, Arab Bank is more than a bank."

Since taking over in 2010, Nemeh is most proud of steering the bank safely through the turmoil of the Arab Spring – Arab Bank is present in almost all Arab countries and it had to maintain the quality of its credit portfolio throughout the region while still growing earnings consistently.

He also oversaw the conclusion of major legal cases brought against Arab Bank 14 years earlier with the bank finally prevailing and the bank's reputation for maintaining high ethical standards preserved. In fact, the decision by the US Supreme Court in April 2018 was a landmark decision not just for Arab Bank but for all foreign corporations on the question of the jurisdiction of US courts.

Managing one of the Middle East's biggest and most prominent banks leaves Nemeh with little spare time. Family remains very important to him. His son runs a private business in Lebanon and his daughter works as a doctor in the US. He is also active on the board of the American University of Beirut, where he chairs the finance committee and co-chairs the full board.

Would he still advise young people from the Middle East to devote themselves to a career in banking, as he did, all those years ago?

Nemeh is cautious in his reply: "The banking industry has changed enormously in the last few years, and it is far more heavily regulated. So, it's not going to appeal to everyone. But there is interesting work to be done, and I think the big challenge for the next generation of bankers, globally, as well as within the Middle East, will be to find more ways to harness technology as a way of improving our service to customers, and as a way to enhance profitability."

But there is still work to be done at Arab Bank. As *Arab Banker* was going to press, Nemeh was focused on leveraging the large global franchise of Arab Bank and continuing to grow its profitability. ■

Taking a positive view: Saad Azhari speaks about the new political environment in Lebanon and how Blom Bank is responding to developments in neighbouring countries

After years of political stalemate, politics in Lebanon has been reinvigorated following the election of a new president in October 2017 and the holding of elections in May this year. As *Arab Banker* was going to press, discussions were continuing on the composition of the Council of Ministers.

Arab Banker spoke to Saad Azhari, the Chairman and General Manager of Blom Bank, one of the biggest banks in Lebanon and the Middle East, about what the new political climate in Lebanon could mean for the country's banking system, and about how Blom Bank is reacting to broader developments in the Middle East.

***ARAB BANKER:* In recent months we have seen the election of a new president in Lebanon and general elections for a new parliament. How are Lebanese banks, and in particular Blom Bank, responding to these positive political developments?**

SAAD AZHARI: These certainly are positive developments. To have a functioning economy, you have to have a functioning government and during President Aoun's term so far, several important things have been accomplished. Among the most important have been the new electoral law, the start of the oil and gas exploration process, the passing of two budgets after a 12-years absence, and strengthened political stability. Yet despite all these developments, the economy has continued to struggle, growing at no more than 1.5% on an annualised basis. Banking activity has also slowed down, with deposits, loans and profits growing at less than 5%. The good thing is that this state of affairs has created a strong awareness among politicians and policymakers for the need to give the highest priority to economic matters and to reforms.

So, we at Blom Bank, and the banking sector as a whole, are hopeful that the new government will be an active, reforming government, especially since economic and governance reforms represent a precondition to receive the $11 bn pledged by the international community at the CEDRE conference in April. There is also an impetus coming from the new parliament since almost half the Members of Parliament (MPs) are new and there are distinguished business people among them – this should bring more urgency and focus to the reform process. We could also see some of the new MPs in the new government, which we hope will be formed soon.

What do you think will be the priorities of the new government vis-à-vis the financial sector?

I think the first priorities of the government will be the real sector and the public sector. Historically, the banking and financial sector in Lebanon has always been in a better shape than the real sector, so the new government's initial focus will be on the real sector. This should involve modernising the infrastructure base, improving the investment climate and broadening Lebanon's comparative advantage in goods and services. As to the public sector, priority should be given to reducing the deficit and debt and to reforming public enterprises – especially Electricité du Liban (EDL) – and even privatisation.

In the case of the financial sector, we would like to see steps towards enhancing capital markets, privatising the stock market, adopting a new, modern companies' law, and – with time – greater reliance on market forces in the conduct of monetary policy. And as banks, we would like to see a more reasonable tax system. Last year, we were subject to higher corporate taxes, higher interest rate taxes and higher dividend taxes for listed banks, in addition to the imposition of double taxation on interest income from Treasury Bills, certificates of deposit, and placements at the Central Bank. We would like to see that reconsidered, at least as far as double taxation is concerned, especially since banks already contribute 40% of corporate income taxes and 28% of individual income taxes – which are much higher than our

share of Lebanese GDP and corporate profits.

The public debt is now around $82 bn, $30 bn of which is external or denominated in foreign currency, mainly US dollars. The commercial banking system currently holds close to 38% of this public debt, constituting about 14% of its assets. We definitely would like to see a reduction in the public debt and, just as importantly, in recurring deficits. There are many reasons for this. First, it would lead to better credit ratings and lower interest rates. Second, it would allow more funding to the private sector. Third, it would curtail the need for higher taxes. Fourth, it would be a good conduit to reduce corruption and wasteful expenditures and transfers – all the more so since interest payments on public debt and wages to public employees each represent close to 35% of government expenditures and transfers to EDL represent another 10%.

How important is it that the currency peg, which has held for more than twenty years, is maintained?

I think it is very important for us that the exchange rate peg is maintained. It has helped ensure monetary stability and low inflation rates. It has also helped maintain the country's wealth and its purchasing power. And it led to less dollarisation and more use of the Lebanese pound as a store of value. All these considerations have been very beneficial for the banking system both quantitatively and qualitatively. Besides, for a small open economy like Lebanon, which has extensive relations with the outside world, a fixed exchange rate system reinforces stability in external sector activities and transactions. I also think it helps the country's competitiveness since it means that competitiveness is dependent on improving productivity rather than being the result of manipulating the exchange rate.

Are there still opportunities for a large bank such as Blom to expand in Lebanon and, if so, how?

There are currently 54 commercial banks in Lebanon with more than 1,200 branches and 1,700 ATM machines. This is among the highest in per capita terms in the developing world. It could be argued that the Lebanese banking market is saturated or overbanked, but that does not mean that we cannot compete and expand based on our reputable and innovative products. Our overall market share in Lebanon is currently 13%, but we are the leader and have the highest market share in retail banking. We are also very strong and growing in SME lending. Given the potential for better economic prospects in the country in the near future, arising from the CEDRE investment funds and the likelihood of oil and gas discoveries, there is tremendous scope for expansion in corporate banking, trade finance, and in non-traditional areas such as private and investment banking. I would like to add in this respect that our acquisition and merger of the three HSBC branches in Lebanon in June 2017 has been very helpful in growing our trade finance activities.

How has the war in Syria affected Blom and what action is the bank taking now as the war appears to be winding down?

The tragic war in Syria affected our bank in direct and indirect ways. Directly, the war in Syria and the huge disruptions to its economy, in addition to the sanctions imposed on the country and Syrian individuals, forced our bank to dissociate itself from the Syrian market and withhold our activities there. As a result, we wrote off our investment in Syria and withdrew from the board and management of Bank of Syria and Overseas, our former subsidiary there.

Indirectly, the Syrian war has had a dampening effect on the Arab economic climate, especially in Lebanon. It has had a negative effect on the Lebanese economy and the entire banking system, and we have been affected along with everyone else, since Lebanon is Blom's major market.

As to what actions we are taking now regarding the Syrian market, I cannot really comment on that because the situation in Syria is still in a state of flux, although the intensity of the conflict has certainly reduced. All I can say is that we look forward to the end of conflict there as soon as possible, and that we will be delighted to return to the Syrian market and help develop its banking sector and economy.

Blom has had a subsidiary in Egypt since 2005. How is Blom Bank Egypt positioning itself for the second term of President Sisi?

We run a very successful operation in Egypt, and it is our second biggest market after Lebanon and the highest in terms of the rate of return on equity. We currently have 40 branches there and we are planning to expand further. We run a universal banking model in Egypt, with activities in commercial banking, capital markets, asset management and insurance.

Of course, what helps is that the Egyptian economy has been doing very well. The economy is expected to grow at close to 5% this year, with improvements in the budget deficit, balance of payments, inflation and the structure of interest rates, and with stability in the exchange rate. I am actually very optimistic about the growth and profitability of our subsidiary there and expect it to steadily increase the contribution of overseas activities in our consolidated balance sheet.

How will the recovery in oil prices affect Blom's strategy and profitability?

On balance, I think the recovery in oil prices will be beneficial to us and will reinforce our strategy of horizontal and vertical expansion. Certainly, higher oil prices will ignite more growth and banking activity in the Gulf region, where we run operations in the UAE, Qatar and Saudi Arabia. It will also be beneficial to us in terms of remittances growth in Lebanon, Egypt and Jordan (where we have 14 Blom branches). However, higher oil prices could dent growth in oil importing countries, including Lebanon. That said, the rise in oil prices has been more measured this time around, and there are different dynamics in the global oil markets, so we do not expect the price to reach the highs of around $145/barrel that we saw in 2007. And from a medium-term perspective, it could even be beneficial for countries like Lebanon and Egypt which are expecting major oil and gas discoveries. So, overall, I think it should be good. ■

Upgrade for Saudi Arabia's stock market is part of wider development of Middle East capital markets

MSCI's decision to upgrade the Saudi Stock Market to Emerging Market status is not only a significant event for Saudi Arabia, but it is also representative of wider developments in Middle East capital markets – developments that are exciting both for Middle East economies and for international investors.

HSBC's Chief Executive Officer for the Middle East, North Africa and Turkey (MENAT), Georges Elhedery, analyses how capital markets are changing in Saudi Arabia and the wider region.

MSCI's announcement in June 2018 that it would upgrade the Saudi Stock Market, known as the Tadawul, to full Emerging Market status from May next year is the most significant reclassification that we have seen this year. Even though the change was expected – MSCI announced in mid-2017 that it was planning to make the move – the actual reclassification opens the way for a huge inflow of funds into the Kingdom. More than $1.9 trillion of capital tracks the MSCI Emerging Market index, and a proportion of this money will now be invested in the Tadawul.

The Tadawul is the largest and most liquid exchange in the Middle East, with a market capitalisation in mid-2018 of around $520 bn. It has already seen record international net inflows this year. By the end of May, about $3.5 bn had been invested in anticipation of MSCI's upgrade.

When Saudi Arabia formally joins the index in May 2019, we expect to see around $10 bn of passive inflows over the course of the following months. It will not happen all at once. Investors will be deploying money gradually and in tranches to ensure that all of Tadawul's internal processes are operating effectively.

However, passive investment is just one component of likely flows. At HSBC we expect that inflows of actively managed funds will be many times those of the passive investments, perhaps reaching $25 bn.

When we add in the fact that FTSE Russell, another maker of benchmark indices, has also announced that it will be including Saudi Arabia in its Emerging Market series from March 2019, we could be looking at around $45 bn of international capital flowing into Tadawul over the next two years.

This will have a tremendous effect on the market. Currently, total foreign ownership of the Saudi equity market stands at just 4.91%, which is well below regional and Emerging Market peers so there is huge scope for foreign ownership to increase.

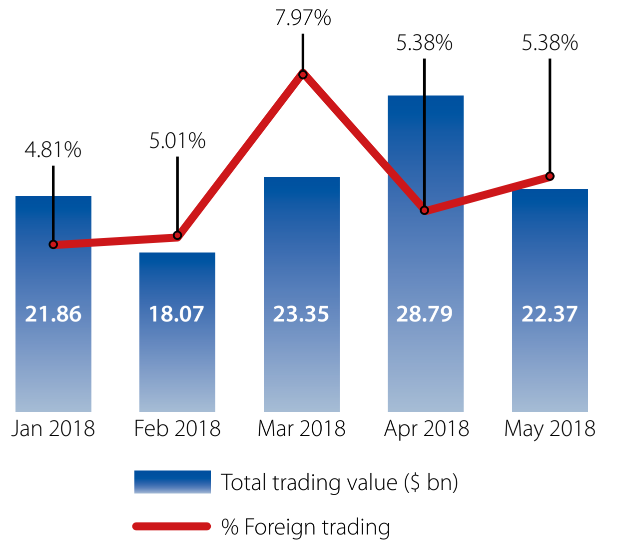
This influx of foreign capital will create a much deeper and more liquid market, and this will support Tadawul's long-term ambitions to become a global exchange. It will also create new opportunities for international investors to participate in one of the world's most ambitious economic transformations.

The upgrades by MSCI and FTSE Russell were the result of a concentrated effort by Tadawul and its regulator, the Capital Markets Authority (CMA), to make the stock market more accessible to international investors and better known in the international investment community.

Within the last few years, Tadawul and the CMA have introduced a raft of reforms that have transformed the market's infrastructure and created a platform capable of accommodating the world's largest companies.

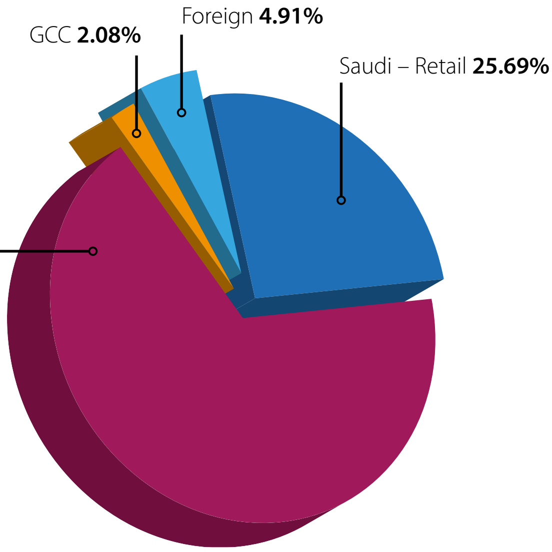
Some of the key reforms include moving to a T+2 settlement cycle, easing qualified investor requirements, increasing foreign ownership limits, enhancing the independent custody model, introducing an optional model

Trading Values on the Saudi Stock Exchange



Source: Saudi Stock Exchange

Market ownership of the Saudi Stock Exchange, 31 May 2018



Source: Saudi Stock Exchange

to allow asset managers to aggregate the orders of managed assets and introducing an opening and closing price auction.

Against a backdrop of Saudi Arabia's all-encompassing economic and social reform plan, known as Vision 2030, we think that for an international investor, the opportunities in Saudi Arabia are rivalled only by China's Belt and Road Initiative. The scale and ambition of Vision 2030 includes the creation of a $2 trillion sovereign wealth fund, the building of a new mega-city, 'NEOM', 33 times the size of New York, and a six-fold increase in non-oil revenues. Vision 2030 has set the Kingdom on a course for long-term sustainable growth.

We think that what has been happening in Saudi Arabia is indicative of wider developments in the region. Saudi Arabia's progress to Emerging Market status shows how important the region has become to the international investor community.

Across the region, local debt and equity markets are growing, deepening and enabling local corporations to conduct their capital markets activities domestically, bringing back onshore activities which they have until now had to conduct overseas.

Ambitious economic transformation agendas and the development of local capital markets, combined with a desire to move away from dependence on oil revenues, are creating a new operating model for investment across the Middle East and Turkey.

In the United Arab Emirates (UAE), which is already an Emerging Market index member, we recently saw the fuel distribution unit of Abu Dhabi National Oil Company successfully come to market. This was the largest IPO in Abu Dhabi for 10 years. We expect this momentum to continue through 2018 and into next year, with a strong pipeline of primary issuance that will continue to attract international capital.

Egypt's equity market was a standout performer in 2017, up by more than 20% over the course of the year, and by a further 6% in the first half of 2018. Lower inflation, positive comments from the Central Bank and an ongoing programme of economic reforms have boosted investor sentiment, especially in the second half of 2018. The overwhelming success of Egypt's $4 bn Eurobond earlier this year reflects the strong international interest towards Egypt.

Kuwait has also demonstrated the impact that capital market reform and index inclusion can have. We have seen a significant inflow of foreign capital into Kuwait since the FTSE Russell announced that it would be upgraded to Emerging Market status in two phases in September and December this year.

Across the Middle East, every step to improve access to capital markets – and every new transaction that such access enables – serves to extend the financing capabilities of the region's economies.

In the UAE, for example, we are seeing how this evolutionary process will help fund the creation of the world's single biggest integrated refining and petrochemicals site by 2025 in Ruwais.

We believe that local capital markets are increasingly capable of financing significant local development projects, including major energy projects.

Data from Thomson Reuters shows that money raised from investors in debt capital markets across the Middle East is running at record levels. In the first quarter of 2018, $23.9 bn was raised in the Middle East and North Africa, the second highest quarterly amount ever recorded.

The development of local capital market capabilities has come at a time when a low interest rate environment is forcing international investors to broaden their horizons in the search for strong yields.

Investors in the wealthy economies of Asia have noticed the changes happening in the Middle East and the potential that they hold for economic transformation. We are seeing that they are interested in investing in both physical assets and financial instruments.

A deeper relationship between Asian economies and the Middle East will serve both sides well: Asia is a growing market for crude oil and refined products, while the Middle East is an increasingly attractive consumer market for the manufactured goods that Asia leads the world in making.

We are very excited about capital market developments in Saudi Arabia, and we believe they are not only indicative of expanding economic opportunities in the Kingdom, but that they are representative of a broad movement by which capital markets throughout the region are deepening, becoming more liquid, and in turn becoming more accessible to international investors ■

Georges Elhedery

Georges Elhedery is Chief Executive Officer of HSBC's Middle East, North Africa and Turkey (MENAT) division, and Deputy Chairman for HSBC Bank Middle East Limited. He has been based in Dubai since 2010. Before taking on his current position he was Head of Global Banking and Markets in the Middle East. He previously worked for HSBC in London, and before that held positions with Goldman Sachs and BNP Paribas.

Saudi banks expect increased profitability from improved economic conditions and new business opportunities

Saudi banks showed their strength during the recent years of low oil prices, and their profitability is now trending upwards as the government's oil revenues increase and liquidity in the economy improves. The banks also stand to benefit from public spending initiatives that are being taken under the Kingdom's Vision 2030 programme and from the global trend towards higher interest rates.

Arab Banker spoke to Chiradeep Ghosh, Head of Financial Institutions Research at the Bahrain-based investment bank SICO, about the factors that will drive the performance of Saudi banks in the year ahead.

ARAB BANKER: What is SICO's outlook for Saudi banks' profitability in 2019?

CHIRADEEP GHOSH: We have a positive view on the profitability of Saudi banks and expect their earnings to rise by about 13% in 2019, compared to 2018. This will be driven by strong growth in their lending books and a widening of net interest margins. With capital adequacy ratios averaging 20% (against a central bank requirement of 11%), we think Saudi banks will be able to meet increased borrowing appetites of Saudi corporations that will follow from improved economic conditions.

I would add that despite the rise in global interest rates since 2016, Saudi banks' net interest margins are still well below those seen during the high interest rate era of 2007–2008 so we think there is plenty of scope for wider margins to drive stronger profitability.

How are Saudi banks benefitting from Vision 2030?

Vision 2030 is a very broad-based plan to develop Saudi Arabia both economically and socially. As a result, implementation is touching a lot of areas of Saudi society and some of these affect banking activity directly while others have a more subtle effect. The Saudi government is budgeting capital expenditure of SR 205 bn ($55 bn) in 2018, a 14% increase on 2017 and this will be spent on domestic infrastructure. The Ministry of Finance is projecting a 3.7% increase in real non-oil GDP growth in 2018, up from 1.5% in 2017. The expectation is therefore that corporate borrowing will increase around the end of 2018. We expect this to flow through into increased corporate borrowing during the final quarter of 2018.

Another aspect of Vision 2030 relates to the Saudi workforce. The government wants to get more Saudi citizens, both men and women, into the private sector workforce. That is primarily a social objective, but it has important implications for the banking sector since it will increase the opportunities for lending. As Saudis replace expatriates, opportunities for consumer lending will increase, both because banks are willing to lend more to Saudi nationals than expatriates and because they can offer a wider range of products.

Consumer loan penetration in Saudi Arabia is the lowest in the GCC: in the UAE, Qatar and Kuwait, the value of personal loans per capita is $11,000–$12,000, but in Saudi Arabia it is less than half that. So, we expect Saudi banks will be able to increase their personal lending while still keeping levels of personal indebtedness within prudent limits.

More broadly, we expect banks to benefit from demographic developments: about 60% of the Kingdom's population is younger than 30, and as these people start families, they are likely to want to buy houses. The Saudi government has a programme to build 480,000 housing units by 2020 (125,000 of these this year). The government is planning to revise its current home loans programme and move to a system where it provides a mixture of subsidised loans, guarantees and assistance with down payments. Mortgage lending will therefore be a significant area of new business for Saudi banks: across the system, mortgage loans currently account for about 8% of total loans. This figure could increase significantly in the years ahead.

Saudi banks are already showing loan-to-deposit ratios that are close to the limit set by the Saudi Arabian Monetary Authority (SAMA), so how will they be able to increase lending in the way you are predicting?

First of all, higher oil prices and the resulting increased liquidity will lead to more deposits in the banking system, so creating more resources to fund lending. In addition, we expect that SAMA will change the way in which its loan-to-deposit ratio is calculated and that this will have the effect of creating some additional lending capacity for the banks.

SAMA is considering a system of weighting deposits by their maturity. So, for example, demand deposits and those

Chiradeep Ghosh, CFA
Based in Bahrain, Chiradeep Ghosh leads SICO's Financial Institutions Research, overseeing the publication of regular institutional investor-focused research on financial institutions in the GCC. He has more than 11 years' experience of publishing research on GCC and other emerging market institutions. In addition to his work on equity research, Chiradeep has also been involved in SICO's merger and acquisition advisory work in the GCC. Before joining SICO in 2012, he worked with HSBC in a similar role.

SICO is a Bahrain-based asset manager, broker and investment bank with more than $1.2 bn under management. The firm holds a wholesale banking licence from the Central Bank of Bahrain. SICO was founded in 1995 and has about 100 employees. Its research team provides analytic coverage of 90% of major equities in the GCC.

due in fewer than three months would be weighted at 100% (effectively the same as they are now), but deposits due in more than three months and less than a year could be weighted at 120%, and those due in 1–5 years at 140%, and so on. This would give proper recognition to the stability of funding that is provided by long-term deposits and would also encourage banks to lengthen the maturity profile of their liabilities. We think that the effect of such a measure could be to reduce Saudi banks' current loan-to-deposit ratios by nearly 2% from where they are now.

How will Saudi banks benefit from rising global interest rates?

Saudi banks have a lot of demand deposits on which they pay no interest. As a result, they get a bigger benefit than most other banks when interest rates rise, and because the Saudi riyal is pegged to the dollar, Saudi interest rates tend to follow changes in US dollar interest rates.

Al-Rajhi, an Islamic bank, has about 90% of its deposits in the form of non-interest-bearing accounts, while National Commercial Bank's ratio is about 80% (although NCB's total cost of funds is increased by the long-term debt issued by its subsidiary in Turkey). Other Saudi banks are showing 50%–70% of their deposits in the form of non-interest-bearing accounts. As a result, we are expecting a significant increase in Saudi banks' net interest margins over the next three years, although at some point the widening of spreads will slow as large corporates will switch out of current accounts and into time deposits as interest rates become more attractive.

What has happened to Saudi banks' non-performing loan (NPL) ratios over the last few years of low oil prices?

Despite challenging economic times, Saudi banks' asset quality has, in general, remained strong as a result of prudent lending policies since the Saad/al-Gosaibi default and stringent regulations by SAMA. We believe that banks have now completely provisioned their exposure to the Oger Group and have also restructured their exposures to the Bin Laden Group.

In the last seven years, Saudi banks' average NPL ratios have remained below 2%. To put that into perspective, their NPL ratio in 2017 was 1.3% which, according to World Bank data, was comparable to the ratios shown by banks in the US, and better than the global average of 3.9% and the 4.4% recorded by banks in the European Union.

We expect provisioning to go down during the course of 2018, though this will be from a higher base due to the default of a construction company in 2017. The only exceptions could arise on consumer loans, where the departure of expatriates – who are leaving as their jobs are taken over by Saudis – might lead to an increase in delinquencies, but only those banks that are particularly heavily invested in consumer loans are likely to have to make material increases in provisions as a result of this.

How have Saudi banks been affected by the introduction of IFRS 9 this year?

We estimate that additional provisioning to comply with IFRS 9 implementation is equivalent to one third of banks' existing total loan loss reserves. As a result, NPL coverage increased to 235% at the end of the first quarter of 2018, up from 184% at end of 2017. Historically, Saudi banks have followed quite conservative provisioning policies, so we are not expecting the move to Expected Credit Loss under IFRS 9 to lead to a significant increase in their ongoing provisioning costs.

How will Saudi banks' profitability be affected by increasing competition from foreign banks?

We are certainly seeing a lot of interest in Saudi banking from regional and international banks. Over the last year we've seen Citibank coming back into the Kingdom with an investment banking licence, Mitsubishi UFJ is due to open a subsidiary in October, and both Emirates NBD and First Abu Dhabi Bank are creating three-branch networks in the Kingdom.

But Saudi Arabia has a population of more than 30 million people, many of whom are extremely wealthy, and it is one of the largest economies in the world. With only 12 national banks – soon to shrink to 11 when Saudi British Bank and Alawwal merge – we believe there is ample opportunity for more banking business in the Kingdom, so domestic banks should not feel threatened by the issuance of new licences to international banks. ■

Abu Dhabi signals its intention to strengthen economic growth and improve business conditions

There was a collective sigh of relief in Abu Dhabi when the emirate's effective ruler, Crown Prince Mohammed bin Zayed, announced a $14 bn economic stimulus package in June 2018. Despite Abu Dhabi's extraordinary wealth, three years of low oil prices had resulted in a series of cancelled projects, job layoffs and falling rents.

The stimulus package was taken as a sign that the Abu Dhabi authorities will take a more active approach to economic management that would include some administrative and structural reforms to make the business environment in Abu Dhabi more dynamic and efficient over the long term. *Arab Banker's* Editor, Andrew Cunningham, considers the impact that the recently announced measures might have on Abu Dhabi.

The package announced by Mohammed bin Zayed on 6 June comprises Dh50 bn ($13.6 bn) of spending on ten initiatives that will be implemented over three years. Many of the details of those initiatives have been left up to the emirate's Executive Council to work out, although they will have three broad themes: to improve the 'ease of doing business' in Abu Dhabi, to create jobs, and to boost growth.

Some specific initiatives have already been announced. An Employment Opportunities Committee will be established to oversee the creation of 10,000 jobs over the next five years for local citizens in both the private and government sectors.

A housing plan that will double the availability of housing loans and reduce the time citizens wait for access to property has the broad objective of raising private home ownership among citizens to 70%. If achieved, that would be one of the highest home ownership rates in the world.

Licensing for office space will be relaxed, reducing the frequency with which licences need to be renewed, and licences issued to companies working in Abu Dhabi's free zones will be broadened to permit free zone companies to work in the local economy and to bid for government contracts.

Building regulations for commercial and residential sectors will be reviewed (presumably with the intention of making it easier to get planning permission for new projects), and the developmental requirements of various local communities will be examined. Interestingly, the announcement made explicit reference to 'other Abu Dhabi residential areas' including Al Ain. The authorities clearly recognise that Abu Dhabi can no longer be run as a city state, and that it has now developed a more mature economic geography.

The Executive Council will work with Abu Dhabi's Department of Finance to review overdue payments due from the government in various sectors including health, education and municipal affairs.

Inevitably, small- and medium-sized enterprises (SMEs) get a mention. Projects to improve the emirate's infrastructure and to execute industrial projects will include efforts to bring SMEs into mainstream economic activity.

Standard and Poor's (S&P) estimates that the proposed expenditure package is equivalent to 1.6% of Abu Dhabi's gross domestic product (GDP) over the three years.

In a note published two days after the package was announced, S&P also drew attention to the Dh165 bn ($45 bn) investment plan announced in May by the Abu Dhabi National Oil Company (ADNOC). The plan envisages an increase in crude oil production capacity to 3.5 mn barrels a day (b/d) from the current figure of 3 mn b/d by the end of this year, and a doubling of capacity at the emirate's Ruwais refining and petrochemicals complex by 2025, with the creation of 15,000 new jobs. S&P estimated that the

investment plan is equivalent to 3.3% of GDP annually over five years.

What emerges from both of these packages is the desire of the Abu Dhabi authorities to improve long-term economic conditions and not just give a short-term spending boost.

The reference to improving the 'ease of doing business' is interesting. The United Arab Emirates (UAE) was placed 21st in the World Bank's latest 'Ease of Doing Business' rankings, one place below Germany and one above Austria, and well ahead of other Arab countries: Bahrain was the second ranked Arab country at 66, followed by Morocco at 69 and Oman at 71. But the UAE's ranking obscures differences between the individual emirates and is more a reflection of the obsessively pro-business stance of Abu Dhabi's brash neighbour, Dubai, than of broader conditions throughout the UAE or of the friendliness of business regulations that are set at the federal level.

In putting 'ease of doing business' as one of the three broad themes of the stimulus package, the Abu Dhabi authorities are recognising the need to close the competitive disadvantage that they currently have against Dubai when attracting new investment and enabling existing businesses to grow.

Real estate prices remain under pressure

The focus on housing is also interesting. Both residential and commercial real estate has been suffering recently. Knight Frank estimates that residential property values fell by 10% in central Abu Dhabi during 2017, and CBRE has estimated that there was an even bigger fall in values across the emirate as a whole. Anecdotal evidence from local residents points to massive reductions in commercial rents as landlords try to retain existing clients.

The decline in prices and rents has been driven by a slowdown in economic activity, which itself is the result of lower oil prices and the consequent slowdown in government spending. But in the residential sector, it has also been driven by increased supply, as new residential neighbourhoods such as Saadiyat Island are built out.

It is strange to think that only a few years ago, expatriates working in central Abu Dhabi were complaining that high rents were forcing them to live far out of town, perhaps even on the outskirts of Dubai, and then face long commutes to their offices.

The housing initiatives in the stimulus package were aimed at local citizens, many of whom do not live in central Abu Dhabi, and do not want to, and some of whom may not have big salaries. Married citizens are already entitled to a ready-built house or, in some cases, a piece of land and an interest-free loan to fund the building of a house. The problem that the stimulus package is trying to solve is the long waiting times that married citizens face before they receive the house or get approval for the loan.

Improving access to free or subsidised housing will have an important social impact within the local community, but its effect on broader commercial and residential real estate, which is driven more by trends in expatriate employment and government spending, is likely to be minimal.

Responding to low oil prices

The recent era of low oil prices began in mid-2014 and followed several years when oil had been trading at historically high levels – around $100/barrel. By the end of 2014, prices had fallen to around $50/barrel and after a short and limited rally in early 2015, they sank to $28/barrel in early 2016, their lowest since 2003, and then remained at around $50/barrel for the next two years.

Despite Abu Dhabi's extraordinary wealth, the emirate's authorities responded to lower oil prices, and the resulting contraction in government cash flows, by cutting back on spending and delaying projects. There were also signs, well before the June 2018 stimulus package, that the authorities recognised institutional inefficiencies and administrative overlaps in areas of the economy that they controlled.

In mid-2016, the merger of National Bank of Abu Dhabi (NBAD) and First Gulf Bank (FGB) was announced. The Abu Dhabi Investment Council held 70% of NBAD, while government-related agencies and the ruling family held significant shares in FGB. With Abu Dhabi boasting six large domestic commercial banks, putting two of them together made sense, especially since there was little overlap in their overseas operations. The merger was completed during the first quarter of 2018.

Shortly after the NBAD-FGB merger was announced, the authorities announced plans to merge two state-controlled investment funds, International Petroleum Investment Corporation (IPIC) and Mubadala Development Company. IPIC had been created in 1984 and held Abu Dhabi's state

investments in oil and gas companies, while Mubadala had been created in 2002 with the aim of diversifying away from oil and gas through investments in other sectors. The merger was completed in early 2017 with the new entity, called Mubadala Investment Company, holding assets of about $125 bn. In early 2018, the Abu Dhabi Investment Council, which had been created in 2007, was merged into Mubadala, taking the value of its portfolio to around $200 bn.

Local gossip predicts that more mergers are in the pipeline. The most obvious candidates are banks and insurance companies. Future bank mergers would be a lot easier than the merger of NBAD and FGB, not least because the remaining banks are a lot smaller. Obvious configurations would be for Abu Dhabi Islamic Bank to merge with – in effect to acquire – the Islamic bank Al-Hilal, which is one third of its size and has little overseas presence; and for Abu Dhabi Commercial Bank to merge with/acquire Union National Bank, which is about two thirds of its size.

Rationalisation of the insurance sector is also a frequent topic of conversation. There are nearly 70 insurance companies operating in Abu Dhabi.

Shareholding structure of Abu Dhabi-based banks*

	Equity, end-2017 (Dh bn)**	Shareholding structure
Abu Dhabi Commercial Bank	32.4	Abu Dhabi Investment Council, 58.08*** Tasmeem Real Estate Co., 7.02 General Public, 34.90
Abu Dhabi Islamic Bank	16.6	Emirates International Investment Council Co., 40.66 Abu Dhabi Investment Council, 7.61 General Public, 51.73
Union National Bank	19.5	Abu Dhabi Investment Council, 50.01 Government Investment Corp. of Dubai, 10.00 General Public. 39.99
Al-Hilal Bank	5.5	Abu Dhabi Investment Council, 100

** Shareholding figures are taken from the website of the Central Bank of the United Arab Emirates, except where specified otherwise. ** Figures taken from bank's annual reports. *** The Abu Dhabi Securities Exchange puts this figure at 62.52 (accessed on 15 June 2018).*

Huge financial reserves and high credit ratings

Despite the recent economic slowdown, Abu Dhabi remains an extraordinarily wealthy emirate. S&P estimates gross domestic product during 2018 will be $266 bn, resulting in a GDP per capita of about $83,500. Fitch, another rating agency, estimates that the assets of the Abu Dhabi Investment Authority were $629 bn in 2016. Those assets are separate from the $200 bn controlled by Mubadala.

Abu Dhabi has retained its AA ratings from all three rating agencies during the years of low oil prices. Kuwait is the only other Gulf state that now enjoys ratings at that level. Qatar has been downgraded by one notch to AA- by all three agencies as a result of the diplomatic dispute with some of its neighbours and the resulting economic embargo, and Saudi Arabia is rated in the single A range by all three agencies. Other emirates that are rated, such as Sharjah and Ras Al Khaimah, are ranked in the single A range. The emirate of Dubai is not rated.

Affirming its AA rating with a stable outlook in June, S&P said that it expected that, "Economic growth will gradually pick up ... although structural and institutional weaknesses will likely persist." The agency is predicting economic growth to average 2.2% from 2018 to 2021, as a result both of higher oil prices (and so higher government revenues) and greater local investment.

Some uncertainty arises from the impact of new taxes. Value Added Tax (VAT) of 5% was introduced across the UAE on 1 January 2018. Economists predict that this will reduce consumption, but on the other hand it will also increase government revenues, so enlarging resources that can be used to invest in the local economy. Thirty per cent of VAT receipts are supposed to be retained by the federal government, with individual emirates receiving the other 70%, although it is not clear how the 70% will be distributed among the seven. Abu Dhabi accounts for about two thirds of the UAE's gross domestic product, which could in theory mean that it takes the lion's share of the 70%. In practice, Abu Dhabi's wealth relative to the other six emirates (including Dubai) has resulted in Abu Dhabi being a contributor rather than a recipient when it comes to the management of federal revenues and expenditures.

New taxes on tobacco and some energy drinks were also introduced at the federal level in late 2017. Again, the impact on consumption and on state revenues is still difficult to discern.

The Abu Dhabi authorities have signalled their intention to create a more business-friendly economy in which government offices work with greater efficiency and public policy is more focused on the needs of local citizens.

2019 will be an interesting year in Abu Dhabi. ■

Inside the Libyan Investment Authority: an interview with AbdulMagid Breish

AbdulMagid Breish was appointed Chairman and CEO of the Libyan Investment Authority (LIA) in June 2013 but since then Libya has split in two, with rival groups claiming control of the country's assets.

Last summer, Mr. Breish came to the offices of the Arab Bankers Association and told the story of his appointment, of what he found when he got inside the LIA's offices, and his fight to protect Libya's investments.

It was May 2013 when AbdulMagid Breish received a call from Ali Zaidan, the Libyan Prime Minister, asking him if he would be interested in taking on the chairmanship of the Libyan Investment Authority (LIA), Libya's sovereign wealth fund which oversees all of the country's financial investments, both domestic and international.

The Prime Minister's call was not much of a surprise. A few weeks before, the head of the Libyan Central Bank, Mohammed Saddek el-Kaber, who was a member of the LIA's Board of Trustees, had sounded Breish out on behalf of the Trustees to see if he was interested in the CEO position.

Breish was a logical choice for the role: a Libyan national who had spent most of his career with Bank ABC, the Bahrain-based international bank in which the Government of Libya holds a significant stake. He had also spent three years in Tokyo and ten years as Managing Director of ABC's London subsidiary, so he knew international financial markets well, and was particularly well connected in London. (In 2001, he had been made a Freeman of the City of London in recognition of his work as Chairman of the 'World Group' of the Foreign Banks and Securities Houses Association.)

Breish met Prime Minister Zaidan at the Corinthia Hotel in Tripoli. Zaidan chaired the LIA's Board of Trustees, which appointed its Board of Directors. A few years before the revolution that toppled Muammar Ghaddafi, Breish had put forward a proposal to establish a sovereign wealth fund for Libya's future generations.

The meeting at the Corinthia went well and the pair agreed to meet again the following day. There, Zaidan offered to nominate Breish for the post of Non-Executive Chairman of the LIA, and also as its Acting CEO. In June 2013, the LIA's Board of Trustees appointed Breish as Non-Executive Chairman. The LIA's Board of Directors subsequently also appointed him as its CEO.

AbdulMagid Breish

AbdulMagid Breish was born in Libya in 1951. He studied at the American University of Beirut and worked for Libyan Arab Foreign Bank from 1975 to 1980, before joining Arab Banking Corporation (ABC, now rebranded as Bank ABC) as its Head of Business Development in Bahrain. After heading ABC's Tokyo Representative Office from 1985 to 1988, he returned to Bahrain to chair ABC Islamic Bank before moving to London, first as General Manager and then as Managing Director of ABC International Bank in 1991. In 2003, Breish was called back to Bahrain to become Deputy CEO and Chief Banking Officer for the ABC Group. He left ABC in 2009 to set up his own consulting practice. He now divides his time between Libya and London.

Fixing the accounts

Breish knew the Libyan financial system well, but even he was surprised with what he found once he started work.

"The technical knowledge of the investment staff was very low, and only a handful spoke English," Breish says. "Yet the Authority was supervising tens of billions of dollars of investments, most of it overseas, and much of it in the hands of fund managers based in London."

It was clear that many of the appointments had been based on nepotism and political connections rather than on talent and ability. The various subsidiaries that made up the LIA group had established numerous individual investment vehicles, which were owned by special purpose companies, most of which had 'boards of directors'. In practice, these 'boards' were a way of extending patronage and rewarding regime loyalists – favoured individuals would become directors of one or two investment vehicles, entitling them to travel abroad for board meetings and receive generous per diem allowances while there.

"More seriously," says Breish, "the LIA had no consolidated accounts, no recent audit reports and only sporadic reports from the firms who were managing billions of dollars on the Authority's behalf."

This chaotic situation was not simply due to the civil war, which had broken out in 2011 after the overthrow and killing of Colonel Ghaddafi, who had ruled Libya since 1969. The lack of accounts and reports went back several years before 2011 to 2007.

Breish continues: "One of the first things I did was follow up on attempts by my predecessor, Dr. Mohsen Derregia (who lasted no more than a year in the job), to bring in Deloitte to revalue all LIA's assets, and Oliver Wyman to benchmark LIA in relation to other sovereign wealth funds.

"Our assets were valued by Deloitte at $67 bn, as of the end of 2012, but we found transactions of around $6 bn–$6.5 bn that looked suspicious – there were some where it was clear that LIA had taken decisions that made no economic sense, based on valuations that bore no relation to reality."

Breish realised he needed help, so he brought in Dr. Ahmed Jehani as the manager of the LIA's London office, and appointed Ali Baruni as an advisor to the LIA on litigations and investment analysis. Together, these two worked closely with Breish, and with Deloitte and Oliver Wyman.

Politics intervenes

Just as he was picking up momentum, Breish found himself fighting for his own job. He explains: "After the revolution, a law was enacted that said that no one could hold a public post if they had worked for the Ghaddafi regime. Many years before, I had been the Non-Executive Chairman of Libya's Economic and Social Development Fund, and for certain people, that was all they needed to try to get me out of the LIA."

Breish argued in court that his position in the Fund did not fall within the scope of the law banning officials of the old regime, but he had to leave the LIA offices, and it was not until ten months later in October 2015 that the court ruled in his favour and he was able to return to his desk.

Then new challenges appeared.

While the court had been deliberating, Libya had split in two.

First, the government led by Prime Minister Thinni moved to Tobruk under the auspices of the Tobruk Parliament, while in Tripoli, Khalifa Ghweil formed a rival government supported by Islamist factions, under the General National Congress (GNC).

In early 2016, the UN-brokered Libyan Political Agreement (LPA) brought international recognition for a Government of National Accord (GNA), and a Presidential Council led by Prime Minister Fayez al-Serraj. However, the LPA gave

The changing structures of Libya's overseas investments

Until 2007, there were three bodies that managed Libya's investments: Libyan Arab Foreign Bank (LAFB), Libyan Arab Foreign Investment Bank (Lafico) and Oilinvest. Lafico had an offshoot called the 'Long-Term Portfolio' that invested in bonds and equities.

The Libyan Investment Authority (LIA) was formed in 2007, and the law that created it made clear that the Authority would take over all existing investments, although the previous bodies would continue to exist as legal entities subsidiary to the LIA.

Also created in 2007 were the Libyan African Portfolio (whose first chairman was Colonel Ghaddafi's private secretary, Bashir Saleh) and the Libyan Local Investment and Development Fund. The latter was 85% owned by the LIA, with the remainder held by the Central Bank of Libya and local commercial banks.

When Deloitte valued LIA's assets in 2014, about half of the $67 bn it found was in the form of direct equity, comprising about 550 separate companies and special purpose vehicles in a wide variety of countries. The other half was managed by external fund managers and was invested in bonds and equities. The Long-Term Portfolio, under Lafico, had about $6–7 bn in direct investments that it managed itself.

supreme legislative authority to the House of Representatives and not only was the House of Representatives refusing to give a vote of confidence to the GNA (and so, in the eyes of many, denying the GNA legal authority) but its members had de-camped to Tobruk, in the east of Libya, leaving Serraj and his Presidential Council in Tripoli. The Tobruk group created a duplicate LIA, with four members of the original board of directors, and a duplicate central bank.

Breish tried to resume his work at the LIA as best he could, but he was hampered by legal wrangling between the two political factions. The House of Representatives in Tobruk would not give a vote of confidence to the GNA or its budget, so the GNA's access to funds was severely limited. Revenues from oil exports were being deposited in the Central Bank of Libya, but without an approved budget by Parliament, the Central Bank could not transfer funds to the Ministry of Finance for disbursement.

The Central Bank did, however, continue to pay salaries, although as Breish points out that was another area of trouble: more than 400,000 people were on the government's payroll as 'revolutionary fighters' but perhaps no more than about 30,000 had actually fought in the war that overthrew Ghaddafi. On the other hand, the number of government sector employees had more than doubled over the previous 2–3 years. (As a result, Libya's annual public sector salary bill was about US $18 bn in a country with a total population of six million.)

Finances were only part of the problem. In the febrile political conditions, political appointments were being made and unmade every week. In August 2016, Prime Minister Serraj had issued a presidential resolution appointing an 'Interim Steering Committee' to run the LIA with Ali Hassan Mahmood, a former board member of the LIA as its chairman. The edict did not mention Breish nor clarify how his position was affected.

Breish challenged Serraj's edict in the courts and won. In January, the courts ruled that Mr. Serraj had no legal authority to interfere with the LIA´s appointments, as dictated by the LIA's by-laws. Breish resumed work at the LIA two months later.

But in Feburary 2017, Serraj had issued another resolution appointing Ali Hassan Mahmood as Chairman of an 'Interim Management Committee'. A few months later, Serraj formed a board of trustees for the LIA and it nominated Ali Mahmoud Hassan as its chairman. Again Breish appealed this action in the Libyan courts but in May 2017 was forced to leave the LIA again.

Before he left the LIA the first time, Breish had been able to get a Court Appointed Receiver to take charge of some of the LIA's litigations in English courts. "This was a really significant development," he explains. "The issue of 'authority' was preventing us taking action to safeguard our assets and, when we wanted to, litigating against people. Everyone we took to court would challenge our authority, citing a parallel LIA established by the House of Representatives in Tobruk."

The receiver's appointment took effect from July 2015. Accountants BDO were appointed by the court, with Enyo Law acting as their legal advisor.

Continuing the fight for Libyan assets

As *Arab Banker* was going to press, the question of who was in charge of the LIA was still in front of the Libyan courts. The judicial system in Libya has remained intact despite the country's split and the lack of law and order, but that has meant that legal proceedings can take a long time, and when courts rule, implementation of their rulings can be slow.

Breish is arguing not only that the concept of an 'Interim Management Committee' is not recognised in the law that created the LIA and continues to govern it, but also that that Serraj does not have the authority to appoint (or dismiss) directors of the LIA, since his government has never received a vote of confidence from the House of Representatives. According to the LIA's incorporating law, it states that its Board of Trustees shall be composed of the Prime Minister of the Libyan Government, the Ministers of Finance, Economy, and Planning, and the Governor of the Central Bank of Libya.

But why does he continue the fight? After a long career in international finance, isn't it time to sit back and enjoy a well-earned retirement?

"I am the only legally appointed Chairman and CEO of the LIA," he says. "I will be held responsible in due course for what I did or didn't do to protect Libya's assets. Once a legally recognised government is in place, I will hand over my position to a legally appointed board chairman."

And when might that happen?

Breish is cautious in his response. "The UN is trying its best to provide a solution, and the Libyan people have had enough of this chaotic situation. However, it will take a long time for peace to return to Libya, and a long time to rebuild legal and legitimate structures."

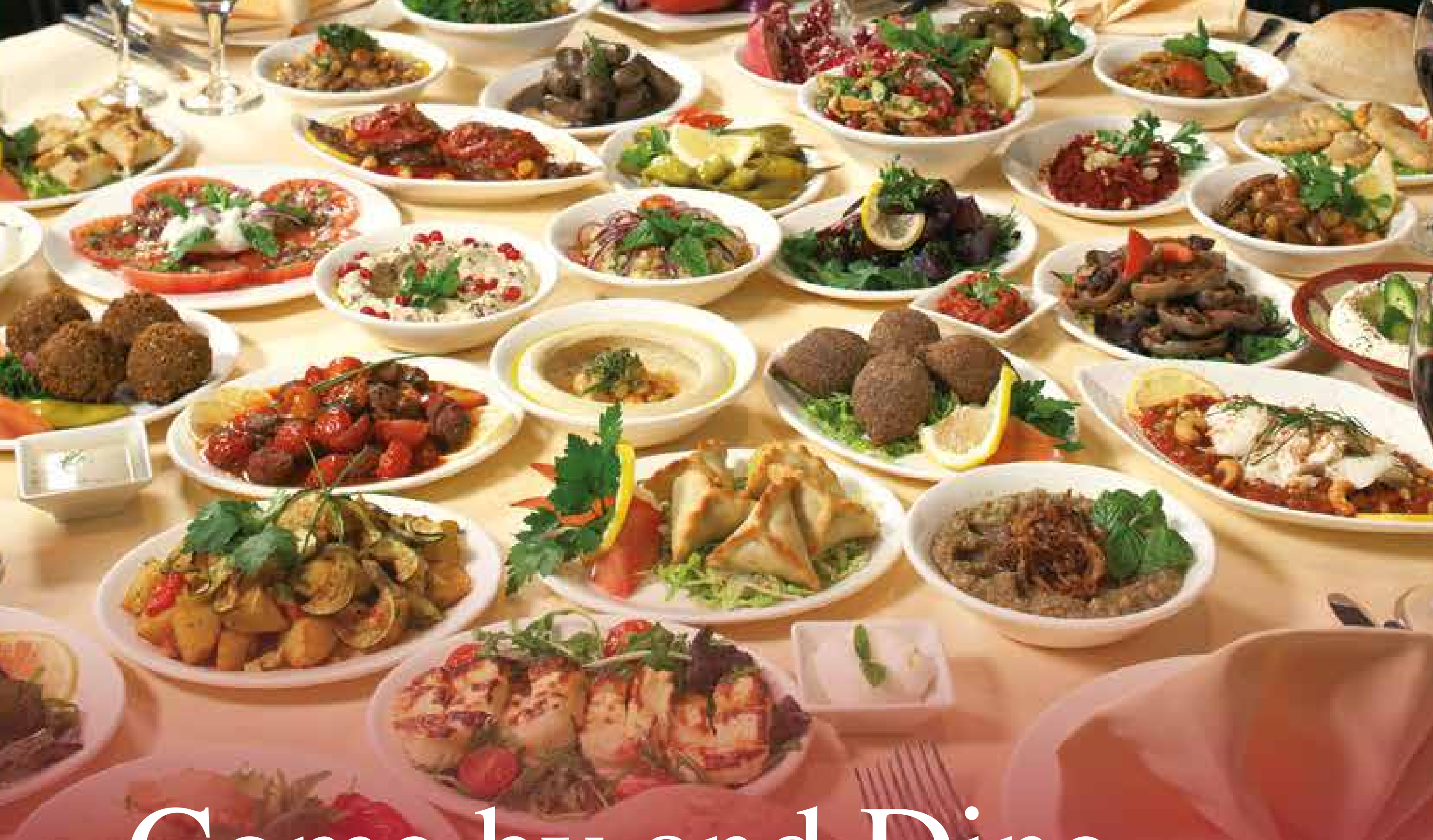
In the meantime, Breish will continue his fight in the Libyan courts to preserve the legitimacy of his position to safeguard the LIA's assets. ■

Irregularities and alleged irregularities in the management of the LIA's assets.

The LIA has fought two high-profile court cases against investment banks, alleging in both cases that the banks had acted improperly. One case was against Goldman Sachs and hit the headlines as a result of allegations that Goldman had hired prostitutes for LIA staff as part of a broader effort to win fund management business. Leaving aside the newspaper headlines, the core of the LIA's complaint was that Goldman had exercised 'undue influence' over LIA staff, not only through its use of hospitality, but also through the regular presence of its staff in the LIA's offices, and the training that it offered to LIA staff. In a judgement issued on 14 October 2016, the court ruled in Goldman's favour, dismissing the LIA's complaint.

The other high-profile case was against Société Générale. Here, the LIA alleged that Société Générale had won mandates as a result of a 'corrupt scheme' that involved paying $58 mn to a Libyan middleman.

Unlike the Goldman case, the details of the Société Générale case are not well known: the two sides reached a confidential settlement in May 2017, shortly before the trial was due to start, so there is no publicly available judgement. However, press reports have said that the terms of the agreement included a payment of a billion and fifty million dollars from Société Générale to the LIA, and a public apology in the French, English and Arab press.



Breaking the 'glass ceiling' in the Middle East: women bankers start taking key positions

The 'glass ceiling' that prevents women from rising to the top of many professions is a subject of intense debate in western finance: many claim that it no longer exists while others assert that institutional bias and out-dated work practices continue to hinder women's progress up the career ladder.

Arab Banker asked Melissa Hancock, a financial journalist who specialises in the Middle East and North Africa (MENA), to assess the progress of Arab women in the banking profession and to provide some real examples of women who have reached the top.

It has been a long, slow climb but a woman's place at the top of a MENA bank is no longer a rarity.

Khawla al-Asadi was appointed General Manager of Iraq's Rafidain Bank in June 2016. Rafidain is the biggest bank in Iraq with a huge market share – Ms. al-Asadi is effectively overseeing nearly half of the Iraqi banking system.

Shaikha al-Bahar has been prominent in Kuwaiti banking for decades. Having joined National Bank of Kuwait in 1981, she is now the bank's Deputy Group CEO.

Mervat Soltan was appointed Chairperson of Egypt's Export Development Bank in November 2016 (see separate box).

Perhaps surprisingly, the country where the greatest progress has been made in recent years is Saudi Arabia.

In February 2017, Rania Nashar became the first female CEO of a listed Saudi commercial bank – Samba Financial Group – the Kingdom's third-largest bank by assets. The same month, the Saudi Stock Exchange appointed its first female chair, Sarah al-Suhaimi.

Al-Suhaimi had also set another milestone in being appointed the first female CEO of a Saudi investment bank when she took the helm of NCB Capital in 2014.

Meanwhile, the Kingdom's sovereign wealth fund, the Public Investment Fund (PIF), which holds stakes in major companies and is integral to diversifying the Saudi economy, has also been hiring Saudi women in key positions.

Saudi Arabia's Vision 2030, which aims to wean the world's top oil exporter off its reliance on oil revenues and in the process diversify the economy, has targeted increasing women's participation in the workforce from its current 22% to 30% by 2020.

Historically, women have held few top posts in Saudi Arabia's banking and finance sector – or any sector for that matter.

Previously banned from driving and subject to a system of male guardianship, Saudi women have faced considerable restrictions in developing a professional career, let alone rising to the top.

Many believe that the lifting of the driving ban, which came into effect on 24 June, will prove to be a game-changer in enabling them to play a bigger role in Arab banking.

Looking beyond the issue of driving, Saudi Arabia's Crown Prince Mohammed bin Salman has been investing considerable effort in liberalising employment opportunities for Saudi women so that they are no longer limited to more traditional career options.

Indeed, the recent diversification across the GCC away from oil-fuelled economies and the proliferation of technology-powered businesses has led more women to venture into entrepreneurial jobs. A report published in August 2016 by Al Masah Capital stated that over 25% of new start-ups were being founded by women and that women in the GCC owned assets worth $385 bn through small and medium enterprises (SMEs).

But for Saudi Arabia, revoking the legal system of male guardianship is the key, according to Vivien Davies, a partner with the law firm Fieldfisher in London, who has a particular focus on servicing the needs of Middle Eastern and North African clients. Ms. Davies is also a Board Director and Member of the Executive Committee of the Arab Bankers Association.

"Until the Crown Prince addresses the guardianship issue, I think it's almost like tinkering on the outside because the guardianship issue would truly give women the liberalisation and autonomy that they need to control their own assets," she says.

The legal guardianship system requires a Saudi woman to have a male guardian – be it a father, husband, brother or son – who makes crucial decisions for her. Under the practice, male approval is required for travel or study outside the

Melissa Hancock

Melissa Hancock specialises in writing about banking and finance in the MENA region. She has worked as the Middle East editor of *The Banker* magazine, which is published by the *Financial Times*, and she has written for *Middle East Economic Digest*, *Arabian Business*, and a range of other publications.

Nahla Bou-Diab **Chief Operating Officer of Lebanon's Al-Mawarid Bank**

Nahla Bou-Diab has been the Chief Operating Officer of Lebanon's Al-Mawarid Bank since 2000. Before taking on this role, she worked for Ernst & Young in Lebanon and before that she worked in Canada on various consulting assignments, including projects for the Central Bank of Canada.

Ms. Bou-Diab says the key challenge she faced in building her career was "getting a fair shot at the opportunity: proving myself was easy after getting the chance to do the job".

She says that organisations today need diverse management skills because the management style needed to run an organisation today is no longer a top-down approach based on giving orders but rather a leadership style that fosters collective thinking, collaboration and that maintains a culture that ensures resilience and ability to adapt to a constantly changing environment.

"I believe the management style and skills required to oversee organisations today has been proven to be abundant in female managers who are naturally excellent at facilitating and bringing people together," notes Ms. Bou-Diab.

"Historically, women felt they needed to compete with male managers. It's very important to understand that that has now changed and women should not try to manage like men and we should not see men as competitors. Rather we are complementing their skills so that the organisation has a diverse set of skills. Without that diversity, organisations will be weak in the face of the changes happening in the global environment. Therefore, it's important to highlight the necessity for organisations to have those skills as opposed to just recruiting women as though it's a social responsibility."

In September 2017, Ms. Bou-Diab was appointed by the World Union of Arab Bankers (WUAB) as head of Women Empowerment for the banking and financial industry in the Arab World. WUAB's Board of Directors has since approved a 'Charter for Gender Diversity' that she proposed.

"Now that the charter is approved I will be inviting banks in the Arab world to participate in a workshop so I can explain and discuss it with them. Banks that then choose to adopt it will need to assign a member to be part of a working group that will then commit to its implementation. Through this, I hope to ensure that women have a fair shot at opportunities in Arab banks."

Ms. Bou-Diab was named among the Leading Arab Women Influencers in *Economy and Banking Industry* in 2015. And the Union of Arab Banks awarded her for 'Excellence in the Role of Women in Banking' in October 2017.

country, to get a passport, to get married or to leave prison.

According to a report published in March this year by the Centre for Women's Global Leadership at Rutgers University, there has been an 'explosion of advocacy' on Twitter over the past two years, as millions of women have embraced the social network to push for social reforms, including the abolition of male guardianship.

Steps have now been taken to ensure that women will no longer need the permission of a guardian to take a public sector job, but fully ending male guardianship is expected to take many more years.

The Twitter advocacy campaigns have been spearheaded by younger women who have been emboldened by both the Arab Spring and the crown prince's Vision 2030.

"I know of a Saudi princess who is trying to set up a $1 bn hedge fund with ultra high net worth women all contributing to it and its sole purpose is to promote business initiatives led by women," says Ms. Davies.

"She's leveraging her network for the dual role of promoting business as well as social recognition of the important role that women want to play. So while the challenges of 'having it all' [an expression used in the West to describe the combination of a successful professional career and family life] are even more difficult in the Middle East, there is an irony in that more and more female entrepreneurs are coming to the fore with ideas and looking collectively to do something – not only to promote female entrepreneurship but also to take more control over their own individual wealth. I'm increasingly seeing this with my Muslim Gulf clients."

Nonetheless, while there are positive developments, the issue of workplace gender inequality remains endemic across the Middle East. A report published in 2017 by EY entitled 'Tapping into the talent of our women in the Middle East' highlights that the participation rate of women in the labour force in the region remains low and says that while there isn't a lack of female talent, not enough women in the region are in senior positions.

It goes on to identify three major challenges that face women in the workplace: visible barriers, hidden barriers and external and societal pressures.

It also notes that there is a definite need for inclusive leaders in the region who can leverage the diversity of views between genders and value the differences between them: leaders who can commit to creating change versus maintaining the status quo.

Both mentoring and sponsorship also have a strong role to play in the development of women as acknowledged by all of the three women that are profiled individually in this article.

However, EY's research suggests that women can be over-mentored and under-sponsored. Sponsors can leverage their personal and organisational authority to hold line management accountable for retaining, guiding and supporting an employee towards a senior leadership position.

Mervat Soltan Chairperson of Export Development Bank of Egypt

Mervat Soltan became Chairperson of Export Development Bank of Egypt in November 2016. She had previously worked as General Manager, Financial Institutions at Ahli United Bank in Cairo, and before that spent five years with HSBC in Dubai as Director of Financial Institutions in North Africa and the Levant.

Ms. Soltan says that one of the main challenges she faced in building her career as a female banker was that, "It was assumed by default that men are better performers and so to prove that I was an equally good performer or an even better performer, I really had to exert a lot more effort. It is never something that is openly stated of course but it is embedded in the culture."

She also notes how there were challenges around the mindset of what was perceived to be acceptable business practice for a woman.

"For example, working late hours – it is common for men but not for women because women shouldn't stay out late. And being a married Middle Eastern woman with children and going on business trips without my husband raised some eyebrows. I was very mobile as I covered seven markets when I worked at HSBC so I was on the plane every week. Wearing a hijab scarf was also a challenge. But as time goes by, it's not about your gender and what you wear but what you deliver."

But Ms. Soltan says she has witnessed a gradual change of attitude towards women over the last decade.

"My generation started to get more recognition and be accepted as a female banker on equal terms to men. In the early days of my career, there were many women going into banking but very few of them made it to the top. However, I've really noticed that changing over the last decade. I'm the only chairwoman of an Egyptian bank but there are now many CEOs, many chief risk officers, many heads of operations, so women have progressed up the ladder to many high-ranking positions."

A key piece of advice that Ms. Soltan would give to other women is to be proactive: "I didn't wait for things to happen. I took the decision to make things happen," before adding: "The sky's the limit – in whatever job I did, I did what was expected of me, and beyond, to prove myself."

Ms. Soltan recently became a mentor in the Central Bank of Egypt's (CBE) Women's Mentorship Program that is aimed at encouraging more women to assume leadership positions. The programme was established by Dr. Lobna Helal, Deputy Governor of the CBE.

"There are now 12–15 banks involved with 150 women acting as mentors – they comprise female executives, CEOs or senior bankers who are all mentoring people from within their own institution," she says. "There's a lot being done to encourage women to enter into banking today but there is definitely room to do more."

Ms. Soltan was named among the Top 50 Most Influential Women in Egypt in 2017 by *Amwal Al Ghad* magazine that tracks the latest industry developments in Egypt.

Susie Aliker **CEO designate, British Arab Commercial Bank (BACB)**

In June this year, Susie Aliker was appointed BACB's first female CEO – an appointment she considers to be 'a high point' of a 20-year career in financial services.

Prior to this, she had served as BACB's Chief Financial Officer since joining the bank in 2014.

BACB is a London-incorporated bank whose shareholders comprise Libyan Foreign Bank (87.8%), Banque Extérieure d'Algérie (6.1%) and Morocco's Banque Centrale Populaire (6.1%). Its business today is focused on trade with North and sub-Saharan Africa.

Mrs. Aliker began her career as a qualified accountant at Credit Suisse in 1998 and over a 14-year period held a number of global management roles at the bank, ultimately being responsible for new business for all divisions of the organisation across Europe, the Middle East and Africa.

"Having spent the majority of my career in roles where I have led large teams and budgets, I find it very difficult to see whether or not I have ever struggled because of my gender," notes Mrs. Aliker. "The word 'struggle' resonates less with me and I prefer the word 'challenge'."

She observes that while there are definitely challenges for women operating in a largely male-dominated financial services sector, her view is that you have to turn such challenges into opportunities.

"I've often thought that for women, it is even more important to take the approach of spotting opportunities, mostly because we are often outnumbered. There are fewer opportunities for us to get noticed, so when I stand up and am listened to, I always make sure that I have thought about what I want to say and that it is impactful. Perhaps it is more challenging for women because it is not in our nature to do this and sometimes we focus more on what we can't do rather than what we can. We all benefit from positivity and, whilst being aware of our own shortcomings, it is important to have a can-do attitude."

Mrs. Aliker believes that the banking sector as a whole has become more inclusive, not just for women, since she started her career.

"Much of my career has been with a Swiss-American organisation, but across the board today, there is a general acceptance that a diversity of thought creates stronger teams and better performing companies."

She also notes that while support programmes for women in banks have increased over the years, finding your own mentor is invaluable.

"There are certainly more mentoring and networking programmes for women than there were previously and whilst I vehemently encourage women to join these, I cannot stress enough the importance of seeking your own mentors. Don't sit back and wait for them to come to you; if you spot someone that you respect, speak to them and ask for their support and advice."

This latter issue is something that Ms. Davies has observed in the banking world: "One of the key issues facing women in banking is the need for sponsors, as well as promoting a pipeline of talent, equal opportunities and a move away from an unconscious bias. The gender imbalance comes from the fact that there is still a conscious and unconscious bias that the main pivotal roles still need to be filled by a guy wearing trousers and with grey hair."

She says that another issue that needs to be addressed is enforcing a meritocratic environment.

"In the last five years, I've seen more women acquiring senior roles in private banking – they tend to be far more proactive than their male colleagues but they're still not being given the credit that they're due. And all too often men are reviewed on their potential and women on their actuals."

But in a global context, the region is making progress with regards to gender equality.

According to the World Economic Forum's Global Gender Gap Report, released in November 2017, while the Middle East and North Africa remains the worst region for gender equality across education, health, politics and the workplace, it is bucking the global trend of a widening gap and showing some positive progress. The report also highlights how eleven countries in the region have improved their overall score.

Today, the UAE ranks first among the Gulf countries and within the top three of Middle Eastern and North African countries.

However, to put this into perspective, the UAE ranks 120th out of a total of 144 countries, showing just how much progress still needs to be made, despite recent positive developments. ■

GCC banks look forward to stronger profitability

Higher oil prices and rising international interest rates are releasing the strain that GCC banks have felt over the last three years. Nearly all banks in the GCC are performing well, and capital levels remain exceptionally high when compared to international norms.

Arab Banker's Editor, Andrew Cunningham, comments on our ranking of the biggest 50 GCC commercial banks, which appears on page 41.

The biggest 50 commercial banks in the GCC (ranked by equity) were all profitable in 2017, and all but four showed higher profits than the previous year, despite the continuing impact of low oil prices throughout 2017.

Performance was a little less strong among the smaller banks – the 24 active commercial banks who fall outside the top 50 – where four declared a net loss in 2017, and one third declared lower profits than the previous year.

Capital levels remain high, especially in relation to the international norm of 10.5% (8% plus the 2.5% capital conservation buffer). All the top 50 had capital levels in excess of 14% at the end of 2017, and all except four had ratios above 16%.

Gulf banks have performed well since oil prices halved to around $50/barrel during the last six months of 2014. Only the bravest analysts would predict that the levels of $70/barrel seen in the spring and summer of 2018 will become the norm for the medium term, but it is clear that GCC banks are far more resilient in the face of low oil prices than they were in the past.

Rising international interest rates will bring added benefits to those GCC banks that command large amounts of non-interest-bearing deposits. Saudi banks and shariah-compliant banks are likely to benefit the most.

The top end of GCC banking is now characterised by two large banks that, in different ways, stand out in terms of their size. First Abu Dhabi Bank's equity of $28 bn is significantly larger than that of the second placed bank, Qatar National Bank (QNB) with $22 bn, and $10 bn larger than the third ranked bank, Saudi Arabia's National Commercial Bank. In terms of assets, it is QNB that dominates: it is the only Middle Eastern bank that had assets greater than $200 bn at the end of 2017.

As in previous years, individual banks in Saudi Arabia and the UAE dominate higher rankings in terms of equity size, but these two banking systems also dominate the GCC banking market as a whole. The aggregate equity of banks in each of the two countries was a little over $90 bn at the end of 2017, more than double the $41 bn shown by Qatari banks, and three times the figure for Kuwaiti banks.

Equity of $25 bn places a bank at roughly the 60th biggest in the world, alongside institutions such as DBS, Commerzbank and Banco do Brasil.

The large GCC banks remain significantly bigger than the leading banks in other major Middle East economies. The exception is Arab Bank, whose equity of $8.4 bn at the end of 2017 would place it just outside the biggest 10 GCC banks.

GCC banks are also by far the highest rated in the Middle East. Morocco is the only non-GCC country to hold investment grade ratings: BBB- from S&P and Fitch, but one notch below for Moody's. Abu Dhabi, Kuwait and Qatar continue to hold AA ratings – in the case of Qatar even after downgrades that followed the imposition of the embargo last year. Saudi Arabia lost its AA rating some time ago but must be hoping that higher oil prices and stronger economic management will offset concerns about political risk and enable upgrades. Bahrain is now rated deep in sub-investment grade territory after a series of downgrades, including a two-notch downgrade by Fitch in March 2018. S&P and Moody's have Bahrain at B+. ■

Ratings on Middle East governments*

	S&P	Moody's**	Fitch
Aaa			
AA+			
AA	Abu Dhabi, Kuwait	Abu Dhabi, Kuwait, United Arab Emirates	Abu Dhabi, Kuwait
AA-	Qatar	Qatar	Qatar
A+		Saudi Arabia	Saudi Arabia
A	Ras Al Khaimah		Ras Al Khaimah
A-	Saudi Arabia	Sharjah	
BBB+	Dubai Electricity & Water Auth., Sharjah	Dubai Electricity and Water Auth.	Sharjah
BBB		Ras Al Khaimah	
BBB-	Morocco	Oman	Morocco, Oman
BB+		Morocco	
BB	Oman		
BB-			Bahrain
B+	Bahrain, Jordan	Bahrain	Tunisia
B	Egypt	Tunisia	Egypt
B-	Iraq, Lebanon	Egypt, Lebanon	Iraq, Lebanon
C		Iraq***	

** Ratings on 30 June 2018. ** In this table, we have expressed Moody's ratings using the S&P/Fitch notation. ***Moody's rating on Iraq is Caa1*


Business
Bank of the Year 2016
Al Ahli Bank of Kuwait
2016
Business
Bank of the Year 2017
Al Ahli Bank of Kuwait
2017
Business
Bank of the Year 2018
Al Ahli Bank of Kuwait
2018

Largest 50 GCC commercial banks, ranked by equity size (end 2017)

	Figures in $ mn except for the capital ratio which is %		Equity	Assets	Net loans	Customers' deposits	Net profit	Capital ratio (Basel)
1	First Abu Dhabi Bank	UAE	27,830.0	182,149.7	89,980.7	107,782.1	2,981.5	17.8
2	Qatar National Bank	Qatar	21,789.0	224,424.2	161,680.3	162,013.5	3,636.1	16.5
3	National Commercial Bank	Saudi Arabia	17,157.6	118,484.9	66,530.2	82,468.6	2,660.0	20.0
4	Emirates NBD	UAE	16,163.2	128,075.1	82,799.7	88,908.6	2,272.4	22.0
5	Al-Rajhi Bank	Saudi Arabia	14,882.1	91,591.0	62,339.7	72,889.3	2,434.7	23.3
6	Samba Financial Group	Saudi Arabia	11,927.4	60,758.2	31,414.6	44,842.4	1,341.2	21.1
7	National Bank of Kuwait	Kuwait	11,820.3	86,416.2	48,138.2	45,738.4	1,136.2	17.8
8	Riyad Bank	Saudi Arabia	10,310.0	57,734.1	37,061.1	41,206.1	1,053.3	19.6
9	Saudi British Bank	Saudi Arabia	8,934.6	50,081.8	31,233.4	37,435.3	1,055.6	21.0
10	Abu Dhabi Commercial Bank	UAE	8,834.3	72,156.3	44,459.2	44,403.7	1,164.7	19.1
11	Banque Saudi Fransi	Saudi Arabia	8,451.6	51,500.2	32,550.6	40,295.5	942.8	19.4
12	Dubai Islamic Bank	UAE	7,863.7	56,454.6	36,304.8	40,075.1	1,226.3	16.0
13	Kuwait Finance House	Kuwait	7,023.9	57,616.1	40,302.1	38,492.7	711.0	17.8
14	Arab National Bank	Saudi Arabia	6,691.1	45,833.8	30,575.9	36,316.5	809.9	17.6
15	Commercial Bank of Qatar	Qatar	5,816.6	38,308.7	24,659.9	21,481.0	167.0	16.1
16	Qatar Islamic Bank	Qatar	5,777.5	41,608.5	28,393.0	28,172.0	622.7	17.3
17	Mashreqbank	UAE	5,752.4	34,086.8	17,081.4	20,710.3	568.9	17.2
18	Alinma Bank	Saudi Arabia	5,498.2	30,699.3	21,104.9	23,774.8	536.9	21.0
19	Union National Bank	UAE	5,300.4	29,275.5	19,369.6	21,425.9	451.2	19.4
20	Ahli United Bank	Bahrain	4,888.2	33,241.9	19,498.7	22,009.9	666.5	17.0
21	Bank Muscat	Oman	4,733.2	29,022.3	21,680.3	19,313.0	460.2	18.6
22	Abu Dhabi Islamic Bank	UAE	4,512.6	33,566.6	20,837.8	27,229.4	626.3	17.0
23	Bank ABC	Bahrain	4,412.0	29,499.0	15,329.0	16,755.0	253.0	18.7
24	Doha Bank	Qatar	4,097.1	25,870.0	16,547.7	16,454.8	307.2	17.5
25	Saudi Investment Bank	Saudi Arabia	3,811.6	25,037.8	15,906.4	17,869.6	376.6	20.4
26	Masraf Al Rayyan	Qatar	3,705.0	28,485.8	19,949.2	22,421.9	564.7	19.3
27	Al Awwal Bank	Saudi Arabia	3,630.3	26,659.1	16,987.8	20,894.6	356.5	20.3
28	Burgan Bank	Kuwait	2,880.1	24,613.1	14,630.1	13,789.6	229.4	16.2
29	Commercial Bank of Dubai	UAE	2,472.6	19,172.7	12,872.4	13,181.6	272.8	15.0
30	Gulf International Bank	Bahrain	2,410.9	25,471.3	10,043.1	15,989.8	70.0	15.6
31	Bank Al Jazira	Saudi Arabia	2,356.7	18,228.6	10,621.4	13,421.2	228.9	20.9
32	Commercial Bank of Kuwait	Kuwait	2,174.1	14,586.9	7,423.6	7,316.4	184.2	18.6
33	National Bank of Ras Al Khaimah	UAE	2,142.4	13,215.9	8,778.5	8,761.0	220.7	22.1
34	Barwa Bank	Qatar	2,108.9	13,457.8	8,765.0	7,324.2	208.7	17.5
35	Bank Albilad	Saudi Arabia	2,025.7	16,872.6	11,597.8	12,755.1	249.9	18.5
36	Al Khaliji Commercial Bank	Qatar	2,017.5	16,016.6	9,710.3	9,043.3	152.3	16.7
37	Gulf Bank	Kuwait	1,995.9	18,864.8	12,642.5	11,581.0	159.3	17.8
38	Al Ahli Bank of Kuwait	Kuwait	1,901.0	14,477.7	10,207.1	9,756.4	118.5	17.2
39	Qatar International Islamic Bank	Qatar	1,886.1	12,898.9	8,992.7	8,986.8	230.3	17.9
40	Noor Bank	UAE	1,592.9	11,618.0	7,487.7	8,258.1	101.0	17.9
41	Ahli United Bank (Kuwait)	Kuwait	1,552.1	12,167.2	8,871.8	8,053.6	147.7	18.0
42	Bank Dhofar	Oman	1,528.0	11,054.5	8,457.2	7,987.3	123.9	15.4
43	Al-Hilal Bank	UAE	1,503.7	12,195.0	8,504.3	9,159.7	38.3	16.0
44	Sharjah Islamic Bank	UAE	1,502.8	10,425.4	5,910.6	6,077.0	130.1	21.1
45	Boubyan Bank	Kuwait	1,501.6	13,178.9	9,548.9	11,281.6	158.3	19.4
46	Ahli Bank of Qatar	Qatar	1,464.8	11,035.7	8,006.6	6,521.4	177.0	16.9
47	National Bank of Oman	Oman	1,422.1	9,033.7	6,908.3	6,407.0	114.5	17.3
48	Bank of Bahrain and Kuwait	Bahrain	1,334.2	10,025.6	4,637.5	6,989.7	157.7	20.0
49	National Bank of Fujairah	UAE	1,331.6	9,981.0	6,552.7	7,587.2	128.5	17.5
50	International Bank of Qatar	Qatar	1,233.0	9,829.0	5,855.5	5,973.6	137.5	14.3

Source: Banks' publicly available financial statements. First Abu Dhabi Bank's figures are pro forma for the end of 2017.

Egypt benefits from clear political and economic direction

After the years of uncertainty that followed the overthrow of President Mubarak in 2011, Egypt now finds itself on a political and economic path that is both clear and stable.

The four-year Extended Fund Facility that was signed with the IMF in November 2016 has provided a sure framework around which to implement long-awaited fiscal reforms, while the election of President Sisi in March for a second four-year term, and his appointment of a new government, provides clear political direction for the years ahead.

To better understand the impact of these events, *Arab Banker* spoke to Akef El Maghraby, the Vice Chairman of Banque Misr, Egypt's second largest bank.

ARAB BANKER: What do you think will be the economic priorities for President Sisi and his new government over the next four years?

AKEF EL MAGHRABY: I expect that the first economic priority of the President and his government will be to continue the programme of economic reform.

We are already seeing benefits from the programme: foreign currency reserves rose to a historical high of $44.5 bn in the summer of 2018; unemployment fell to 10.6% at the beginning of 2018, down from 11.8% in early 2017 and 12.5% a year before that; the balance of payments deficit is shrinking; and we have a primary budget surplus for the first time in ten years.

Allied to this is the desire to achieve higher GDP growth. Despite the effects of reduced government subsidies on consumption, GDP growth has remained strong and is currently around 5.5%. The government's target over the next three years is to get GDP growth to 8% through a series of measures that includes:

- Attracting more foreign direct investment through the new investment law, privatising some state-owned assets, resolving any existing disputes with foreign investors and providing incentives to new investors. The Ministry of Investment is also developing an important new tool: an investment map that will link potential investors with opportunities in which they are interested while also providing incentives for those who will invest in areas of strategic importance to Egypt.
- Encouraging entrepreneurship and economic growth through small- and medium-sized enterprises (SMEs). There is already a scheme organised by the Central Bank of Egypt to enable banks to lend to SMEs at the reduced interest rate of 5%, but the government is also considering tax incentives and the creation of SME-focused industrial parks.
- Investments in big infrastructure projects will also play a big role in boosting economic growth. Specifically, the government's focus will be on the power network, new roads, high-speed railways, expanding the underground train network in Cairo and further developing the Suez Canal Industrial Zone.
- Improving the education and health care systems. Both of these will be critical if we are to achieve long-term and sustainable growth. We need to prepare our young people for the jobs of the future and we need a population that is healthy.

It is important to note that alongside all of these initiatives, the government will be expanding the social safety net through the implementation of targeted welfare programmes such as Takaful and Karama. These programmes reduce the social costs of the economic reform programme and include cash transfers to encourage greater school enrolment among low-income families and to ensure dignified living standards for our elderly population.

What role will the banking sector play in fulfilling these economic priorities?

Banks will be supporting these initiatives in many ways. Most obviously, we will be making large loans to finance the major projects, but I expect we will also be providing financing for public private partnerships and some other initiatives.

We can also help the government to fulfil its priorities by underwriting big projects and promoting investment opportunities among our overseas clients. Banque Misr has arranged financing for more than EGP 130 bn ($7.2 bn) over the last four years, mostly through arranging syndicated loan facilities, and as a result we were recognised as the second largest bookrunner and mandated lead arranger in Africa and EMEA by Bloomberg in 2017.

More generally, the lending environment has been improving, making it easier to extend loans. The Central Bank of Egypt has cut its overnight deposit and lending rates twice this year – by 1% in February and another 1% in March, taking the overnight deposit rate to 16.75%. Inflation fell to 14.4% in February, the lowest since October 2016, and the country is on track to be well below the targeted inflation rate of 13% set by the Central Bank of Egypt.

Lower interest rates are only part of the better lending environment. The presidential election in March has provided political stability, and the IMF programme provides a healthy degree of certainty over economic policy for the next two years. As a result, businesses now feel more confident about investing.

Finally, I would note that the banking system is very liquid.

Akef El Maghraby

Akef El Maghraby joined Banque Misr in August 2016 as its Vice Chairman. Prior to that, he had spent 16 years with Citibank. As Vice Chairman, he is responsible for the lines of business, including corporate, treasury, investment, SMEs, retail, branches, Islamic financing, global transaction services and international business. He is Chairman of Misr Bank-Europe in Frankfurt, Chairman of BM Lease and sits on the board of several of Banque Misr's other subsidiaries.

Banque Misr was established in 1920 and is currently the second largest bank in Egypt. It is visible in all economic fields and has extensive overseas operations. The bank has about 14,500 employees and serves more than eight million clients in Egypt. It has equity of more than EGP 60 bn ($3.3 bn) and assets of more than EGP 880 bn ($49 bn). The bank has about 600 electronically integrated branches in Egypt, five branches in the UAE and one in France. Its global presence includes subsidiaries in Lebanon and Germany, representative offices in China and Russia, and a global network of correspondents.

Across the system as a whole, the loan to deposit ratio is less than 40%, meaning that we have plenty of capacity to increase lending.

Is there more work to do on bank reform in Egypt or has that process now come to an end?

The majority of monetary and financial reforms are now complete. The government has finished most of the work on bank reform which began in 2004, so going forward the privatisation process will be concentrating mainly on the government's holdings in the corporate sector and will include publicly listing a non-controlling stake in Banque du Caire.

This shift in focus to the corporate sector will be true in other areas: enhancing productivity, improving education, creating more vocational training opportunities, and improving market efficiency are the big priorities now.

How important to Egypt's banking system is Egypt's sovereign credit rating?

Egypt's credit rating is certainly important to the banks, even though we do not have any Eurobonds outstanding. We all have extensive relationships with overseas banks and we are doing billions of dollars' worth of trade finance each year. Our counterparties are looking at our credit ratings as they decide how to price their facilities.

Fortunately, the credit rating of the Egyptian government is heading in the right direction. In February this year, Fitch changed the outlook on its B rating to positive, and in May S&P upgraded Egypt to B from B-. Moody's still has a B3 rating. We hope that S&P's upgrade of Egypt will lead to our own ratings being upgraded. Our ratings are capped by the sovereign rating, and in the past when the rating or its outlook has changed, the ratings on the banks have changed as well.

Will banks be moving out of Cairo into the new administrative city? What will Banque Misr do?

The new administrative capital is being built 45 km east of Cairo, about halfway between Cairo and the city of Suez. Major construction works are currently underway to build a smart city of the future with superior infrastructure and technologies. Some districts have been already developed. The new city will have an area designated for banks. The Central Bank of Egypt will move there and so many of the commercial banks will move head office functions or line management functions there as well.

We at Banque Misr have bought a plot of land and we plan to relocate significant operations there.

Do you think Egypt will benefit or lose from higher oil prices?

Egypt is a currently a net importer of about 30% of its energy needs so our economy benefits from low oil prices. This is going to change. Gas deliveries from the Zohr field began at the end of last year and within the next few years, gas from this field will be covering a significant proportion of our domestic needs. As a result, our vulnerability to higher energy prices will be reduced and we could become a net exporter. But we are hoping that the Zohr field will not be the end of the story for Egyptian gas. There are promising explorations which could further reduce our dependence on imports.

Egypt is also developing renewable energy. The IMF and the European Bank for Reconstruction and Development have committed $1.6 bn for 27 solar energy projects in Egypt. We are creating the world's largest solar park in Benban, Aswan. We are also developing wind technology, notably through the Gebal El Zeit wind farm that was financed by KfW and European institutions. ■

Understanding the Central Bank of Lebanon's swap operations: an interview with Dr. Marwan Barakat

Over the last two years, the Central Bank of Lebanon has been working with Lebanese commercial banks to implement a series of innovative financial engineering operations with the aim of strengthening Lebanon's foreign assets, reducing the cost of the government's financing requirements and supporting the balance sheets of the commercial banks.

In the following article, Dr. Marwan Barakat, the Group Chief Economist and Head of Research at Bank Audi, explains how the operations worked and assesses the benefits and challenges that they have brought to the Lebanese economy and its commercial banks.

The financial engineering operations began in mid-2016 with a swap between the Ministry of Finance, which issues Treasury bills and Eurobonds in Lebanon, and the Central Bank of Lebanon (known by its French acronym, BdL). The Ministry of Finance received local currency Treasury bills that had been held by the BdL, and the BdL received Eurobonds from the Ministry of Finance.

One result of this was that the amount of public debt denominated in dollars increased (because the Ministry of Finance had to issue more Eurobonds as its part of the swap).

Having received the Eurobonds, the BdL then sold all of them to the commercial banks, along with some other Eurobonds that it had previously acquired and foreign currency certificates of deposit it issued. As part of this operation, the BdL offered to discount at an attractive premium local currency Treasury bills and certificates of deposit that the commercial banks were holding, on the condition that the banks invested the same amounts (as the BdL was discounting) in the Eurobonds and the other US-denominated instruments.

The total amount of investments swapped in this way during 2016 was $14 bn.

The BdL executed two other operations during 2017, in June and September.

In June, commercial banks were allowed to place their local currency liquidity with the BdL at rates that were 1% above the yield curve, on condition that the banks also deposited with the BdL equivalent amounts in US dollars. The US dollar deposits received yields that were 0.5% above market rates.

The September operations allowed banks to benefit from local currency facilities at 2% on condition that they placed long-term foreign currency term deposits at the foreign exchange department of the BdL for a minimum of five years and that the proceeds of the swap were invested in more local Treasury bills, either through the primary market or the secondary market.

The two operations in 2017 realised $7 bn.

For the most recent operation, in May 2018, the Ministry of Finance and the BdL exchanged newly issued Eurobonds for local currency treasury bills: the BdL received $5.5 bn in Eurobonds and the Ministry of Finance received the equivalent amount of local currency Treasury bills. The BdL then offered the Eurobonds for sale to the commercial banks. The Eurobonds were offered in four tranches, maturing between 2028 and 2034, with yields ranging from 7% to 8.25%. Banks were allowed to finance their purchases of these bonds by discounting at par Eurobonds they already held that were due to mature in June and November 2018, or by discounting at par foreign currency certificates of deposit that were maturing in 2021. Banks also had the option to buy the Eurobonds for cash.

In practice, most banks financed their purchase through an exchange of certificates of deposit, and about $3 bn was sold.

Repetitive swap operations of this nature bring several advantages to the banks, to the BdL and to the Ministry of Finance.

The swaps had many positive impacts ...

The positive effects of the swaps can be summarised as follows:

Government debt servicing: The swap process reduces the cost of interest on the exchanged bonds (interest rates on Eurobonds are lower than interest rates on local currency Treasury bills) and it lengthens the average maturity of government debt. There is also the additional advantage to the government in the form of higher taxes paid by the banks on the increased revenues that they receive through the swap operations.

BdL international reserves: The swaps took the BdL's international reserves to a record high. At the end of May 2018, the BdL's foreign assets were $45.3 bn, which was the equivalent of 85% of Lebanese money supply and 28 months of imports. In April 2016, the figure had been $36 bn representing 68% of money supply and 23 months of imports.

The quality of BdL reserves: After selling most of its Eurobond portfolio to the commercial banks, the quality of the BdL's reserves improved. At the time of writing in June 2018, the BdL was holding only $4.7 bn of Lebanese

Dr. Marwan Barakat

Dr. Marwan Barakat is Group Chief Economist and Head of Research at Bank Audi in Lebanon. He has led Bank Audi's Research Department for more than twenty years, overseeing the production of a wide range of weekly, quarterly and annual reports that have become established reference points on Middle East economic activity. Dr. Barakat holds BBA and MBA degrees from the American University of Beirut and a PhD in economics from the University of Leeds in the United Kingdom. He has held various teaching posts at the Lebanese American University and the American University of Beirut and is a noted authority at conferences and seminars in the Middle East, Europe and the US.

sovereign bonds, equivalent to about 8% of the foreign assets, compared to a peak of 20% reported a few years ago. Because the BdL is now holding a reduced volume of Lebanese Eurobonds, nearly all of the BdL's reserves are now placed with highly-rated OECD banks or low risk international instruments.

Effects on the banks' balance sheets: The BdL specified how banks should use the extra revenues that they received from the swap operations. Circular 446, issued in December 2016, specified that the banks should use the revenues for the following purposes: to make additional collective provisions equal to 2% of their risk-weighted loans; to make any additional provisions required to implement IFRS 9; to book any outstanding goodwill impairments; to book any required impairments on investments in entities abroad. Seventy per cent of any remaining revenues should be allocated to reserves that are eligible for inclusion as Common Equity Tier 1 capital, and 30% should be allocated as deferred liabilities eligible to inclusion as Tier 2 capital.

Effect on deposit growth: To rebuild their foreign exchange liquidity positions after the swap operations, some banks have been offering attractive rates on fresh deposits, focusing mainly on overseas deposits. These operations have been successful, with the speed of deposit growth increasing from an annualised rate of only 2% in early 2016 to an annualised rate of 7% by the end of that year.

Effects on the balance of payments: The growth in net foreign assets during the period the swaps were being conducted led to an improvement in Lebanon's balance of payments. The large deficits seen since 2011 turned into a surplus of $1.2 bn in 2016. In 2017, the balance of payments was almost neutral.

Foreign holdings of Lebanese Eurobonds: In order to rebuild their foreign exchange liquidity adversely impacted by the swaps, commercial banks increased their efforts to sell Lebanese Eurobonds that they were holding to foreign investors. It was known that international investors were 'underweight' in their holdings of Lebanese Eurobonds, since the weight of Lebanon in the JP Morgan EMBI Diversified index was 2.72% while the weight of Lebanon in emerging market portfolios was around 1%. Holdings of Lebanese bonds increased to about 2% after the swaps, representing about $5 bn of sales by Lebanese banks to foreign investors.

And a few negative ones ...

However, we must recognise that there were some negative effects:

Effect on Lebanese banks' foreign exchange placements with foreign banks: Lebanese banks used some of their liquidity placed with banks abroad to finance the purchases that they made from the BdL, so their foreign currency placements with banks abroad fell from 11.8% of their total foreign currency customer deposits at the end of December 2015 to 8.7% in April 2018. That said, the banks' overall primary liquidity position (which includes placements with the Central Bank as well as placements with foreign banks) remains above 50% of their foreign exchange customer deposits at the end of April 2018, which is still one of the highest levels seen in emerging markets.

Effects on banks' exposure to the Government of Lebanon and the BdL: As a result of the banks' purchases of foreign currency certificates of deposit issued by the BdL (plus their foreign currency deposits at the BdL), the banks' overall foreign exchange exposure to the Lebanese sovereign has increased both in dollar terms and as a percentage of their deposits and equity. But 80% of the sovereign exposure is to the BdL, which is considered to be a better risk than the Government of Lebanon since the BdL holds prime liquid assets abroad.

Effects on Lebanese Eurobond prices: Because Lebanese banks were net sellers of Lebanese Eurobonds during the swap operations (they made virtually no significant bids for the Eurobonds), Lebanon's bond spread widened. At the beginning of 2016, it had been similar to that of emerging market indices at 430 basis points (bps), but by the end of May 2018, it had widened to 627 bps compared to 362 bps for the emerging market index.

Overall, a net positive effect

Although the swaps programme has had some adverse effects, the positive effects have been far greater. During a period of lingering macro-economic and financial pressures, the BdL's financial engineering operations and the corollary steps taken by the commercial banks have led to an innovative and largely successful enhancement of Lebanon's financial profile, safeguarding the national currency and its financial sector from the impact of political uncertainty in the Middle East and risks that it could spill over into Lebanon. ■

Egypt trumps rivals in East Mediterranean gas game

The East Mediterranean has become one of the most exciting areas of energy development in the Middle East as a result of recent gas discoveries off the coasts of Egypt, Cyprus, Israel and Lebanon. But while Egyptian gas production is soaring, global prices and geopolitics are slowing developments elsewhere in the region.

Arab Banker asked Gerald Butt, who has been analysing Middle East energy markets for more than thirty years, to explain what has been happening on the East Mediterranean energy scene and to comment on the significance of recent events for economies in the region.

When the history of East Mediterranean natural gas is written, considerable attention will be paid to the events of one particular year: 2015. That was when geologists at the Italian energy giant, ENI, stumbled on a previously unknown carbonate layer in the rocks deep beneath the Mediterranean Sea. The discovery, at the Zohr gas field 122 miles north of Port Said, was in Egyptian waters and was sufficiently huge to transform not only Egypt's energy prospects but also those of the East Med region as a whole.

Back in 2010, the US Geophysical Survey estimated that East Med gas reserves were in the region of 122 trillion cubic feet (cf). That is a significant amount of gas, but still some way short of Qatar's estimated reserves of 890 trillion cf, the third largest in the world after Russia and Iran. In the wake of ENI's find offshore in Egypt and other significant finds around the region, the likelihood is that a new assessment would put the volume of gas in the East Mediterranean significantly closer to the Qatar figure than it was in 2010.

For a start, Zohr gas field alone has at least 30 trillion cf of gas in place. Estimates of gas yet to be discovered in Egypt – onshore as well as offshore – range between 100 trillion and 150 trillion cf. Egypt is becoming a big hitter in the energy world.

ENI broke all records in bringing the first gas ashore to its vast processing plant west of Port Said at the end of 2017, just two years after the discovery. Output is set to reach 2.7 billion cf a day by 2020, the equivalent of half of Egypt's current daily consumption.

Zohr is by no means Egypt's sole success story. International firms, attracted by a generous gas sale price and the ease of connecting to a well-tried infrastructure, are working frenetically to bring more onshore gas on stream. ENI, Shell, Edison and BP are among the international companies which have announced plans to expand activities. Later this year, ENI will begin exploratory drilling at the Noor gas field off North Sinai, amid speculation that another Zohr-size discovery awaits.

Egypt's good fortune could not have come at a better time. In the political and economic chaos created by the 2011 popular uprising, Egypt was forced to divert supplies away from its two liquefied natural gas (LNG) plants, at Idku and Damietta, to meet the demands of the domestic market. Exports stopped and Egypt even became an importer of LNG.

Now the authorities say they have just issued their last LNG tender, and by the end of this year there will be no more imports. At some point early next year, the LNG plants will be back in operation, with exports resuming.

Attracting investment

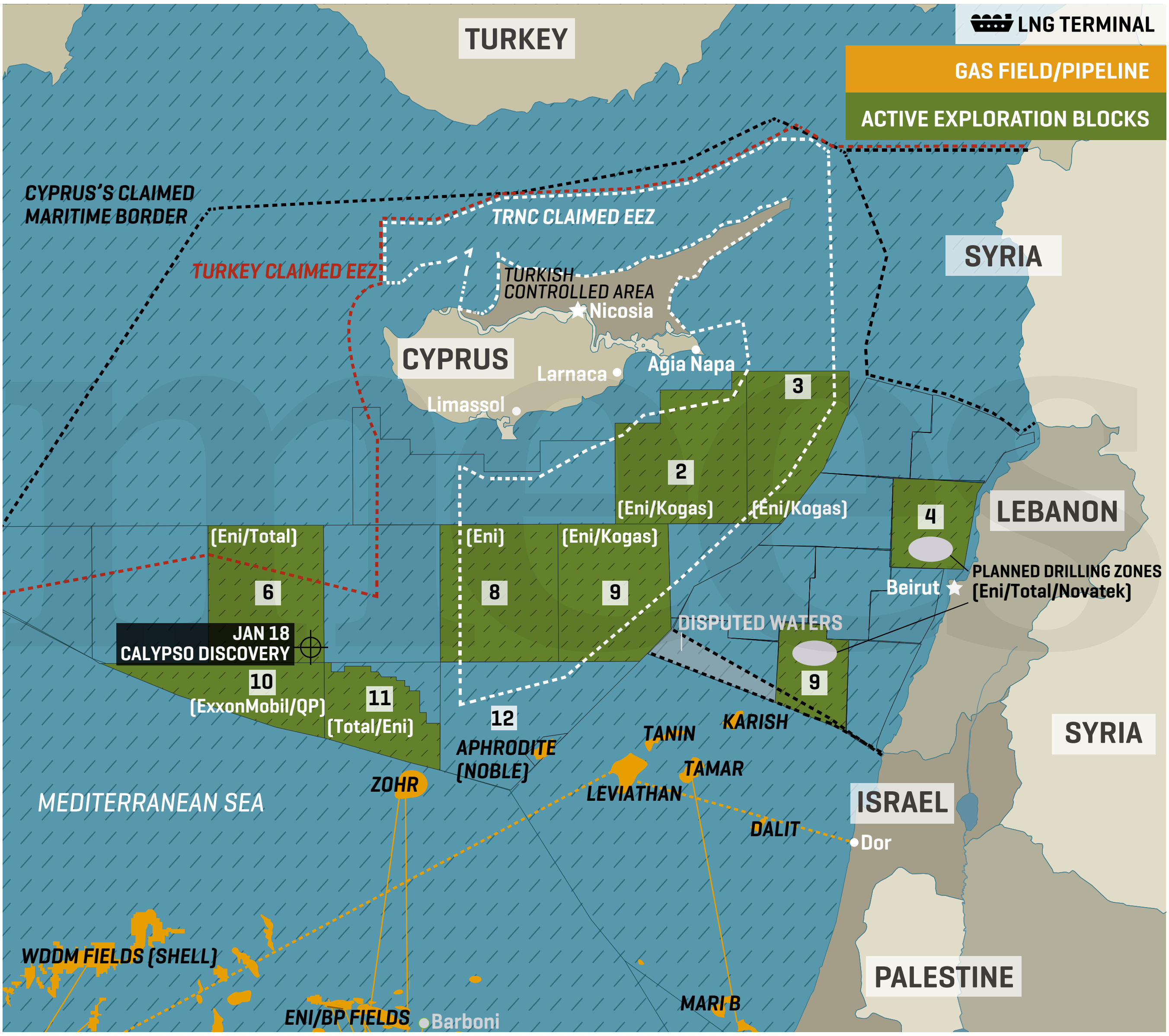
Egypt certainly looks on course to becoming the main gas hub for the East Mediterranean, with gas distribution infrastructure and two LNG facilities already in place. None of the other East Med gas hopefuls are similarly blessed. So the chances of Israeli and Cypriot gas ending up in Egypt – rather than taking the longer and more expensive route to Europe – are increasing.

Aside from the facilities on offer, Egypt is also increasingly attractive to international firms because it has liberalised its entire gas sector, opening it up to private investment. This move has eased the way for a deal that could see gas from Israel's giant Leviathan (21 trillion cf of producible gas) and Tamar (10 trillion) offshore fields reaching Egypt. US-based Noble Energy and Israel's Delek, operators of the two fields, have signed an agreement in principle with private buyers in Egypt to supply 226 billion cf of gas over a 10-year period.

This deal is not yet signed and sealed. The Egyptian and Israeli governments have yet to settle a long-running legal dispute over the termination of gas supplies to Israel. Also, the route of the pipeline from Leviathan and Tamar has yet to be decided, with an Islamist insurgency in northern Sinai raising security issues.

Greek success

There are no such question marks over another deal involving Israeli offshore gas. In 2015, the Israeli authorities, in an anti-monopoly measure, ordered Delek and Noble



Map supplied by Middle East Economic Survey, Cyprus. www.mees.com

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) and is the author of several books on the Middle East.

Energy to sell the Karish and Tanin fields, where 2.4 trillion cf of gas had been discovered but not developed. To general surprise, Energean, a small Greek firm, announced its intention to buy the licences. It raised the necessary $148 mn and in late 2017 concluded agreements with private Israeli power producers for the supply of a total of 148 billion cf a year for fifteen years. The first gas is expected in 2021.

Israel also exports small volumes of gas to private industrial firms in Jordan, but plans to construct a pipeline to Turkey have become hostage to vacillating political relations between Israeli and Turkish leaders. At present, the option is off the table.

Political clouds also hang over Lebanon's efforts to develop offshore hydrocarbon potential. A consortium of France's Total, ENI and Russian firm Novatek is soon to start drilling in two blocks, one of which straddles water that is contested by both Lebanon and Israel – the two have never agreed on a maritime border. While Total insists that drilling is taking place far away from the contested zone, the Israeli government has said it opposes any activity until the boundary issue is resolved.

Geopolitics is also impacting Cyprus's offshore gas developments. A discovery of 4.5 trillion cf was made at the Aphrodite gas field in 2011 but has never been developed. Bringing the gas ashore to a small domestic market does not make sense; at the same time, the find is too small to justify the cost of building an LNG plant for export. The hope was that UN-led diplomatic efforts would resolve the dispute between the Cypriot republic and Turkey, resulting in the reunification of the divided island. This would have allowed Aphrodite gas to reach the nearby and vast Turkish market. Such a deal remains elusive.

The Zohr effect

The best hope for Aphrodite lies in the possible discovery of a field close to the dimensions of Egypt's Zohr. Up to 2015, interest in Cypriot exploration was small. But when carbonate layers similar to those at Zohr were found close to Cyprus's maritime border with Egypt, the big players moved in. Success thus far has been limited. ENI discovered an estimated 6–8 billion cf of gas in place in the Calypso field. But the company's drillship was prevented by the Turkish navy from drilling in Block 3. Turkey claims some waters in Cyprus's economic exclusion zone as its own and insists that energy development should await the reunification of the island. In October, ExxonMobil plans to start drilling in Block 10, close to the Egyptian maritime border and the Zohr field. It is considered a prime potential spot for a major discovery.

Exxon is also moving in on other possible Zohr-like possibilities – this time in Greek waters off Crete. Results will not be known for at least two or three years. But Greece is confident that it will eventually jump on the East Med gas bandwagon.

Greece is close to completing its section of a pipeline transporting gas from Azerbaijan to Europe. So gas from a major find could easily be fed into that. Along with Italy, Cyprus and Israel, Greece is a partner in the planned East Mediterranean Natural Gas Pipeline Project. The European Union is backing the venture as part of its strategy to diversify sources of supply.

Despite optimistic pronouncements, there are still issues to be resolved. On the face of it, with Russia supplying gas to Europe at bargain-basement rates and the US looking for markets for its LNG, selling East Med gas to Europe does not make commercial sense when the costs of transportation are added to the price. For now at least, Egypt looks the most likely destination for most of the gas under the waters of the Eastern Mediterranean. Egypt definitely holds the trump card. ■

Fintech, blockchain and cryptocurrencies: disruptive or not?

The apostles of fintech tell us that financial markets are going to be transformed by peer-to-peer networks such as blockchain and that digital currencies will start to rival national currencies as a medium of everyday exchange. Yet the biggest investors in blockchain technologies are the established household-name banks and, as for cryptocurrencies, how many readers of *Arab Banker* have ever paid for anything with bitcoin or one of its rivals?

Arab Banker's Editor, Andrew Cunningham, considers how disruptive the new technology is likely to be and offers some advice for further reading so that readers can make up their own minds about the future of fintech.

The use of technology in the financial services industry is not a new phenomenon. Perhaps the first example of fintech was the ATM, launched in the north London suburb of Enfield in June 1967.

In 1989, Midland Bank (now part of HSBC) launched the first telephone-only banking service in the UK – First Direct – and a few years later, many banks began enabling customers to conduct banking transactions through the internet. Some banks set up new licensed subsidiaries that offered only internet-based financial services. For example, ING launched DiBa, an internet-only bank, in Germany in 2002.

These developments changed the way in which people thought about banks and the relationships that they as customers had with their banks, particularly at the retail level. However, the new technologies were not disruptive to the banks' business models – these new services were being launched by established players as a way of strengthening and diversifying their already strong business franchises.

In contrast, developments in distributed ledger technology (DLT) and cryptocurrencies are being led by new as well as established players. Furthermore, the technology now has the potential to exclude established banks and create new relationships between financial services providers.

Yet considerable doubt continues about the disruptive effect of new technology. Much of what is termed 'fintech' in the banking world entails banks moving existing services onto digital platforms, so reducing the cost of delivery for the bank and hopefully improving the customer's experience. There's nothing conceptually different there from the installation of ATMs fifty years ago.

Trade finance is seen as an area where the use of DLT is particularly appropriate. Trade finance entails the creation and verification of a variety of documents which in turn enable the disbursement of funds. 'Smart contracts' based on DLT accelerate the documentation process, resulting in earlier payment for exporters and faster transaction turnover (and so more efficient use of capital) for banks.

New players are certainly entering the market. In the United Kingdom, so-called 'challenger banks' such as Metro, Aldermore and Shawbrook have created viable business models by using up-to-date IT systems (in contrast to the old systems that still pervade the back offices of many established banks) and more nimble customer service. In some cases, they have also grown by targeting specific types of customer – as opposed to trying to win over customers from big players.

It is too early to tell whether such challenger banks will be able to build market shares to rival the established banks, but it does seem clear that building a significant market share will take a lot longer than the creation of a viable niche business.

Many niche players – including many fintech start-ups – do not see themselves as disruptors of the established banking order. Their business plan is to use technology to create a

Useful documents for understanding the technology and possible uses of DLT and cryptocurrencies

Cryptocurrencies: looking beyond the hype. BIS Annual Economic Report, 2018 (pp. 91–114).

Distributed ledger technology (DLT) and blockchain. The World Bank, 2017. (This is a very clear overview of the various types of DLT, how it works and the uses to which it can be put.)

Enabling the fintech transformation: revolution restoration, or reformation? Speech by Mark Carney, Governor of the Bank of England, 16 June 2016.

Innovations in payment technologies and the emergence of digital currencies. Bank of England Quarterly Bulletin, 3Q2014. (Although four years old, this paper still provides one of the best outlines of the technical aspects of DLT and cryptocurrencies.)

The future of banking: how much of a threat are tech titans to global banks? S&P Global, January 2018.

Where do banks fit in the fintech stack? Lael Brainard, Member of the Board of Governors of the Federal Reserve System, 29 April 2017.

What is distributed ledger technology?

Distributed ledger technology (DLT) enables participants to record and share data across multiple ledgers and to conduct a range of transactions. DLT is therefore a development of peer-to-peer technologies, such as music sharing, that have existed for some time. What distinguishes DLT from previous peer-to-peer networks is that it enables the transfer of asset ownership because, through cryptography, it has overcome the challenges of identifying the true owner of an asset and preventing assets being spent more than once.

Some forms of DLT enable participants to transact directly with one another without the need for a central authority to facilitate or validate those transactions. For example, traditional bank-based payment systems use a 'clearing' process whereby one bank maintains a central ledger of payments due to and owing from other banks that are members of that system. At a national level, it may be the central banking authority that maintains the ledger of payments due to and owing from banks in the system. In contrast, under certain types of distributed ledgers, records of payments are effected and validated by members of the system without intermediation of a central authority. The system contains its own internal procedures to ensure that only valid payments may be effected. Examples of invalid payments include spending the same money twice or spending someone else's money.

Blockchain is one type of DLT. Blockchain is particularly associated with bitcoin since it has been the platform that underlies trading in bitcoin.

DLT is associated with financial transactions such as trading in cryptocurrencies, and also with the transformation of more traditional activities such as trade finance. However, its use is also being explored in many other sectors, such as land registries, voting systems, medical records and the tracking of agricultural products and precious stones.

credible business which they can then monetise by selling to one of the larger banks.

As to the question of fintech and banking profitability, over the last fifty years banks have usually benefitted as much as their customers from the lowering of transaction costs. Customers who are able to transact digitally are now being syphoned off into new digital-only platforms (often termed 'neo-banks') that run alongside the parent institution. Established banks that create efficient and customer-friendly digital platforms will be able to retain their younger and more tech-savvy clients.

Banking regulators have been giving increasing attention to fintech, recognising its potential while also pointing out the need to maintain financial stability and protect customers. Speaking in mid-2016, Mark Carney, the Governor of the Bank of England, noted that "more diverse business models and alternative providers are positives for financial stability". He added that better credit screening could improve risk assessment and credit allocation, but that if fintech resulted in trading positions being more correlated, systemic risks could grow.

A different approach was taken by the Bank of International Settlements in its 2018 annual economic report. An article titled "Cryptocurrencies: looking beyond the hype" points out the technology challenges that cryptocurrencies still face. Assuming that the volume of cryptocurrency transactions continues to grow, the computing power needed to track and verify transactions on digital ledgers will soon be far greater than can be accommodated by smart phones or personal computers – effectively making the technology impractical for retail transactions.

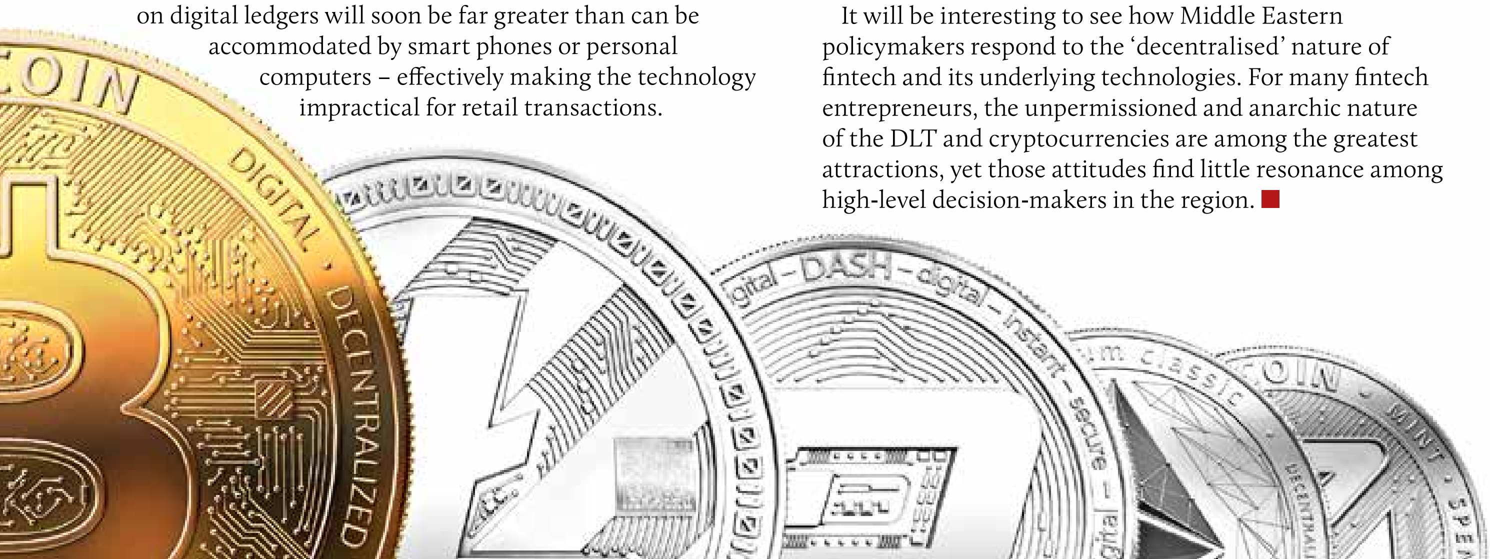
Furthermore, the congestion that occurs when blocks on a DLT reach their maximum size limits the systems' usefulness for everyday transactions. The more people that use a cryptocurrency the more cumbersome payments become. The BIS notes that "this negates an essential property of present-day money: the more people use it, the stronger the incentive to use it".

The more advanced banking markets in the Middle East have embraced fintech, creating hubs, incubators and accelerators within which entrepreneurs can develop their businesses and draw on the experience of others.

The Central Bank of Bahrain has issued new regulations to permit crowd-funding loans for business; the Dubai Financial Services Authority offers an innovation testing licence that enables firms to develop and test innovative fintech ideas under a lighter regulatory regime than would apply to other authorised firms; and in June 2018, Abu Dhabi Global Market (the emirate's financial centre that operates outside the jurisdiction of the Central Bank of the UAE, as the DIFC does in Dubai) launched a crypto-asset regulatory framework. The Saudi Arabian Monetary Agency launched Fintechsaudi in May with the aim of promoting the Kingdom as a fintech hub, supporting financial inclusion and contributing to the rise of digital transactions.

The development of fintech fits easily into the image that many of the GCC city states have of themselves as modern economies, unencumbered by legacy industries and benefitting from a young tech-hungry population.

It will be interesting to see how Middle Eastern policymakers respond to the 'decentralised' nature of fintech and its underlying technologies. For many fintech entrepreneurs, the unpermissioned and anarchic nature of the DLT and cryptocurrencies are among the greatest attractions, yet those attitudes find little resonance among high-level decision-makers in the region. ■



Developing London's role as a centre for Islamic finance: fintech, the halal economy and beyond

London has long been considered the centre for Islamic financial activity that is conducted outside the Muslim world. London's hosting of the World Islamic Economic Forum in October 2013 – the first time the Forum had been held in a non-Muslim country – and the British government's sovereign sukuk issue in 2014 – the first by a Western government – seemed to cement the capital's leading position within global Islamic finance.

But global finance is changing and Islamic finance is changing with it. Financial centres in the Middle East and Asia are becoming bigger and more sophisticated. Add in the possible effects of the UK's withdrawal from the European Union ('Brexit') and questions arise as to whether London remains such a significant venue for international Islamic finance.

Arab Banker spoke to Harris Irfan, an experienced banker whose own career mirrors the evolution of Islamic finance. After developing new shariah-compliant investment products for Deutsche Bank's Islamic finance practice in Dubai, and leading Barclays' Islamic finance practice, he now chairs the UK Islamic Fintech Panel while working with partners to create a new fintech-focused investment vehicle, iE5.

ARAB BANKER: What is the UK Islamic Fintech Panel?

HARRIS IRFAN: The Fintech Panel was created at the start of 2018 as a result of a White Paper that I wrote for the British government. In the paper, I warned that London – and the UK as a whole – risked losing Islamic finance business to cities such as Bahrain, Dubai and Kuala Lumpur, and I suggested that the way to keep London relevant to Islamic finance in future would be to facilitate the creation of Islamic fintech companies in London. I also proposed the creation of an SME fund for UK businesses that would be funded by shariah-compliant foreign direct investment.

An independent membership association for the UK's fintech community, Innovate Finance, helped me to position the paper within government circles and were instrumental in helping to set up the Fintech Panel.

We held the first meeting of the Fintech Panel in January and we have held quarterly meetings since then. There are about 25 members of the panel and they include Islamic finance specialists, fintech specialists, entrepreneurs and investors, and three observers from various branches of the UK government.

The panel has three objectives: to connect Islamic fintech companies in Britain and support their growth; to connect British fintech companies to the global fintech community, both in terms of other companies and other infrastructures, such as incubators established in other countries; and to solve any policy obstacles that may impede the growth of British Islamic fintech companies – that is why having observers from the British government on the panel is so important, although any deliverables that arise out of the panel will be driven by the private sector.

What practical help can you provide to Islamic fintech companies?

We're still in early stages, but we have 25–30 companies who have expressed interest in being part of an accelerator programme, which is one of the tangible private sector deliverables arising out of the panel. The management team of the accelerator and its advisory partners will use their expertise, and the expertise of their network (including other members of the Fintech Panel), to support the growth of these young companies.

This support can include simple mentoring by senior professionals to a young entrepreneur who is just starting out, but it can also include more specific advice on matters such as regulatory requirements – the General Data Protection Regulation has been a big issue recently for data and fintech companies – employment rights, or even simple bookkeeping and valuation. We will also be offering physical office space although, unlike many other incubators/accelerators, that is not the most important objective since acting as a landlord is the least value-adding service, however necessary it may be.

The management of the accelerator and its advisory partners are senior professionals who have real business experience and they can draw on the experience of others like them. For example, we have former senior partners from major law firms who are ready to advise across a variety of legal disciplines, we have former senior investment bankers with cutting edge Islamic finance expertise, technologists who themselves have a track record of creating tech companies, regulatory and compliance experts, halal economy specialists, and so on.

Harris Irfan

Harris Irfan is a Partner at Gateway LLP, the professional services firm, and Chairman of the UK Islamic Fintech Panel. He is also the founder of Cordoba Capital, an Islamic finance consulting firm, and author of *Heaven's Bankers: Inside the Hidden World of Islamic Finance*. Harris co-founded Deutsche Bank's Islamic finance team and was CEO of its Islamic finance think tank. He was subsequently appointed global head of Islamic finance at Barclays and led investment banking at European Islamic Investment Bank/Rasmala. Harris has been named one of the top 50 leaders in the global Islamic finance economy by Islamica 500.

How is all this being funded?

A small group of founding partners from the private sector have contributed capital. There are two other companies that are going to provide mentoring and advisory services, Gateway LLP and Elipses. Gateway LLP, of which I am a partner, is a global professional services firm that operates exclusively in the Islamic economy across all disciplines, including Islamic banking and finance, law, shariah and technology. Elipses has been created by the ex-CEO and ex-CFO of Innovate Finance – they have outstanding experience in developing fintech start-ups and making them profitable and sustainable. Elipses and Gateway LLP will provide professional services to companies in the accelerator, taking equity stakes as compensation or, occasionally, charging fees.

But the most substantial element of funding will come from strategic partners, particularly larger corporates with an interest in working alongside member companies. We also have non-profit partners on board who have an interest in the non-profit element of the accelerator for eligible members, such as young entrepreneurs at the start of their careers.

What are your criteria for accepting firms into the Islamic fintech hub?

That's an interesting question, because the answer has been changing as we have moved forward! Fintech is obviously about finance, but as we started interacting with Islamic fintech companies we found ourselves having conversations with a lot of companies in the halal economy that were doing exciting things with technology, but for whom finance was not necessarily at the centre of what they do. We decided that we wanted to extend our orbit so that it included those companies.

In all cases, sustainability, job creation within the real economy and ethical business practice are essential considerations for the accelerator, and this ethos is a fundamental differentiator.

Can you give some examples, and also explain what you mean by the 'halal economy'?

First let's consider the halal economy. What we mean by that is businesses that operate in a manner that is consistent with Islamic shariah. 'Halal' in Arabic just means 'religiously permitted', in contrast to 'haram' which means 'religiously prohibited'. So, an Islamic bank is part of the halal economy, but so is Nike's 'hijab' running gear for women (it includes lightweight tops that provide full cover and a hood that covers the hair but is made of a breathable fabric), or the halal food industry. Thomson Reuters has estimated the size of the halal economy at around $2 trillion – that is annual expenditure on consumer goods and services deemed to be halal. The $2 trillion does not include Islamic banking assets. They would double the figure if they were included.

But, more generally, we consider the halal economy to cover anything that is permissible but not necessarily formally certified as shariah compliant, so any business that is ethical, sustainable and does not fall foul of the usual prohibitions would meet our first criterion for eligibility.

Among the prospective members of our accelerator are a crowdfunding property investment platform (the first to be certified shariah compliant in the UK) and a company creating an AI-powered blockchain infrastructure to power a financial advisory network. We are very excited about having these kinds of cutting edge tech firms in our accelerator.

Where does this leave London as an international Islamic financial centre – what you are describing is a long way from the types of expertise, products and services that one associates with successful Islamic financial centres?

London can remain the leading centre for Islamic finance outside the Gulf and East Asia, but it has to be able to offer services to the new financial sector in addition to traditional banking services, and it also has to be able to cater to the global halal economy.

Sizing the halal economy

The halal economy, which is sometimes also known as the 'Islamic economy', comprises economic activities that conform to the shariah, the body of laws and customs that govern how Muslims lead their lives. Among the most obvious examples are Islamic finance, which enables Muslims to conduct their financial activities in line with the shariah, and halal food, which enables Muslims to consume food that has been prepared in line with the shariah.

However, the halal economy is much broader than these intuitive examples. It includes modest fashion, halal pharmaceuticals and cosmetics and even halal travel. The halal economy enables Muslims to pursue the lifestyles they prefer while also to adhering to the shariah. So, modest fashion is about creating practical clothes that are fun to wear but which also respect Islamic mores on modesty (both for men and for women). Halal pharmaceuticals comprise, inter alia, beauty products that do not use prohibited chemicals and which have been prepared in a humane and socially responsible manner.

Thomson Reuters produces and annual survey on the Islamic economy. Its most recent survey estimated that the total value of the Islamic economy, excluding finance, was $2,006 bn, broken down as follows:

Halal food	$1,245 bn
Modest fashion	$254 bn
Halal media and recreation	$198 bn
Halal travel	$169 bn
Halal pharmaceuticals	$83 bn
Halal cosmetics	$57 bn

In its 2017/18 Islamic economy report, Thomson Reuters placed Malaysia at the top of its Global Islamic Economy Indicator rankings, followed by the UAE, Saudi Arabia and Bahrain. The rankings consider the quality of the Islamic economy's ecosystem, and not the size of the Islamic economy, in each country. Criteria used to compile the rankings include awareness of halal products, strength of supply/demand chains for halal goods, and social considerations.

London still has the second highest number of Islamic fintech firms in the world – Kuala Lumpur has the highest. London has a large number of skilled IT professionals – more than you are going to find in many Muslim capitals – and it also benefits from being one of the great global cities – there are plenty of new ideas swirling around London, and a lot of young people who are keen to make their marks.

But I do not see this as a competition between London and, say, Bahrain and Dubai. London has more fintech resources than most of the financial centres in the Muslim world, and more developed capital markets and private equity expertise. What London needs to do is to partner with the new fintech hubs in the GCC and Asia as they develop their own fintech companies. There's an incredible opportunity here for each financial centre to build on what it does best and collectively become more than the sum of the parts.

But a strong fintech hub is not going to be enough to maintain London's position as a global Islamic centre, is it?

No, and I do think that London's status as an Islamic financial centre has gone off the boil a bit in recent years.

To be blunt, the British government's 2014 sukuk issue led to a series of missed opportunities. There has been no follow-through on the sovereign issue: none of the domestic British Islamic banks were given underwriting roles in the 2014 issue, and no British corporate sukuk issuance has occurred in response to the 2014 issue.

We have also seen some of the big investment banks cutting back their Islamic finance practices in London, in part because they are having to refocus their operations (especially risk and compliance) in an attempt to maintain profitability, and also because some of their human capital has moved to institutions in the GCC as those markets develop and become more sophisticated.

So, I do think that the British Islamic banking industry has work to do, and although there are initiatives in place like the All Party Parliamentary Group on Islamic Finance, the banks should not rely on the government. Refinancing the 2014 sovereign sukuk next year will raise London's profile a bit, but I see this as window dressing rather than a game changer for the domestic industry.

I am convinced that developing new financial products and services, building on London's strengths as a global technology leader, and being plugged into the wider halal economy as a global hub is the way to go.

Do you think Brexit will make London less attractive to Islamic firms in the GCC and Asia?

London remains one of the world's great cities. Its financial and technology expertise is superb. Gulf and Asian investors find the UK's legislative and commercial environment robust and well precedented. Whilst Brexit has an impact on financial firms passporting business into Europe, it has much less of an impact on non-EU stakeholders. Yes, there are wider implications for the UK's long-term economy as a result of new trade deals which we cannot foresee just yet, but the reasons for Gulf and Asian firms doing business in the UK remain largely unchanged.

If an Islamic entrepreneur is reading this and wants to get involved with the Fintech Panel or the accelerator, what should they do?

The Fintech Panel was carefully curated with some of the most widely recognised experts in their respective sectors, be it technology or Islamic finance, investment or entrepreneurship. Panel members typically have a couple of decades' experience and that is why we chose them to help develop the sector. We welcome entrepreneurs to come forward if there is a policy issue they are seeking to solve.

If they are seeking to grow with the help of mentors and professional advice, and network with the wider Islamic fintech or halal economy, then they should approach iE5, the accelerator. By the time this is published, I anticipate iE5 will have selected its first cohort, and will be actively seeking applications for the second. ■

Transitioning into a Fintech career

No one doubts the exciting possibilities that fintech is presenting to banking, nor that technology-led products and solutions are going to become a larger part of the financial services industry. But how can the bankers of today engage with the fintech-rich world of tomorrow?

Arab Banker spoke to Tarek Zacharia, Managing Partner and Founder of Syntegrus, a London-based executive search and leadership advisory firm that recruits and places senior bankers in technology and digital banking roles.

Tarek Zacharia

Tarek Zacharia is Managing Partner and Founder of Syntegrus, a London-based firm that offers executive search and leadership advisory services. Tarek works with leading institutions in EMEA to identify suitable leaders for key senior positions, and he currently advises a portfolio of senior executives on the development of medium- and long-term career paths. He has a particular focus on technology-led banking. Before founding Syntegrus, Tarek had worked for Majid Al Futtaim Holding in Dubai as its talent acquisition director, and previously in a range of other senior talent acquisition roles in London and Dubai.

ARAB BANKER: What is the structure of the fintech market in the Middle East?

TAREK ZACHARIA: I look at it in three parts. There are fintech start-ups and in particular the more established businesses that are trying to grow to the next level – these are likely to be fintech companies going through series B or C funding and are looking to hire leaders in addition to the original founders. Then there are government-led initiatives to provide environments in which fintechs can hatch and thrive. Finally, there are traditional financial institutions that are looking to establish a new digital platform, or redesign their existing platforms, to become fully digitally-enabled institutions.

Are all these initiatives based in the GCC or is it something you are seeing more broadly in the Middle East?

The GCC is definitely leading the way at the moment. In terms of government-led initiatives, some of the most noticeable have been the Fintech Hive set up by the Dubai International Financial Centre, the Bahrain Fintech Bay and the Abu Dhabi Global Market's Reglab. The Saudi Arabian Monetary Agency (SAMA) has also launched an initiative to promote fintech in the Kingdom although it does not have a physical presence and we are still waiting for details of what SAMA wants to achieve in the Kingdom's fintech space.

We are also seeing several GCC banks taking steps to strengthen their digital platforms. Earlier this year, Emirates NBD hired a chief information officer and a chief digital officer to lead a Dh 1bn ($272 mn) four-year digital transformation of the bank's infrastructure and operating model. Bank ABC has announced plans to launch a 'neo-bank' in 2019: a neo-bank runs parallel to its host bank, operating under the host bank's licence and regulatory approvals, and uses technology to interact with its customers digitally rather than physically through 'bricks and mortar' branches. Mashreqbank in Dubai is developing a similar offering, which it calls 'Mashreq Neo'.

That said, I am seeing a lot of fintech activity in Beirut, often in the form of firms offering advisory services, but I think it is fair to say that we are not seeing major initiatives outside the GCC.

What is the profile of people who are leading fintech initiatives in the Middle East?

We have to distinguish between pure fintech start-ups – essentially small firms that have an idea for a new financial product – and established financial service companies that want to leverage technology to enhance a strong existing market position.

The sort of people who are going into pure fintechs in the Middle East are the same people who are going into fintechs everywhere else in the world. They are young, entrepreneurial and very tech-savvy. Note that I said, 'tech-savvy' and not, 'they have advanced degrees in computer science'. A lot of people who work for fintech start-ups don't have advanced technology degrees – though of course many of them do. In contrast, the people who are building out technology solutions in established banks are often established bankers with no particular career background or qualifications in technology.

What would you say to a banker in their thirties who wants to position themselves for a career in fintech, or at least for positions that have a heavy technology element to them?

That person would have to consider which of their existing skills can most easily be transferred into a fintech environment. For example, it is an advantage to have been working in a fast-paced environment and in a position where you have had to use a lot of commercial acumen. Many of the fintech firms are focusing on retail banking solutions so it would also be helpful to have a background in retail and consumer banking.

Ultimately, like any strategy for making a career change, it is about rebranding yourself so that your most prominent skill sets and experience are aligned with the industry that you are trying to get into; and of course it is also about networking.

Is an MBA still going to be a useful qualification or should young bankers be going back to college to study for master's degrees in technology and computing?

I think the MBA will remain a valid qualification for two reasons. First, it is a qualification that is designed to cover the full range of disciplines that someone will encounter during the early and middle stages of a professional life in business and finance. That will always be attractive to employers because they know that someone with an MBA has been trained to be competent in a wide range of professional roles. Secondly, the MBA curriculum is not static. MBA courses contain more technology-related modules now than ten or 20 years ago – though I would certainly advise someone who is researching MBA courses to make sure that whichever they choose is geared towards finance as it will be in the future, which means finance that is technology-led.

What about a more established banker, say someone in their mid-forties, who still has 20 years of professional life ahead of them, and who recognises that being able to operate in a more technology-led banking industry is going to be important as they move up the career ladder? What advice would you give this person?

Fintech isn't for everyone. The attractions of working for a technology start-up are very dependent on a person's personality, their ability to operate in dynamic technology-led cultures, and also on where they are in their life cycle. Most fintechs fail within three years and working for one usually isn't very remunerative in the short to mid term, even if you are one of the founders, until you get to your second or third stage of funding rounds. It is a lot easier to handle that uncertainty if you don't have a family to feed or a mortgage to pay.

But it is possible to chart a career in banking technology without working for a start-up. The banks that are expanding their technology offerings have conventional career paths – even those banks that are building out their fintech offerings. It is also possible to move over to the regulatory side, for example by developing and overseeing a 'regulatory sandbox'.

Does such a person need to retrain, for example by going back to college to study computer science?

That is a very important question. These days everyone needs to upgrade their skills and retrain during the course of their working lives, but I don't think that means trying to learn a completely new discipline half way through your career. I think what we are going to see more and more is senior executive training courses – the ones aimed at successful managers who are going to be promoted up to CEO and CEO direct-report positions – with greater technology content on the curriculum. But I don't think it is realistic for managers to start learning college-level computing, nor would it be sensible. If a senior manager is managing effectively, s/he should be able to manage specialised staff: we don't expect every chief risk officer to have a PhD in mathematics, but we do expect them to have maths PhDs on their staff and to be able to manage them effectively.

How are salaries being affected by the rise of technology in banking?

These technology-led changes are not affecting salary levels at the top of banks. Any of the so-called 'C-suite' jobs already command high salaries in banks and they will continue to do so. If we look at the new challenger banks that are being created to disrupt the larger traditional commercial banks, then salaries are going to be somewhat lower, but then these challenger banks tend to have a small customer base, they are less sophisticated and less profitable, so it is not realistic to think that you'll get paid as much in a senior role at one of these banks as at one of the big established banks. Salaries will continue to be driven by the complexity of the role you are performing.

Earnings in the fintech world are of course very different. Salaries tend to be conservative, certainly at the early stages, but the expectation is that if you are able to develop the business so that you can monetise it through an IPO or a sale then you'll achieve significant financial gains. ■

Strategies for meeting the requirements of UK financial regulators: an interview with Shakeel Aslam of Grant Thornton

Banks in London are still reeling from the barrage of new UK and European regulations that have hit them over the last two years. Yet any banks now hoping for a period of peace and quiet are going to be disappointed.

In the following interview, Shakeel Aslam, Head of Emerging and Middle Eastern Markets at Grant Thornton, identifies the outstanding agenda points from recent regulatory initiatives and looks ahead to new requirements that will affect UK-based banks and financial institutions in 2019 and beyond.

ARAB BANKER: In the ten years since the global financial crisis there has been a huge amount of new financial regulation imposed on banks and financial services firms. Is that regulatory surge now coming to an end?

SHAKEEL ASLAM: We have seen a plethora of new regulation come into effect over the last few years. For example, at the end of last year, the Basel Committee on Banking Supervision published its final standards on post-crisis reforms, IFRS 9 became effective on 1 January this year, followed two days later by MiFID II / MiFIR. Then in May, the General Data Protection Regulation (GDPR) came into effect.

The drive to introduce more regulation into the financial services industry, and specifically the banking sector, is a trend which is likely to continue in the years to come. This will happen regardless of any impact that Brexit may have on UK regulators' approaches and ways of thinking.

Implementing new standards and regulations is challenging, but consistently implementing them in a manner that will satisfy regulators is often even more challenging. Arguably, the hard part is still to come.

Can you give a couple of examples?

Let's consider the implications of IFRS 9. The implementation of IFRS 9 at the start of 2018 introduced a forward-looking approach to credit losses and the need for banks to estimate the likelihood of expected credit losses over the lifetime of the products. This will pose a significant challenge for a number of banks. The impact that those models will have on actual provisioning requirements is still to be felt. For banks in London that are subsidiaries or branches of overseas banks, there is the additional issue of 'uniformity' – the models and assumptions being used here in London need to be consistent with those being used in head office.

We expect that as the impact of the new provisioning requirements becomes evident in banks' financial statements towards the end of this year and in early 2019, there will be a lot of regulatory scrutiny of banks' provisioning methodologies. That scrutiny will focus heavily on the consistent application of models and on the documentation of the assumptions that lie behind them.

Let's also take a second to consider the effect of MiFID II regulation, which also came into force in January 2018. MiFID II was introduced as part of wider market reform of banking infrastructure.

There are five fundamental changes which MiFID II has brought to the industry:

- Transparency and transaction reporting
- Rewrites of market conduct rules
- Commodities pricing and limits now being captured
- Rules for non-EU countries accessing EU markets
- Definitions of market structures such as Regulated Market (RM), Multilateral Trading Facilities (MTF), Organised Trading Facilities (OTF), Systematic Internaliser (SI) and Over the Counter (OTC)

To elaborate further, there has been an extension in the scope for transaction reporting. This now includes instruments trading on MTFs and OTFs. The financial instruments that will be included are those where the underlying is an index or basket composed of financial instruments on a trading venue, irrespective of whether the transactions were carried out on the trading venue. Therefore, OTC derivatives on indices/ baskets and non-securities derivatives (commodities, interest rates and foreign exchange) would be in scope.

There is also an increased requirement to demonstrate post trade transparency, such as trade reporting scope, trade reporting timing and approved publication arrangements, as well as who reports on OTC transactions. MiFID II expands the scope of this obligation for post trade transparency beyond the existing MiFID requirements previously applicable to equities to include fixed income, derivatives and structured finance products.

It will be imperative for banks to conduct post-implementation health checks to ensure that the nuances of MiFID II compliance are being adhered to and that the reporting is being performed in line with regulation.

Shakeel Aslam

Shakeel Aslam is a qualified chartered accountant and Head of Middle East and Emerging Markets within the Financial Services Business Risk Practice of Grant Thornton UK LLP. He is based in London and has extensive local and international experience working with emerging markets, Middle Eastern and Islamic banks.

Shakeel oversees a wide portfolio of emerging market banking clients, both in the UK as well as well as internationally – particularly in the Middle East – covering topical areas such as Board/Corporate Governance, Conduct and Culture, Anti Money Laundering (AML), Know Your Clients (KYC), Sanctions, Treating Customers Fairly, and Best Execution.

Shakeel has more than 20 years of experience in the financial services industry having previously worked with KPMG and Merrill Lynch in the UK. He has worked on a range of advisory/assurance projects with multiple global banks focusing on risk, controls and processes as well as regulatory compliance (including shariah issues).

Grant Thornton is a leading international accounting and consulting firm that provides a full range of services, including internal (co-sourced or fully outsourced) and external audit, regulatory consulting, risk management, corporate and international tax planning, employer solutions and forensic investigations. Grant Thornton UK LLP is the UK member firm of Grant Thornton International.

Earlier this year, firms spent a lot of time contacting their clients and reorganising their data in advance of the European General Data Protection Regulation (GDPR). Is that something that they can now put behind them?

No, they cannot. Since GDPR came into force on 25 May 2018, banks have had the obligation to maintain records that formally document the technical and organisational security measures that protect personal data, and to make available to relevant data protection authorities the results of regular audits or reviews that test, assess and evaluate the effectiveness of these controls. Failure to provide these records when they have been asked for them by a regulator is likely to lead to enforcement action.

Firms appear to be confident that they were compliant as of the 25 May. However, GDPR imposes an ongoing requirement for companies to respect and protect personal data about their clients. Indeed, under the Accountability Principle of the GDPR, the burden of proof is on banks to demonstrate their ongoing compliance with all of the principles contained within the regulation.

The Data Protection Act 1998 implemented Directive 95/46/EC and was the first attempt by the European Commission to harmonise data protection across Europe. This legislation was not equipped to deal with technological developments such as the internet and so had to be updated. GDPR is a high-profile European regulation, and we expect relevant data protection authorities to be more diligent in checking up on implementation, particularly where firms intend to transfer personal data outside the EU and the EEA.

For some banks, there may be additional concerns regarding the transfer of personal data from post-Brexit UK to countries outside of the EU. In such cases, the Controller (bank) in the UK has to follow the provisions of the UK's Data Protection Act 2018 which are aligned with the transfer provisions contained within the GDPR legislation and its articles.

Banks will also need to ensure that where they transfer personal data outside of the EU, they are aware of the requirements set out in the UK's Data Protection Act 2018 (which is the UK's implementation of the GDPR).

The transfer can occur without requiring any specific authorisation from a supervisory authority (the European Commissioner), by:

- a legally binding and enforceable instrument between public authorities or bodies
- binding corporate rules in accordance with Article 47 of the applied GDPR
- standard data protection clauses adopted by the European Commission
- standard data protection clauses adopted by a supervisory authority (the Commissioner) and approved by the European Commission

How well embedded do you think the senior managers and certification regime is?

It depends on what type of financial institution you are speaking about. For banks, implementation was in March 2016, and asset managers and other financial institutions regulated by the FCA will be covered by it towards the end of 2019.

Banks are now clear about which of their officers are responsible for which parts of the business, and the officers themselves are not in any doubt about the personal responsibility that they bear for regulatory failures. A key consideration is that, as we move forward, banks will have to work harder than before at succession planning to make sure that they have a cadre of well-qualified and experienced managers coming up the ranks who can be put into senior positions when they fall vacant. This is one reason why the Prudential Regulation Authority (PRA) has raised the profile of succession planning during its inspections. The PRA now expects clear succession plans for all senior management functions.

There seems to be increasing focus on 'conduct' issues. Is that right?

It is correct to say that how banks behave – their conduct – is becoming more important in the UK. The introduction of the SMCR is evidence of this. In addition, culture and conduct as a whole is part of the total regulatory and supervisory ethos being instilled into the financial services industry. This is part of a long-term trend since the global financial crisis.

So, to step back for a moment, since the global financial crisis there has been a lot of new prudential regulation in the form of higher capital standards, new liquidity standards, recovery and resolution planning and so on. That is the part of regulation which, to a large extent, is now winding down – although we're expecting the PRA to intensify their conversations with banks on recovery and resolution planning.

Then there is the new regulation related to how banks behave. This is more difficult. It is not a question of complying with a regulatory ratio. It is about changing the DNA of banking. It is about changing the management culture within banks.

So, for example, when implementing anti-money laundering policies, regulators are not just looking to see that strong policies are in place, they want assurance that everyone in a firm, from the top to the bottom, is operating under a common culture, that decisions and instructions made at the top do in fact flow down to the lower levels of the firm, and also – and this is important – that observations and suggestions from the lower levels of the firm are able to flow upwards to inform senior management actions.

One way to evidence good culture is through consistent, accurate and timely documentation. This is something supervisors are increasingly focused on. If they perform an inspection and find that documentation is inconsistent and late, or that it appears to have been done in a routine manner as opposed to a thoughtful and committed manner, then there are likely to be tough repercussions for the firm and its senior staff.

> "One way to evidence good culture is through consistent, accurate and timely documentation."

We have seen a huge increase in compliance resources in recent years, but what more can firms do to satisfy regulators' expectations?

Certainly, given the increasing pressure of regulation, compliance is top of the agenda for most financial services firms. However, it is not just a question of having a big compliance department. Satisfying regulatory expectations needs to be considered in the context of a wider solution.

We are all familiar with the 'three lines of defence' concept. The business lines are responsible for managing their own risks and implementing internal controls. Then we have risk management and compliance departments that provide specialist expertise and reporting within the management structure. And finally we have internal audit which provides independent assurance to the board, independent of the management structure, on the effectiveness of internal controls.

Each of those three lines of defence has to be effective and each of them has to be properly staffed so they are not reliant on key individuals. The role of compliance has become a lot bigger for financial firms, but the role of internal audit has been changing too.

The internal audit department should be playing a role at the pre-implementation stage of new regulations and standards, ensuring that controls are realistic, properly understood and that, at the end of the day, they will be effective. Banks can demonstrate effective risk management through embedding an effective internal audit department that is respected in the firm. Alternatively, they may wish to partner with an external service provider to deliver assurance and advice on their internal audit function through an ad hoc or fully outsourced approach.

It should be clear from what we've already said that business lines – the 'first line of defence' – need to take more ownership of the risks they take and the compliance obligations that they incur. The SMCR makes that explicit by placing personal liability on senior managers in respect of their formal areas of responsibility, but the regulatory approach to these matters has moved and senior managers have to recognise that supervisors expect much more from them now than in the past.

What you are describing is a huge change in regulatory and supervisory approach.

Yes, and firms should be under no illusions about the magnitude of that change and its implications. Supervisors in the UK now have very low tolerance for regulatory failures. They have no reservations about using their powers to sanction firms who fall short of regulatory expectations. This was made clear in a high-profile banking case earlier in 2018, in which the regulator applied equal vigour to branches and subsidiaries of foreign banks in London as it does to home-grown British firms.

Are there any forthcoming pieces of financial legislation or regulation that you would advise firms to be particularly focused on?

The key things that need to be monitored over the next two years include:

- The first audited financial statements that will include the IFRS 9 adjustments
- Enhanced Pillar 3 disclosure requirements are being introduced in the first quarter of 2019
- The EU expects to obtain agreement on the successor to CRD IV by the end of 2018.

The PRA has also announced priorities for international banks such as:

- The effectiveness of their board of directors
- Clear succession plans for senior management
- Operational resilience
- Accurate and timely regulatory reporting
- De-risking certain firms.

All of the above will mean that banks will remain in a state of high regulation, whereby the responsibility to create trust and integrity in the financial services industry will continue to be of absolute importance. ■

Creating an international financial centre for the future: an interview with Geoff Cook of Jersey Finance

The Channel Island of Jersey has ambitions to be a big player in global finance. For nearly 50 years, it has been actively courting international banks, fund managers, family offices and others who want to locate assets in an environment that combines high standards of regulation, political stability, a competitive tax environment and a well-qualified local workforce. And that courtship has been successful. Some of the biggest banks in the world, the largest trust managers and all the big accounting firms now have significant operations in Jersey.

But there is more work to do. *Arab Banker* spoke to Geoff Cook, the CEO of Jersey Finance, about Jersey's strategy and ambitions to expand its work in international markets, including in the Middle East.

ARAB BANKER: What is the concept of Jersey's International Finance Centre (IFC)?

GEOFF COOK: Our aim is to provide a well-regulated platform for global financial services that is based on transparent laws that are consistently enforced, strong regulation that is in line with international standards, a competitive tax environment for both companies and individuals, and strong supporting infrastructure in the form of accounting firms, law firms, IT expertise, and a professional workforce.

In the delivery of this platform, we enable financial services firms to serve their customers better, make more profits and, in the process, enhance the prosperity of the island of Jersey.

It is important to note that Jersey has been providing services to international financial companies for more than 50 years. Jersey Finance, the organisation that I lead, was created in 2001 as a focal point to promote Jersey's IFC in our key markets, but international finance in Jersey goes back to the 1960s when international financial markets, such as the Eurobond market, were first established.

Don't IFCs have a bit of a bad name these days?

Questions have been asked of IFCs in recent years, in particular regarding transparency of financial transactions and tax reporting, and anyone who reads the newspapers knows that some IFCs have been falling short of international expectations. But a lot of IFCs, and Jersey is one of them, have responded well to the higher standards that have been developed over the last ten or 20 years.

I want to be very clear: Jersey welcomes high standards. Strong regulation and transparency are among our competitive strengths. There is no place in Jersey for illicit wealth. The type of institutions that we want to attract are those who want to work in a forward-thinking jurisdiction.

The international financial community has recognised our strength in this area. The World Bank has cited us as an example of best practice in the recording and monitoring of beneficial ownership information; the International Monetary Fund has said that we are "in the top division of International Finance Centres, including those in the G20 and EU"; and Moneyval – the Council of Europe's organisation for assessing compliance with international standards on money laundering and the financing of terrorism – placed us in the top tier of its jurisdictions, judging us to be compliant or largely compliant in 48 of its 49 assessment areas.

Can you explain your relationship with the British Government and with the European Union?

We are a 'Crown dependency' ('Crown' here refers to the British monarch). This means that we are not part of the United Kingdom and can set our own laws and tax rates and sign our own treaties. Of course, we do have a close relationship with the United Kingdom and culturally we are very British, and English is the principal language spoken here.

We are not a member of the European Union (EU), although in practice we have close relations with the EU and we are currently a member of the customs union for free movement of goods.

Our relationship with the EU and its member states is very important to us and we expect that those relationships will suffer no practical damage as a result of the United Kingdom's withdrawal from the EU.

These close relationships with the UK and with EU member states is one of the distinctive features of Jersey as an IFC and it is particularly relevant to financial institutions that are based in the Middle East and Africa, who want that proximity to financial markets in London, Paris and Frankfurt while taking advantage of the benefits that a well-regulated and competitive tax environment has to offer.

What are the tax benefits that Jersey offers?

Jersey offers a tax-neutral environment with no capital transfer tax, no capital gains tax, no value added tax, no withholding taxes and no wealth taxes.

The standard rate of corporate tax in Jersey is zero, with higher rates for regulated financial services companies, who are taxed at 10%; and a 20% rate for utility companies and income specifically derived from Jersey property rentals or Jersey property development.

There is no tax levied on non-resident individuals and personal tax for most resident taxpayers is based around a 20% rate of tax. Overseas-born high-value residents are taxed on their worldwide income at a rate of 20% on the first £725,000 of income and 1% on any further income.

Our taxation platform is simple and transparent. It enables investors to pool their capital through Jersey without incurring any additional layers of taxation when making cross-border investments. Within this environment, we take tax compliance very seriously as part of the general approach of adhering to the highest standards of financial regulation that I mentioned earlier.

> "Jersey welcomes high standards. There is no place in Jersey for illicit wealth."

What can Jersey offer apart from low tax rates?

Low tax is a fundamental part of our business environment, but we know that it is not enough. In fact, studies that we have done on international investors indicate that tax is often not the principal reason for choosing one IFC over another.

Local expertise is an important factor for international investors. There are currently 13,000 people working in Jersey's financial sector. We have a large number of world-class lawyers, accountants and IT firms here. It is easy to find trustees who are experienced and will take their responsibilities seriously.

We also offer stability. We have a democratic and open political system, independent judges, and vibrant civil society. Of course, we move with the times – not least in respect of implementing the latest financial regulations and standards – but if you come back to Jersey five years from now you are not going to find a different political system, a different judiciary and a radically different society.

An independent island with a British culture

Jersey is the largest of the Channel Islands, a group of islands that lie in the English Channel between Britain and France. Although physically closer to France, the Channel Islands have aligned themselves with Britain since the early thirteenth century, expressing allegiance to the English monarch but maintaining the autonomy to manage their own affairs.

The language spoken in Jersey is English, although French remains the other official language.

Today, Jersey is a Crown dependency, meaning that it is a self-governing possession of the British Crown. Whilst Jersey's head of state is Queen Elizabeth II, it is not a part of the United Kingdom. (Guernsey, another Channel Island, and the Isle of Man in the Irish Sea are the other two Crown dependencies.) The British Government is responsible for the defence and international relations of Crown dependencies but has little involvement in their domestic affairs.

Jersey has its own government and democratically elected parliament (the States Assembly); its own legal system, laws and judiciary; and its own system of taxation. UK legislation only rarely extends to Crown dependencies and then only after the Islands' own authorities have given their consent. Laws passed by the States Assembly need the royal assent from the British monarch.

None of the Channel Islands is a member of the European Union (EU) although they have a special relationship with it as a result of a protocol included within the UK's treaty of accession to the EU. (This protocol will fall away when the UK leaves the EU but the UK Government has committed to working closely with all the Crown dependencies to ensure that their interests are observed during the withdrawal process.)

Jersey is currently part of the EU's customs union for free moment of goods but many of the EU's other provisions do not apply in Jersey, such as the free movement of persons, services and capital.

Under 'Letters of Entrustment' issued by the United Kingdom to the Jersey government, Jersey is able to negotiate international agreements on its own behalf and sign treaties in Jersey's own name rather than through the United Kingdom.

The United Kingdom, the Channel Islands and the Isle of Man have common British citizenship and a common passport format and share a common travel area. However, 'residency' of Jersey is controlled by the Jersey authorities under housing and population laws. Residents are subject to Jersey's laws and taxation.

Jersey is in a currency union with the United Kingdom, with monetary policy set by the Bank of England. The Jersey pound is freely exchangeable with sterling at a rate of 1:1. Jersey prints its own banknotes (in the same way that Scotland does, for example) but other sterling banknotes are also accepted as legal tender in Jersey.

I would add that we also offer considerable expertise in respect of shariah finance. We recognised early the attraction of shariah-compliant finance for existing or potential clients in the Middle East and Asia and we have ensured that our laws accommodate shariah-compliant transactions, and many of the financial service firms that are based here have developed considerable expertise in shariah-compliant structures.

What type of firms are currently operating out of Jersey?

We have a wide range of firms that includes banks, investment funds, private wealth managers and family offices. We have issued 28 banking licences and more than 40 fund administrators are based here. All the major accounting firms are here, as are seven first-tier legal firms and several well-known trust companies.

How do you want to see Jersey Finance develop over the next five years?

The GCC is an area that we are particularly focused on at the moment. We know from our own research and that of others that GCC investors are putting more focus on internationalising their wealth-planning strategies and diversifying their investments. We think that our combination of investor-friendly laws and regulations, low tax, strong human infrastructure and political stability makes us an obvious choice for such investors.

We're particularly focused on succession planning in the GCC. We did some research on this last year and found that 55% of financial professionals that are working with family businesses in the GCC identified succession planning as the most critical issue facing wealthy Middle Eastern families today.

More generally, we expect that cross-border financial flows will continue to increase, that the wealth of high-net-worth individuals will grow, and that these trends will be particularly pronounced in regions such as Asia, the Middle East and Africa. Globally, we expect to see political instability in many countries and regions and this will only increase the attraction of a financial centre such as Jersey.

Finally, I would mention digital innovation and fintech. We recognise that this is going to be a big factor in the growth of new financial products and services in future. Digital Jersey is tasked with developing Jersey as an international centre of digital excellence. They recently signed a memorandum of understanding with the world's largest cryptocurrency exchange and more generally will be contributing to the development of distributed ledger technology in our financial system. That's an initiative that we at Jersey Finance fully support and we are excited about the opportunities that fintech will offer to Jersey-based firms. ■

The view from the Gulf: Richard Nunn, Jersey Finance's Director of Business Development

From his office in Emirates Towers, in the heart of Dubai's business district, Richard Nunn oversees a team of regional directors who not only promote Jersey's finance industry throughout Asia, Africa and the Middle East, but also help Jersey-based firms to expand their global business and build international networks.

Richard has two colleagues who work with him in Dubai, and together they focus on the GCC. Another team is based in Hong Kong, covering China and neighbouring countries. In Jersey itself another director is responsible for work in Africa, while the British market is handled from Jersey Finance's representation in London.

The GCC team visits the leading Gulf markets at least once a month, and Richard spends a week or more each month in Saudi Arabia.

"There are two strands to my work," says Richard. "At a macro level, we are working on market development activities, working together with financial professionals to raise awareness of Jersey's proposition and what our International Finance Centre can contribute. This helps ensure key stakeholders are aware of what Jersey has to offer in terms of its legal and tax systems, and professional services. At a more micro level, we are focused on building relationships with individual banks, law firms and accountants, plus end users of the jurisdiction such as families and family offices who should consider Jersey as part of their financial strategy."

He gives two examples of recent events held in the GCC: a seminar for women executives held in Riyadh and an educational seminar held in Muscat. The first was a women-only wealth management and finance educational evening, covering a broad spectrum of topics from managing finances to the importance of wealth and succession planning. The second event in Muscat focused on the importance of diversification for Omani investors in 2018 in an increasingly changing landscape and included presentations by Dentons, Knight Frank, Quilter Cheviot and Towers & Hamlins, and was hosted and moderated by Jersey Finance itself.

Richard points out that more than 20 Jersey-based firms have invested in physical operations in the GCC, however the number of Jersey firms who invest in regularly spending time with their clients in the region is more than double this. With this emphasis on relationships, Jersey has become a known and increasingly favoured jurisdiction.

Banks are an important focus of his work, alongside family offices, sovereign wealth funds and asset fund managers.

But why would a GCC-based firm base financial assets in Jersey when there are so many financial centres in the GCC itself?

"GCC clients are becoming increasingly international in their outlook. Through greater regulation and investment ambitions that continue to widen, there is a requirement for both domestic and international planning. Jersey handles this complexity well. Our industry, developed over 50 years, is seasoned in working with cross-border investors from various finance centres. And as regional centres in the GCC are demonstrating significant capability there now exists much opportunity for collaboration."

"And, currently, what's really important too is governance and infrastructure," Richard says. "Yes, Jersey is a tax neutral jurisdiction, but that's not our unique strength. Governance is a huge issue in the GCC these days. Investors want well-qualified trustees who are committed to doing a good job, whose work is rooted in a well-established, transparent legal system, and who have easy access to a big pool of well-qualified lawyers, accountants, IT providers and financial professionals. Being able to provide that is vital to set us apart, and I find that positive message really resonates in the GCC."

Investors develop new strategies for London property investment

The UK property market remains active with investors shrugging off concerns about London's future after Brexit. But the market is changing, with many of the big investors now taking a closer look at commercial property and extending their gaze beyond London.

To understand the trends, *Arab Banker* spoke to George Constant, a partner at Philip Ross, one of London's most established firms of solicitors and one of the most active in the UK property market.

***ARAB BANKER:* Over the last three years, we have seen increasing tax rates being levied on some types of property income, and a lot of uncertainty about London's future as a result of the UK's impending withdrawal from the EU. How has this affected the London property market?**

GEORGE CONSTANT: My opinion – based on the many international investors that I deal with week after week – is that Brexit is far less important to the London property market than some people think. There aren't many international investors who are comparing London against other European cities when deciding whether to invest here, and even fewer who are calculating the relative attractions of the City of London against the financial districts in Frankfurt or Paris. London is a global city and it will remain so. It has a huge financial sector and will continue to have one. And London will remain an attractive place to live, especially for citizens of the Middle East, who have been coming here for business and recreation for decades and know the city well.

Furthermore, Brexit will have no impact on London's status as a safe haven. There are a lot of investors in the Middle East who are concerned about political risk and even expropriation – and not only in countries such as Syria and Libya which are engulfed in civil war. Some bank depositors in Cyprus lost money when the big banks were restructured in 2013 as part of the economic bailout. There are a lot of Middle East investors in Cyprus, particularly Lebanese investors, and some of them are a bit more nervous about leaving large amounts of money in banks these days. London – and its property market – is a natural place for these people to deploy surplus funds.

However, the effect of tax changes has been significant. The UK government has tried to take some of the wind out of the buy-to-let market by greatly increasing the Stamp Tax that is paid when acquiring a property for rental purposes. As a result, an investor could end up paying Stamp Tax of 15% of the value of a residential property being bought to rent out, compared to Stamp Tax on a commercial property purchase

Eaton House 581 Staines Road, Hounslow, West London. A Middle Eastern family office purchased this office building for £8.3 mn in October 2017 and is letting it to the British Government, achieving a yield of 6%. Philip Ross acted for the family office.

George Constant

George Constant is a partner at Philip Ross Solicitors, where he specialises in high-value commercial and residential real estate investment and development. His client base includes several large Middle Eastern investors and banks, and he has worked on a number of shariah-compliant transactions. Philip Ross is one of London's oldest property-focused solicitors and it works on a full spectrum of property issues, including structuring deals, conveyancing, corporate recoveries and litigation. It is a founder member of Cyrus Ross International, which comprises a network of individual law firms throughout Europe.

in the range of 4–5%. We are seeing far fewer residential transactions from overseas investors, and this is so not only for properties valued over £2 million, where government measures have reduced the opportunities to invest through tax-efficient structures, but also in the £1–2 million range.

As a result of these tax changes, we have seen some investors withdrawing from the market, but others have moved their focus to commercial property investment.

What types of commercial property transactions are investors looking for?

There are two big trends: the size of transactions has increased, and investors are willing to go a long way out of London to find good deals. We have recently worked on big deals in west London near Heathrow, in Margate on the south-east coast, and in the major northern cities such as Sheffield, Leeds and Manchester.

Within London, we are seeing significant interest in hotels and in 'short-term rental' property, such as serviced apartments. The yields on these types of properties can be in excess of 8–10%, compared to around 2–3% on residential property in central London.

Many investors from the Middle East are focused on income. At the high end they can achieve a return of about 10% but a lot depends on the location of the property, the strength of the tenant, the length of the unexpired term of the occupational lease and the amount of management that is involved with the property being acquired (which generally is linked to the number of occupational tenants).

Right now, we are seeing a considerable number of deals in the £3m–£20m range. Our clients are looking for a minimum of 5–10% return with a minimum 7–10 years unexpired on the occupational leases.

Are you seeing any changes in investment strategies?

We are seeing a move away from residential acquisitions and from what we call 'dry' commercial investments and towards more entrepreneurial commercial investments. 'Dry investment' is a term we use when a client buys a building on a long lease, with a high-quality tenant – it is considered a safe investment, but you cannot do much with the property to enhance its capital value or the yield, which will be quite low.

Investors are becoming more interested in taking a more commercial and active approach, by looking at properties where they can add value by either asset managing, by developing it, or by exploiting an opportunity which the particular property has. They are more comfortable with the real estate opportunities that other parts of the country have to offer. Investors are starting to appreciate that investments outside of London can offer higher yields with a greater potential for rental growth and capital appreciation particularly with the level of regeneration that is taking place in the regional cities.

The lack of low cost housing stock is a big political issue in the UK now. How is that impacting the commercial property market?

We are seeing considerable investment in residential property portfolios – portfolios of, say, 10–200 properties. What is happening here is that local councils are under pressure to provide housing for certain types of low-income people in their municipality. They often don't have the budget to build sufficient new houses, so they rely on landlords who have large portfolios and on property developers to build houses and flats, which they then rent back to the local council.

The councils then either take leases on these properties directly from landlords or they use the services of property letting and management companies who have the contracts with the local councils to provide housing stock to the councils, who will in turn take these leases from the landlords themselves. Many of the companies that have these

Kensington House Hotel
£22 mn acquisition completed in Kensington, London, in November 2017. The transaction involved the acquisition by a Saudi family office of an occupational lease and freehold interest from two separate parties, and bringing the two parties together was one of the most challenging elements of the deal. The Saudi family office is managing the hotel itself, using its own management team. Philip Ross acted for the family office.

201–207 Kensington High Street, London W1
Redevelopment of a major site comprising 201–207 Kensington High Street, London. A Saudi family office purchased this multi-let building for approximately £17 mn in August 2017. The upper parts of the building were let vacant and the building benefitted from planning permission for complete redevelopment. The purchasers have been managing the building with the aim of gaining possession of all parts of the property, with a view to complete redevelopment. Philip Ross acted for the family office.

types of contracts with the local councils are significant operations and are therefore considered as being a very strong covenant for investors.

The present trend is that funds and overseas investors are acquiring portfolios of properties which are let to such companies or are leased directly to the councils.

The success of the project is not dependent on individual tenants paying their rents as the obligation to pay the rent is on the lessee – the local council or the company who has taken the lease from the landlord. Further, with these types of leases it is the lessee who is responsible for all the maintenance and repairs to the properties. That is an attractive structure for an overseas investor. We have seen the term of such leases ranging from 10 to 25 years. Depending upon the location of the portfolio and the length of the lease, these transactions can yield 5–8%.

There is another factor at work here: 'permitted development'. Under 'permitted development' a commercial property that has been used for offices (immediately before the proposed change of use) may be converted into residential units with only limited planning restrictions, and there is no restriction on the size of housing units that may be built. These rules were first introduced in 2013, supposedly for only three years, but in 2015 they were made permanent.

We are seeing significant permitted development conversions on the outskirts of London and outside London, for example with business parks being converted into buildings with a large number of low cost residential units. Over the last year we have been involved in over 30 transactions of this type with purchase prices ranging between £2m and £24m. The one undertaken for £24m was a large office block in Bristol – an indication that investors are not hesitant about investing large sums of money outside London.

The benefit of these types of investments is that they can be very lucrative from an income prospective. Also, by the mere fact that the income generated can be so significant the capital value of the building will increase because the value of a building very much depends upon the income which is generated.

However, there are certain drawbacks with these types of investments that investors must have in mind. For example, because of the nature of the properties being created, the tenants are generally council or housing association tenants, and this inevitably means that a high level of management is required. Also, because individual units do not meet the required size standard, they cannot be sold individually and this in turn means that investors have a fairly limited market when it comes to selling your property.

Are there certain risks in the market at the moment that are particularly relevant to overseas investors?

As people take a more entrepreneurial and active approach to investing, it becomes more important to have a strong professional team who can properly advise them. You need even stronger professionals to source the investment, and then you also need good people to actively manage the property so that its full value is realised.

There are also certain changes in the real estate landscape generally which investors must have in mind. For example, there is a great deal of change in the retail sector. The number of high-profile liquidations and Company Voluntary Arrangements (CVAs) of retail companies has been well publicised over the last couple of years. In years gone by, investing in properties which were let to a strong retail tenant was considered as being a fairly safe type of investment. This has now all changed. With the various pressures that are being placed on the high street, which includes the value of sterling and the effect of the internet sales, there are troubled times ahead for the retail sector. ■

Providing a meeting place and a voice for the Arab financial community in London

The Arab Bankers Association has continued to prosper in 2018, attracting new members and maintaining a busy and varied schedule of events.

Our activities over the last year can be divided into four groups: technical seminars, meetings with bank regulators, corporate members' lunches and social events.

We held seven events during the first seven months of 2018, and many more were planned as *Arab Banker* was going to press.

There were two technical seminars, held in the evening, to which members and their colleagues and friends were invited. The first addressed forthcoming regulatory challenges that London-based overseas banks are likely to face over the short and medium term. The second was our annual real estate seminar. We held two corporate members' lunches, hosted by the World Platinum Investment Council and by Jersey Finance.

We convened a meeting between the London Arab banking community and the Financial Conduct Authority in May. All Arab banks in London were invited to attend these meetings, with attendees comprising the CEO and the compliance officer or the person responsible for regulatory relations.

Our Christmas party last December had a different format to previous years – we moved it to a private room in a pub close to our offices in Mayfair. The change proved a great success with more than one hundred members and guests attending and, in many cases, staying late into the night. Our Eid party, just after Ramadan, was held in Maroush Gardens as usual, while we used the premises of the Arab-British Chamber of Commerce for our summer fete at the end of July.

Our Annual General Meeting was held on 25 July. Hani Salem, our Treasurer, reported that the Association was expected to make a small profit for 2018 and that cash balances in our accounts were strong.

In the first half of 2018 we welcomed four new corporate members: Belleveue Mortlakes, a London-based property surveying firm; Philip Ross, London-based solicitors; VG, a Jersey-based provider of fiduciary and administration solutions; and CSC Bank, a Lebanese card and electronic payment processor.

Hits on our website www.arab-bankers.co.uk have continued to rise, with activity from members and non-members spiking when new articles are published in the 'Banking News' area and when we publish photographs from our events. Updates published on our LinkedIn group also lead to greater traffic on the website.

We have continued to publish 'The Cultural Scene', a new feature begun last year, that raises awareness of Middle East-related cultural events in London.

This edition of *Arab Banker* magazine is the sixth since the relaunch in 2013. The magazine continues to be well-supported by advertisers and makes a small profit for the Association.

We welcomed three new Board members in the first half of 2018. Paul Garbutt, who leads the prudential regulation practice at Grant Thornton in London, was elected at the beginning of the year, and Sami Tamim, the CEO of Ahli United Bank (UK), joined us in spring. Yasser Ibrahim, CEO of National Bank of Egypt UK, joined the board over the summer.

We said good-bye to two long-standing Board members: Ziyad Akrouk, who had been Chief Executive Officer of Arab Bank plc and returned to Amman to take up a position at Arab Bank's head office, and Farid Barakat, National Bank of Abu Dhabi's CEO in London, who retired.

The Arab Bankers Association is led by George Kanaan, the Chief Executive Officer. George is assisted in London by Esin Erdil, Accounts and Administration, and Hanan AlMasoud, 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 our website, producing our brochures and leaflets, and editing *Arab Banker* magazine. ■


Esin Erdil, ABA Accounts and Administration and Hanan AlMasoud, ABA Business Development


Carol Hovsepian, ABA Business Development (in Beirut)

Board of Directors

The ABA's Board of Directors is elected at the Annual General Meeting, which this year was held in July. A list of serving Board members, as of August 2018, is given below.

Abdulaziz al-Khereiji (ABA Chairman. Board member since 2012)
Abdulaziz has been working within London's financial services sector for over 29 years. He joined Riyad Bank's London branch in 1996 and is now its Chief Manager. He is also Riyad Bank's Senior Vice President for Overseas Units, and in this capacity, he manages the bank's international offices in the United States and Asia, focusing on clients' business activities in the Kingdom of Saudi Arabia and the GCC as a whole.

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

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

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

Stephen Blyth (Board member since 2016)
Stephen is the General Manager of Arab National Bank's (ANB) London branch. He was appointed to this role in October 2016 having previously been acting General Manager and Deputy General Manager. He is a seasoned banker with more than 39 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 inclusive was based in the bank's head office in Riyadh, Saudi Arabia. Stephen has held a variety of roles during his banking career, and for the last 14 years, in addition to jointly running ANB's London branch, much of his time has been focused on regulatory change.

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

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

Yasser Ibrahim (Board member since 2018)
Yasser was appointed Chief Executive Officer and Managing Director of National Bank of Egypt (UK) in January 2017. Before this appointment, he served as Senior Representative in Egypt and head of Commerzbank's Representative Office in Cairo. Yasser joined Commerzbank in 1991 as an apprentice in Germany following completion of service as an Officer in the Reserve Army of the German armed forces. From May 2012 until November 2014, Yasser also served as Non-executive Chairman of the Board of Directors of Mercedes-Benz Egypt. He also serves on the Advisory Board of the Governors of the German-Arab Chamber of Industry and Commerce and is a Founder Member of the German speaking Rotary Club Rhein-Nile in Cairo.

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

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

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

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

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

Amr Turk (Board member since 2010)
Amr is the General Manager of the London branch of BLOM Bank France. He is based in London. A graduate of the University of Oxford, Amr joined the Planning and Administration Division of Saudi Oger in Riyadh in 1983. In 1984, he joined BLOM Bank France and was among the first staff to be involved in setting up the London branch that was, and continues to be, focused on providing private banking services, property finance and documentary credits. With over 30 years in the UK, Amr has developed an in-depth knowledge of the financial system and he has established links with many corporations and individuals seeking banking services in London.

ABA's Christmas party hits the mark again

Over one hundred members and friends attended our Christmas party on 13 December 2017.


Laila Zayed, Grant Thornton; Basim Al-Ahmadi, SET Advisory; Megan Johnston, Grant Thornton

Our Christmas parties are becoming bigger and better every year. At the end of last year, we celebrated in a private room at the Marlborough Head pub in London's Mayfair.

Mountains of food and a free bar were only part of the attraction. We had a live jazz duo and presents for everyone, donated by generous sponsors and partners.

Many of our corporate members used the event as a treat for their staff so we were pleased to see a lot of new faces, as well as many familiar ones.

The party was sponsored by Jordan International Bank. ■


Wassim Ahmed, SARMAD & Co, and Kanwal Deep Kumar, Lords Accounting and Taxation


Ibrahim Saleh, National Bank of Egypt, with George Kanaan


Maryam Zonouzi, (QIB (UK); Ayah Snober, Foot Anstey; Kate Amos, Foot Anstey; Chahnaze Farhat, QIB (UK)


Fawzi Dajani, National Bank of Kuwait International, and Mrs Dajani


Mrs Taghreed Hanna

Serra Balls, Eterna Partners; Katey Neate, BNY Mellon

Drone Chowdry, First Abu Dhabi Bank; Abdulaziz al-Khereiji, Riyad Bank

Rebecca Dean, Grant Thornton

Ihab El Masri, National Bank of Egypt (UK); Yasser Ibrahim, National Bank of Egypt (UK); George Kanaan; Vivien Davies, Fieldfisher; Bruno Mortorano, Abu Dhabi Islamic Bank,

Natasha Francis, QIB (UK); Salem Ehtawsh, Bank-ABC

Miles Davis, Grant Thornton

Navigating the regulatory maze

On 15 March, experts from three different financial institutions briefed ABA members on current and forthcoming regulatory challenges.

Experts from Grant Thornton, BNY Mellon and Fieldfisher gave presentations on the details of the regulatory landscape for banks in London, and they suggested new ways to respond to regulatory requirements.

Regulation is a huge issue for the London financial community and Arab banks in London are determined to show that they understand and respect the changing and more challenging environment. ABA events that address regulation are always well attended.

Presentations were given by Rebecca Deane, the Associate Director for Compliance and Financial Crime at Grant Thornton, and Miles Davis, an Associate Director at Grant Thornton who described a propriety tool that the firm has developed to enable banks to track their regulatory compliance. Hardeep Dosanjh, a Senior Managing Counsel at BNY Mellon, and Duncan Black, a partner at law firm Fieldfisher, presented on legal aspects related to regulation and compliance.

The seminar was moderated by Katey Neate, the Head of Risk Management at BNY Mellon.

After the presentations and question and answer session, participants enjoyed a buffet supper and the opportunity to mix informally with the speakers.

The seminar was sponsored by Grant Thornton and Fieldfisher ■

Joe Moynihan from Jersey Finance gives a slide presentation on the Jersey International Financial Centre

Corporate members' lunches foster two-way dialogue on specialised subjects

We held two corporate members' lunches in the first half of 2018.

Our corporate lunches are invitation-only events that enable financial service providers to meet with relevant senior Arab bankers for an open and detailed discussion about particular areas of interest to both parties. The dialogue works both ways: the hosts can use ABA corporate members as a sounding board for new ideas, and the ABA members get to interact closely with specialists in fields that relate directly to their day-to-day work.

Our first corporate lunch of 2018 was hosted by the World Platinum Investment Council (WPIC) at Bentley's restaurant in London's West End. The WPIC is developing a new platinum-based shariah-compliant investment fund and wanted to hear the views of a few senior Arab bankers on the likely marketability of the fund. The CEO and a director of Amanie Advisors, a specialised firm that was helping with the shariah structure of the fund, also attended. This was the second time that the WPIC had used the ABA in this way. At the end of 2017, when it was at an earlier stage of developing the fund, the Council had used the ABA to gather some interested Arab bankers to assess how receptive the Arab financial community in London would be to such a fund.

On 23 February, Jersey Finance, the members' organisation that promotes Jersey as an international financial centre, and PwC hosted a lunch at the ABA's offices in Mayfair. Executives from Jersey Finance explained how Jersey can provide a well-regulated low-tax base for international financial transactions, while Jersey-based executives from PwC explained in detail how Jersey's tax regime would apply to typical transactions that might be undertaken by London-based subsidiaries or branches of Arab banks. ■

Meetings with UK banking regulators

The most recent meeting, which was with the Financial Conduct Authority, was held on 24 May.

We have a well-established programme of meetings between senior representatives of the London Arab banking community and senior officials from the two British banking regulators, the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA).

On 24 May, five executives from the FCA met with representatives of most London-based subsidiaries and branches of Arab banks. The FCA's representatives were Lucinda Hartley, Manager, Wholesale Banking; Ted McDonald, Technical Specialist, Wholesale Banking; Michael Lloyd, Senior Advisor, Wholesale Banking; Edmund Weighell, Senior Associate, Wholesale Banking; and Jeremy Tizard, Manager, Financial Crime Specialists Division.

Most of the Arab banks were represented at CEO and/or compliance officer level.

These meetings are held under the Chatham House rule (meaning that participants may use the information discussed in the meeting but may not cite its source). As a result, discussions can be open and frank. Key points of the discussion included the regulator's plans to conduct site visits to banks; the ways in which the regulator measures the effectiveness of banks' financial crime training programmes; and the regulator's current thinking on cyber risk and operational resilience for small banks.

The previous regulatory meeting had been held on 13 November 2017 with the Prudential Regulation Authority. That meeting focused on the Bank of England's Shari'ah-Compliant Fund (SCF) initiative (which would create shariah-compliant liquidity instruments that banks could use for regulatory purposes) and IFRS 9 (which came into effect seven weeks after the meeting). The PRA officials also provided some feedback on the meetings that they had been holding with the home regulators of Arab banks in London. ■

Eid party at Maroush draws more than one hundred members and friends

Our Eid party is one of the four social events that we hold each year. This year it was held on 18 June.

We returned to Maroush Gardens in London's Mayfair for our annual Eid dinner, marking the end of the month of Ramadan. Several of our corporate members used the occasion to treat their staff by reserving whole tables, but this was also an occasion for individual members to meet new faces and reconnect with old friends.

The party was sponsored by Bank ABC, NBK International and QIB (UK).

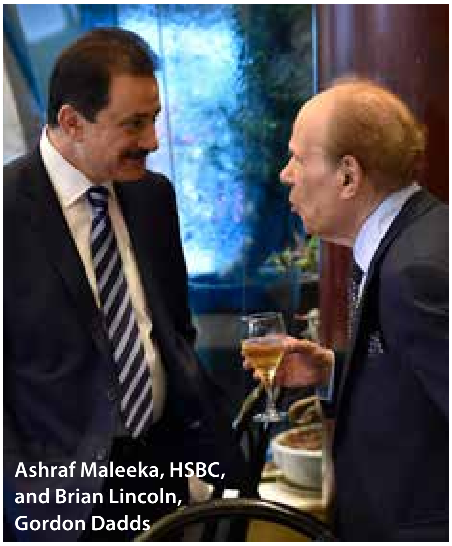
George Kanaan with the NBK International table

Shaf Ali, Belleveue Mortlakes; Zumi Farooq, PIA Financial Group; Gavin Tank, Positive Solutions

The Europe Arab Bank table

Abdulaziz al-Khereiji, Riyad Bank, and Soulaf Kanaan

Charbel Khazen, Gulf International Bank; Raouf Jundi, MUFG



Ashraf Maleeka, HSBC, and Brian Lincoln, Gordon Dadds


Guy Hitchin, Marriott Harrison; Tony Williams, Wessex Ventures


Hannah Wailoo, Towers & Hamlins


Tom Bill, Knight Frank


Salman Rajput, Cadogan Asset Management; Abdel Hamid El Kafrawy, National Bank of Egypt (UK); Mohammed Qadir, Cadogan Asset Management; Joumana Karam, ABA


Nasser al-Shawaf, Rassmal

Real estate seminar reviews the state of the London property market

Our annual real estate seminar, which was held on 5 July, reviewed new trends in the London property scene.

Our annual real estate seminar is always one of our most popular events. As in previous years, Knight Frank opened it with a review of recent trends in London property values and values outside London. Tom Bill, the firm's head of residential research, also provided figures on transaction volumes and price trends.

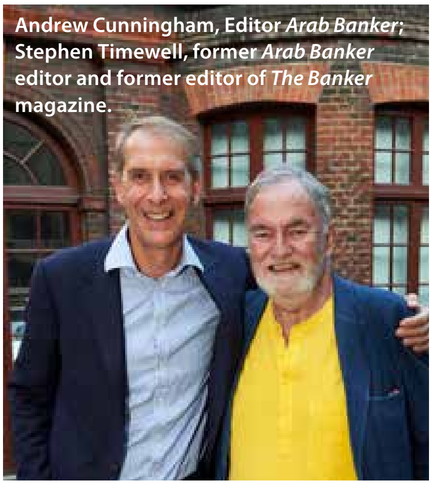
Nicholas Simmonds, Assistant General Manager at National Bank of Kuwait International, spoke about the yields that can be earned on different types of transactions, and Hannah Wailoo, a senior associate with Towers & Hamlins, described how the British Government's plans to create a Public Register of Beneficial Ownership for Overseas Companies will affect the disclosure of real estate transactions in the UK.

Fuad Shakshir from QIB (UK) outlined recent developments in Islamic finance in the UK property market, and Nasser al-Shawaf, the CEO of Rassmal, described two major developments that his company is undertaking in central London.

The whole event was moderated by Claire Cripps, a senior manager in the global wealth department of First Abu Dhabi Bank.

The presentations and question and answer sessions were followed by a buffet dinner.

The seminar was sponsored by Nation Bank of Kuwait, First Abu Dhabi Bank, Towers & Hamlins and Rassmal. ■



Andrew Cunningham, Editor *Arab Banker*; Stephen Timewell, former *Arab Banker* editor and former editor of *The Banker* magazine.

Summer party is an event for families as well as members and colleagues

We held our first ever summer party on 26 July at our offices in the Arab British Chamber of Commerce building in Mayfair.

Our summer party happened in the middle of last summer's heat wave but fortunately we were able to spread out onto the terrace at the back of the building, although some found that it was cooler inside.

Many of our members brought colleagues or family members – this was very much an occasion to relax and unwind, although there were plenty of business discussions as well.

The party was sponsored by National Bank of Egypt (UK).

The Association had hired two fortune tellers to entertain guests. One looked into her crystal ball and the other used tarot cards. Everyone wanted their fortune told, especially the fund managers ("What's the dollar going to do?") and the investment bankers ("Will the Saudi IPO go ahead?")! But most people just wanted to check out their prospects for romance!

This summer party was an experiment, and it turned out to be very successful. It demonstrated that the Association is not just a serious organisation, promoting the interests of the Arab banking community in London, but also a fun organisation. ■

George Kanaan; Mohammad Khodari, Emirates NBD; Abdulaziz al-Khereiji, Riyad Bank

Sami Tamim, Ahli United Bank (UK), and Najwa Abou Zaki

Yasser Ibrahim, National Bank of Egypt (UK), asks about the future of the Egyptian economy!

Become a Member

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

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

Arab Bankers Association

جمعية المصرفيين العرب

ABA Membership Application

PLEASE TICK ✓ BELOW AS APPLICABLE

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

☐ **Individual Membership** | Annual fee £200

☐ **Young Professional** (less than seven years' experience in the banking and financial sector) | Annual fee £75

☐ **Associate (corporate) Membership** | Annual fee £3,500

Family name .... DOB: ....

Nationality ....

Institution ....

Position/Title ....

Address ....

....

....

Telephone ....

Fax ....

E-mail ....

ABA Sponsor/Referee ....

☐ **I enclose payment**
(Cheques made payable to: *Arab Bankers Association*)

☐ **Please bill me**

☐ **Please debit my card**

Please debit my ☐ Amex ☐ Delta ☐ Electron ☐ Maestro ☐ Mastercard ☐ Solo ☐ Switch ☐ Visa credit/charge card

Card No: .... Expiry: ....

Signed: .... Date: ....

Post or fax to:

ABA
43 Upper Grosvenor Street
London W1K 2NJ

T +44 (0)20 7659 4889
F +44 (0)20 7659 4868

www.arab-bankers.co.uk

Arab philanthropy steps up to support education in the Middle East

Poor education is widely seen as one of the biggest impediments to social development in the Middle East. Governments in the region know this and routinely express their commitment to raising standards, and yet anyone who has spent a long time in the Middle East knows that little seems to change.

Throughout the Middle East, and beyond it, there are numerous private organisations that are trying to bring high-quality educational opportunities to those that the state sector overlooks or underserves. In the following article, *Arab Banker* reviews the landscape of philanthropic organisations that are trying to raise educational standards in the region.

The challenges and the problems are not in doubt.

The most recent Arab Human Development Report, published in 2016, notes that, "Arab societies perform below the world average on educational attainment, achievement and equitable access." Reviewing the performance of boys and girls in a standardised mathematics and science test (the TIMSS) between 1999 and 2011, the report shows that all Arab countries that were assessed consistently scored below the international average and many scored below the lower 'intermediate international benchmark'.

This was despite rising education enrolment rates in most countries, and some countries showing that they were achieving almost universal enrolment of pupils at primary education.

The report attributed this divergence between higher enrolment ('attainment') and continuing low standards ('achievement') to a lack of enrolment in scientific disciplines in later educational years and to "outdated pedagogical techniques, such as rote memorization".

The effects of this go beyond employment prospects for young people and nations' economic development. The 2016 report cites its predecessor from 2003, which noted, "There are entire generations of Arabs who have not learnt how to play a musical instrument and who have not read literary works … creative pursuits taken for granted in developed country schools have simply been neglected in the Arab world, with damaging results to the creative potential of its people."

There are plenty of examples of good schools and universities in the Middle East. For university education, the Gulf States have been able to buy partnerships with leading Western establishments. The results include Sorbonne University Abu Dhabi, Georgetown University Qatar, and there are numerous cooperation agreements between Western universities and those in the Middle East although, again, the GCC predominates.

When the Times Higher Education produced its rankings of the best universities in the Middle East in February 2018, four of the top five were in the Gulf, with Saudi Arabia's King Abdullah University taking first position.

For decades, the American universities in Beirut and in Cairo have been producing well-qualified graduates, many of whom now hold senior positions in Arab banks and financial institutions.

Yet the outstanding results achieved by these prestigious institutions cannot disguise the broader deficiencies within state-led educational systems in the Middle East. Saudi Arabia has universities that turn out highly-qualified petroleum engineers, but its higher education system continues to produce far too many graduates in Islamic theology who are little use to private sector firms or the country's key industries. Egypt produces thousands upon thousands of university graduates, but the quality of education leaves most of them unable to contribute to the development of a modern economy.

Yet the importance of education is widely recognised in the Middle East and there is a vast range of institutions beyond ministries of education that are committed to increasing enrolment and standards.

A report by the Brookings Institute in 2014 identified five broad categories of Arab donors who fund educational projects: religious foundations, official development assistance, royal initiatives, private sector initiatives, and the Arab diaspora.

Religious foundations include Waqf organisations which often run schools in parallel to ministries of education or which contribute some of their own budget to support state-led educational projects. Official development assistance includes bodies such as the Arab Fund for Economic and Social Development and the Saudi Fund for Development. Much of what such organisations do is directed outside the Middle East, but a significant proportion remains inside the region.

More nuanced and targeted educational assistance is dependent on the other three sources of educational finance. Royal initiatives include the Queen Rania Foundation for Education and Development in Jordan, Sheikha Moza bin Nasser's Education Above All foundation in Qatar, and Dubai Cares, under the patronage of Sheikh Mohammed bin Rashid in Dubai. All try to reach beyond the formal education system to fund teacher training, scholarships for underprivileged children and summer camps.

Private sector initiatives and the Arab diaspora also look beyond state-run education to try to fill the gaps that governments either cannot fund or do not have the organisational ability to address.

Arab Banker is profiling two such private sector organisations that, in very different ways, are doing great work on education in the Middle East. Al Alfi Foundation in Egypt has been funding educational projects in Egypt since 2008 and has a broad programme that includes summer camps, scholarships, teacher training and direct financial support to other NGOs.

Al Alfi has a particular focus on STEM subjects – science, technology, engineering and mathematics – where formal education in Egypt falls short, but which are vital to building a modern economy.

Most of Al Alfi's funding comes from its founder, Moataz Al Alfi, but as the foundation's track record of success becomes better known, other private funders, including commercial banks, are using it as a vehicle through which to execute their own corporate social responsibility programmes.

Cogito is an NGO that was recently formed by Arabs who were fortunate to receive the best of British education, who have prospered as a result, and who now want to enable Arabs from the next generation to benefit in the way they did. Cogito is still a small operation, but its founders are bringing their personal experience of private equity and start-up companies to shape its expansion.

There are of course many other private organisations, funded by committed individuals, that are doing exceptional work to enhance educational opportunities and standards in the Middle East.

The Asfari Foundation was founded by Ayman and Sawsan Asfari in 2006 and provides educational support

Cogito Scholarship Foundation: bringing the best British education to the Arab youth

Cogito was founded five years ago by Ali and Mumina Erfan and Adel Dajani. Adel and Ali both had the good fortune of going to Eton College, an elite British school. They have had successful business careers in private equity and fund management, working with some of the most prestigious firms in global finance, so as they thought about how they could 'give back' to their communities, they naturally focused on ways to expose Middle Eastern teenagers to the same excellent education that they enjoyed.

Both had retained contact with Eton so reached out to staff there. They also made contact with Atlantic College, an international school in Wales. Both schools agreed to take suitable pupils if Adel and Ali could identify individuals with the right academic credentials, an ability to thrive in a British boarding school environment and, very importantly, funding.

Ali and Mumina Erfan and Adel Dajani responded by founding Cogito and registering it as a UK charity. They started looking for suitable candidates through networks of former students of Eton and Atlantic College, and also through local charities that work with children. In Morocco, the British Council has also played a role in identifying candidates.

"We are looking for people who can be leaders in their countries – models for the next generation," says Dajani. "Although we do not require that pupils go back to their country after finishing their studies, there is what we call a 'moral pledge' that they will go back, and give back, to their communities when their studies are finished."

The boarding school experience is central to the programme. Cogito believes that boarding at school teaches tolerance of others, social skills, independence and self-reliance.

"We are consistently surprised by how quickly the children adapt," says Dajani. "We have a pupil who grew up in a refugee camp in Gaza. She had never been outside the camp and her father had been prevented from travelling. She has now completed two years at Atlantic College and has been offered a place by three British universities."

Cogito has put ten students through Eton or Atlantic College, from Lebanon, Morocco, Palestine and Syria, and is convinced that the model works. Its pupils have gone on to universities in the UK including Bath, SOAS and University College London, and to universities in North America, including NYU and the University of British Columbia. (Many of the pupils have posted their stories on Cogito's website.)

The firm now wants to increase its scale. Dajani explains: "The challenge now is to institutionalise what we have been able to achieve through our personal contacts and move beyond our informal network. We are hoping to create Cogito 'Chapters' in individual Middle Eastern countries. The Chapters will be responsible both for identifying suitable candidates and for identifying potential donors who can fund them. We would welcome corporate sponsors and believe they have much to benefit from working closely with us."

Dajani draws on his own private equity background as he thinks about the future. "We're a start-up. We're through the first phase and now need to move to 'Series B' and 'Series C'!"

www.cogitoscholarship.com

in Syria, Lebanon, Palestine and the United Kingdom and, more recently, in Jordan where the foundation supports both Syrian refugees and Jordanians. Based in London, the foundation is currently making grants totalling £3.5 mn a year.

The Friends of Birzeit University (Fobzu) has been supporting Palestinian education for more than 40 years. The organisation was created in 1977 in the London apartment of one of its founders and has expanded since then to become a multidimensional organisation that provides resources to Birzeit University, helps individuals through scholarships and also raises awareness of the ways in which Israeli occupation sets out to undermine Palestinian academic development. As Fobzu says, "If you are a Palestinian, the biggest obstacle to passing your exams isn't doing the work, it's getting through the checkpoint."

Palmusic UK is a British organisation that supports the musical education of young Palestinians though short courses, providing musical instruments and through scholarships and bursaries. The organisation works closely with Edward Said National Conservatory, which has more than 1,000 students in Ramallah, Jerusalem, Bethlehem, Nablus and Gaza. Palmusic frequently organises concerts in the UK by Palestinian musicians – its 2018 summer tour included dates in Scotland, Wales and Guildford. Under Palmusic's sponsorship, the Galilee String Quartet performed in London and Oxford in 2017 and the Palestinian Youth Orchestra performed in six cities, including London, in 2016.

There are many more philanthropic organisations that should be mentioned, but we have picked out a few to illustrate the range of privately funded philanthropic activities that are striving to improve access to education, and the quality of education in the region. We wish all of them every success – the future of the Middle East depends on it. ■

Al Alfi Foundation: promoting science and technology education in Egypt

Al Alfi Foundation runs science-focussed summer camps for children in Egypt

Al Alfi Foundation was founded by Egyptian businessman Moataz Al Alfi in 2008 to support economic and social development through education. Specifically, the foundation focuses on STEM education: science, technology, engineering and mathematics.

The foundation operates across four broad areas: identifying and educating gifted young pupils, providing scholarships for students to pursue high-level studies, training teachers and principals, and supporting NGOs that share Al Alfi's aims.

One of the flagship programmes is the STEM summer camps for gifted children between the ages of 10 and 14. Participants are selected from state schools through a rigorous cognitive ability test and they spend five days solving problems and developing critical thinking related to STEM subjects. The programme is organised in cooperation with the American University in Cairo (AUC) and more than 250 students participate each year.

Nermine Abou Gazia, Al Alfi's Chief Executive, says that the main objective of the summer camps is to develop enthusiasm for science and technology. "There's a limit to how much information you can convey in only five days, but there is no limit to the amount of enthusiasm you can generate, and that enthusiasm can stay with a child for the rest of their education."

The foundation funds more than 50 undergraduate and postgraduate fellowships to the American University in Cairo and to overseas universities on an annual basis. Recent success stories have included a student who was awarded a place to study at Harvard University's Graduate School of Design and was able to accept the award after receiving a grant from Al Alfi, and a research assistant who is managing the cell culture laboratory at the American University in Cairo while studying for a master's in biotechnology.

In the field of teacher training, the foundation has partnered with IBM to train 1,200 teachers in science subjects and to show them how to develop enthusiasm for STEM subjects in their pupils. A joint project with Ludwigsburg University of Education in Germany and Helwan University south of Cairo aims to improve teachers' management and organisational skills through annual scholarships that enables teachers to acquire master's degrees in these fields.

The foundation recognises that it cannot do everything itself. That is why it provides financial support to NGOs. Abou Gazia says, "We supported the creation of the Egyptian Foundation for Continuing Medical Education because we think that continuing medical education is crucial if medical standards are going to improve over the long-term. Creating an organisation to spearhead it was a great idea and we wanted to contribute to its success."

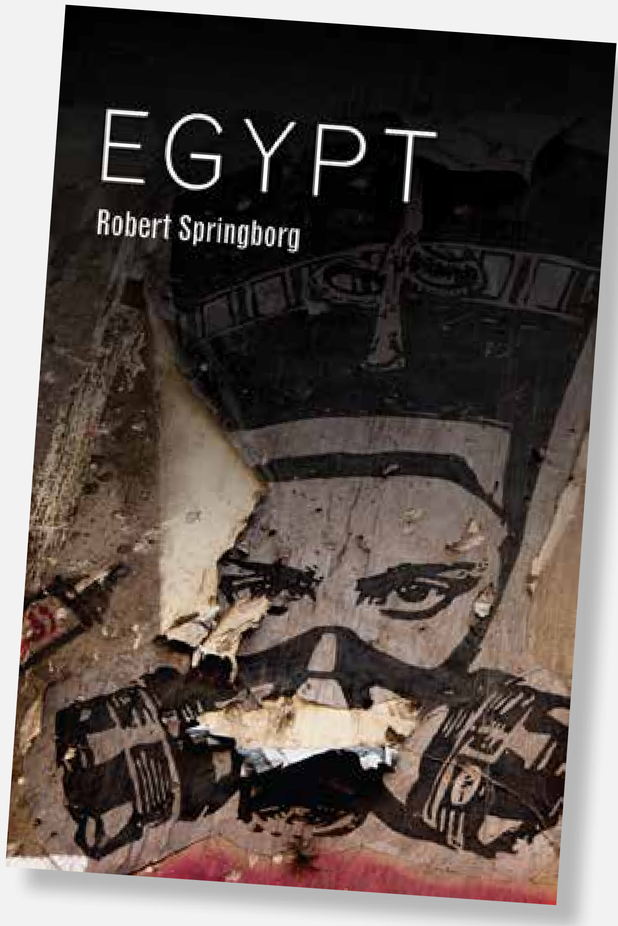
Speaking more broadly on the issue of funding, Abou Gazia says that most of the foundation's resources have historically come from Moataz Al Alfi, who has been active in public, social and philanthropic fronts for more than 30 years, but that funding is now starting to come from other sources. "Banks and other major companies are developing their corporate social responsibility programmes, and they are seeing us as a good vehicle through which to channel their funds."

Looking ahead, Abou Gazia is confident that the foundation will continue to offer programmes that extend from early childhood to young adulthood, empowering young people to create better futures both for themselves and their families. Among new initiatives will be the Al Alfi Innovation and Leadership Centre that will educate STEM entrepreneurs about business concepts and connect them with mentors, regulatory authorities and funding agencies.

www.alfifoundation.org

Egypt
Robert Springborg

245 pages. Polity Press £15.99



Robert Springborg begins this devastating account of Egypt's recent political history with the observation that Egypt, China and Iran are the three great empires of antiquity that still exist today as nation states, governing much the same territory as their forebears did, centuries ago. It would therefore seem foolish, and historically myopic, to speculate that Egypt could be about to fracture in the way that some of its regional neighbours have since 2011. Yet that is the possibility that Springborg raises and it is the purpose of his book to explain how Egypt has, within modern times, moved from being a Third World leader to a country that, in his opinion, is so riddled with problems that its survival is in doubt.

In the hands of most writers, such a thesis would be hard to take seriously. Yet Springborg is one of the most experienced observers of modern Egypt. He first worked in Egypt in the 1960s and he has a long list of respected publications and prestigious academic positions to his name.

This long experience enables Springborg to analyse the current political situation in Egypt within the broader perspective of Egypt's recent history.

In this context, Sisi's regime is simply the fourth in the series of military-led regimes that have ruled Egypt since Gamal Abdul Nasser and his fellow army officers overthrew the Egyptian monarchy in 1952. These regimes – Nasser from 1952–70, Sadat from 1970–81, Mubarak from 1981–2011, and Sisi effectively since 2013 – are characterised more by their similarities than their differences. The two years between the Tahrir demonstrations that overthrew Mubarak and the army takeover that overthrew President Morsi are a historical blip, an aberration, in what Springborg believes is a consistent pattern of authoritarian rule.

Springborg uses the term 'limited access order' (LAO) to describe the type of political system that Nasser put in place and which, he says, continues to this day. In an LAO, rulers give themselves privileged control over state resources, in contrast to an 'open access order' where everyone can compete for influence and economic benefits and where, as a consequence, there is a vibrant civil society outside government circles.

Springborg then describes the structures and methods that successive regimes have used to preserve their control of this LAO. In a chapter on the 'deep state' he analyses the workings of the military, the intelligence services and the presidency. The following chapter considers the workings of the executive (such as the civil service and local government), the judiciary and the parliament, showing how, in all cases, they have been progressively undermined and penetrated by those in power. The chapter on political and civil society analyses the full range of religious organisations in Egypt, from the high officials running the Azhar mosque to the jihadi terrorists in the Sinai, and it considers the role of youth and trade union organisations. Again, the narrative shows how these organisations have been penetrated and undermined by those in power.

Data and anecdotes abound as Springborg develops his argument that political society in Egypt today is more repressive than at any time since the overthrow of the monarchy. Much of what he describes has already been reported, but the volume and consistency of the facts that Springborg produces still have the power to shock.

Eventually, Springborg's relentless narrative dulls the senses, however important the subject matter may be. Towards the end, this reviewer had begun to skim the pages.

This book is one in a series being published by Polity Press under the title, 'Hot Spots in Global Politics'. Of the ten titles currently published, five are about countries in the Middle East: Egypt, Iraq, Israel/Palestine, Libya and Syria. The other five are Afghanistan, Congo, the Horn of Africa, Korea and Northern Ireland.

A few years ago, it would have been unthinkable to include Egypt alongside these countries.

Given the theme of the 'Hot Spots' series, it is hardly surprising that Springborg's focus is on describing what he sees as the particular degeneration of political structures under the current regime. Yet in his brief conclusion, he does not predict a political breakdown such as has been seen in Syria, Iraq or the Horn of Africa. One scenario entails Sisi's 'dogged determination' succeeding as he defeats the terrorists in Sinai, eliminates political violence elsewhere and then leverages that success to reach an accommodation with the Muslim Brotherhood and win the financial support of wealthy allies.

A breakdown of the country is unlikely, Springborg concludes, yet the fact that it can be imagined is in itself a devastating comment on the progress of Egyptian history in the modern era. ■

Alex de Lorenzo

What is Russia up to in the Middle East?

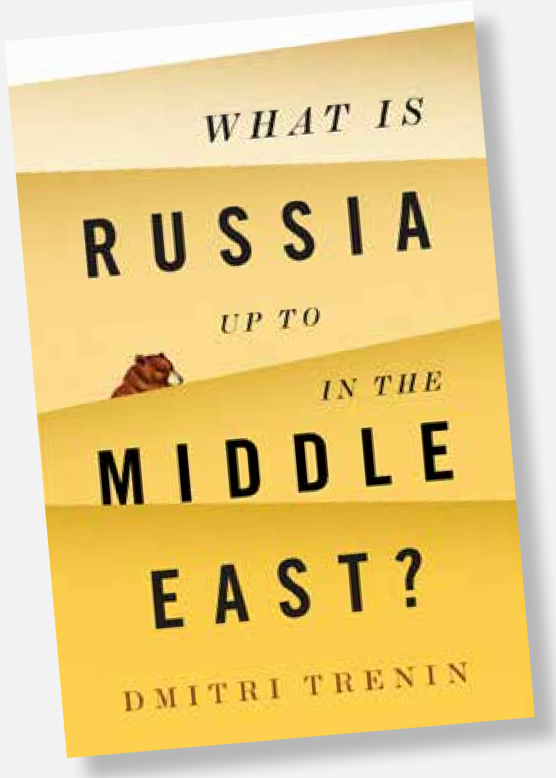
Dmitri Trenin

144 pages. Polity Press £9.99

The Red Star & the Crescent: China and the Middle East

Edited by James Reardon-Anderson

327 pages. Hurst & Company £25



These two books are timely. They explain how, in their very different ways, Russia and China are increasing their influence in the Middle East.

Great power politics is nothing new in the region. The United States and the Soviet Union used their power over governments in the Middle East to support their wider global rivalry during the Cold War, although it is worth remembering that countries generally sided clearly with either the United States or the Soviet Union: the rivalry was played out within the region between different clients of the two superpowers but rarely within the individual countries.

The fall of the Berlin Wall in 1989 and the unravelling of the Soviet Union during the early 1990s left the United States as the sole and undisputed superpower in the Middle East. Dmitri Trenin identifies the diplomatic and military manoeuvrings that followed Saddam Hussein's invasion of Kuwait in 1990 as the end of the Soviet Union's role in the Middle East. Russian diplomatic efforts to persuade Saddam to withdraw peacefully from Kuwait not only failed, but were rejected by the United States, which was determined to use Saddam's invasion to inaugurate a new world order in which there was only one superpower.

NATO's intervention in Libya in 2011 was the turning point that led to a more assertive Russian approach in the Middle East, although it has been in Syria that this new approach has been most evident.

When Russia did not use its veto to block a Security Council resolution that created a no-fly zone in Libya, it believed that the resulting military intervention would be organised through the Security Council, that Russia would be a full partner in discussions over the form of the intervention, and that Russian interests in Libya, such as an outstanding debt of $7 bn owing from arms purchases during the Gaddafi era, would be respected. Not only did none of this occur, but Libya disintegrated into a failed state ruled by armed militias.

The lesson Russia learned, Trenin says, was that the West could not be trusted: "Once they pocket your concession, they ignore you."

Russia did not make the same mistake with Syria, a country which had historically been one of its key allies in the Middle East. Russia blocked draft Security Council resolutions that could have provided a basis for foreign intervention in Syria, and at the same time it supplied the Assad regime with the weapons it would need to put down the revolt. Unlike the United States, Russia believed that Assad could survive.

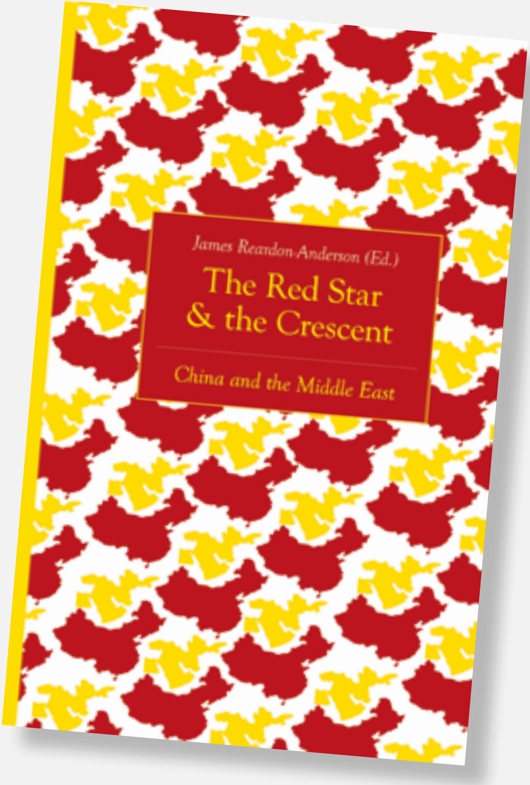
Russia's intervention in Syria has been its biggest combat deployment of Russian forces abroad since the war in Afghanistan, and, unusually, it entails Russia fighting in a country with which it has no common border.

Writing in early 2018, Trenin estimates that the military intervention in Syria has cost about $4 bn ("reasonably affordable to the Russian budget"), and for this price Russia has received a strong advertisement for its weapons systems and, perhaps more importantly, for the value of its political backing. The contrast between the United States' abandonment of Mubarak, Gaddafi, Saleh and Ben Ali – all former allies – and Russia's dogged support for Assad has not been lost among the Middle East elites.

As a result, Russia has emerged from the war in Syria with strong connections throughout the region. It has also avoided, in Trenin's nice turn of phrase, "falling into the cracks of the Middle East's divides": Shia versus Sunni, Saudi versus Iran, Iran versus Israel, etc.

Dmitri Trenin is the Director of the Carnegie Centre in Moscow, and *What is Russia up to in the Middle East?* ranges much further than the military intervention in Syria despite its short length. He reviews Russia's relations with Israel, its expanding trade relationships throughout the Middle East and, in the opening chapter, the early history of Russian engagement with the Middle East.

In contrast to the plethora of books analysing the United States' relationship with the Middle East, there is very little, in English, which addresses directly the relationship between the Soviet Union/Russia and the region. Hitherto, the standard work has been *Russia and the Arabs*, published by Yevgeny Primakov, the Soviet Union's leading 'Arabist' during the Cold War. Published in Russian in 2006 (with the English translation in 2009), it is an invaluable account of Soviet diplomacy in the region during the Cold War but, through no fault of its own, it offers little help in understanding the region today. That is why Trenin's short book is so valuable.



In contrast to Russia, China has no history of intervention in the Middle East, either during the Cold War or in earlier times. China has been inwardly focused for much of its recent history, and its foreign policy has been directed more to regions that are closer to home than the Middle East.

Yet there are signs of change as China emerges as a great global economy, ready to play a more active role on the international stage.

The Red Star & the Crescent describes China's changing role in the Middle East through 11 essays that address broad strategic issues, specific case studies such as China's relations with Turkey and its role in the Iran Nuclear Negotiations, the 'One Belt, One Road' initiative, and Islamic and ethnic groups in China's western provinces.

Chinese interests in the Middle East are growing in many ways. Energy is the most obvious: in 2011 China imported 51% of its oil from the region and this is expected to rise to 70% by 2020. China had become Iran's largest trading partner by 2015. China National Petroleum Corporation is the largest investor in Iraq's oil industry; and in 2012, China accounted for 15% of Iraq's imports, more than the United States. In 2017, China built is first permanent military base in the Middle East, a logistics centre in Djibouti, to service Chinese navy patrols off the Horn of Africa. There are 200,000 Chinese living in Dubai, the largest non-permanent-resident overseas Chinese community.

President Xi made his first visit to the Middle East in 2016, stopping in Egypt, Saudi Arabia and Iran shortly before the publication of China's first 'Arab Policy Paper', in which the 'One Belt, One Road' initiative was mentioned prominently. Xi used his visit to affirm the 1 + 2 + 3 policy towards the Middle East that had first been proposed in 2014. This identifies energy cooperation as the principal axis for Chinese engagement with the region, followed by infrastructure construction and trade and investment facilitation, and then three major high-tech fields, including nuclear power, space satellites and new energy.

The essays on the 'One Belt, One Road' initiative provide refreshingly detailed and experienced perspectives. The 'Belt' refers to the various land routes from China across Asia to Russia, the Caucasus, India and Pakistan, and the broader Middle East. The 'Road' refers to a 'Maritime Silk Road' that will run from the South China Sea across the Indian Ocean to the coast of Pakistan, the Gulf and East Africa.

Andrew Small explains the fluidity of the initiative, with various maps being produced that include and exclude different routes. The supposedly authoritative map published in 2014 by the official Chinese news agency Xinhua omitted some routes that had been proposed but included others that passed through countries, such as India, that had not agreed to be part of the initiative.

Most of the essays in *The Red Star & the Crescent* are written by China experts rather than Middle East experts, and the book is all the stronger for that. The Chinese perspective comes through clearly and there is plenty of detail. Although most of the authors are university academics, political theory rarely intrudes and can be easily dodged.

Jon Alterman's essay on China, the United States and the Middle East makes the point that, in contrast to the approach taken by the United States, China "has no desire to persuade the world of the superiority of China's ideology and culture". Furthermore, China's foreign policy interests are state interests and as a result China is happy to confine its foreign relations to relations with foreign governments. Unlike the United States, it has no interest in reaching out to business elites, academics and civil society. "China," says Alterman, "has contented itself to accept the Middle East as it is."

It is easy to see how such an approach will win friends in the region.

Alterman says it will be decades before China's capabilities in the Middle East match those of the United States. Yet China's influence in the Middle East is rising, and those who are interested in the reasons would do well to understand China's current capabilities and its strategic thinking. This book is a good place to start.

Those interested in China's relations with the Middle East may also be interested in the June–July 2018 edition of *The Middle East in London*, a quarterly magazine that is published by the London Middle East Institute (LMEI), which is part of the School of Oriental and African Studies. The June–July edition takes China and the Middle East as its theme and contains eight short essays – two or three pages each – on topics ranging from military and defence strategy to Arabic literature in Chinese translation. The magazine can be accessed, free of charge, on the LMEI's website: www.soas.ac.uk/lmei/meil.

Of the two books reviewed here, Trenin's is shorter – a quick and easy read but still full of detail. *The Red Star & the Crescent* is harder going: those short of time should read the first two 'big picture' essays by Scobell and Alterman, and that of Gegang Sun on China's military relations with the Middle East; and then move to areas of their particular interest.

And which one of the two would this reviewer recommend more highly? It's a false question. If you want to understand the future of the Middle East, you have to understand the larger roles that both Russia and China will be playing. Read both books! ■

Andrew Cunningham

A Morocco Anthology

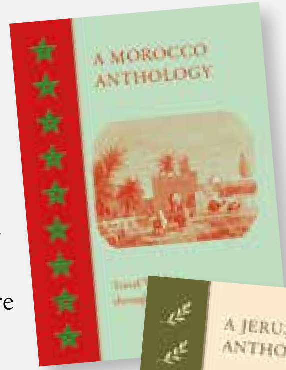
Edited by Martin Rose

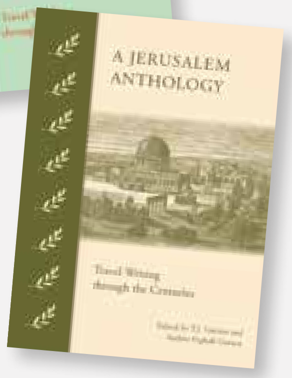
156 pages. AUC Press £11.99

A Jerusalem Anthology

Edited by T.J. Gorton and Andree Gorton

157 pages. AUC Press £11.99





These two books are the latest in the series of travel anthologies published by the American University in Cairo Press and distributed in Britain by I.B. Tauris. The others that are already published describe Alexandria, Beirut, Cairo, Istanbul and the Nile.

All provide short extracts from travellers' accounts of their visits to these cities and regions. Importantly, the selection is not confined to Western travellers, although since Westerners have left a much larger written record of their experiences, they do predominate. Most of the extracts are from the eighteenth and nineteenth centuries, although 'Jerusalem' is unusual in having a significant number of earlier accounts.

The extracts are short, taking a minute or two to read, and the pages are small. Each book can be digested in a couple of hours.

'Morocco' has been edited by Martin Rose, who for many years was Director of the British Council in Morocco. In an excellent short introduction, Rose points out that, historically, Morocco was not defined by hard borders but by the citing of the sultan's name during Friday prayers. Naming the sultan proclaimed allegiance and acknowledged his authority.

Rose points out that until 1912, Morocco was never part of any empire except its own, and that while the 44 years of French and Spanish rule left a mark, Morocco emerged from its colonial experience without the deep scars that continue to damage Algeria.

The book focuses on the four imperial cities: Fes, Meknes, Marrakesh and Rabat. There are also short sections on Tangiers and Essaouira (known for centuries by its Portuguese name of Mogador).

The 'Jerusalem' anthology is dominated by the experiences of pilgrims, both Christian and Muslim. The earliest extracts date from the fourth century, with St Sylvia of Aquitaine giving a useful account of Christian ritual during those formative years of liturgical development. Later accounts include al-Muqaddisi and Ibn Battuta, and the Persian Nasir al-Khusrau, who describes the city shortly before its sack by the Crusaders in 1099. The bulk of the readings come from the among later European travellers, with the usual suspects from the great age of European colonial travel all represented: Pierre Loti, Gustav Flaubert, Gertrude Bell, Ronald Stores, Mark Twain, and so on.

Inevitably, in both these books, some extracts are more interesting than others. Detailed descriptions of the architecture of the Holy Sepulchre, complete with measurements in cubits, may be historically significant but they do not always draw the reader in. Nonetheless, both volumes provide a sound overview of the literature written on Jerusalem and Morocco over the ages and they provide an entry point for further reading in areas of particular interest. ■

Andrew Cunningham

Handbook of Human Resource Management in the Middle East

Edited by Pawan Budhwar and Kamel Mellahi

451 pages. Edward Elgar £40 paperback

The 23 essays in this handbook are broken into three broad themes: contextual and functional issues such as cultural factors affecting human resource management, performance appraisal in the Middle East and talent management; specific country or regional studies; and 'emerging themes' such as privatisation, expatriate management and human resource management in the public sector.

The editors are professors at British universities, one in human resource management and the other in strategic management and the essays are written by academics from a wide variety of universities.

The rigour of the content cannot be questioned. No statement or assertion is too trivial to avoid supporting references to previous academic literature, but it is hard to see who would use this book apart from the authors themselves and their colleagues. Certainly, there is little here to assist a reader looking for information or suggestions on how to handle practical human resource challenges. Many of the articles begin with introductions to a country or region that are based on written material rather than personal experience and there is a lot of focus on the content of laws and regulations, although eventually the differences between public policy and real life are addressed and as one reads through the book important themes do emerge, such as the scarcity of well-qualified local graduates, the attractions for local citizens of working for the government rather than private sector, and the prevalence of personal relationships that can cut through formal reporting structures. ■

Bernard Clancy

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