ARAB Banker

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The Global Magazine of the Arab Bankers Association (ABA)

FASTER AND SIMPLER BANKING
ARAB NATIONAL BANK'S STRATEGY FOR A NEW ERA

A NOTE TO THE FUTURE, BY ADEL EL-LABBAN

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Times continue to be interesting! And that is not a happy thought.

The past year has been eventful in every possible way with continuing challenges in banking, the general economic landscape, and the broader and very concerning domestic and international political situation.

Globally, the war in Ukraine continues and is creating an extremely complicated geopolitical environment. Superpower relationships are at an absolute ebb. There are efforts to improve matters, but they do not seem to be going anywhere. Economically, we are still battling inflation with a rise in interest rates, our most potent weapon, creating significant risks to borrowers and bankers alike. Mortgage rates of 6% or more, hardly exorbitant for those who started climbing the property ladder in the 1980s and early 90s, are unprecedented over the last 20 years. Recession looms, treasuries are threadbare, and the cost of borrowing is backbreaking. The banking industry will have a hard time battling these headwinds.

In the UK we face the added uncertainty of a general election, expected either in the spring or autumn of 2024. Few believe that the Conservative government will win a fifth successive term (almost unprecedented in modern British parliamentary history if it was to happen) and a Labour government is now widely expected. Leaders of the Labour Party have been trying to reassure financial and business leaders of their credentials. That only points to the depth of doubt that prevails in these communities over this eventuality.

Against this grim and uncertain international and domestic outlook, the Arab world is doing better. There is economic expansion across many of the Arab countries and the destructive political atmosphere is subsiding significantly. Violence is ebbing everywhere and is being replaced by dialogue. Our banking community derives a great strength from this improved atmosphere. Challenges exist, although their effect is not threatening, given the business model pursued by our member banks and their generally conservative approach.

So, our banking community remains robust and optimistic – with a dash of realism added in for good measure. It stands to benefit from the Bank of England's proposals for a new 'strong and simple' supervision framework for smaller banks. This framework is a response to what we, at the ABA, and others have been advocating for many years – a proportional approach to the low risks that are posed to the British banking system by small banks. I am unsure of how many of our banks are being covered by this lighter, less onerous, and less expensive regulatory regime, but I hope that most, if not all, will be. This will make the UK more attractive to Arab banks seeking to base a branch or subsidiary overseas. We are optimistic, if not almost certain, that some Arab banks will take advantage of it.

This year has been the first since the Covid pandemic finally receded and we have been able to offer a full range of in-person activities. We have relished this return to normality. You will see, in the pages of this magazine, coverage of all the exciting events that we have held ranging from superb seminars on the London property market and the future of energy markets to the extremely enjoyable five-aside football tournament.

I am pleased that our Association has been able to support the work of the MENA Financial Crime Compliance Group through its European Chapter. Arab banks, both in the Middle East and in London, are fully committed to fighting financial crime in all its forms and we will continue to contribute to that fight wherever we can.

I am also pleased to report on the appointment of Mr. Gaby Fadel, recently General Manager of Byblos Bank, as Deputy Chief Executive Officer. Gaby is a long-standing member of the Arab banking community and has contributed hugely to the success of the ABA for many years past.

These are indeed difficult times for the global economy and for banks. But London's Arab banking community is strong, is growing, and is ready to respond to any challenges that may lie ahead.

George Kanaan
Chief Executive Officer

A positive picture of Arab banks

I am pleased to present this year's edition of *Arab Banker*, the eleventh since the magazine was re-launched in 2013.

This year's magazine shows many of the ways in which Arab banks are not only aligned with global financial trends, but in some cases in the vanguard. We have articles on sustainable finance by HSBC, on digitalisation by Bank ABC, and on financial crime compliance by British Arab Commercial Bank. We are also showcasing the strategy of Saudi Arabia's Arab National Bank to use technology to make banking faster and simpler for its clients.

I am delighted that Adel El-Labban, one of the most distinguished bankers of our generation, has written an article for us entitled '*A note to the future*' in which he distils his experience of regional and global banking into forward-looking recommendations for the new generation of bankers and regulators.

Elsewhere, BDO summarises the key regulatory themes that will be affecting Arab banks in the year ahead, and both Al Rayan Bank and Belleveue Mortlakes, the valuation firm, give their perspectives on the UK property market. I'm pleased that we can profile Europe Arab Bank, which is celebrating 50 years since it first opened an office in London.

What you will see in this magazine is a positive picture of a vibrant Arab banking community. Our annual survey of GCC bank results, and our analysis of recent movements in Middle East sovereign ratings, confirm this positive outlook.

We know that Arab banks were able to emerge in good health from the Covid pandemic. The rise in international interest rates is boosting net interest margins, particularly for those banks that hold large amounts of non-interest-bearing deposits and, so far, these higher interest rates do not appear to be leading to higher non-performing loans. Capital levels remain high throughout the region.

Of course, there are some clouds. Four years after its economic crisis began, Lebanon is still searching for a way forward; and in Egypt, there is uncertainty about the direction and sustainability of the economy. We have articles on these countries that try to guide readers through the complex issues and challenges facing both.

There is much more in the magazine, including a feature on Saudi Arabia's plans to expand its tourist industry, and reviews of two short books that should be of interest to those working with or spending time in the Middle East. Please do take a look at the pages and photographs that show the Arab Bankers Association's events over the past few months.

There are many positive stories to be told about Arab banks and about the way in which the Middle East is developing and changing. As I have said before on this page, it is a shame that so many institutions are so reticent to showcase what they do, and so cautious on those occasions when they do decide to speak out. It is time for public relations firms in the Middle East to take the lead in spreading mature, detailed and interesting news about Arab financial institutions, rather than stripping articles and press releases back to platitudes and bland generalisations. Some are already taking a more positive approach, but there is much work still to do.

We live in an era where news and opinions are published across a huge number of electronic platforms, and most of them lie beyond the reach of governments and other forces that have historically been able to control what their populations read and watch. Young people in particular have no time for self-serving news stories that gloss over nuance and harsh realities. For that reason, the need to publish and promote strong stories that address all sides of an issue, however uncomfortable some may be, is more important now than ever.

I am sad to report the passing of Gerald Butt, who in previous years not only acted as proof-reader of our magazine but also contributed numerous articles on Saudi Arabia and regional energy. Our thoughts are with his family.

I would like to thank George Kanaan, the Association's CEO, for his enthusiasm and practical help which are vital to the success of this magazine. Thanks are also due to Antony Gray, who designs the magazine and continues to ensure that its appearance is sharp and relevant, and to Jason Smith of JPS Print Consultants, who prints the magazine and manages its distribution.

Andrew Cunningham
Editor in Chief

Saudi National Bank gets new Chairman after Credit Suisse debacle

Ammar al-Kudairy, the Chairman of Saudi National Bank (SNB), resigned in March, two weeks after he said that he would "absolutely not" provide additional support to Credit Suisse, in which SNB held a 9.9% stake. He has been succeeded as Chairman by the former CEO, Mr. Saeed Mohammed al-Ghamdi. Mr Talal Ahmed al-Khereiji has been appointed CEO. He was previously the Deputy CEO.

Mr Kudairy made his remark on Wednesday 15 March. Credit Suisse was taken over by UBS in an emergency state-sponsored rescue the following weekend.

Mr Kudairy's comment was made on the fringes of the two-day Financial Sector Conference, held in Riyadh as part of Saudi Arabia's financial sector development programme. He was asked by a Bloomberg reporter whether he, "would be open to assisting [Credit Suisse] further if there was another call for additional liquidity?" So, the "absolutely not" statement initially referred to liquidity support, but Mr Kudairy went on to say that SNB was not willing to raise its stake to 10% or above, because that would trigger additional regulatory burdens which the bank was not willing to bear.

Incautious statements

SNB bought 9.88% of Credit Suisse in November 2022, for SR5.5bn ($1.5bn). At the time, Mr Kudairy told CNBC that, "We got it at the floor price…It's trading at less than a quarter of book value, of tangible book value…which is a steal." The investment was believed to have made SNB the second biggest shareholder in Credit Suisse, after Harris Associates, although Harris began reducing its stake at that time. On 5 March, the Financial Times reported that Harris had fully divested its stake.

Both of Mr Kudairy's statements – "absolutely not" and "which is a steal" are surprisingly incautious for someone whose previous roles included chairing Goldman Sachs Saudi Arabia and Morgan Stanley Saudi Arabia. "Absolutely not" may have been, as some have quipped, the most expensive two words in history, but describing an investment as "a steal" is likely to antagonise capital market regulators whose key roles include promoting price transparency.

Intriguingly, the Swiss newspaper Blick reported in July that SNB had wanted to increase its stake in Credit Suisse to 40% in March but was prevented from doing so by the Swiss financial market regulator, FINMA. This would seem to contradict Mr Kudairy's comment that the bank was not willing to take on the extra regulatory scrutiny that a stake higher than 10% would entail. FINMA is required to give its approval for foreign holdings greater than 10% in local banks.

In a statement to the Saudi Stock Exchange on 20 March, SNB said that the investment in Credit Suisse constituted less than 0.5% of its total assets and about 1.7% of its investment portfolio. The impact of the decline in mark-to-market value on the bank's capital adequacy ratio was 0.15% at the end of December and would be about 0.35% following the takeover by UBS. There would be no impact on profitability, the bank said.

More investments to be expected

Despite its unhappy ending, SNB's ambitions to be a major investor in one of the world's most significant banks is unlikely to be the last time that a GCC bank, backed by its national sovereign wealth fund, tries to take a stake in a big global bank.

First Abu Dhabi Bank (FAB) contemplated making a bid for Standard Chartered in late 2022 and early 2023. An acquisition was financially plausible: Standard Chartered's market capitalisation ranged between $17bn and $22bn in the fourth quarter of 2022, while FAB's was around $50bn, and of course, FAB has the implicit backing of Abu Dhabi's vast sovereign wealth resources – several hundred billion dollars.

However, from the point of view of regulatory approvals, FAB's ambitions were far less plausible. Standard Chartered is authorised and regulated in the UK, so British regulators would have to have given their approval for one of their banks to be acquired by a bank which, though large in regional terms, hardly has the experience and sophistication of Standard Chartered, or the management depth.

Yet, Standard Chartered has no retail presence in the UK – most of its business is in Asia – so it would have been regulators in Singapore, Hong Kong and China who would have had the greatest concerns about FAB's ability to maintain Standard Chartered's operations after a takeover.

One cannot but speculate that FAB/ Abu Dhabi's interest in Standard Chartered was prompted at least in part by the sight of SNB/Saudi Arabia making a play for Credit Suisse.

Saudi Arabia's PIF was in the news earlier this year when it used its financial muscle to force the PGA Golf Tour to accept it as a partner. Two years ago, PIF acquired Newcastle United, one of the UK's premier football clubs. PIF has also been investing in technology companies.

It would be surprising if PIF and other GCC sovereign wealth funds did not try to add more financial institutions to their actively managed portfolios. But investing in a bank is not as straightforward as investing in a football club or even a tech start-up.

Football fans quickly put aside objections to foreigners owning their club when the new investor opens their cheque book and starts funding the acquisition of new players. Bank regulators take a more rigorous approach!

Changes at the top of Arab banks in London

Paul Jennings was appointed CEO of British Arab Commercial Bank (BACB) in April 2023, subject to regulatory approval. He replaced Eddie Norton, who had been appointed in November 2020.

Jennings was invited to join BACB's Board as an independent non-executive director in August 2021 and was appointed Chief Banking Officer and Deputy CEO in November 2021. He had previously spent 20 years at ABC International Bank, taking the Managing Director and CEO position in 2015. He is a member of the Board of the Libyan British Business Council.


Paul Jennings

Richard Musty was appointed CEO of Qatar Islamic Bank (QIB) UK and assumed his role in January 2023. Before joining QIB UK, Musty had spent more than 15 years with Lloyds Bank, working in London, Jersey, the Gulf and Hong Kong. His most recent position with Lloyds was as CEO of Lloyds Bank International. Musty replaced Duncan Steele-Bodger.


Richard Musty

Said Adren was appointed CEO of Bank of Africa UK, with effect from January 2023. He replaced Houssam Barakat. Adren was previously Deputy CEO in charge of global business coverage in Europe-Asia, based in Paris, and before that was based in Shanghai as Managing Director for China and Southeast Asia. Earlier in his career, he has represented the bank in Ghana.

Bank of Africa was previously known as BMCE Bank and is one of the largest banks in Morocco and in Africa.

MENA Financial Crime Compliance Group Expands Activities in UK and Europe

The European Chapter of the MENA Financial Crime Compliance Group (FCCG) has broadened its membership and developed its work plan.

Meeting in July, the Chapter reviewed a benchmarking exercise whereby a group of UK and EU banks self-assessed their compliance with best practices and with relevant regulatory requirements. The meeting also began work on a scorecard that will enable member banks to judge the extent to which their banking culture is consistent with robust anti-financial crime policies.

The European Chapter was founded in November 2021 as an extension of MENA FCCG, which was created in 2016 and is led by banks in the GCC and the wider Middle East. The European Chapter is Chaired by Thomas Noone, Head of Compliance at Europe Arab Bank in London. The Arab Bankers Association and Themis, the financial crime risk consultancy, act as Strategic Partners to the European Chapter. There are ten Founder Members of the European Chapter, and the Chapter's activities encompass more than 20 other banks that are either subsidiaries, branches or representative offices of Middle Eastern banks or are Arab-owned banks that are authorised in the UK or the EU.

MENA FCCG is chaired by Wissam Fattouh, the Secretary General of the Union of Arab Banks, with Michael Matossian, the Group Head of Regulatory Compliance at Arab Bank in Jordan, as vice chair. The Group has produced a variety of tools and publications on financial crime topics, both in English and Arabic.


Hisham Ezz al-Arab

Hisham Ezz al-Arab Returns as Chairman of Commercial International Bank

Hisham Ezz al-Arab returned to his role as Chairman of Commercial International Bank (CIB), two and a half years after his abrupt resignation.

Al-Arab's resignation in October 2020 followed an investigation by the Central Bank of Egypt which claimed to have discovered failures in CIB's internal controls. In his resignation statement, al-Arab pointedly stated, *inter alia*, that, "I leave office today secure in the knowledge that I have always lived in accordance with my values, including honesty and decency."

Sharif Samy replaced al-Arab as Chairman of CIB.

It was widely believed that tensions with then Central Bank Governor Tarek Amer led to pressure on al-Arab to resign. Amer had been appointed Governor in November 2015 and resigned in August 2022 before the end of his second term, as part of a wide-ranging ministerial reshuffle. He was replaced by Hassan Abdulla, who had previously led Arab African International Bank. Abdulla promptly appointed al-Arab as his advisor.

In November 2022, al-Arab resigned from his advisory post at the Central Bank and re-joined CIB as a non-Executive director. Then in December he was nominated to be Chairman of the Board and this nomination was approved by the bank's General Assembly in May 2023.

In recent times, CIB has won numerous awards for its performance and governance.

New Governors at SAMA and Central Bank of Iraq

Ayman al-Sayari was appointed Governor of the Saudi Arabian Monetary Agency (central bank) on 2 February. He replaces Fahd al-Mubarak who was appointed in January 2021, and also served as Governor from 2011–2016. Between 2016 and 2021, the Governor was Ahmed Abdul-Karim al-Kholeify.

Mr. al-Sayari has been with SAMA since 1999, although he spent three years in Washington with the International Finance Corporation. His most recent position at SAMA was Vice Governor for Investment and Research. Prior to SAMA he had worked at the Saudi International Development Fund. He has a Bachelor's degree in accounting from King Fahd University of Petroleum and Minerals, and an MBA in Finance from George Washington University. He is a CFA.

In January, Mohsen al-Allaq was appointed Governor of the Central Bank of Iraq, a post which he had held from 2014 until 2020. He replaced Mustafa Ghaleb who was dismissed by the Prime Minister following a sustained fall in the value of the Iraqi Dinar.

GCC mergers and acquisitions: what's next after KFH-Ahli United?

The merger between Kuwait Finance House (KFH) and Bahrain-based Ahli United Bank is by far the most significant combination to have occurred in GCC banking for many decades. It is the first time that big banks from different countries have merged, as opposed to larger banks in one country taking over smaller banks in the same country.

Although generally referred to as a merger, the KFH-Ahli transaction looks more like an acquisition by KFH. Ahli's current Group CEO, in Bahrain, is Ahmed al-Kharji, a Kuwaiti who has spent many years in various roles with KFH.

The KFH-Ahli deal came shortly after the merger of Saudi Arabia's National Commercial Bank and Samba Financial Group, but there do not appear to be any other mergers or acquisitions among the larger GCC banks on the horizon. (See pages 39–41 for our overview of GCC banking.)

However, further banking consolidation is under way in Oman, which at the end of last year had eight commercial banks.

On 30 May, Oman's Sohar Bank and HSBC Oman announced that their Boards of Directors had approved the merger of their banks, and that extraordinary shareholders meetings would be held to give final agreement, subject to regulatory approval. The two banks have been in talks for some months and signed a preliminary agreement in November last year.

Under the merger plans, the assets and liabilities of HSBC Oman will be transferred to Sohar Bank, and HSBC Oman will cease to exist as a legal entity.

At the end of 2022, Sohar International Bank had equity of OR666mn ($1,729mn) and HSBC Oman had equity of OR359mn ($933mn). Sohar was the third biggest bank and HSBC Oman the seventh. Both banks are profitable.

Also in May, Bank Dhofar made an offer to acquire AlAhli Bank, having previously offered a merger agreement. State-owned Oman International Development and Investment Company (Ominvest) has also made an offer to buy AlAhli Bank, and, reportedly, would merge it with Oman Arab Bank if its bid were accepted. Bank Dhofar had equity of OR 717mn ($1,863mn) at the end of 2022, and AlAhli had equity of OR 461mn ($1,197mn), making them the second and sixth largest banks. Both are profitable.

Faster and simpler: Arab National Bank seeks to transform banking for the digital age

Saudi Arabia's Arab National Bank is on a mission to transform the way its customers experience banking, exploiting technology not only to enable faster execution of transactions but also to simplify their customers' experience of banking in our increasingly complex and inter-connected world. 'Faster and simpler' is the slogan that the bank has adopted.

In the following article, *Arab Banker* magazine presents a profile of Arab National Bank (anb) that considers how the bank is enhancing the relationship that it has with its customers and the role that it is playing in Saudi Arabia's economic transformation.

Over the past few years, the banking sector globally started to see a massive acceleration in digital disruption and innovation. Therefore, digital transformation has become the driving force behind anb's new strategy, launched last year under the leadership of Mr. Obaid Alrasheed, the first Saudi Chief Executive Officer and Managing Director in the bank's long history.

Mr. Alrasheed explains: "The world is changing rapidly due to technological advancements, and this affects banking and financial services as well as many other sectors. Digitalisation offers us opportunities to improve customer service and operational efficiency."

Mr. Alrasheed also notes that digitalisation has a special significance for Saudi Arabia and for a Saudi bank, given the demographic profile of the country and the profound changes that are taking place as part of the Vision 2030 programme. More than two thirds of Saudi citizens are younger than 30 years old, and women are joining the

"As Vision 2030 is implemented, our society is becoming more diverse, more empowered, and more productive."

workforce and developing their own economic and financial profiles as a result of the social transformation that is happening in the Kingdom.

Using partnerships to leverage digitalisation

To cater to these segments, anb has launched several initiatives that leverage digitalisation. For example, the bank has partnered with the Saudi Social Development Bank to develop banking products that encourage and facilitate higher saving rates among citizens of all ages. It has also launched a new account – the 'U-Account' – that is aimed specifically at those aged between 15 and 23. To complete the picture, anb has invested in Cashee, a local financial education platform tailored to children and youth.

Mr. Alrasheed emphasises that increasing digital services does not mean downgrading traditional customer contracts through the branch network. The bank has 126 branches in Saudi Arabia – one of the largest networks – and is present in all regions of the Kingdom.

The bank has a leading position in Saudi Arabia's project and structured finance markets, providing finance for local infrastructure and corporate acquisitions, as well as offering loan syndication and agency services. The bank's corporate team addresses the financial needs of middle market firms, devising bespoke solutions that take into account the specific circumstances of each client. Anb has three regional offices, in Riyadh, Jeddah and al-Khobar, that focus on corporate customers, but the bank has recently increased the number of face-to-face interactions with clients to enrich existing relationships and fully develop new ones.

MSMEs are a priority for the bank

The bank has also been prioritising its work with micro, small and medium-sized enterprises (MSMEs). In 2022, the number of loans to this sector increased by 22%, with the portfolio accounting for more than 10% of the total number of loans on the bank's books.

Over the past few years, anb has opened 13 dedicated MSME centres in nine cities across the Kingdom. These centres offer a full range of financial services that include credit products as well as payroll and bill payment solutions that are crucial for small businesses.

This is an area where the bank has proved its dedication to digitalisation: it was the first to launch an electronic service that enables MSMEs to apply for facilities electronically, receive approvals electronically, and sign contracts electronically. As a result of this and other initiatives, in 2022, anb was designated as the best bank partner on the Saudi Government's Monshaat (SME authority) funding platform.

Working on the wider context of economic and social change

Mr. Alrasheed stresses the importance of placing the bank's work in the wider context of economic and social change within Saudi Arabia. This change is driven by Vision 2030, which was launched in 2016 and is transforming many aspects of daily life in the Kingdom.

Vision 2030 aims to reduce Saudi Arabia's dependence on oil exports and diversify its economy into areas such as renewable energy, technology, tourism and entertainment. Major urban development projects are already under way on the outskirts of Riyadh and several other cities, creating new opportunities for businesses and individuals.

Vision 2030 also empowers younger Saudis to play a greater role in economic development. The Misk Foundation, created by Crown Prince Mohamed Bin Salman, promotes training, entrepreneurship and financial support for young Saudis.

The introduction of tourist visas, the opening of historical sites, the promotion of international sports events, cultural festivals and entertainment events will attract thousands of new visitors to the Kingdom from neighbouring countries and beyond.

To support all of these plans, the Kingdom is strengthening its fundamental infrastructure such as airports and building public transport networks such as the Riyadh Metro. Modern urban planning will enhance connectivity and the quality of life in cities and towns.

"It is hard to underestimate the significance of this transformation for us as Saudis and also for us as bankers," says Mr. Alrasheed. "As Vision 2030 is implemented, our society is becoming more diverse, more empowered, and more productive. That's good for Saudi Arabia but it also presents huge opportunities for banks such as anb."

Breakdown of income by sector: 2022

		Retail banking	Corporate banking	Treasury	Investment & Brokerage Services	Other	Total
Assets	Saudi Riyals mn	54,906	94,194	61,038	551	1,938	212,628
	% of total	26	44	29	0	1	
Non-equity liabilities	Saudi Riyals mn	72,862	85,898	19,694	121	1,695	180,270
	% of total	40	48	11	0	1	
Operating income from external customers	Saudi Riyals mn	2,185	4,193	326	324	-166	6,862
	% of total	32	61	5	5	-2	

Source: anb Annual Report, 2022

Building a diversified portfolio

He concludes that, "The opportunities for us to build a more diversified business portfolio – in terms of industry sectors and the age and expertise of customers – are increasing every day. As a result, our balance sheet is becoming stronger, ensuring greater profitability and increased stability.

"I would also add that, partly as a result of the initiatives focused on young people and of efforts to bring more Saudi women into the workforce, we have been able to increase our female participation to 22% of our employees. We are also proud to be empowered by our high percentage of local staff: 96%. Saudi staff will be more attuned to local market dynamics and to the diverse needs of Saudi customers or potential customers." ■

Profile of lending to Micro, Small and Medium-sized Enterprises (MSMEs) 2022

	Micro	Small	Medium	Total
Loans to MSMEs (SR mn)*	773	4,048	10,542	15,363
Loans as % of total loans*	0.52	2.74	7.14	10.4
Number of loans	2,214	6,854	3,235	12,303
% increase in number of loans compared to 2021	46%	16%	21%	22%

** On balance sheet loans. Source: anb Annual Report, 2022*

anb: summary of financial results, 2018–2022

	2022	2022	2021	2020	2019	2018
	$mn	SRmn				
Loans and advances	38,354	143,829	126,674	113,363	118,837	121,038
Assets/Liabilities	56,701	212,628	192,502	180,396	183,442	178,355
Customers' deposits	41,299	154,871	135,714	129,352	142,129	142,056
Equity	8,622	32,334	31,101	29,734	29,308	26,520
Operating income	1,830	6,862	5,765	5,824	6,733	6,535
Operating expenses	890	3,338	3,236	3,317	3,192	3,236
Net income after zakat and tax	819	3,070	2,177	2,072	3,023	3,969
Loans % deposits		92.87	93.34	87.64	83.61	85.20
Loans % assets		67.64	65.80	62.84	64.78	67.86
Operating income % average assets		3.39	3.09	3.20	3.72	3.73
Operating income % average equity		21.63	18.95	19.73	24.12	25.68
Op Ex % Op Inc		48.64	56.13	56.95	47.41	49.52

** Original figures in Saudi Riyals have been converted to US$ at a rate of $1 = SR3.75*
*** Equity and net income that is attributable to equity holders of the bank.*
Source: anb

"Digitalisation offers us opportunities to improve customer service and operational efficiency."

Obaid Alrasheed: determined to realise the potential of anb

When Obaid Alrasheed took over as Chief Executive Officer and Managing Director of Arab National Bank (anb) in February 2021, he brought an exceptional range of experience to the role. He had begun as a branch officer, then moved into credit analysis before taking more senior managerial roles. He played a significant part in developing anb's Private Banking Division with heavy involvement in chairing and participating in several management committees. He also served for ten years as Deputy CEO before he took the helm of the bank as MD & CEO.

Arab Banker asked Mr. Alrasheed about his career in banking, his motivations and interests, and what advice he would give those contemplating a banking career today.

ARAB BANKER: Why did you decide to pursue a career in banking?

OBAID ALRASHEED: I decided to pursue a career in banking because it offers a range of opportunities and challenges that appeal to me. Banking is a dynamic field that requires us to keep up with economic development, regulatory changes and financial market trends. I find this aspect exciting and stimulating, as it allows me to constantly learn and grow.

I also have an affinity for problem-solving and strategic thinking, which are essential skills for banking. I enjoy working with numbers and data analysis, as well as devising solutions that meet the needs of our clients.

In addition, banking is a relationship-focused business, and I always cherished the importance of forging strong relationships with clients and becoming their trusted advisor.

Finally, banks play a crucial role in driving economic growth, a vital role in society.

How did you feel when you were appointed CEO and Managing Director of anb?

I felt a mix of excitement and determination when I was appointed CEO and Managing Director of anb. It was a great honour and privilege to lead such a prestigious institution at a time of great change in the Kingdom of Saudi Arabia. I saw the untapped potential that lay before us, and I was determined to position anb as a leading institution in the Saudi and the regional banking sectors.

We were keen to transform anb into a forward-thinking, customer-centric institution, leveraging digital finance and broader advances in financial technology to enhance our products, create a seamless customer experience and expand our reach to new markets.

We also wanted to develop strong relationships with regulators, customers and other stakeholders, in order to strengthen anb's position as a trusted and reliable financial institution.

As CEO and Managing Director, I have a responsibility to the bank's shareholders, employees and customers. My aim has been, and continues to be, to create value for our shareholders, provide a nurturing and inclusive work environment for our employees, and deliver innovative financial solutions that meet the evolving needs of our customers.

How do you spend your time when you are not working in the bank?

When I am not working at the bank, I make it a priority to engage in sports activities and spend quality time with my friends. I enjoy participating in various sports like running, swimming, and cycling to stay fit and refreshed. Being physically active not only benefits my health but also helps me clear my mind and stay energised.

Socialising with friends is equally important to me. I love hanging out with my friends, going to events, and having meaningful conversations. Building and maintaining strong connections with friends allows us to share experiences, create memories, and support one another, which adds joy and fulfilment to life. Cherishing these friendships and nurturing valuable relationships is a significant aspect of my leisure time.

Do you think banking is still a good career for young people to consider?

Yes, I do, and I think the factors that attracted me to banking many years ago are still relevant, despite the huge changes that we have seen in banking since then.

Banking is a stable and rewarding career that offers a variety of opportunities and challenges. It exposes young people to different subject areas and disciplines, such as financial analysis, risk management, customer service and compliance. These skills are transferable to different sectors in the financial services industry. Banking also enables young people to develop interpersonal skills by building and deepening client relationships, which is the core of banking. Furthermore, banking embraces technological innovation and is at the forefront of the fusion of finance and technology, which opens doors to new and exciting career prospects within the banking industry.

Additionally, banking allows young people to learn about other industries, through interaction with clients, board memberships, or involvement in government initiatives. Banking provides a broad perspective and a wealth of experience that can be beneficial for personal and professional growth.

What advice would you give to someone embarking on a career in banking?

My advice to someone starting a career in banking is to be proactive, adaptable and open-minded. You need to work hard, learn continuously and seize opportunities when they arise. You also need to be flexible and willing to embrace change, as banking is a dynamic and evolving field. With the right skills, knowledge and mindset, you can build a career that is both professionally fulfilling and personally rewarding. ■

A Note to the Future, by Adel El-Labban

Adel El-Labban is one of the most distinguished bankers of his generation. He led Commercial International Bank as it became the premier bank in Egypt, and he led Ahli United Bank's expansion to become the largest bank in Bahrain. Earlier this year, he resigned from Ahli United Bank, so *Arab Banker* asked him to share his experience, and offer some guidance on the components and conditions that are needed to deliver healthy banks and banking systems.

Experience is supposedly the maturing of judgement over time, forged by trial and error. A forty year career in regional, commercial and investment banking, mostly spent in a CEO or Board capacity across Egypt, the UK, Bahrain, the USA and the GCC, has given me an opportunity to witness and to closely interact with the recurring financial and political upheavals of the region as well as with the far reaching regulatory, technological and social transformations that have reshaped the global banking industry.

In sharing points of relevance from this long journey, one must tread carefully between the Scylla of personal nostalgia or historical trivia, and the Charybdis of regurgitating current fashionable industry trends or platitudes. Relevance, in my view, is only driven by the test of time through proven ability to generate sustainable value accretion, currently and more importantly in the future. My themes have been chosen with these criteria in mind and solely represent the personal judgement (or lack thereof) of the writer.

Banking, in all its forms, is a risky business, essentially based on third party trust and funding. It must therefore balance its risk appetite and actions to ensure deposit protection and readily available funds while generating sufficient returns to satisfy the demands – oftentimes excessive – of shareholders, management and other stakeholders. De-risked banking – as postulated by regulators in the aftermath of every crisis – can only exist when these constituencies accept utility type risk-returns, and this has not, and is not likely to, happen.

Effective risk frameworks

Accordingly, the first future truism is the need for very effective and dynamic risk identification, monitoring, measurement, management and remediation frameworks. These should be properly implemented by qualified bank staff with sufficient independence to withstand the inevitable pressures from their peers in revenue centres. The key pillars of this approach are a full buy-in by a competent Board and qualified CEO, advanced MIS and forward-looking data analytics to ensure a real time – not post fact – enterprise-wide holistic risk vision, and lastly a continuing commitment to the long-forgotten magic potion of common sense and reality checks at all levels. If greed negates common sense and avarice overrules informed independent judgement, it is a matter of 'when' not 'if' the ship hits the rocks, as seen with many regional and international banks over the years.

Being sustainably profitable within a low risk ('boring') business operating profile is the ultimate accolade for any successful business. However, this requires a major mind set revision which does not appear to be taking hold as the banking industry continues its repetitively myopic scramble

Adel El-Labban

Adel El-Labban was Group Chief Executive Officer of Ahli United Bank from 2000 until early 2023. Before that, he led Commercial International Bank in Egypt. In 2015, Mr. El-Labban received the Arab Bankers Association's annual award for Distinguished Service to Arab Banking. He has also received distinguished achievement awards from Euromoney and the Union of Arab Banks. He currently divides his time between Bahrain, London and Egypt.

to boost returns through quantitative increases in risk assumption while ignoring or failing to properly understand and harness the major opportunities provided by data and technology, the two great modern enablers, to achieve its profit aspirations at lower, not higher risk levels.

Avoiding funding meltdowns

The second future truism is the continuing absolute primacy of banks' funding activities over their asset mobilisation operations. Banks typically fail for liquidity reasons, not because of provisions eroding their capital adequacy. Liquidity crises are sudden massive coronary attacks resulting in quick financial demise as happened to Bear Sterns and Lehman Brothers in 2008 and to Silicon Valley Bank (SVB) and Credit Suisse in 2023. Only unprecedented government interventions at very high economic costs contained the list of failed banks and averted systemic meltdowns. The avoidance of funding disruptions is therefore the present and future crux of banking prudence and successful continuity. The rapid timing and pace of liquidity crises has been exacerbated by digital technology facilitating instantaneous large withdrawals by clients through e-channels, as seen in the recent spate of US regional bank failures

Despite this truism, banks have been, and continue to be, predominantly run with an asset-focused mentality. Funding availability, growth, diversification and costs are rarely recognised to the same extent by the industry in its annual awards and plaudits, or by the individual institutions in setting their internal strategic priorities and/or their remuneration policies, despite their critical importance. This entrenched asset bias creates and maintains the seeds of future similar problems arising, as the quicker and easier path of increased risk assumption to bolster profits is preferred, at the expense of the safer, slower and albeit more difficult liability-focused approach. To be clear, all banks adopt both approaches, but the degree of time, investment, management commitment and compensation allocation between them requires serious re-balancing if more sustainability in earnings is to be achieved.

Capital adequacy

My third truism centres on capital adequacy. Its erosion is usually a consequence of misjudged risk decisions or, to a lesser extent, is due to lack of control on costs or on dividend pay-outs. Although it enjoys voluminous coverage under the Basel guidelines, capital adequacy however represents a slower type of banking ailment which can oftentimes be delayed, massaged and even disguised by creative accounting measures of over accommodative external auditors, and can even at times be overlooked by regulators or their governments seeking to defer or hide any signs of banking instability or economic stress. Capital gaps, unlike their liquidity equivalents, are not *per se* mortal events so long as depositors do not panic and continue to trade normally with the bank. I am not arguing that under-capitalisation is acceptable or is not a relevant financial and regulatory measure of financial good health but only that its consequences should be put into proper context in the overall spectrum of banking risks and failures, based on actual bank failure experiences.

The regulatory landscape

My penultimate point is on the regulatory landscape. Supervision under the Basel aegis has exponentially mushroomed, annually complemented with new thematic launches which are often of debatable value to large segments of the industry. This raises a number of questions: has the current age of regulatory overflow reduced systemic risk? Has a safer more growth-conducive banking and economic environment been created? Has the 'one size fits all' approach dominating most regulations been effective? Are key banking regulations fair and even handed across and within countries? Is regulatory independence a free pass to commit errors with serious long term economic consequences, at no risk of accountability to the responsible

regulators for their well-established failures? Are consumers receiving better and fairer value from banks?

For a pre-Basel I banker, the answer is, on balance, an emphatic 'no' to all the questions above with the possible exception of the consumer protection issue where the pendulum has over-swung to the other extreme. A regulatory regime based on the quantum of rules, not necessarily on their logic and value, a regulatory regime without any form of real internal or external accountability, a regulatory regime with no economic outlook flourishing in a culture of fear and intimidation is a double-edged sword. It generates an atmosphere of bureaucratic compliance not understanding, of obedience not initiative, of token dialogue not real consultation, and this is adverse to healthy growth and even to the realisation of its key goal of systemic risk containment, as proven by the very recent US regional banks' collapse and by the demise of Credit Suisse which triggered immediate fears of a global systemic banking crisis.

Clarity of vision

My point is a challenge to regional banks' vision and governance. Simply put, vision is clarity on the future nature of the business and its expected results. This is the core foundational responsibility of the Board and management team. Hiring external consultants to advise on strategic options or to hold hands for their implementation is usually the first step towards underperformance if not outright failure. It practically signals the inability or unwillingness of the Board and management team to prepare, sanction, own and implement a coherent plan based on a rational assessment of available alternatives of which they are the most familiar in terms of potential challenges and opportunities. Without clarity of vision and ownership at all levels of the organisation, full staff engagement, coordinated initiatives and optimised results become random occurrences.

Governance at the Board level cascading into all levels of the organisation is the other critical missing link. A board failing to require, own and pursue the needed actions to maximise its shareholders' value in terms of risk, liquidity, capital, data and technology policies and initiatives, will not realise the potentialities of any business. A management team not actively engaged in the formulation, modification and execution of these decisions, and objectively held accountable for their proper delivery, will not optimise results in a sustained manner nor will be capable of effectively interacting with their staff and other stakeholders.

Data and technology are today's great enablers. Their importance cannot be overstated. Investing in these capabilities is however a necessary but not sufficient condition for creating competitive advantages. These investments must be undertaken in the context of a full enterprise-wide transformation plan and not as a series of disjointed initiatives with no clear goals and without sufficient ownership by their final Owner-Users outside the data and technology departments. The human transformation at the Board, management and staff levels is the indispensable sufficiency factor needed to reap a full harvest through real organisational transformation. These key future requirements cannot be achieved without enlightened vision and defined governance.

If proper ownership and delivery of vision and governance can be achieved or at least materially improved, regional banks will be positioned to significantly grow within and outside their home markets in a prudent and profitable manner, to leverage and monetise the major opportunities afforded by data and technology in a defined and targeted fashion and to chart their future courses of action with enhanced clarity, accountability, sustainability and scope for profitable innovation. Regional banks have long been losing global market share on all fronts despite their nominal growth and the sustained surge of mineral wealth over decades. This counter intuitive outcome can perhaps be altered if some of the root causes described above are addressed.

If understood and implemented, these notes can hopefully be a starting point to a better future. ■

Lebanon still searches for a way out of crisis

Four years after demonstrations erupted on the streets of Beirut and the local banks temporarily closed their doors, Lebanon is still searching for a road map that will lead it out of crisis. Over the following two pages, *Arab Banker's* Editor, Andrew Cunningham, offers his personal overview of the key developments that are shaping events in what was once one of the Middle East's most vibrant and exciting economies.

On 27 March 2020, the then Lebanese Finance Minister, Ghazi Wazni, and his staff delivered a presentation to international investors on Lebanon's economic situation. A dense series of Powerpoint slides detailed Lebanon's unsustainable trade and current account deficits, its reliance on foreign remittances and other inflows, the increase in government debt, and the consequences of the resulting economic crisis in terms of poverty rates and unemployment.

The presentation was extraordinarily frank in its recognition that Lebanon was in crisis and that the only way out lay in fundamental reform of the banking sector and government finances.

The Minister's presentation to investors that day had been prompted by the Prime Minister's announcement on 7 March that Lebanon would default on Eurobond payments due two days later.

But Lebanon had already been in crisis for nearly six months. Violent demonstrations had erupted on 17 October 2019 after the government unwisely announced the introduction of a new tax on WhatsApp calls. Apparently trivial, the move touched a nerve among citizens who were already suffering from reduced government subsidies on basic goods and a shortage of dollars in the banking system.

The following day banks closed and remained closed for two weeks. When they reopened the government of Saad Hariri resigned. The exchange rate of the Lebanese Pound, officially pegged at \$1 = LP1,500 since the mid-1990s, began to slide. By the time of the Minister's presentation in March 2020, Lebanese Pounds were changing hands outside the banking system at \$1 = LP7,000.

Despite the detail and the good intentions expressed in the Finance Ministry's presentation in March 2020, a familiar picture of procrastination and political impasse soon followed.

In August, an already-difficult situation was intensified by the explosion at the Beirut Port. The blast killed more than 200 people, injured thousands more, and devastated a large part of central Beirut. The explosion was widely seen as emblematic of broader incompetence and corruption among Lebanon's governing elites.

In September, French President

The Political Landscape in Lebanon: recent developments

October 2019: Prime Minister Saad Hariri offers his resignation to President Michel Aoun after the outbreak of mass demonstrations in Beirut. He remains in post as Caretaker Prime Minister until the appointment of Hassan Diab in January 2020.

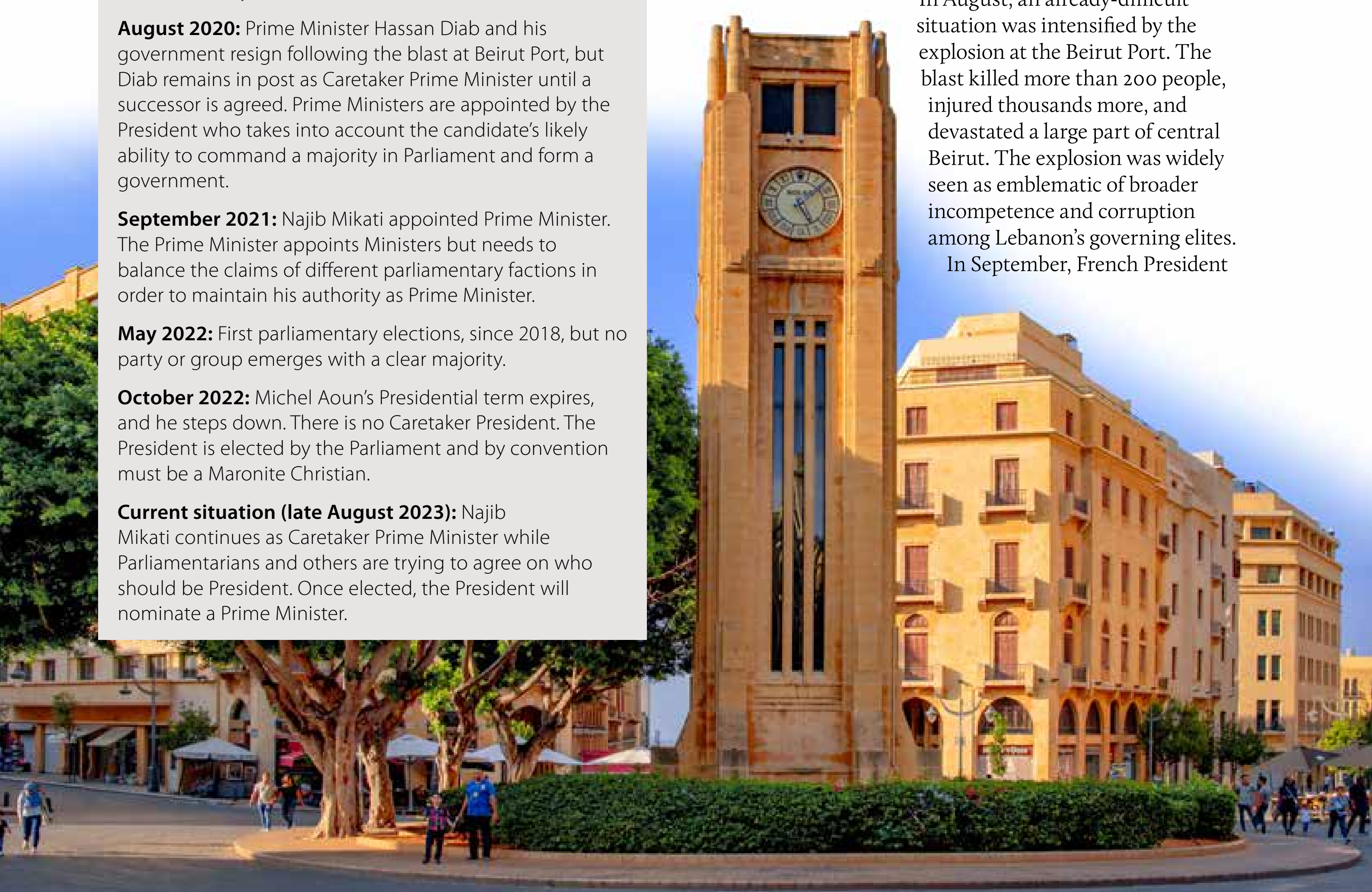
August 2020: Prime Minister Hassan Diab and his government resign following the blast at Beirut Port, but Diab remains in post as Caretaker Prime Minister until a successor is agreed. Prime Ministers are appointed by the President who takes into account the candidate's likely ability to command a majority in Parliament and form a government.

September 2021: Najib Mikati appointed Prime Minister. The Prime Minister appoints Ministers but needs to balance the claims of different parliamentary factions in order to maintain his authority as Prime Minister.

May 2022: First parliamentary elections, since 2018, but no party or group emerges with a clear majority.

October 2022: Michel Aoun's Presidential term expires, and he steps down. There is no Caretaker President. The President is elected by the Parliament and by convention must be a Maronite Christian.

Current situation (late August 2023): Najib Mikati continues as Caretaker Prime Minister while Parliamentarians and others are trying to agree on who should be President. Once elected, the President will nominate a Prime Minister.



Central Bank Governor's fall from grace mirrors that of the Lebanese economy

In May 2023, Interpol issued a 'Red Notice' against Riad Salamé, who at that time was still Governor of the Banque du Liban, the Lebanese central banking authority. Interpol describes a Red Notice as a, "request to law enforcement authorities worldwide to locate and provisionally arrest a person, pending extradition, surrender or similar legal action." Interpol also makes clear that, at the time a Notice is issued, the subject has not been convicted and should be considered innocent until proven guilty.

The request to Interpol was issued by the legal authorities in France, who had attempted to question Salamé about alleged corruption. The allegations centre on the role of Salamé, his brother Raja, and a company called Forry Associates, which is alleged to have received millions of dollars in commission as part of the central bank's bond selling programme which aimed to attract dollars into the banking system to support the fixed peg exchange rate.

Reuters reported on 19 May that Lebanon's caretaker Interior Minister had confirmed receipt of the Red Notice. In mid-July, Interpol's website was showing a second Red Notice against Salamé, in respect of a request from authorities in Germany.

On 10 August, authorities in the US, the UK and Canada imposed sanctions on Salamé and some of his associates and, on 14 August, the Lebanese authorities froze his assets.

Salamé's fall from grace has mirrored that of the Lebanese economy and its banks. The Governor was first appointed in 1993 by Prime Minister Rafiq Hariri. Salamé had been working for Merrill Lynch in Paris and Hariri had been one of his clients. During the 1990s, economic conditions in Lebanon improved, with Hariri continuing as Prime Minister and Salamé in the Central Bank. Lebanese banks expanded domestically and across the Middle East, and the banking system as a whole withstood the strains of the 2008-2009 global financial crisis.

However, only a few years later, the central bank was having to develop ever-more complex systems of 'financial engineering' both to retain confidence in the Lebanese pound and to ensure that the government had sufficient foreign currency to meet interest payments on its burgeoning debt. Few people were able to explain the intricacies of the 'financial engineering' but, at its simplest, it entailed the Central Bank offering commercial banks high interest rates on foreign currency deposits, so that the commercial banks could, in turn, offer high rates to their customers and ensure the continued flow of dollars into the Lebanese financial system.

When the edifice came crashing down at the end of 2019, 54% of commercial banks' assets were in the form of deposits with the central bank, and another 13% were in Lebanese treasury bills or Eurobonds. That was three and a half times the amount the banks held in loans to resident customers.

Salamé's reappointment, for a fourth six-year term, in 2017 was greeted with relief by local bankers. At that time, Salamé was still winning international plaudits as the anchor to which the miracle of the Lebanese economy and its exchange rate peg were attached.

Six years later, no one was suggesting that Salamé would be reappointed for a further term. Governors are appointed by the Lebanese Cabinet, on the recommendation of the Minister of Finance, so there was no constitutional reason preventing the nomination of a replacement. But because the Governorship enjoys significant powers of patronage, even in the midst of a financial crisis, the post is subject to trading and set offs among the various factions that control, or seek to control, different parts of the Lebanese economy.

In the absence of a replacement, the constitutional position is clear: the first Deputy Governor takes over as caretaker. The current First Deputy Governor is Wassim Mansouri.

As for Mr. Salamé, his fate will be decided in the years to come. Since the ending of the Lebanese civil war in 1990, Hizbollah, backed by Iran, has emerged as the single most significant faction in Lebanon, and during that time, Hizbollah, its friends and its allies have been using the banking system. So have all the other factions and warlords who are being accused, rightly or wrongly, of corruption. As central bank governor for the past 30 years, Salamé knows where the financial bodies are buried. With international legal authorities and local lawyers circling him, Mr Salamé still has some cards in his hand to play.

Emmanuel Macron visited Beirut and secured a commitment that a government would be formed within two weeks. Of course, the deadline was missed, amid disputes over which factions would control four of the most highly prized ministries: Finance, Defence, Interior and Foreign Affairs.

Throughout the past four years, Lebanese governments have tried to reach an agreement with the International Monetary Fund (IMF). An agreement not only provides money in foreign currency but, more importantly, it gives a seal of approval to a country's financial policies and leads to wider engagement by the international financial community.

In April 2022, the Lebanese government reached a staff level agreement (SLA) on a set of economic policies and initiatives that the IMF would be willing to support with an Extended Fund Facility (EFF). Key components of the agreement were restructuring the banking system, implementing fiscal reforms, and strengthening laws and accountability on matters such as corruption. Yet the IMF's latest Article IV Report on Lebanon, released in June 2023, lamented that little progress had been made in implementing the actions agreed. As a result, the IMF has not disbursed any funds.

The belief that events in Lebanon can be determined by outside actors, and that they frequently are, is a familiar narrative among all sections of the Lebanese population. Such belief should not be dismissed out of hand. The 15-year civil war was brought to an end in 1990 when Saudi Arabia used its financial influence to transport all the factions to a holiday resort in Taif, in the southwest of the Kingdom, and with a mixture of threats and incentives, brokered a deal that has held to this day.

That is why the most significant recent development for Lebanon may have been the re-establishment of diplomatic relations between Saudi Arabia and Iran earlier this year. Iran sponsors Hizbollah, the largest political faction in Lebanon.

So, the question emerges as to whether Iran will see advantage in an end to the political impasse in Lebanon, including the election of a President, and a reconstruction of the Lebanese economy based on the measures agreed with the IMF. That then begs a second question of what mutually advantageous deal could be struck between Saudi Arabia and Iran.

Until now, Lebanon's power brokers have preferred continuing economic crisis to the financial losses and reduced rents that bank restructuring and economic reform will entail. But diplomatic developments in the region may mean that they cease to be masters of their own destiny. ■

Reconciling optimism and pessimism: an analysis of the Egyptian economy

Opinion is divided on whether the Egyptian economy is performing well and poised for rapid growth, or whether it is heading for disaster. In the following article, *Arab Banker's* Editor, Andrew Cunningham, who first lived in Egypt 40 years ago, offers his personal review of some of the policy measures being taken by the Egyptian government.

Annual inflation rose to 37% in June, according to official Egyptian figures, more than double the rate seen a year earlier. Over the past few months, the Egyptian pound's value against the dollar has halved, to $1 = LE31. (Until late 2016, the rate had been around $1 = LE8 for many years). Last spring, Fitch downgraded Egypt and kept a negative outlook on the new rating, and in May Moody's changed to negative the outlook on its already-low rating.

Yet Egypt's foreign exchange reserves remain at historically high levels: $35 bn at the end of July 2023. The country is less than one year into a four-year $3 bn support arrangement from the IMF – an arrangement that the IMF predicts will catalyse an additional $14 bn in foreign direct investment.

When Egypt's Finance Minister, Mohammed Maait, spoke at the Arab Bankers Association in June, he gave an upbeat assessment of Egypt's prospects, citing the creation of half a million new private sector jobs every year, and greater funding flexibility through deepened relationships with regional development institutions. At that meeting, a leading international bank said that it had recently increased its exposure to Egypt in response to constructive policy measures being taken by the government.

So, is it possible to reconcile the views of optimists and the pessimists, and arrive at a point of view that is both realistic and constructive?

The first point to note is that, however difficult economic conditions may become, unrest and political disintegration is very unlikely. Egypt will not go the way of Syria, Libya or Yemen. The demonstrations that led to the resignation of President Hosni Mubarak in 2011 were part of a regional movement unseen in the Middle East since the mid-1950s. Riots over economic conditions, such as those in 1977 and 1986, have been rare and short lived.

One must also recognise that international bodies such as the IMF, and regional governments such as those in the Gulf, have always supported the Egyptian economy.

The current IMF Extended Arrangement that was agreed in December 2022 is the third in recent years. In June 2020, the Fund approved a $5.2 bn standby arrangement to help Egypt cope with the effects of the Covid pandemic. In 2016 it approved a $12 bn three-year Extended Fund Facility.

Support from regional governments is less consistent but none of the rich Gulf states has an interest in seeing economic collapse in Egypt. In recent years, cash handouts have given way to promises of investment, reflecting the more active financial foreign policy being pursued by several of the region's governments and the sovereign wealth funds that they control. Much of the regional financing that is supposed to be triggered by the latest IMF Agreement will be in the form of direct investment by GCC governments. The arrival of such funds will in turn be dependent on the speed with which the Egyptian government is able to process investment applications, and the availability of assets through the government's privatisation process.

Privatisation of state-owned assets is never easy in Egypt. Although government ministers frequently express their enthusiasm for and commitment to the sale of government holdings, it is perfectly obvious, to anyone who has followed Egypt's tortuous privatisation process over the past 30 years that, most of the time, Egyptian governments don't really

Structure of Egyptian government revenue and expenditures

(Only the biggest line items are shown: line items do not add to the totals)

$bn	2023/24	24/25	25/26	26/27	27/28
Revenues and grants	70.6	81.9	94.8	109.6	125.5
Revenues from personal taxes	7.3	8.6	10.4	12.2	14.5
Revenues from corporate taxes	10.6	12.7	15.1	18.2	20.6
VAT and non-oil excise taxes	19.3	22.1	25.8	29.3	33.3
Non-tax revenue	22.1	24.9	27.7	31.0	35.4
Expenditure	99.7	111.6	124.9	140.0	158.5
Wages	13.9	16.2	18.8	21.9	25.4
Domestic interest	32.1	33.2	34.2	36.2	40.0
External interest	3.5	4.1	4.6	4.7	5.3
Subsidies/social benefits	24.8	29.2	33.2	38.0	43.7
Investment	15.7	17.6	20.6	23.9	26.8

Source: IMF Press Release and Staff Report on the Request for Extended Arrangement under the Extended Fund Facility. January 2023. Original figures in Egyptian Pounds have been converted to dollars at $1 = LE31.

want to do it. The rush to dismantle the state-led economies in Eastern Europe in the 1990s, after the fall of the Soviet Union, has never been replicated in Egypt.

One of the challenges with privatisation in Egypt is the need to preserve jobs, while often the investment case for buying state assets lies in the ability to extract efficiencies by cutting jobs.

The present writer remembers receiving a phone call from a senior finance official who wanted to explain that a top-level decision had just been made to pave the way for the rapid privatisation of Banque du Caire, the country's third largest bank. That conversation happened nearly 20 years ago. Banque du Caire is one of 32 companies currently slated for privatisation as part of the current financial reform package, agreed with the IMF under the December 2022 facility.

Certainly, many of the government's shareholdings have been sold over the past 30 years – not least a string of mid-sized banks – but one can hardly say that the Egyptian economy has been transformed, or is structurally different, as a result. Furthermore, the role of the armed forces in building huge infrastructure projects has in some ways negated the positive impact of privatisation.

So, just as one can say that unrest and political disintegration is very unlikely in Egypt, one can also say that it is unlikely that the structure of the Egyptian economy will change significantly in the years ahead. Whether through direct ownership, through government contracting, or through less direct bureaucratic involvement, state-owned companies will continue to dominate the economic landscape.

Hanging over the economy is the government's debt burden and the spectre of increased debt service payments as international interest rates rise. Rating agency Fitch is estimating that general government debt will rise to the equivalent of 97% of GDP in the current financial year, before declining in 2024/25.

The debt service burden is higher now than it was at the start of the IMF's 2020–21 Stand-by Arrangement. Short term debt comprises just over a third of the total, and the IMF expects that the total will average 12% of GDP during the current Arrangement.

The table on the left gives some of the principal items of the Egyptian government's revenue and expenditure in the years ahead, as projected by the IMF. The size of domestic interest payments is striking, although of course this is predominantly in local currency and largely owed to local institutions. As such, the government enjoys some flexibility in how to manage its obligations. In late 2022, the government 're-profiled' about LE245 bn (about $8bn) of local debt: the original two-year maturities were changed to five years.

The Egyptian government is determined to make greater use of multilateral funding organisations, such as the African Development Bank and the African Export Import Bank (Afreximbank). Of course, with credit ratings in the single B range and, at the time of writing, all with negative outlooks, funding options from international capital markets are limited, but accessing regional banks certainly makes financial sense. The expansion of sukuk issuance, such as was used to re-finance a maturing Eurobond in February this year, also enables the Egyptian government to reach new investors.

The devaluations of the Egyptian pound have often been perceived negatively, and the uncertainty over whether there will be further devaluations has led to shortages of foreign currency in the local economy as those who have dollars hoard them. The devaluations have also been a factor behind the rises in food prices, which are causing considerable hardship. But devaluations are part of a plan to allow the Egyptian pound to float freely, rather than being managed, and over the long term, that must be seen as a positive move.

Perhaps the most striking figure in the Revenue/Expenditure table is the projected increase in spending on subsidies. This will almost double, in absolute money terms, over the forecast period, and as a percentage of expenditure will rise to 27.6% from 24.9%. Subsidy reform, like privatisation, is a perennial priority, not least within reform packages agreed with the IMF. In recent years a lot of progress has been made to reduce fuel subsidies. Yet shielding Egyptians from the short-term effects of long-term reform ('social protection', as it is termed by the IMF) is expensive. Rising population only adds to future costs: Egypt's population of 108 mn is growing by about 2 mn per year.

Despite these challenges, one would be wise to recognise the resilience of the Egyptian economy, its people and its governments over the past decades, during which the country has faced many financial difficulties. One should also recognise that, despite the hardships being faced by millions as a result of rising prices, the level of poverty and destitution that one sees in Egypt today is far less than in years gone by. The Egyptian economy is indeed moving forward: how fast, and whether it is fast enough, is more difficult to say. ■

Building compliance capacity for stronger relationships and profitable business in emerging markets

Many banks in emerging markets have suffered as a result of western banks 'de-risking' their portfolios following the 2008–09 Global Financial Crisis, the introduction of higher capital requirements, and increased regulatory focus on compliance.

Yet engagement with banks in emerging markets remains possible, with profitable and sustainable business on offer to banks able to combine their own robust internal policies with outreach and engagement to local counterparties.

London-based British Arab Commercial Bank (BACB) provides trade finance and other facilities to banks across north Africa and sub-Saharan Africa. *Arab Banker* asked BACB's Azzedine Zikara, Director of Financial Institutions for Mauritania and Sudan, and Richard Snookes, the Bank's Chief Compliance Officer and MLRO, to explain their bank's approach.

We have to begin by recognising the huge potential for business in Africa. Domestic economies are dynamic and fast-growing, and they are underpinned by young and expanding populations. Institutional development across the continent is enabling an increase in cross-border and inter-African trade, most notably through the African Continental Free Trade Area (AfCFTA), which is the largest free trade area in the world, in terms of the number of countries participating: 54 states had signed up to the agreement by April 2023.

Of course, there are obstacles to business, such as regulatory uncertainty, and political tensions and conflicts. Reputation risk is therefore a danger for banks that want to work in these markets. But we believe that the best response to these challenges is not a blanket policy of 'de-risking', abandoning counterparties and refusing to consider new relationships. Rather, it is better to take a nuanced but robust approach to compliance which addresses the concerns and requirements of western regulators and law makers, and also the specific circumstances and capabilities of banks in Africa who are hungry for financing and eager to engage with western institutions.

Identifying the challenges

Many African economies have regulatory frameworks that are less mature than those in western markets, both at a systemic level, and also at the level of individual institutions. African economies have a relatively high proportion of informal economic activity, undocumented cross border trade, and a continuing heavy use of cash. Some economies are also subject to sanctions from international bodies, amid concerns about corruption, money-laundering and the financing of terrorism.

In sub-Saharan Africa 38% of businesses have no KYC programme, and only 22% of those surveyed believed that corruption and money laundering posed significant risks to their organisations.

Small and medium-sized enterprises (SMEs), which account for about 80% of employment in Africa, are particularly

Checklist for transaction monitoring in specialist markets

Assess transactions against UK (or other local) regulatory requirements, such as the UK sanctions list and the High Risk Third Countries List. The UK's High Risk Third Countries List comprises countries where UK-regulated banks should carry out enhanced due diligence due to a higher perceived risk of money laundering.

Dialogue across the first and second lines of defence to ensure that staff are up to date on changes to policies and procedures that could affect transactions and operations.

For letters of credit, a risk appraisal form, in the form of a matrix of elements such as country, risk, product and transaction amount, can clarify the amount of due diligence that will be needed, including whether enhanced rather than standard due diligence should be used.

Risk triggers should be used, regardless of the score on the risk appraisal form, to generate alerts, based on pre-set criteria, that will lead to enhanced due diligence. An example of this is country risk. For our bank, any transactions coming from high-risk jurisdictions would carry a risk trigger.

At our bank, all transactions are subject to a 'four-eyes' review by the Transactions Monitoring team. When a risk alert occurs, the team asks itself: is this a true match or a false positive; does the risk require escalation; can the risk be discounted; and do the elements of the transaction (size, products, documentation, parties involved) seem plausible; and are there any risk mitigators?

Case Study: supporting transactions in Mauritania.

Mauritania is a core market for BACB, and we play a significant role at every stage in the country's trade flows. Improved road transport links with Algeria, Morocco, Senegal and Mali, are enabling Mauritania to be a link between north, west and sub-Saharan Africa. Morocco has long used Mauritania to access west and east African countries, and since opening its boarders with Mauritania in 2018, Algeria has been doing the same.

We have been operating in Mauritania for more than 20 years, serving as a crucial facilitator of its trade with Tunisia, Egypt, Morocco, Algeria, Namibia, South Africa, and others. What's more, by actively promoting Mauritania as a safe place to do business, leveraging our existing network of contacts in the international financial markets via our established trade distribution team, we have helped to create greater appetite for Mauritanian risk and in turn provided the country with access to a far larger pool of liquidity, helping bridge their trade finance gap.

In 2022 BACB handled a significant proportion of Mauritania's total import finance. We have been working with exporters and banks in the region to build capacity and reduce the perceived risks to greater levels of trade.

In late February 2023, our staff provided a series of training sessions on regulation and compliance to help Mauritanian banks bring their own practices more into line with international standards. Held in the capital, Nouakchott, the training sessions were welcomed not only by the banks themselves, but also by the Central Bank of Mauritania.

The February 2023 event was far from being the first we have conducted in Africa and it will certainly not be the last: we already have a larger programme of training sessions planned that aim to enhance the risk profile of financial institutions across North Africa.

affected by the concerns of western financial institutions over corruption and financial crime. Between 2015 and 2019, 16% of SME applications for trade finance were declined due to a lack of KYC and AML systems. As a result, some SMEs are tempted to seek finance from less regulated sources that are often exploitative or criminal in nature.

Developing regional solutions

The current regulatory and compliance landscape is inconsistent, with some African nations having created institutions dedicated to investigating and combatting financial crime more than 20 years ago.

However, the Eastern and Southern Africa anti-Money Laundering Group (ESAAMLG), which is part of the Financial Action Task Force (FATF), currently has 19 members, with the UK, US and Portugal as observers. The African Compliance Hub (ACH), which is backed by the University of Oxford and others, is providing African SMEs with resources to adopt and implement international standards in due diligence and compliance. Similarly, the US-based Centre for International Private Enterprise (CIPE) is working with business owners to enhance governance, with the incentive that successful implementation could lead to exclusive trade and investment opportunities.

Developing solutions for individual counterparties and specific transactions

We believe that specialist banks such as BACB have a role to play not only in financing trade flows but also in bridging the knowledge gap between those who are keen to work in challenging African markets, and their potential counterparties who are seeking finance and investment.

So, what is our approach when considering new relationships, or renewing existing relationships?

First, we conduct an intelligence-led financial crime risk assessment of a potential counterparty, and we would repeat this on an appropriate regular basis for existing counterparties. This would include determining whether there are any new material financial crime risks appearing in the relationship or new potential financial crime typologies that have not been seen before, or which are becoming more common. Specifically, we would ask questions such as:

- Is the counterparty conducting new types of business that we have not previously assessed?

Staff from 12 Mauritanian banks attended BACB's workshop on risk and compliance, held in Nouakchott.

- Has the counterparty taken on any new types of clients; is it working with new products; or is it working in new jurisdictions; and, if so, has it conducted appropriate risk assessments?
- Have there been any recent FAFT evaluations that have identified specific deficiencies in the counterparty country's legal and regulatory framework?
- Are entities – governmental, regulated institutions or private corporates – in the country subject to any international sanctions; and is the country perceived to be a tax haven?

Banks operating in specialist markets can, and should, take advantage of innovative digital tools that are increasingly available to meet due diligence requirements and ensure compliance with international regulatory standards. These tools can screen counterparty details against sanctions lists issued by the UK OFSI, the European Union, the US Office of Foreign Assets Control and the United Nations.

We believe that a technology and systems-driven approach is crucial for recognising and mitigating threats, but we also believe that it is a bank's human expertise that turns raw data into actionable insights.

All our colleagues at BACB take part in regular mandatory training on compliance issues, with our specialist Transaction Monitoring, On-boarding, Financial Crime Risk and Compliance teams undergoing intensive training to ensure they can address and action requests that come in from different sectors, countries and types of institution.

We also work hard to ensure that our staff are aware of current social and geopolitical contexts that could affect

Richard Snookes addresses participants at the February workshop in Nouakchott alongside specialist trainer Anis Ben Arbia

transactions on the ground, and that they are aware of how different cultures can affect how business is conducted in different countries.

Communication is crucial

Maintaining a constant flow of information between departments is crucial when working in challenging economies. In particular, face-to-face contact between relationship managers, in the field, and the transaction management team, in head office, fosters transparency, enhances efficiency and ensures compliance with relevant laws, regulations and codes.

Our relationship managers are the subject matter experts with on-the-ground knowledge and experience. They can interpret and explain issues that may be unfamiliar to those in head office.

Our transaction monitoring team has constant dialogue with our representative offices in Libya, Algeria and Côte d'Ivoire to understand financial and geopolitical conditions in each country and region.

Our back-office team cross references what they receive from the transaction monitoring team and the relationship managers, ensuring consistency and looking for information that could enhance the transaction monitoring process.

Building local capacity

We recognise that, despite everything that we are doing to ensure strong risk and compliance procedures within our own bank, if we are going to expand and sustain business relationships in Africa, we need to contribute to the building of local capacity.

For sure, many African governments and regulators are working to improve skill levels at local institutions, but we, as a commercial bank, also have a role to play.

Throughout our 50-year history, we have been sharing our expertise with institutions in North Africa and in sub-Saharan Africa. We continue to organise specialised training work on regulatory and compliance topics for banking partners in Africa. We explain to our partners the standards that are expected of them by global financial institutions, and we provide guidance on how they can implement those standards comprehensively, consistently, and efficiently. This work not only strengthens our own business, but it also contributes to the development of safer, more transparent transactions across Africa's financial system as a whole and, as a result, to increased connections between Africa's banks and the global financial system.

We participated in the workshops for Mauritanian financial institutions that were held in Nouakchott in March 2022, and we are already planning follow-up events in the region. The content of these workshops is co-ordinated not only between our executives and banks in north, west and sub-Saharan Africa but also with local regulators and regional standard setters.

This collaborative approach maximises the effectiveness of the events and, we hope, contributes to the strengthening of business relationships throughout the region, and to the flow of finance and investment into Africa. ■

Richard Snookes and Azzedine Zikara

Richard Snookes is a Managing Director at BACB. He was appointed Head of Compliance and Money Laundering Reporting Officer in 2022. He previously held positions related to financial crime prevention at NatWest and Santander. He is based in London.

Azzedine Zikara is a Director of Financial Institutions at BACB and is responsible for Mauritania and Sudan. He is based in London and has a wealth of experience working across some of BACB's core markets.

British Arab Commercial Bank (BACB) is a UK-based bank regulated by the PRA and FCA. It specialises in supporting trade flows to and from the Middle East and Africa, and connecting them with the rest of the world. The Bank was founded in 1972 and has branches in Algeria, Libya and Côte d'Ivoire.

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Bank ABC: Embracing digital innovation to transform customer experiences

As financial technology continues to evolve, digital strategies are becoming central to banks' success. All now recognise the need to enhance their digital offerings, but one MENA rooted bank has placed particular focus on the opportunities offered by digitalisation, both for its customers and for the bank itself. *Arab Banker* asked Rajeev Adrian, the CEO of Bank ABC in the UK (ABCIB), to describe the bank's digital strategy and to explain how ABCIB, is contributing to its implementation.

ARAB BANKER: What are the key features of Bank ABC's digital strategy?

RAJEEV ADRIAN: At Bank ABC we place our customers at the core of our offerings. Great customer service has always been the bank's core endeavour, regardless of digital approach. Understanding what our clients want is essential: fast access and response times and an unmatched user experience. The opportunity to roll out a superior experience and even better customer service relates specifically to our digital proposition. Customer service is crucial, digital is an insurance policy to stay in business and stay relevant.

Over the past year, Bank ABC accelerated the execution of its multi-year Digital Transformation Programme as we build a digitally empowered, and sustainable 'bank of the future.' Aimed at meeting evolving client needs and enhancing operational efficiencies, the Programme has transformed corporate and consumer banking landscapes in MENA and beyond. It is guided by a regional-first, cloud-based digital innovation strategy focused on delivering a faster, seamless, and effortless experience across all touchpoints. Our core objectives are: to enhance existing infrastructure, products, and services; achieve a market-leading position through innovative digital solutions; and disrupt legacy banking models by using cloud-native solutions, AI, Data Analytics, and open APIs.

Bank ABC is transforming customer journeys across all our key products and services to be digitally enabled. Clients will access a single Bank ABC portal for our wholesale banking services, including Trade Finance, Supply Chain Finance, Payments, Cash, and Liquidity Management and more. The bank has partnered with leading technology providers to implement a new, leading-edge core banking platform across the bank as we digitise our middle and back-office procedures to speed up end-to-end client service. All digital solutions, including the wholesale banking portal, will be provided over the next six to 18 months. We have already released a digital onboarding solution which has drastically reduced account opening time to under eight hours, and a Supply Chain Finance (SCF) platform (beginning with receivables finance).

We are aware of the rapid pace at which the market and technologies are evolving. To find, develop and implement both incremental and disruptive innovations, the bank set up a Group Innovation function few years ago. Additionally, we have set up two new and entirely digital units in Bahrain: Arab Financial Services and our internationally acclaimed digital mobile-only 'ila Bank'. Our distinguished innovation teams keep investigating and creating cases for the use of innovative technologies, including sophisticated data and analytics and AI capabilities, throughout the Bank ABC Group. Our level of dedication and investment in Bank ABC's future and that of the industry at large, is what sets us apart.

Our goal is to become MENA's preferred global digital bank. In terms of both digital enablement and innovation, this entails a tremendous commitment and investment from the very top of the business. For instance, our innovation charter and framework look to promote an innovative culture throughout the bank. Through innovation challenges and a dedicated platform "Fikra" colleagues across departments are encouraged to send suggestions for enhancing customer service, operations and automating our processes. The best ideas are then advanced as test cases for deployment. At Bank ABC, digital strategy and execution are no longer only the domain of the IT or technology departments. We think that through supporting business-led goals, our solutions will be crafted to meet the needs of our clients while enhancing our current service offerings and creating value for all stakeholders.

ABC Labs, the bank's innovation and digitisation centre, is focused on fuelling innovation and digital transformation across the Bank ABC Group and our wider financial services ecosystem. With top-level support, the multi-award-winning Lab has implemented strategic digitisation initiatives, AI, powered bot deployment, and hyper-automation technologies. It also organises workshops, hosts visits, and advises on financial services innovation through central banks and international organizations. The bank has been recognised with more than 15 awards, primarily for its pathbreaking innovation and digital transformational initiatives, throughout 2022–2023, setting it apart from competitors.

Our Group CEO, Mr. Sael Al Waary is a champion of digitisation and is a renowned speaker on the subject across MENA. He sets a great example on how we all should embrace the digitisation journey to establish a win-win for all.

What is ABCIB's role in implementing this strategy?

This strategy is completely supported by ABCIB, and part of our job is to develop and deploy digital solutions that are

Rajeev Adrian

Rajeev Adrian was appointed CEO of ABCIB in 2021, before which he held the positions of Deputy CEO and Chief Financial Officer. Before joining ABCIB, Rajeev worked for NatWest Bank (then called Royal Bank of Scotland) in various positions. He began his career in Australia working at the Office of the Auditor General and the Australian Securities Commission.

ABCIB is the London-based subsidiary of Bank ABC, which is headquartered in the Kingdom of Bahrain.

tailored to the demands of our clients as well as the regional markets and legal frameworks in which we do business. Given our leading proposition in this market, we are at the forefront of the deployment in specific situations, such as Trade Finance and Supply Chain Finance. We are well along the process of transferring our current clients on to the new platform; and our new Digital Supply Chain Finance platform is now live in the UK for new clients. Clients in the UK will be the first to have access to a full range of market-leading features on innovative digital platforms, enabling end-to-end transaction level visibility, security and control.

Furthermore, we aid Bank ABC Group in understanding and preparing for changes in regulation, compliance, or anti-money laundering issues while creating or changing our digital strategy. The EU (through Digital Operational Resilience (DORA), for instance) and the UK are often at the forefront of thinking about frameworks to manage the risks associated with innovative technologies. We can work to guarantee that future solutions are built with developing regulatory needs so that our clients can rely on controls that are at the forefront of their industry. In the past, we have seen legislative initiatives like GDPR originate locally before being approved as global standards.

A thriving fintech ecosystem exists in the UK and throughout Europe, so we may sometimes form new partnerships to accelerate the execution of our strategy and broaden the reach of our products and services. For instance, we are collaborating with Raisin, one of Europe's top fintech companies, through our EU subsidiary, ABC SA., in Paris to supply attractive deposit products in the German retail market later this year.

How will your work in these areas change a client's experience when interacting with Bank ABC in UK and Europe ?

Customers will find doing business with Bank ABC fundamentally a lot simpler because they will have access to all the company's products and services through a single, secure channel. This implies that soon companies will be able to combine our platforms with their own solutions and platforms, which will enable them to advance digitisation inside their own businesses as needed. By cutting their own manual, paper-based processes, clients of the SCF solution, for instance, would be able to increase operational efficiency. Bank ABC has already benefited significantly from it. Invoices can be instantly uploaded to the system, and there will be significantly improved self-service capabilities and access to data and analytics, allowing clients to make better, more informed decisions.

Digital finance is moving fast, how can you maintain leadership in this field?

Bank ABC has embraced digital transformation to stay ahead of the curve. To digitise our operations, streamline our processes, and supply innovative digital services to our clients and consumers, we have invested in innovative technologies and infrastructure. Our digital mobile-only ila Bank has tremendously improved customer experience in Bahrain and Jordan and is currently being rolled out across the Group's other core MENA markets. We prioritise supplying smooth, user-friendly experiences to corporate and retail clients across all digital platforms.

We have developed user-friendly interfaces, personalised services, and speedy responses to consumer questions or problems. Over the past year, the bank has focused on increasing digitisation and distribution to unlock its potential. This has led to strategic digitisation initiatives and innovations, such as developing the region's first wholesale banking platform on the cloud, partnership with Amazon Web Services (AWS) and Google for API management, and rolling out a regional-first fully digital corporate onboarding service across 15 global units. This enables corporate clients to open an account with the bank in under eight hours, far less than the 60-day industry average.

Bank ABC utilizes data analytics and AI for personalized financial solutions, identity fraud prevention, and data-driven risk management. Putting a focus on cybersecurity is another aspect: as the world of digital money expands, it is crucial to implement strong cybersecurity safeguards. To safeguard client data and stop breaches, we prioritise cybersecurity investments, put in place reliable authentication procedures, and often upgrade our systems.

The bank has also launched a pioneering documentary trade platform, covering the entire Imports Letter of Credit (LC) journey, providing customers with a digital channel to support their import business. Additionally, the bank has an ultramodern Supply Chain Finance platform, allowing clients to manage supplier invoicing, discounting, and payments digitally.

Bank ABC has also collaborated with the Central Bank of Bahrain and JP Morgan to issue a landmark instant high-value cross-border payment pilot, which is now being scaled for corporate clients. The bank has also implemented a Next-Generation Core Banking System, merging core banking systems across 15 countries on Temenos' Cloud-native platform, accelerating its pace of growth and innovation.

In addition to these initiatives, Bank ABC has invested significant resources in building digital capabilities across its Cash Management services, successfully completed Phase-1 of the Trade Operations Hubbing Project and set up strategic fintech partnerships to continue its quest for leading-edge innovation. ■


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EAB's London office is in the heart of London's West End, on Park Lane.

Arab Bank celebrates 50 years in London

Fifty years ago, in 1973, Arab Bank of Jordan established a branch in London – becoming one of the very few Middle Eastern banks to have a presence in the capital. To mark the anniversary, *Arab Banker* spoke to Haytham Kamhiyah, the CEO of Europe Arab Bank, Arab Bank's subsidiary in London, to find out how the bank's operations have been changing and its plans for the future.

***ARAB BANKER*: Why did Arab Bank first come to London, 50 years ago?**

HAYTHAM KAMHIYAH: Middle East finance may have been in its infancy in 1973, but we were already a mature bank. Remember that we had been founded in 1930, we had expanded in the Middle East during the turbulent decades of the 50s and 60s, and by the 1970s we already had considerable experience of international banking.

In the early 70s, even before the quadrupling of oil prices in late 1973 and early 1974, it was clear that the oil exporting Gulf states were going to become a lot wealthier, and that this would have a positive impact on the rest of the region. But at that time, there were very few Middle Eastern banks who had the capital strength and organisational ability to establish stand-alone operations in London, rather than coming here as part of a consortium.

Our early entry into London has served us well. We've been able to expand and develop our own business as London itself has expanded and developed as an international financial centre. It has been a very good experience for us, as a bank, and for our clients. We have some customer relationships that stretch back decades and our long

Europe Arab Bank plc, part of Arab Bank Group

experience in London has helped us navigate numerous challenges the industry has faced over decades.

What is the extent of your London-based operations today?

We have three main lines of business in London: corporate and institutional banking, private banking, and treasury/capital markets. Our corporate business generates about 50% of our revenues, with the other two lines accounting for the remainder. We have around 135 people in London and assets of about €2.5 billion.

The structure of Europe Arab Bank has changed as a result of Brexit. Our operations in Paris are now incorporated as a subsidiary of Europe Arab Bank, and our offices in Milan and Frankfurt are branches of Paris. I chair the Board of the subsidiary in Paris, and we in London provide business, operations and IT support to Paris and the branches.

Why did you move your offices from the City to the West End of London?

We already had an office in the West End, but what we did in September 2022 was consolidate everything into a single place in Park Lane, Mayfair, overlooking Hyde Park – it is an ideal location for our private banking clients.

We usually go out to visit our corporate and institutional customers, or meet with them through video calls, so the office located in the City was not crucial in serving those clients.

All three of our business lines are now located together in our Mayfair office which enables us to provide comprehensive services to our clients more efficiently and conveniently.

We're also aware of our responsibility to run our operations sustainably and continue to monitor ways to lower energy consumption, reduce emissions and increase recycling. Our new head office in London has enabled a reduction in our energy and water usage as well as the implementation of an innovative recycled office fit-out project.

I should add that since the end of the Covid pandemic, we have established a system of flexible working: we expect staff to be in the office at least three out of five days per week, although I am in the office every day.

How have you been affected by Brexit?

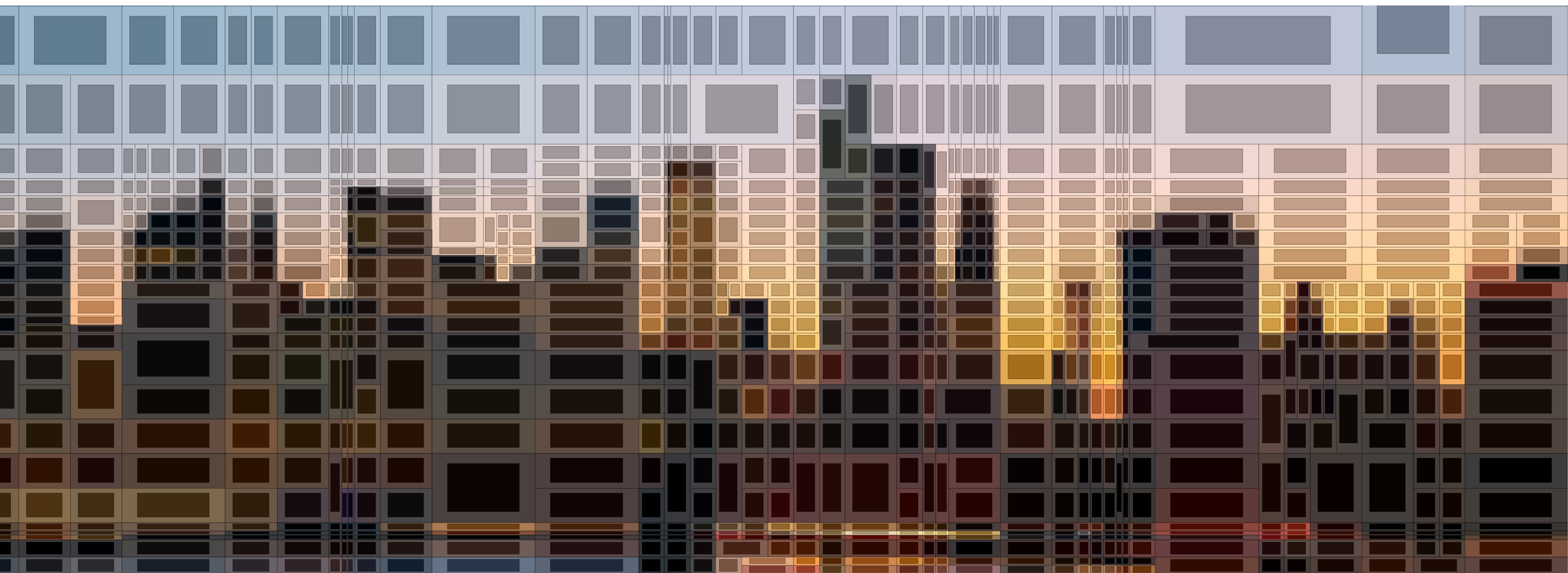
There is no doubt that Brexit has been disruptive to our business. As I mentioned before, we had to restructure our operations in Europe, which was time-consuming and is expensive. As an example, our interactions with the French regulatory authorities have increased since Brexit as we changed the Paris operations from a branch to a subsidiary.

But, more than that, Brexit caused a lot of uncertainty for our clients, not only in terms of the legal framework for some financial transactions but also in terms of economic prospects and valuations. In the years immediately after the Brexit referendum in 2016, many clients were hesitant about buying property in London, although I am pleased to see that confidence has returned and the London property market has proved resilient.

Having said that, it is important to note that London remains by far the most important overseas capital for most of our Middle Eastern clients. London held this position when we first established our branch here 50 years ago, and I firmly believe that it will continue to hold it in the decades ahead. A large number of our clients have second homes in London. In many cases, their children attended, or are still attending, British schools and universities. London remains a favourite destination for families during the summer.

London continues to be regarded as one of the most attractive cities for real estate investment, offering both stability and liquidity.

Since we have mentioned regulation, I would like to add one more point. It is intense, particularly for medium sized banks such as us, but we recognize that regulation exists for a good reason. It is important for banks and other financial institutions to have the right measures in place to protect clients, ensure good customer outcomes, detect malpractice and prevent fraud. Banks hold a key position in



global economies, promoting development and prosperity, and it is critical that there is trust and confidence in the banking system. Regulation and supervision are important components in maintaining that trust and confidence, and we respect that.

How much of your business is with Jordanian customers and how much with customers elsewhere in the Middle East?

Our business is widely spread across the whole region, although of course Arab Bank is by far the biggest bank in Jordan, so we take the lion's share of Jordanian business in London. But, remember that we were initially established, in 1930, to serve the Arab world as a whole, and to act as a catalyst for economic development throughout the region.

The Jordanian economy is doing well right now, despite facing numerous challenges, including the influx of refugees as a result of regional crises. Although it is not among the largest Middle East economies, Jordan does offer some of the best opportunities for business development.

For example, we have been financing a wide range of renewable energy projects in Jordan, working in partnership with the International Finance Corporation and the European Bank for Reconstruction and Development.

Arab Bank has 600 branches across five continents, and we have by far the biggest branch network in the Middle East of any bank. In many Middle Eastern countries, we were one of the first foreign banks, and sometimes we were *the* first foreign bank, to be licensed. As a result, we have deep roots in North Africa, in the Gulf, and in the Levant. In addition to our presences in the UK and EU, Arab Bank Group also has offices in Switzerland, Singapore, China and Australia.

How do you expect your operations in London to develop in the years ahead?

We plan to expand our private banking business to include wealth management and advisory services. We have submitted an application to the regulators for a wealth management advisory license. We are also going to be deepening our ties with the younger generation of Arab businessmen and women. Our vision is to become the bank of choice in London for high net worth Middle Eastern clients.

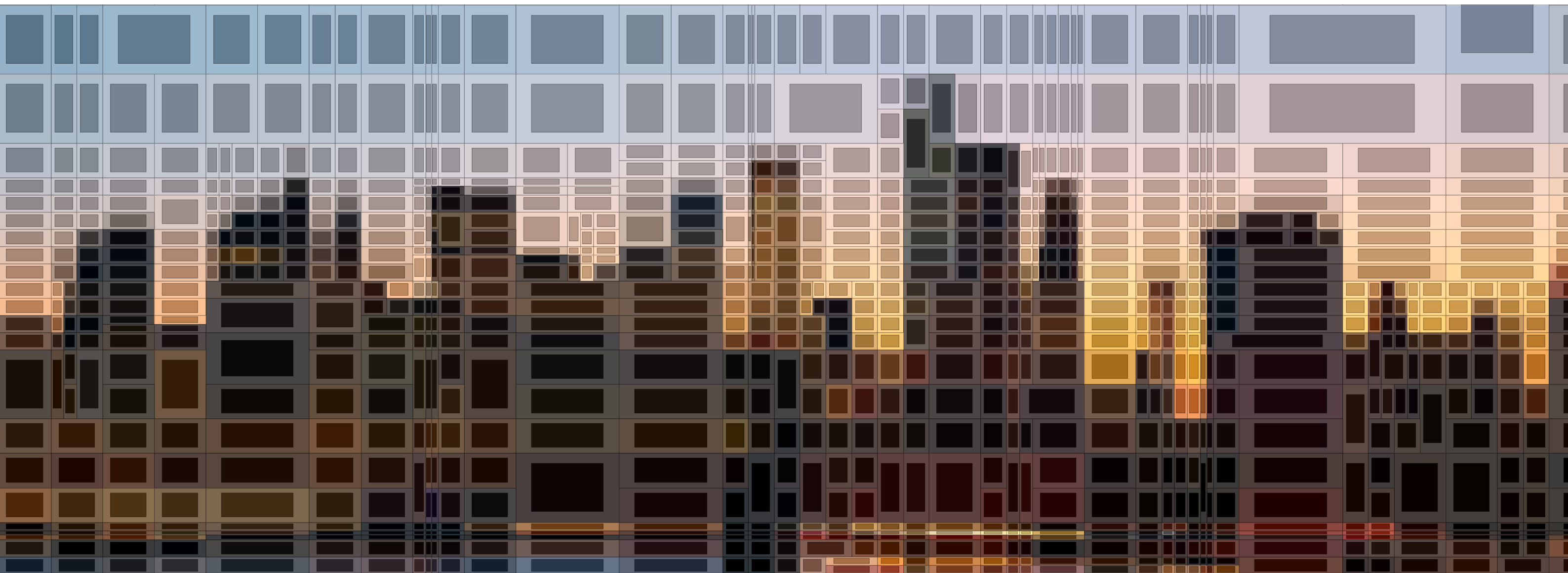
We are also greatly expanding our digital banking platform here in London. Of course, that is a trend throughout the banking industry, worldwide, and I'm particularly pleased that here in London we will be launching new digital applications later this year.

As a financial institution, we recognise our responsibilities towards transition to a carbon neutral economy and to address the risks posed by climate change. As I noted before, Europe Arab Bank has been a leading provider of finance to the renewable energy sector in the MENA region for a number of years, supporting projects for wind, solar and hydro power developments. This will continue to be an area of focus for us, and we are excited by the opportunities this transition presents.

Finally, in line with the ethos of the Group, we remain committed to combatting financial crime. Arab Bank Jordan was a founder of the MENA Financial Crime Compliance Group, and we in London were instrumental in the creation of the organisation's European Chapter.

Haytham Kamhiyah

Haytham Kamhiyah has been the Chief Executive Officer of Europe Arab Bank since December 2018. Before that, he was Chief Executive Officer of the Emirates Development Bank, in Abu Dhabi, and spent 12 years as General Manager of Capital Bank of Jordan. He trained as an auditor with Arthur Andersen and is a Certified Public Accountant.



GCC banks continue to prosper as mergers and acquisitions create regional champions

Arab Banker's Editor, Andrew Cunningham, presents our annual survey of GCC banks, including our table showing the largest 50 banks, ranked by equity.

All but five of the GCC's 62 active, locally incorporated commercial banks declared increased net profits in 2022, and the vast majority also showed increased operating profits. All but one, Bank of Sharjah, showed risk-adjusted total capital ratios above 14%, and all but eight had ratios above 16%.

Mergers and acquisitions over the past few years have reduced the number of struggling banks, with the result that the GCC banking system, as a whole, is probably stronger now than it has ever been.

Sharjah's Investbank, which declared net losses in each of the five years to 2021, had not reported full financial statements for 2022 by 30 June. Bank of Sharjah, which has been troubled in recent years, declared a large net loss for 2022. The need to restructure the Sharjah banking system has been apparent for decades. With four banks, the emirate has as many as are headquartered in the far larger emirates of Abu Dhabi and Dubai. Sharjah Islamic Bank has been consistently profitable in recent years, and United Arab Bank is also now profitable.

Bahrain has historically hosted small banks that have faced difficulties, sometimes because their original business models have been overtaken by changes in regional economies and by the closing of opportunities for regulatory arbitrage. Bahrain still hosts some of the smallest banks in the region – ALUBAF Arab International Bank, Al Baraka Islamic Bank and Ithmaar Bank hold positions 60, 61 and 62 in our survey, when ranked by equity. All are now profitable.

In Oman, struggling Islamic bank alizz was acquired by Oman Arab Bank. Sohar International Bank and HSBC Oman plan to merge, and Bank Dhofar is bidding to acquire AlAhli Bank – all these four have been profitable in recent years and all are well capitalised. Nevertheless, with a total of eight banks (the same as Qatar) the Omani banking market looks overcrowded.

Tidying up of smaller institutions has been one trend in recent years. The other significant trend has been the creation of national champions through the merger of some of the largest banks. The largest two GCC banks, Saudi National Bank and First Abu Dhabi Bank, are both the products of mergers. Kuwait Finance House has leapt to sixth position following its merger with Bahrain's Ahli United Bank.

Six GCC banks showed equity greater than $20bn at the end of 2022, and 12 showed equity greater than $10bn. The largest 21 had equity of more than $5bn.

The KFH–Ahli United Bank merger is by far the most significant corporate transaction in the recent history of Gulf banking because it comprises banks from two different countries (although nearly half of Ahli United's balance sheet was based in Kuwait). Inter alia, the transaction gives KFH a London banking license – Ahli United has been operating in the UK for decades – alongside KFH's long-standing operations in Malaysia.

In recent years, GCC banks have been able to broaden their operations through expansion in the wider Middle East, and particularly Egypt, where several took advantage of the Egyptian government's disposal of its stakes in medium-sized banks. The collapse of the Lebanese economy has also enabled First Abu Dhabi Bank to acquire the Egyptian assets of Blom Bank, and Bank ABC to acquire those of Banque Audi. There are unlikely to be many

more opportunities to buy banking assets in Egypt, despite the Egyptian government's commitment to privatisation as part of its current IMF support package. The privatisation of Banque du Caire has been anticipated for nearly 20 years and it would be astonishing if the Egyptian government were to find a way to sell it in the near future.

Permanent crisis in Iraq, collapse in Lebanon, civil war in Libya, economic difficulties in Tunisia and, more positively, an already well-stocked banking system in Jordan, mean that there are few opportunities for GCC banks to expand in the Middle East. Syria, which was re-admitted into Gulf forums earlier this year, might be the one area offering significant opportunities in the medium term.

Of course, there is the possibility that some of the bigger GCC banks will want to take a more ambitious approach, targeting large western institutions. Saudi National Bank took a 9.9% stake in Credit Suisse in November 2022 and, before the value of that investment was destroyed by Credit Suisse's demise in March this year, First Abu Dhabi bank had ambitions to take over Standard Chartered Bank. But, there is a big difference between taking a 9.9% stake and making a full takeover bid. An investment of less than 10% is a helpful vote of confidence that avoids the most intrusive regulatory questions. The takeover of a large bank that is authorised by the European Central Bank or the UK's Prudential Regulation Authority (PRA) would be a very different matter. It is barely credible that the PRA would have allowed an Abu Dhabi-based bank to take over such a complex institution as Standard Chartered.

Looking ahead, the primary driver of GCC banks' profitability and liquidity over the short and medium terms will be the prices of oil and gas. The export of these commodities will continue to underpin economic prosperity in the region. Over the longer term, questions arise as to the role of oil and gas within the global energy mix and the extent to which GCC governments can build prosperous economies that are not dependent on the sale of hydrocarbons.

Fortunately, most GCC banks will be facing those challenges from a position of healthy profitability and strong capitalisation. ■

How many commercial banks are there in the GCC?

Our survey of active commercial banks that are headquartered in the GCC comprises 62 banks, though the number of authorised, GCC-based, commercial banks is greater than that.

We publish the biggest 50, when ranked by equity, in *Arab Banker* magazine. The full list will be published on the Arab Bankers Association's website in early October.

We do not include in our survey banks that are dormant (of which there are several in Bahrain), nor do we include banks that are wholly owned by other licensed banks in the same country, such as Emirates Islamic Bank which is a subsidiary of Emirates NBD but holds its own license.

Bahrain also authorises and lists as wholesale banks institutions such as United Gulf Bank which are involved in investment management rather than commercial banking.

Sometimes licenses remain outstanding – and remain listed in Central Bank registries – long after the institution has been acquired and digested by a bigger institution. An example is Al-Hilal Bank which is still listed by the Central Bank of the UAE, although its business was folded into Abu Dhabi Commercial Bank in 2019.

Our survey considers banks that are headquartered in the GCC, not foreign branches. We are unable to include GIB Saudi Arabia, which is locally licensed, because it does not publish full financial statements. We only consider banks that are licensed by their Central Bank, as opposed to those that operate in offshore banking centres.

We were unable to include Sharjah's Investbank, since it had not published full financial statements by 30 June.

As a result of these factors, we arrive at the number of 62 active, locally headquartered, commercial banks in the GCC, as shown in the table below.

Over the past ten years, the number of active banks in the GCC has fallen by about 12, due to mergers and acquisitions. No new commercial banking licenses have recently been issued for locally incorporated institutions by any of the six GCC central banks, although some banks have changed their names as a result of corporate actions.

Bahrain	10
Kuwait	10
Oman	8
Qatar	8
Saudi Arabia	10
UAE	16
Total	**62**

Aggregate banking figures for GCC states, end-2022

$bn	Assets	Claims on Private Sector	Resident Deposits
Bahrain	260.2	49.5	52.1
Kuwait	278.9	144.8	120.7
Oman	85.2	50.6	37.0
Qatar	523.3	329.1	221.6
Saudi Arabia	965.6	610.6	612.1
UAE	998.5	319.3	435.9
Total	**3,111.7**	**1,503.9**	**1,479.4**
% share	**Assets**	**Claims on Private Sector**	**Resident Deposits**
Bahrain	8.4	3.3	3.5
Kuwait	9.0	9.6	8.2
Oman	2.7	3.4	2.5
Qatar	16.8	21.9	15.0
Saudi Arabia	31.0	40.6	41.4
UAE	32.1	21.2	29.5
Total	**100.0**	**100.0**	**100.0**

The source for this data is Central Bank statistical bulletins. Considerable care must be used in interpreting some of the figures, since the six central banks use different criteria for defining claims on the private sector and resident deposits. Nonetheless, the figures do give a fair impression of the scale of GCC banking and also of the relative size of the six GCC banking systems.

The figures for Bahrain aggregate the statistics of retail banks, wholesale banks and Islamic banks (retail and wholesale).

Figures issued by the central banks aggregate financial statements of banks that are supervised by those central banks. So, for example, banks authorised by the Qatar Financial Regulatory Authority are not included in the figures for Qatar, but foreign bank branches that are authorised by the Saudi Arabia Monetary Agency are included in the figures for Saudi Arabia.

Largest 50 GCC commercial banks, ranked by equity size (end-2022)*

All figures in $mn except for the capital ratio which is %			Equity	Assets	Net Loans	Customers' Deposits	Net Profit	Total Capital Ratio (Basel)
1	Saudi National Bank	Saudi Arabia	44,530.6	252,452.8	145,601.0	151,734.8	5,000.7	19.0
2	First Abu Dhabi Bank	UAE (Abu Dhabi)	31,328.7	302,273.2	125,149.3	190,769.3	3,654.9	15.6
3	Qatar National Bank	Qatar	29,307.4	328,625.2	223,170.1	232,752.8	3,992.9	19.6
4	Al-Rajhi Bank	Saudi Arabia	26,760.6	203,556.0	151,749.4	150,838.1	4,579.4	21.4
5	Emirates NBD	UAE (Dubai)	25,407.1	202,039.5	113,443.2	136,956.4	3,542.6	18.3
6	Kuwait Finance House	Kuwait	20,636.6	121,366.3	61,848.6	73,808.8	1,426.7	17.7
7	Abu Dhabi Commercial Bank	UAE (Abu Dhabi)	16,726.6	135,564.7	70,388.8	84,123.2	1,751.9	16.1
8	National Bank of Kuwait	Kuwait	15,215.8	119,294.8	68,935.4	66,242.4	1,740.3	17.4
9	Riyad Bank	Saudi Arabia	14,998.6	96,029.3	64,712.8	64,083.2	1,874.2	21.1
10	Saudi British Bank	Saudi Arabia	14,600.7	83,960.1	48,897.3	57,213.7	1,300.9	19.9
11	Dubai Islamic Bank	UAE (Dubai)	11,974.6	78,488.6	50,660.2	54,089.7	1,511.8	17.6
12	Banque Saudi Fransi	Saudi Arabia	10,345.2	61,966.1	42,457.0	42,078.0	954.6	19.9
13	Arab National Bank	Saudi Arabia	8,639.7	56,772.9	38,403.1	41,351.5	818.9	19.8
14	Alinma Bank	Saudi Arabia	8,511.2	53,517.6	39,114.2	38,760.8	961.0	20.0
15	Qatar Islamic Bank	Qatar	7,716.9	50,846.2	32,962.7	33,815.6	1,111.8	19.9
16	Commercial Bank of Qatar	Qatar	7,051.9	46,734.3	27,085.5	22,982.3	776.8	17.3
17	Masraf Al Rayan	Qatar	6,710.0	46,295.6	32,568.9	26,885.3	376.7	20.3
18	Mashreq Bank	UAE (Dubai)	6,649.3	54,137.2	24,590.0	30,989.9	1,031.0	16.0
19	Abu Dhabi Islamic Bank	UAE (Abu Dhabi)	6,388.5	45,888.0	29,331.8	37,615.2	985.5	17.2
20	Ahli United Bank	Bahrain	5,829.4	41,561.0	21,221.3	24,393.3	546.1	16.9
21	Bank Muscat	Oman	5,797.4	33,182.7	24,458.2	22,458.3	521.5	21.3
22	Bank ABC	Bahrain	4,521.0	36,639.0	18,190.0	21,396.0	209.0	16.8
23	Saudi Investment Bank	Saudi Arabia	4,482.9	29,122.5	18,392.2	18,577.8	402.6	18.2
24	Dukhan Bank	Qatar	3,961.6	29,368.0	20,912.2	20,599.6	346.3	18.3
25	Doha Bank	Qatar	3,890.5	26,982.9	16,049.4	13,852.7	211.5	19.9
26	Commercial Bank of Dubai	UAE (Dubai)	3,780.2	31,607.5	20,316.0	22,076.9	497.0	16.0
27	Bank Al Jazira	Saudi Arabia	3,633.7	30,932.3	18,850.3	22,968.6	296.1	19.7
28	Bank Albilad	Saudi Arabia	3,577.6	34,588.7	24,345.4	25,323.5	555.8	17.7
29	Boubyan Bank	Kuwait	3,216.2	25,871.8	19,413.3	19,571.6	178.3	19.4
30	Gulf International Bank	Bahrain	3,184.2	32,646.2	11,497.6	21,940.5	96.1	17.3
31	Burgan Bank	Kuwait	3,110.2	23,525.2	13,879.1	12,910.0	192.4	16.8
32	Qatar Internat. Islamic Bank	Qatar	2,507.8	15,583.6	9,677.8	10,143.3	297.1	17.7
33	Nat. Bank of Ras al-Khaimeh	UAE (Ras al-Khaimeh)	2,457.6	18,109.3	9,822.4	12,218.7	316.8	16.4
34	Gulf Bank	Kuwait	2,363.7	22,492.7	15,974.2	13,941.8	202.9	16.4
35	Ahli Bank	Qatar	2,203.8	13,423.2	9,404.4	8,001.0	213.3	20.0
36	Ahli United Bank	Kuwait	2,190.3	15,468.0	11,178.2	10,640.8	119.5	18.4
37	Commercial Bank of Kuwait	Kuwait	2,167.7	14,150.9	7,942.9	7,682.9	241.6	18.8
38	Sharjah Islamic Bank	UAE (Sharjah)	2,078.3	16,099.4	8,352.0	10,764.0	177.2	19.1
39	Al Ahli Bank of Kuwait	Kuwait	1,956.6	21,083.0	13,259.2	14,514.3	106.4	15.6
40	Bank Dhofar	Oman	1,862.5	11,213.2	8,909.9	7,510.8	88.8	17.6
41	Sohar Internat. Bank	Oman	1,728.5	10,729.3	7,595.2	6,649.3	90.6	21.0
42	National Bank of Oman	Oman	1,664.3	11,152.9	8,710.5	7,914.9	125.2	16.9
43	Bank of Bahrain and Kuwait	Bahrain	1,598.4	10,017.3	4,307.0	5,648.2	173.5	27.2
44	National Bank of Fujairah	UAE (Fujairah)	1,593.1	12,968.3	7,329.0	9,731.0	92.7	18.6
45	National Bank of Bahrain	Bahrain	1,527.6	12,693.1	6,617.8	8,833.4	187.5	23.6
46	Nat. Bank of Umm al-Qaiwain	UAE (Umm al-Qaiwain)	1,450.6	3,704.7	1,700.9	2,140.9	99.3	44.3
47	Warba Bank	Kuwait	1,377.6	11,861.3	8,194.7	7,583.2	53.0	15.8
48	Oman Arab Bank	Oman	1,292.4	9,562.6	7,966.1	7,771.5	42.1	17.0
49	AlAhli Bank	Oman	1,197.1	7,987.9	6,494.2	5,963.8	86.0	17.0
50	Kuwait International Bank	Kuwait	1,144.7	11,755.0	8,591.0	7,678.3	45.0	16.6

** Includes GCC banks that are licensed by their central bank. Source for data is publicly available financial statements*

GCC Sovereign Ratings on positive trend, but Egypt and Tunisia struggle

Saudi Arabia, Oman and Egypt have seen significant changes in their ratings and rating outlooks over the past year, and when other countries have been adjusted, the change has generally been positive. *Arab Banker's* Editor, Andrew Cunningham, reviews rating actions over the past year.

In March, S&P upgraded Saudi Arabia to A from A-, and in April, Fitch upgraded to A+ from A. Moody's has not changed its rating, but in March changed to positive the outlook on its A1 rating (equivalent to Fitch and S&P's A+). If Moody's follows through on its positive outlook, Saudi Arabia will enjoy a double A rating for the first time since 2016, when a sustained fall in oil prices led to a series of downgrades from all three international credit rating agencies.

The actions on Saudi Arabia have been driven primarily by policy changes and expected structural changes in the Kingdom's economy rather than by short-term financial factors. Nonetheless, the Kingdom's financial position was helped last year by oil prices averaging close to $100/b. In the first half of this year, prices were around $65/b.

S&P, which has historically been most bearish on Saudi Arabia, said that its upgrade was underpinned by, "sustained reform momentum in recent years," including, "measures to drive non-oil economic growth and widen the non-oil tax base, alongside significant social liberalisation which should strengthen consumer demand." Fitch noted that the Kingdom's debt/GDP ratio and sovereign net foreign asset ratio is considerably stronger than the medians seen for A and AA sovereigns, but that its upgrade also assumes, "ongoing commitment to gradual progress with fiscal, economic and governance reforms."

The Sultanate of Oman has been upgraded to BB by all three agencies over the past year, and in each case the new rating has a positive outlook. Oman was rated investment grade by all three until May 2017, when S&P downgraded it, with the other two following over the next year and a half. Moody's rated the Sultanate A1 as recently as February 2016.

The actions on Oman have been driven primarily by improving debt and fiscal metrics, although the agencies do refer to policy changes and economic reform. Announcing the change in its rating outlook in March this year, S&P pointedly noted that, "At the start of Sultan Haitham bin Tariq's reign, in early 2020, Oman faced significant structural challenges … all exacerbated by the COVID-19 pandemic and the related sharp drop in oil prices." The agency went on to say that, "Over the past two years, the government has introduced measures to address governance and public finance issues … The government also set up the Oman Investment Authority in 2020 to better manage its financial assets and public enterprises."

In November 2022, S&P upgraded Qatar to AA, citing its declining debt burden and an expectation that government revenue will be significantly enhanced by the expansion of the North Gas Field, which is expected to increase natural gas capacity by 64% by 2027. Fitch and Moody's have positive outlooks on their AA-/Aa3 ratings.

Qatar, Abu Dhabi, and the UAE are the only sovereigns enjoying double-A ratings from all three agencies. If the positive outlooks from Fitch and Moody's are carried forward into upgrades, Qatar will, like Abu Dhabi, have the three AA 'flat' ratings.

Kuwait was, on 13 July, the only other sovereign to hold a double-A rating: AA- from Fitch. Moody's and S&P have ratings of A1 and A+ following downgrades over the past two years.

In November 2022, S&P revised to positive its outlook on Bahrain's B+ rating, citing an improved fiscal position and an expectation that the Bahraini government will continue to implement fiscal reforms to reduce its budget deficit.

While the agencies are generally positive towards several of the GCC sovereigns, all three are negative on Egypt. Moody's downgraded Egypt to B3 in February (equivalent to Fitch/S&P B-), with a stable outlook, but then put the country on review for downgrade in May, citing increasing liquidity and debt affordability risks. Moody's said that progress with state asset sales, part of the current IMF support programme, was progressing more slowly than expected and that confidence in the currency was eroding.

The rating below B3 is Caa1, the level at which Moody's rated Egypt between March 2013 and April 2015, and which implies a very high likelihood of default.

Fitch downgraded Egypt to B in May, citing high external financing requirements, against a background of an uncertain exchange-rate trajectory and reduced external liquidity buffers. In April, S&P maintained its B rating, but revised the outlook to negative, again citing external funding risks and delays to currency and structural reforms.

Tunisia was downgraded to Caa2 by Moody's in January and to CCC- by Fitch in June. Fitch cited uncertainty around Tunisia's ability to cover its large funding requirement. The government's financing plan relies on more than $5bn of external funding, most of which, Fitch believes, is contingent on an IMF programme which will probably not be mobilised in 2023 even if an agreement is reached this year. The IMF did not approve a new $1.9bn facility, planned in December 2022 because prior conditions, such as agreed reform of fuel subsidies, were not implemented. ■

Ratings on governments in the Middle East ('Sovereign ratings')

Moody's ratings are shown using Fitch/S&P notation to facilitate comparison

		12 July 2023	24 July 2022	July 2016
Bahrain	Fitch	B+ stable	B+ stable	BB+
	Moody's	B stable	B stable	B
	S&P	B+ positive	B+ stable	BB-
Egypt	Fitch	B negative	B+ stable	B
	Moody's	B- (Review Down)	B negative	B-
	S&P	B negative	B stable	B-
Iraq	Fitch	B- stable	B- stable	B-
	Moody's	Caa1 stable	Caa1 stable	Not rated
	S&P	B- stable	B- stable	B-
Jordan	Fitch	BB- stable	BB- stable	Not rated
	Moody's	B+ positive	B+ stable	B+
	S&P	B+ stable	B+ stable	BB-
Kuwait	Fitch	AA- stable	AA- stable	AA
	Moody's	A+ stable	A+ stable	AA
	S&P	A+ stable	A+ stable	AA
Lebanon	Fitch	Rating withdrawn	Rating withdrawn	B
	Moody's	C no outlook	C no outlook	B
	S&P	SD	SD	B-
Morocco	Fitch	BB+ stable	BB+ stable	BBB-
	Moody's	BB+ stable	BB+ stable	BB+
	S&P	BB+ stable	BB+ stable	BBB-
Oman	Fitch	BB positive	BB- stable	Not rated
	Moody's	BB positive	BB- stable	BBB+
	S&P	BB positive	BB- stable	BBB-
Qatar	Fitch	AA- positive	AA- stable	AA
	Moody's	AA- positive	AA- stable	AA
	S&P	AA stable	AA- stable	AA
Saudi Arabia	Fitch	A+ stable	A positive	AA-
	Moody's	A+ positive	A+ stable	A+
	S&P	A stable	A- positive	A-
Tunisia	Fitch	CCC-	CCC	BB-
	Moody's	Caa2 negative	Caa1 negative	BB-
	S&P	Not rated	Not rated	Not rated
UAE	Fitch	AA- stable	AA- stable	Not rated
	Moody's	AA stable	AA stable	AA
	S&P	Not rated	Not rated	Not rated

Climate change pioneers or global polluters? UAE and the GCC look to COP28 to burnish their green credentials

The COP28 UN Climate Change Conference will take place in Dubai from 30 November until 12 December. *Arab Banker's* Editor, Andrew Cunningham, describes some of the challenges and dilemmas that confront the region's oil exporters as the global climate change community prepares to descend on the region.

COP28 is an opportunity for the UAE to project itself as a nation that is part of the solution to the challenges of climate change rather than – as one of the world's largest oil exporters – part of the problem. The meetings also provide a stage – quite literally – upon which the UAE can stake a claim to be a serious player in global governance and policy making.

The appointment of Sultan al-Jaber as President of COP28 illustrates that challenge and the opportunity facing the UAE. Al-Jaber is currently the Managing Director and CEO of ADNOC, Abu Dhabi's state-owned national oil company, which produces the vast majority of the UAE's crude oil output. At around 3 mn barrels of oil per day (b/d), that level of output makes the UAE the world's seventh biggest crude oil producer, after the US, Saudi Arabia, Russia, Canada, Iraq and China.

Yet ADNOC has been advertising its sustainability ambitions for some time, under the slogan 'Maximum Energy. Minimum Emissions.' This strategy entails a wide range of measures including increasing production of oil grades that are less carbon intensive, carbon capture, and investing in non-carbon based energy such as hydrogen and renewables.

ADNOC's strategy encapsulates the dilemma faced by all the big GCC oil exporters: they have the money to invest in the development of new sources of energy, but for the foreseeable future it is financially unthinkable – even for those as rich as Abu Dhabi – for them to abandon crude oil production. Furthermore, the need for air-conditioning and water de-salination puts the UAE, and others in the region, among the highest per capita energy users in the world.

The expectation that the UAE will continue to produce large quantities of crude oil, and that ADNOC will be the principal corporate entity behind that production, lies at the heart of the controversy over the appointment of al-Jaber.

It is sometimes difficult, in the GCC, to know the extent to which senior positions are honorary, as opposed to involving hands-on management, but al-Jaber's credentials are impressive: he has a Bachelor's degree in Chemical Engineering from the University of Southern California, an MBA from California State University and a PhD in Business and Economics from the University of Coventry in the UK.

In addition to his role with ADNOC, he chairs Masdar, the energy-efficient, sustainable, new city that Abu Dhabi has been building and which is slated for completion in 2030.

In recent months, al-Jaber and ADNOC have been

How many trees are there in a forest

Saudi Arabia's Green Initiative (SGI) and the Middle East Green Initiative that the Kingdom spearheads, envisages, *inter alia*, planting 50 bn trees in the Middle East, of which 10 bn will be planted in the Kingdom itself. The SGI website states that 10 mn trees were planted in 2021 and 18 million in 2022. The objective is to have planted 650 mn by 2030.

Reaching that 650 mn objective will entail planting 213,014 trees every day in the Kingdom from 1 January 2023 until 31 December 2030, or two and a half trees per second.

The GRI website does not give a target date for completing the planting of the other 40 bn in the Middle East outside Saudi Arabia, or indeed for closing the gap between the 650 mn to be planted in the Kingdom by the end of 2030 and the ultimate objective of 10 bn.

By way of comparison, the Amazon Rainforest is estimated to contain 390 bn trees. The forest extends over 5.5 mn square kilometres. The area of Saudi Arabia is 2.15 mn sq. kms although the tree planting efforts will be concentrated in 11 areas, such as Riyadh, the Eastern Province, and the Northern Borders.

Of course, it is easy to poke fun at such grandiose plans that seem to owe more to the vast amounts of money that some governments have to spend on international consulting firms (and the desire of those firms to maximise their billings) than to realistic climate change initiatives. But if Saudi Arabia implements just a reasonable percentage of its tree planting ambitions, and other initiatives, the ecology of the Kingdom will be transformed. Those with long memories may remember how we scoffed, many years ago, at Dubai's ambitions to build international golf courses, and then to become a tourist destination: but both of those ambitions have now been fulfilled.

using their influence to persuade global oil companies to make commitments to carbon reduction and to increased development of renewable energy.

COP meetings are annual, but this year's meeting in the UAE is particularly significant since it will include presentation of the findings of the first Global Stocktake (GST) of progress made since the 2015 Paris Agreement.

The two key objectives of the Paris Agreement were to pursue efforts to limit the rise in global temperatures to 1.5 degrees centigrade above temperatures during pre-industrial times and to keep them 'well below' 2 degrees higher; and to limit, between 2050 and 2100, greenhouse gas (GHG) emissions from human activities to the amounts that trees, soil and oceans can naturally absorb ('net zero'). The agreement called on countries to set their own plans to cut GHG emissions and adapt to the impact of climate change. These plans are known as Nationally Determined Contributions (NDCs).

GSTs take two years to prepare, and they begin with a collection of information on implementation of NDCs and scientific studies. This information is then subjected to a technical assessment to understand trends, successes and challenges, before finally being presented. It is generally expected that when the results of the GST are presented in Dubai, they will show that countries, collectively, are not on track to achieve their Paris Agreement's goals.

If that happens, the pressure on governments to make their climate change plans more ambitious will increase, and the focus on the role played by oil and gas companies will become more intense.

New themes and efforts on inclusivity

The UAE is working hard to make COP28 a success in policy terms, and inclusive of those with an interest in climate change and environmental protection.

The conference will be divided into a 'Blue Zone' and a 'Green Zone'. The Blue Zone will be managed by the United Nations Framework Convention on Climate Change (UNFCCC) and is where government officials and those invited by the UNFCCC will meet, but NGOs and journalists can enter the Blue Zone, provided they have accreditation from the UNFCCC.

The Green Zone is for delegates and guests of those in the Blue Zone, NGOs and the public. Those attending events in the Green Zone do not need accreditation (but they may need visas to enter the UAE, depending on their nationality).

Both the Blue Zone and the Green Zone will be in Dubai Expo City, which is near Jebel Ali, about 30 kilometres southwest of the centre of Dubai.

The organisers have changed the structure of meetings by limiting the amount of time that is spent reviewing the pillars of the Paris Agreement (this will take place in the first two days) and focussing instead on what they term 'real world' sectors where several of the Paris Agreement pillars apply. These real world themes will each be addressed over one day, from 3–10 December. (7 December is designated a day of rest.) The seven themes are:

- Health/relief, recovery and peace
- Nature, land use and oceans
- Food and water systems
- Just energy transition/industry/trade
- Youth, education and skills
- Finance/gender equality
- Cities, regions, and urbanisation/transport

Increasing crude oil production

Yet climate change activists are unlikely to be deflected from the role of the UAE and GCC exporters in perpetuating crude oil expansion.

In November 2022, ADNOC announced it was accelerating its expansion plan, and would aim to increase its production capacity by 1 mn b/d to 5 mn b/d by 2027 rather than by 2030, as previously planned.

In July, senior Kuwaiti government officials said that they expect Kuwaiti oil production capacity to rise by 300,000 b/d to 3.2 mn b/d by the end of 2024, and to reach 4 mn b/d by 2035.

Saudi Arabia is well advanced with plans to add 1 mn b/d of production capacity by 2027, taking its total capacity to 13 mn b/d.

The question of how GCC states can align themselves with the global policy agenda on 'net zero' while maintaining their current economic structures is one of the most challenging issues that the GCC will face in the years ahead. But it is also a global challenge: the role of oil and gas may reduce as a percentage of the global energy mix, but it is unrealistic to think that consumption of fossil fuels will decline in absolute terms in the years ahead. ■

COP28 needs to deliver – the reputation of the Middle East depends on it

HSBC is determined to use its scale and expertise to align the emissions they finance – their customers greenhouse gas emissions – to net zero by 2050, or sooner. In the following article, Zoe Knight, who heads HSBC Group's Centre of Sustainable Finance and leads on Climate Change for the MENAT region, reviews the progress which the UAE and other countries in the region are making towards their net zero goals.

Since moving to the Middle East a few years ago, I've noticed a clear sense of determination and ambition from government, business and society, to bring new leadership and vision to tackling the global challenge of climate change.

Continuing my global role heading up HSBC's Centre of Sustainable Finance, a think tank designed to solve the challenge of translating the science of a carbon budget into a workable approach for finance, I was also asked to become HSBC's regional lead for climate change. To do justice to both these roles, and not least because of the two UN Climate Change Conferences of COP27 and COP28 being held in the Middle East, I embraced the opportunity to make the move and call this region my home.

The Middle East's reputation with the rest of the world as the engine room of global energy supply has delivered mixed blessings. Strong ties of economic and social partnership have been forged, and the region has established itself as a reliable, stable and attractive destination for international investment.

When it comes to climate change and the transition to net zero, our region still has much to prove, but now is certainly the opportunity to seize the day.

COP27 in Sharm El Sheikh last year provided Egypt and the wider region with a platform to demonstrate to the world that leadership from the Middle East is an essential element in delivering global climate commitments.

That has become clearer still as we approach COP28 in Dubai. The UAE, which aims to generate 44% of its power from clean energy such as solar and wind by 2050, was the first nation in the Middle East and North African region to set a target to hit net zero emissions by 2050.

The other economies of the Gulf Cooperation Council all now have their own national targets and decarbonisation agendas in place, and I expect COP28 to further emphasise the focus on problem-solving at the national government level. While the climate conversation is most frequently framed in terms of global goals, the obstacles to action are often local. Therefore, these issues need to be addressed by national policies and regulations in each market.

The UAE is taking a pragmatic stance, acknowledging that global net-zero progress is behind where it needs to be, and honestly assessing the commitments that will be needed to deliver the decline in emissions required over the next seven years to get the global economy on a path to net zero by 2050.

Reinforcing and delivering on the commitments agreed in Egypt, as well as the landmark Paris Agreement at COP21 in 2015, will be a key benchmark of success for COP28. Achieving this will help position the Middle East at the heart of the global energy transition.

Climate change solutions cross all sectors and markets and range from the diversification of economies away from a reliance on carbon intensive energy as a source of national wealth, as well as a decarbonisation of existing business operations. Using the economic power of the region to invest in existing and emergent sustainable energy sources, here and further afield, is a clear way Gulf economies can meaningfully contribute.

HSBC has a responsibility to address the climate challenge in two areas: through the implementation of a net zero transition plan for our own business, and by supporting our clients in their own net zero transitions. For many years now we have been in detailed discussions with clients across all sectors, assisting them with transition planning, offering sustainable finance solutions to help them take initial steps, and then regularly taking stock on progress.

One thing I often hear from clients is their appreciation that progressing in their net zero transition isn't simply the right thing to do for the planet, or for individual business reasons, it is also essential if Middle Eastern economies are to keep pace and compete with other global markets, notably those in the Association of Southeast Asian Nations which groups 10 of the world's most dynamic growth markets.

At HSBC, we see that one of the powerful impacts we can have in the transition to net zero is in scaling up climate finance. We can connect the markets in this region with new businesses and new technologies, as well as build capacity for each country to accelerate their energy transition. This is a huge challenge, manifesting itself in national, regional and global economic policy, but we will bring our international expertise to our clients and partners, and help COP28 deliver on its vital responsibilities to society. ■

Zoe Knight

Zoe Knight is the Group Head of HSBC's Centre of Sustainable Finance, and Head of Climate Change in Middle East, North Africa and Turkey. She is based in Dubai. She has worked with HSBC in various positions related to climate change and sustainable finance since 2010 before which she held roles in equity and investment analysis.

The rise of solar energy across the Middle East

Egypt – Benban solar park, in Aswan in southern Egypt, covers 37 square kilometres and will contribute to the Egyptian government's target of generating 42% of energy from renewables by 2035. The park comprises 34 solar power plants with a capacity of 50 MW.

UAE – 5,000 MW capacity Mohammed Bin Rashid Al Maktoum Solar Park in Dubai, is expected to save over 6.5 million tonnes of carbon emissions annually. Abu Dhabi's Al Dhafra Solar PV project, at 2,000 MW is the world's largest single solar site and is expected to provide clean energy to more than 110,000 households.

Saudi Arabia – Plans to boost its renewable energy capacity to 58.7 GW by 2030, from a target of 9.5 GW by 2023. Solar energy is expected to account for 68.1% of the 2030 goal.

Qatar – Plans to produce 20% of energy from solar power by 2030, and in 2022 it launched its 800 MWp Al-Kharsaah Solar PV Independent Power Producer, the country's first large-scale solar project. It covers 10 square kilometres, roughly the equivalent of 1,400 football fields.

Oman – Inaugurated in 2022 the 500 MW Ibri Solar Power Plant, the country's largest clean energy production facility, which is expected to help reduce greenhouse gas emissions by 340,000 tonnes a year, according to MESIA.

Just Energy Transition Partnerships (JETPs)

- In July 2022, ahead of COP27, Egypt announced its Nexus for Water, Food and Energy (NWFE) program, the country's just transition platform to identify priority projects across the pillars that will give momentum to the energy transition.
- HSBC recently played a key role in helping to finance a new onshore 500-MW wind farm which is part of Egypt's NWFE programme in the Gulf of Suez area.
- JETPs bring stakeholders together to enable a clean, fair energy transition in emerging economies that rely heavily on coal. These multilateral financial agreements aim to accelerate the phase-out of fossil fuels, in a way that addresses the social consequences of doing so.
- JETPs emerged in 2021, when a $8.5 bn deal was announced for South Africa, in partnership with France, Germany, the United Kingdom, the United States and the European Union. This was followed by a $20 bn package for Indonesia and a $15.5 bn agreement for Vietnam last year.
- JETPs aim to implement policies that support affected communities in emerging economies – for example, ensuring workers in coal regions can access retraining.

Follow the Money: how profitable environmental crimes contribute to climate change

Behind much of the environmental destruction and climate change that the ESG agenda seeks to combat lies a highly profitable underground economy that the Financial Action Task Force (FATF) estimates is worth \$110 bn – 281 bn every year. Yet financial crime related to environmental and social issues is under-reported and its significance underestimated.

Arab Banker asked Elizabeth Humphrey, a financial crime researcher at Themis, a specialist anti-financial crime platform, to explain the connection between environmental damage, climate change, and financial crime.

In recent times the novelty of the so-called 'ESG agenda' has started to wear off. For some banks, the temptation is now to treat ESG as a tiresome set of box-checking exercises necessary only to avoid regulatory fines and reputational risks. As this weariness creeps in, it is essential that we recall the underlying human and environmental purposes of the ESG agenda and revisit how banks can most powerfully leverage their position as the repositories of global money to drive the ESG agenda forward.

Banks, and all of us, would be wise to remember the catchphrase, 'follow the money'; and in ESG, there is plenty of money to follow.

Organised crime groups (OCGs) and financial criminals are some of the most powerful players contributing to ecosystem destruction and climate change – yet they are often forgotten in discussions regarding the climate crisis.

As a result, the proceeds of environmental crime go relatively under-detected and under-prosecuted compared to many other predicate crimes to money laundering such as drug and human trafficking.

Banks can promote the ESG agenda through more effectively embedding detection of environmental crime networks and flows within their broader financial crime control systems. In doing so, they can leverage increasingly sophisticated anti-money laundering (AML) due diligence technology to detect customer, supplier and investment linkages to environmental crime and put an end to environmental crime profits moving through their own coffers. As the world prepares for COP28 later this year, a focus on environmental crime gives financial institutions an opportunity to show that they are participating in the full range of solutions to climate change.

Environmental crime is a predicate crime to money laundering

At first glance, financial crime and climate change may appear unlikely bedfellows. However, a closer look reveals their cyclical, co-reinforcing nature. At the heart of what one might call the 'financial crime/climate change nexus' is a whole range of highly profitable environmental crimes, from the illegal wildlife trade (IWT) to illegal mining, logging, waste disposal, and pollution, proceeds of which criminals seek to launder through legitimate financial institutions. While no single definition of environmental crime exists, the European Commission's definition considers it as any act that breaches environmental legislation and causes significant harm or risk to the environment and human health.

These illicit activities wreak havoc on the earth's ecosystems, capture whole local economies, and foster socio-political instability – consequences that in themselves demand global attention. Implications for global warming add still more urgency to the problem: in destroying key ecosystems, criminal activity devastates naturally occurring carbon sinks, which provide approximately one third of the emissions reductions needed to keep global warming below 2 degrees centigrade.

FATF makes clear that climate change and related environmental devastation cannot be fought in isolation. To address it, we must dismantle the profit and incentive structures driving organised criminals and illicit businesses toward environmental crime. Banks can lead the way through robust due diligence processes.

Elizabeth Humphrey

Elizabeth Humphrey is a financial crime researcher in the Themis Insight team and a PhD Candidate at the London School of Economics. Elizabeth analyses financial crime risks facing specific jurisdictions and industries, with a particular focus on illicit financial flows linked to informal mining. She has previously worked as a political risk consultant for natural resource companies operating in Africa and the Middle East.

Thinking like a criminal: environmental crime as a path to profit

While we often condemn environmental crime on moral grounds, the drivers are material – few people are interested in damaging the environment as an end in itself. Behind environmental crimes are massive financial incentives: a huge underground illicit economy that is growing at 5–7% per year, according to the European Commission. That is two or three times faster than usual rates of global economic growth.

There are a range of reasons for this rapid growth in environmental crime activities and profits. Perhaps most prominently, environmental crime is seen as a low-risk, high-reward market. Detection and law enforcement is lacking, and legal penalties are relatively lenient. Notably, although criminals rely on financial crimes including money laundering, corruption, and document fraud, courts typically charge them only with environmental crimes, which in most jurisdictions carry low penalties. As a result, many actors historically involved in other predicate crimes such as drug trafficking are strategically diversifying into environmental crime.

Profits with environmental consequences

Environmental criminals use a wide range of illicit financial tools, including bribery, document forgery/manipulation, fraud, smuggling and corruption, to facilitate their profit-making from environmental crime.

Using these tools, terrorist organisations and criminal groups smuggle precious animal products, capture unregulated mining supply chains, and undercut legal trash disposal, among many other crimes. The consequences of these techniques extend far beyond financial losses for legitimate economies, disrupting ecosystems, depleting essential carbon sinks, and leaching harmful toxins into surrounding areas.

Profits with social and livelihoods consequences

The financial crime/climate change nexus also has severe impact on people's livelihoods, and as a result, banks need to focus closely on the 'S' in ESG. Unregulated mining, for example, is a hotspot for human rights violations including child and slave labour, while so-called 'conflict minerals' often fund terrorist groups and fuel inter-communal violence and instability. In terms of illegal logging, it is estimated that 40% of all deforestation is undertaken by enslaved workers. Such land clearing also leads to more severe natural disasters, with severe consequences for local communities. Pollution and wildlife degradation increase the threat of food insecurity, disease, and mass displacement.

Illicit activity can compromise a state's ability to undertake its ordinary, legal functions. Flourishing illegal economies weaken a state's ability to deliver basic services. In a striking statistic, formal taxable revenues lost through environmental crime are estimated to be 10,000 times greater than the amounts spent to combat environmental crime.

A cycle of dependency: the political economy of environmental crime

Organised crime groups sometimes manage to capture whole local resource economies, leading to widespread dependency on underground illicit trades. Particularly when governments struggle to offer basic services and protect legitimate supply chains, populations may turn to alternative, illicit markets for much-needed income. This often leads to cycles of exploitation and coercion to maintain large illicit profit margins.

Likewise, more and more legal businesses appear to be turning toward illicit mechanisms to fill a growing profit gap. Such conditions leave communities more vulnerable to socio-political instability and, in some cases, recruitment by terrorist or criminal groups.

Climate implications of the vicious cycle

The ESG agenda encourages us to consider environmental destruction and climate change as interconnected challenges. Indeed, fighting illicit environmental destruction is key for mitigating climate change, particularly because of the so-called 'biodiversity/climate change nexus'. Net carbon emissions rise as a result of human destruction of key ecosystems, which otherwise provide an important natural carbon sequestration mechanism.

As such, climate change will only worsen as environmental criminal economies continue to flourish. Statistics are already shocking: 15% of carbon emissions come from deforestation alone, while the vast outputs enabled by modern slavery in deforestation, illegal mining, and other criminal economies together constitute the third highest carbon emitter globally.

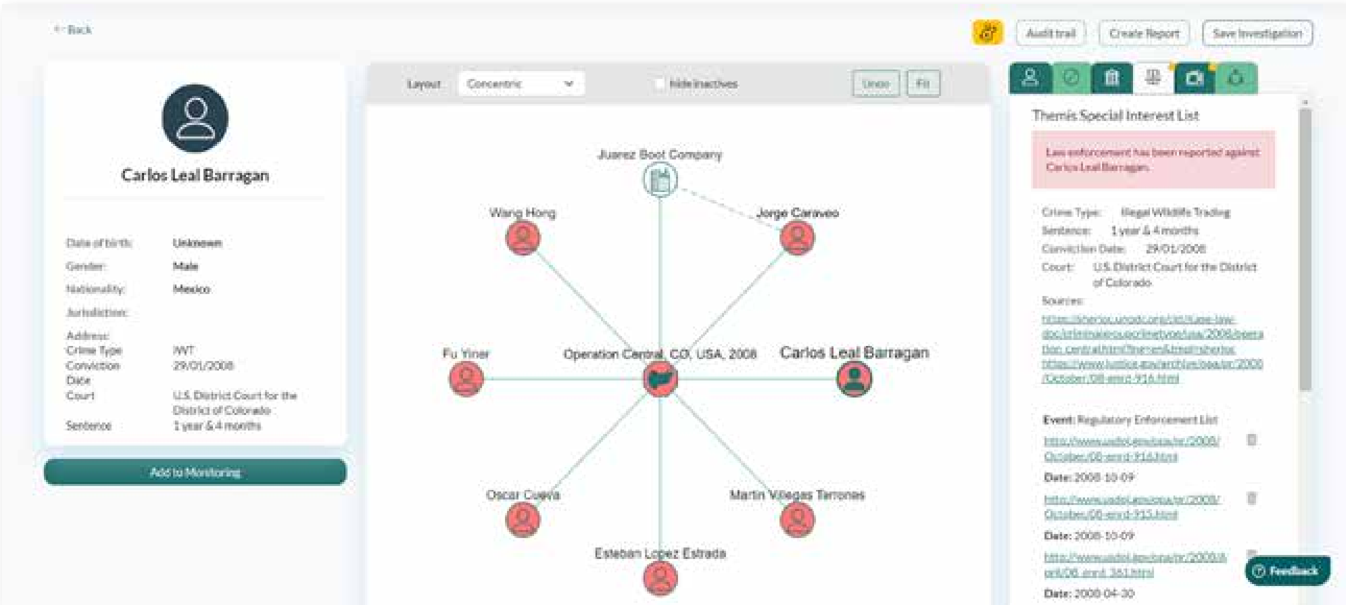
Perhaps the most urgent area to address is the illicit logging economy now flourishing under drug cartels in the Brazilian Amazon. According to new reporting by the United Nations Office on Drugs and Crime, recent years have seen organised crime groups capture whole swathes of Brazil's logging market after former President Jair Bolsonaro dismantled regulations and environmental protection agencies. Criminal groups took advantage of this vacuum to extend and tighten their control of mining and logging economies, diversifying away from the drug trade in what is now being called narco-deforestation. This has fed a cycle of exploitative reliance upon the drug cartel economy amongst local communities and massive cuts to some of the globe's most important carbon sinks.

Brazil's deforestation crisis is not the only example of environmental crime damaging carbon sinks. Incidents of mass illegal fishing, often practised alongside illegal logging, have also devastated ocean carbon sinks. Notably, vast swathes of mangrove forests located in the Bangladesh and India Sundarbans UNESCO World Heritage Site have been destroyed for illicit shrimp aquaculture camps.

If this trend continues, we will also see climate change itself feeding the growth of organised crime, bringing the crisis full circle. Greater demographic pressures and mass environmental migration will breed opportunities for human trafficking and exploitation, while severe weather and food insecurity will foster widespread instability and conflict.

Themis

Themis is an award winning, B Corp anti-financial crime specialist with a digital platform that helps clients manage their financial crime risk exposure. Themis' technology, research and investigations help organisations understand these strategic threats through an ESG and socio-economic lens and protects their customers, staff, suppliers and shareholders from criminal attacks or association.



What can banks do?

Despite growing awareness of the financial incentives behind environmental crime and implications for climate change, there is a lack of action to address these inter-connections in the financial services industry and further afield. We recommend focussing on the following points in revived efforts to address climate change rooted in financial crime and illicit economies.

- Remember why ESG regulations were put in place in the beginning. Amid complex debates around ESG ratings and concerns over greenwashing, we often forget the driving motivation behind the fashionable trend of ESG: minimising violations of environmental regulations and preventing non-compliant actors and criminals from degrading environmental and social resilience in the name of illicit profits.
- Intensify and invest in cutting-edge due diligence of environmental crimes in your suppliers', your investments' and your customers' supply chains. Ensure that AML systems track environmental crime as a predicate crime to AML and spread awareness of environmental crime red flags and detection processes to all levels of the business. Promote a broader culture of risk mitigation and due diligence led by senior management.
- See the opportunities, as well as the risks, in digitalisation and globalisation: while criminals are currently profiting from digital markets with lower thresholds to entry, anti-financial crime initiatives are also harnessing tech to fight back. Digitalisation of anti-trade-based money laundering (TBML) processes, digital tracing technologies, and intelligent AML tools provide exciting avenues for effective combatting of the financial crime-climate change nexus.
- Start prosecuting financial crimes in addition to/instead of environmental crimes. Once banks start detecting more environmental crime through AML systems, there will be more opportunities to file related suspicious activity reports and ultimately to spur more prosecution of these activities as financial crimes. Financial crimes typically possess harsher penalties than environmental crimes and are more stringently regulated. Shifting towards prosecuting for the financial crimes at play would address the current perception of environmental crimes as 'low risk, high reward' illicit markets, increasing law enforcement and legal consequences.

Looking more broadly at the country-level perspective, Themis also advocates the following measures:

- Increase regulatory focus on environmental crimes. The EU's sixth Anti-Money Laundering Directive (6AMLD) declared environmental crime to be a predicate crime for money laundering, which increases regulatory expectations on financial services to screen for potential environmental crime violations in clients and third parties. FATF's 2020 Special Report on Illegal Wildlife Trade has pushed expectations, as has Operation Thunder, a collaborative initiative between the World Customs Organization and the UN Environmental Programme (UNEP) to increase detection and law enforcement of transnational flows of environmental crime proceeds and products.
- Continue pursuing legal reforms to criminalise environmental crime more effectively. Growing frustration with the limitations of the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) has led to growing efforts around the globe to increase and systematise criminal liability of companies committing environmental crimes. Chile has adopted new legislation introducing further penalties for environmental crimes. Meanwhile, the term 'ecocide', or a crime of mass destruction to the environment, has gained traction and there are growing efforts to codify the concept in France and the EU more broadly.

Themis helps clients to identify potential links to environmental crime among clients, investments, suppliers and third parties. The Themis Search and Monitoring due diligence platform - which enables clients to search for links to all criminality and adverse media – is underpinned by proprietary conviction data on a range of predicate crimes, including environmental crime and wildlife trafficking and is continually updated by specialist financial crime researchers and comprehensive data feeds.

The Themis Search map above reveals a criminal operation in which seven individuals were convicted for illegally trading a range of products, including skins from protected sea turtles and other wildlife. ■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Ten UK Regulatory Priorities for Middle Eastern Banks: an update from BDO's regulatory team

The UK's financial services regulatory landscape continues to evolve, presenting a variety of complex challenges to regulated banks. *Arab Banker* asked Shrenik Parekh and Bruk Woldegabreil, from BDO, to identify the top 10 business and regulatory priorities for Middle Eastern banks operating in the UK.

The following article draws on many of the points raised during a seminar that BDO hosted earlier this year with CEOs and senior executives from London's Arab banking community.

Banks in the UK are subject to the regulations of the Prudential Regulation Authority (PRA), which operates under the Bank of England, and the Financial Conduct Authority (FCA). The FCA works with banks to ensure fair outcomes for consumers and the PRA creates policies for banks to follow, as well as supervising other aspects of a bank's business.

The Consumer Duty

At the end of July 2023, the FCA Consumer Duty requirement came into force for retail and SME products and services. Banks should have implemented outcomes focused Management Information frameworks, have effective board assurance over the delivery of the Consumer Duty programmes, and they should have undertaken training and roll-out to staff.

The FCA has published a series of podcasts and outputs from thematic reviews relating to the Consumer Duty. The most recent of these on Price and Value demonstrates that banks should be carrying out more detailed analysis of price and value for different customer groups with ongoing monitoring and analysis a key part of annual product governance. This becomes even more critical where banks have customer groups that are more specialised. Banks need to be able to explain who their customers are, what their needs and desired outcomes are, and how these outcomes will be measured in practice.

The FCA has stated in their latest business plan that a budget of £5 mn has been allocated to supervisory work to test the 'successful embedding' of the Consumer Duty, so we can expect to see focused attention on banks over the forthcoming year.

Climate Change; Environmental, Social & Governance (ESG); and Culture

Climate Change and ESG continue to be a high priority for the PRA and the FCA. The supervisory strategy from both regulators indicates that this will be a key focus on how banks are managing risk and how they are meeting regulatory expectations.

By 2024, banks will need to have a transition plan in place. This should be aligned to their overall strategy, setting out how they will contribute to and prepare for the global move to a low emissions economy. The Middle East is key to global ESG and climate developments, so this is crucial for Arab banks. Also, those with the most mature ESG strategies can maximise opportunities for green finance and products.

By the second half of 2023, banks should be compliant with the new anti-greenwashing rule, which is part of the FCA's Sustainability Disclosure Requirements (SDR) and labelling regime. Data management has also been a major focus. Regulators expect that from 2024, reporting and disclosures will provide more detail on how banks have implemented Task Force on Climate-Related Financial Disclosures (TCFD) recommendations.

As the focus on ESG increases, regulators expect that boards will be taking increased responsibility for driving banks' strategies. They should be prepared to answer questions about attitudes, incentives, and how ESG is being incorporated into banks' culture and decision making.

Culture in financial services remains a top priority for the UK regulators and is an important thread in much of the guidance issued and regulations implemented. Good organisational culture should promote good behaviours which in turn support good outcomes for customers, shareholders, and the wider markets. The FCA assesses culture against four key drivers: purpose, people, leadership, and governance. Banks will need to demonstrate an active approach to setting, measuring, and monitoring these drivers. In April 2022, the FCA published Policy Statement 22/3 which marks the first requirement for listed banks to formally report on diversity and inclusion (D&I) in their annual financial statements. Diversity promotes a range of experiences and perspectives which can reduce the risk of 'groupthink', encourage innovation, and support safety. While currently applying to banks that fall within FCA's Listing rules, certain UK issuers, and overseas listed companies, the new requirements are likely to be a first step in setting benchmarks for all financial services sub-sectors, including Arab banks.

Regulatory Reporting

Basel 3.1 is the final piece in the UK's implementation of the Basel 3 package of reforms, which focuses on the amounts of capital and liquidity banks should hold. Basel 3 was the standard setters' response to the 2008 global financial crisis and its provisions have been published and implemented by regulators over the past ten years. Basel 3.1 is expected to go live on 1 January 2025. The Basel 3.1 proposals set out some significant changes to the way banks calculate their risk-weighted assets in order to arrive at their Pillar 1 capital ratio. Basel 3.1 will also be the first major regulatory change post-Brexit, and this provides the regulator with the opportunity to undertake a wholesale review of its rulebook and to apply a more proportionate approach, referred to as the 'Strong & Simple Regime'. The capital requirements under the simplified regime are expected to be published later in 2023. For Arab banks, this will require an impact assessment on capital ratios, a review of risk appetite and pricing, as well as IT changes, documentation updates, and revised business processes. Banks should start planning now to understand the impact and the resources required to address this complex and significant change.

Shrenik Parekh

Shrenik Parekh is a Director in the Financial Services (FS) Advisory team of BDO UK. He leads the FS Governance and Risk Advisory team and has significant experience of providing risk and regulatory advisory services, including the delivery of Skilled Person Reviews and remediation projects, on a broad range of topics to a variety of financial services institutions, including UK subsidiaries and branches of foreign organisations.

Economic Crime

Financial Crime prevention remains a high priority for UK regulators. The landscape will continue to evolve and be an area of regulatory scrutiny for banks. The FCA's 2023/24 Business Plan makes clear that it will be increasing the number of assessments carried out on banks' anti-money laundering (AML) systems and controls.

With respect to fraud, a new 'Failure to Prevent Fraud' offence will be introduced through the Economic Crime and Corporate Transparency Bill. This is part of the UK Government's Economic Crime Plan 2, which has a significant focus on cutting fraud. Arab banks will need to ensure they devote significant time, attention, and resources to having adequate fraud prevention controls in place.

Sanctions against Russia, in response to the invasion of Ukraine, continue to evolve. On 19 May 2023, the UK designated an additional 86 individuals and entities under the Russian Sanctions Regulations and a further package of EU sanctions against Russia is expected to be announced

Bruk Woldegabreil

Bruk Woldegabreil is an Associate Director for Internal Audit in BDO's Financial Services Advisory Team. He is a banking professional with more than 15 years' experience across corporate banking, retail banking, payment operations and group executive functions.

soon. Arab banks need to stay abreast of these developments and be prepared for ever-greater scrutiny of their systems and controls.

Technology and AI

There has been exponential growth in the application of technology and automation in banking, with a substantial interest in artificial intelligence (AI). While this has many benefits for customers and banks, it also carries risk. Banks need to ensure that they have robust controls in place to identify, assess, manage, and monitor technology and cyber risks. This is a key component of operational resilience. PRA Supervisory Statement 2/21, Outsourcing and Third-Party Risk Management, introduced in March 2022, sets out the requirements, including for cloud-based technologies, on which banks are increasingly reliant.

Model Risk Management

In 2022, the PRA highlighted weaknesses in banks' Model Risk Management (MRM). The regulator has now published its revised expectations for effective MRM principles (PRA Policy Statement 6/23). This applies to any Excel formulae used as well as more formal models. Arab banks will need to understand the limitations of these models and proportionately manage the risks associated with their use. Given the sector's increasing reliance on data models for decision-making, and recent regulatory activity in this area, banks should expect increased scrutiny.

Credit Risk Management

Over the forthcoming period, credit portfolios will be under a great deal of pressure from increasing interest rates, continued high inflation, the rising cost of living, geo-political uncertainty, and supply chain disruptions.

In recent years, banks have tightened underwriting standards, enhanced their forbearance measures, and improved their collections operations. However, these enhancements are yet to be tested under such a combination of credit risk factors. For Arab banks, the focus will centre on higher risk areas including leveraged lending, commercial real estate, buy-to-let, and SME lending. The PRA will review banks' early warning indicator frameworks and request enhanced data and analysis.

Governance

It is critical that board directors, now and in the future, have appropriate collective competencies, skills, and experience. Appropriate governance and board effectiveness, including 'tone from the top', should be woven into banks' strategy and risk management. Boards, including INEDs, also need to be effective in fulfilling banks' strategic needs, while ensuring compliance with the UK regulatory regime. This also includes the Group Entity Senior Manager (SMF7), typically a shareholder NED employed by another group entity which has significant influence on the UK-regulated entity. In addition, Arab banks will need to consider the requirements for Diversity, Equality, and Inclusion in board and senior management structures stemming from the FCA and PRA's recent proposals. These requirements will be dependent on further consultation and guidance expected in the forthcoming months.

Financial Resilience

Considering the economic outlook and taking into account the collapse of Silicon Valley Bank earlier this year, the PRA expects banks to assess the sustainability of their business models. Financial resilience should take account of market dynamics, such as the proliferation of financial technology and competition. For Arab banks, the PRA will continue ongoing assessment of firm-specific capital and liquidity positions and how these may be impacted by the UK's cost of living crisis and international supply-side shocks in corporate and institutional borrowing. Areas of supervisory focus will be on retail and wholesale funding conditions, and drawings from the Term Funding Scheme which are due to mature in the coming years. Supervisors will continue to work with banks to enhance their own capabilities in scenario development and testing, in response to the current environment.

Operational Resilience

In response to increasing digitisation, changes in payment systems, and legacy IT systems, many banks are undergoing large and complex IT change. These changes come with their own risks, as was seen earlier in the year with the PRA's fining of the former Chief Information Officer of TSB for breaches in governance over an IT migration programme.

There has been a material increase in services being outsourced, particularly to cloud providers, and the number of banks offering crypto products continues to grow. This presents new risk management challenges for Arab banks. The regulator will continue to scrutinise banks against operational resilience requirements, and the banks' own self-assessment and testing. The PRA expects the risks associated with IT change to be well managed, and outsourcing arrangements to meet the requirements regarding outsourcing and third-party risk management. ■

New destinations offer new opportunities for investment in London property

Middle East investors in London property have historically focussed on the 'West End', and particularly on upmarket districts such as Knightsbridge, Kensington and Mayfair. Those areas remain attractive, but new transport links and the prospect of more space and modern amenities is opening up new districts a little further from the centre.

Arab Banker asked Sally Higgs, a Senior Valuer with London Chartered Surveyors Belleveue Mortlakes, to walk us through some of the new developments.

There has been a huge amount of new residential property development in London over the past ten years. The most visible areas have been Battersea and nearby Nine Elms, but Docklands, to the east of Tower Bridge, which was first developed in the late 1980s and in the 90s, has continued to grow, particularly around Canary Wharf and Woolwich. There have also been some major developments a little further east, in Canning Town, close to London City Airport.

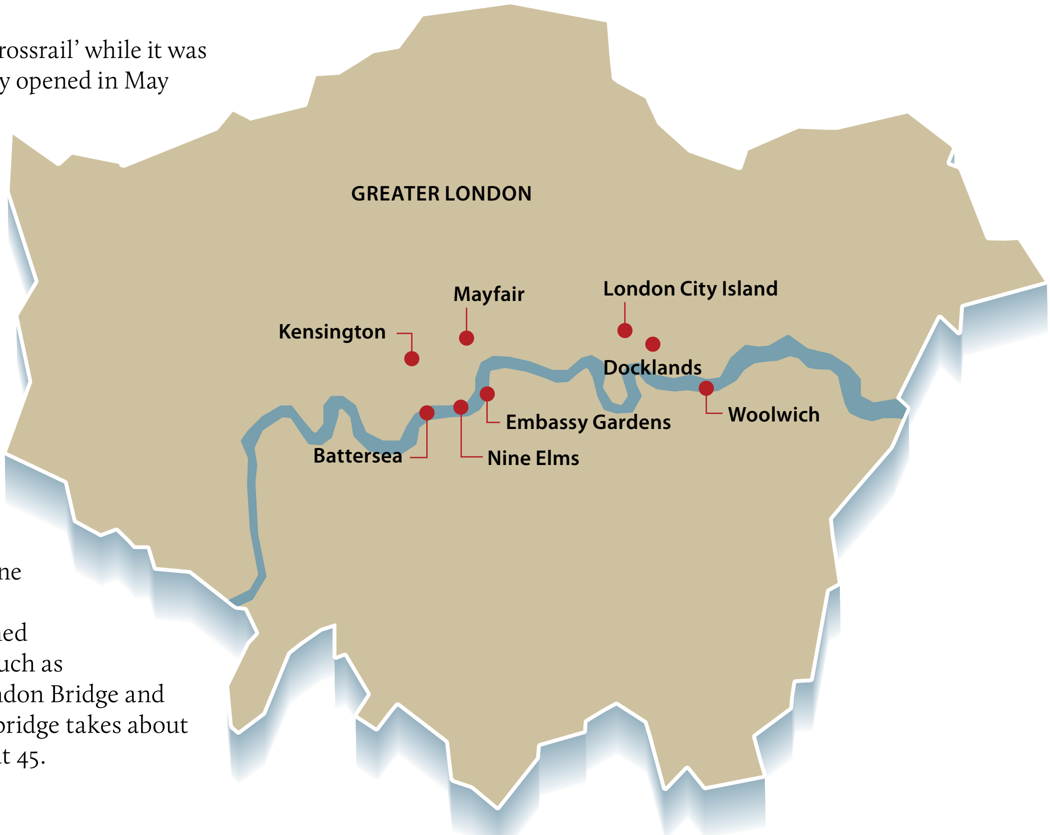
Some of these new developments are on compact sites with most of the flats in high rise towers, perhaps 40–50 stories high, while others are on larger, lower rise sites with an emphasis on more outdoor space including communal gardens. A common feature is an extensive range of on-site facilities. Many are close to or even incorporate London landmarks. Most obviously, there is the Battersea Power Station development, which retains the four iconic chimneys. Embassy Gardens incorporates the American Embassy. London City Island, Goodluck Hope and Canary Wharf have the O2 entertainment complex on their doorstep, while Woolwich and Stratford have the Thames Barrier and Olympic Park.

These districts offer some of the best views of London and the river Thames.

Better transport links

London underground's new Elizabeth Line has been a significant factor in opening up less central locations and encouraging buyers to consider living outside the centre, in what some are now calling London's 'villages'. Royal Wharf in north Woolwich for example incorporates a new school, community centre, high street and GP Surgery. Embassy Gardens, which forms part of the Nine Elms regeneration area, includes public areas with naturalistic planting and shopping and dining venues.

London City Island



The Elizabeth Line was known as 'Crossrail' while it was being built. After many delays, it finally opened in May 2022, and runs across town, from the west of London, through central London, and then east to Canary Wharf and the Thames Estuary, and north east towards Essex. A cross-town journey from Heathrow to Canary Wharf on the Elizabeth line takes about 50 minutes, while from the West End, Heathrow can be reached in half an hour – with no need to change trains. In both cases this is a huge improvement both in time and convenience. The new Woolwich Arsenal residential development is just a few minutes further down the line from Canary Wharf.

The Thames also has well-established ferry services that connect districts such as Greenwich and Canary Wharf to London Bridge and Westminster. Greenwich to London bridge takes about 25 minutes, and to Westminster about 45.

New versus traditional

The newly developed sites generally offer very different living accommodation from that available in the more traditional mansion blocks in central locations: open plan kitchens and reception rooms, en suite bathrooms, balconies and winter gardens (enclosed, glass covered balconies) designed to provide outdoor living space all year round – a particularly important feature given the unpredictable nature of British weather!

Newly built property generally comes with the latest design features and a 10-year warranty. Many older properties in central locations may require significant works in order to appeal to modern buyers. Planning restrictions could make this difficult or in some cases impossible.

Due to stringent new laws on energy efficiency, those investing in a new development can expect their property to meet forward looking Energy Performance requirements. It is expected that from 2025, all rented property will have to show an Energy Performance Certificate of C or higher. This is more achievable in new developments than in second-hand, and no development that is now being built should fall short of this standard (though buyers should check for themselves!).

There is also the question of security, which can be important for those with young families, and also for students or young people who are new to London. Many of the new developments have 24-hour concierge services and underground parking. Quite apart from enhancing safety, such facilities can be invaluable to those who use the property only part of the year.

Belleveue Mortlakes

Belleveue Mortlakes is a London-based firm of Chartered Surveyors that specialises in valuations for both commercial and residential properties, and also acts as an LPA property receiver. It is currently working with approximately 40 banks and financial institutions in the UK and overseas as well as private individuals, trusts and family offices.

Damac Tower, Bondway, Nine Elms

Sally Higgs

Sally Higgs is a Senior Valuer with Belleveue Mortlakes who focusses on London Property. Before joining the firm, she gained experience with several practises both large and small. She is a Chartered Member of the Royal Institute of Chartered Surveyors (RICS) and has a Diploma in Surveying Practice from the University of Reading.

Other amenities can include private dining areas, business lounges and health centres to which residents enjoy privileged access. London City Island, opposite Canning Town station, has an open-air swimming pool and a rooftop sports pitch. The site also hosts the English National Ballet.

New developments as destinations for non-residents

Battersea Power Station has become a night-time destination for non-residents, who can take advantage of the extension to the London underground's Northern Line. The new underground station is within the development. Offices and shops in the development also act as a welcome addition to the surrounding area which was previously hard to get to by public transport.

In addition to shops and restaurants, Battersea Power Station has 'Lift 109' which takes visitors to the top of one of the chimneys for a panoramic view of London and the Thames.

Despite the opportunities presented by better transport, and the space and amenities afforded by new sites located a little outside the centre of town, there will always be reasons why some buyers will prefer traditional areas such as the West End – family connections and the location of existing property investments, for example.

We do see spacious new developments in traditional districts, although they are less common. An example is Kensington Row, on the corner of Kensington High Street and Warwick Lane, which has communal gardens, a swimming pool and spa, and secure parking to accompany its 160 apartments, spread over four blocks.

Some buyers may prefer to buy in a development which is a few years old, and where the rhythm of life and the profile of other residents can be assessed. Prices of existing developments can be lower than those that are brand new, although there could also be discounts for buying off-plan.

It is difficult to generalise about the pricing of one area in relation to another, since precise location and specific amenities within a building can make a big difference to the cost of property. However, to give an idea, we are seeing pricing of about £1,300–£1,800 per square foot in the Battersea and Nine Elms region, compared to about £900–£1,600 per square foot in Docklands.

That translates to prices of about £750,000 to £1,300,000 for a two-bedroom flat in Battersea and Nine Elms, and about £1,250,000 to £3,000,000 for a three bedroom flat. The equivalent ranges in Docklands would be about £700,000 to £1,000,000 and £1,000,000 to £2,500,000. But, individual factors do make a big difference.

Buying residential property, whether for personal use or for investment, will always be subject to particular factors specific to the person making the purchase. The good news is that new developments are providing more choice and a wider variety of options to those wanting to invest in London. ■

Hampton Tower, South Key Plaza, Canary Wharf

Taking a new perspective on UK property investment

The UK's residential property market has long proved to be an excellent opportunity for overseas investors to accumulate capital gains and rental income. GCC investors, in particular, have seen it as a safe haven where healthy returns have been almost guaranteed.

But in recent years, the UK's residential property landscape has been changing, forcing investors to take a more sensitive and targeted approach.

In the following article, Maisam Fazal, the Chief Commercial Officer of Al Rayan Bank, gives his interpretation of recent developments in the UK's residential property market.

The price of UK residential property is no longer rising consistently, as it has usually done in recent decades. Rather, it is stabilising, and capital growth can no longer be assumed. Nonetheless, our view at Al Rayan Bank is that UK residential property remains an interesting and rewarding opportunity, provided that investors are alert and well-informed.

Specifically, we believe that the opportunity for returns will lie in rental income rather than realising capital growth through sales.

So, what has changed, and what are the new factors that investors should consider when formulating their investment strategies?

Setting the scene

Firstly, we are seeing a slowdown in the number of new properties coming onto the market and this is creating a shortage of supply. As for demand, this has been dampened as mortgage rates (referred to as finance rates in Islamic finance) have risen in line with the increases in the Bank of England's Base Rate – the Bank of England has raised rates more than 10 times since December 2021.

At the same time, many first-time buyers who might have chosen an interest-only mortgage structure (known as rent-only in Islamic finance) in the past are finding that banks and building societies are hesitant to offer interest-only financing now, due to fears that property values might fall.

These factors have dulled demand from house buyers and thus contributed to several consecutive months of decline in average UK house prices between August 2022 and February 2023, and this has been followed by further declines.

As for the rental market, average rents in both London and across the UK are at record highs as a result of the limited supply of properties becoming available.

However, the reform of the UK's property tax regime is bringing big changes that landlords need to address. New legislation is introduced every year to ensure properties are maintained by the landlord while at the same time, tenants have more rights.

In the past, yields of 5–6% could be confidently expected, alongside a financing cost fixed at 2–3%. Spreads were higher in the north of England due to the increased risk of voids and various other factors. However, most GCC customers, through an appropriate tax structure, were able to achieve returns on their investment between 8–12%, depending on the location of properties.

As a result of a big legislative overhaul in April 2020, landlords with properties in their personal names were no longer able to deduct their property finance costs from their rental income. Other costs/expenditure that related to property management and refurbishment were also restricted.

This overhaul led to many investors who were in the higher tax paying brackets exiting the market or considering appropriate structures in order to ensure viability of their investment. Most of the purchases today are through a limited company structure but, again, this is dependent on personal circumstances and appropriate advice must be sought.

Shifting strategies

Against this background, investors need to take a broader view of UK property and think clearly about where to invest.

The Covid pandemic has altered the structure of the UK property market, making the traditional London 'hot spots' less attractive relative to new areas. This is due to the larger number of people now working from home, and who are therefore less tied to central London. Most offices now have some form of hybrid working, allowing their staff more flexibility around where to live. Fewer people now need to live in London and living further out offers the opportunity for a better lifestyle with more disposable income.

Furthermore, improvements in transport infrastructure have reduced commuting times from peripheral towns such as Slough and Reading. Travel times from towns 50 to 100 miles outside London into the City or the West End are now often little different to travel times from commuter belt suburbs on London's outskirts.

The new Elizabeth Line, which opened in 2022, has had a big influence on prices to the west of London. A journey from Slough to the West End on the Elizabeth Line takes half an hour, and another 15 minutes will take you to the City. Within an hour, you can be in Canary Wharf. It is no coincidence that residential house prices in Slough have increased by 81% since 2019 and rents by 44%.

The ripples from the changes in the London market have extended even to regional cities such as Birmingham and Manchester which have also seen significant increases in rents.

Maisam Fazal

Maisam Fazal is Al Rayan Bank's Chief Commercial Officer. He was appointed to his present position in 2018. Since joining the bank in 2013, he has overseen its pivot to focus on commercial and premier banking. He is also responsible for liabilities, product management, and marketing and communications.

Al Rayan Bank is the oldest and largest Islamic bank in the UK. Founded in 2004, the bank is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority and is a member of the FSCS. The bank currently serves more than 90,000 customers throughout the country and was the first Islamic bank in the UK to receive a public credit rating Aa3(cr).

Making money work harder

The stagnation of residential property prices means that a strategy based on holding an asset for three to five years with the aim of realising a big profit on sale is unlikely to be successful. Investors now need to make longer-term, more strategic purchases with the expectation of holding the asset for five to ten years.

Nonetheless, the residential market remains attractive. Though demand may have diminished, it still outstrips the number of new properties coming onto the market and, as a result, supply could slow further as developers' margins are squeezed even more.

Before Covid, development finance margins were as low as 4% above the Base Rate, with capital appreciation of 15–25% entirely possible by the time a project was finished. Today, the margins start at 7% above the Base Rate and if a project over-runs or raw material costs increase, then profit margins – already tight – could be wiped out. Therefore, many developers are considering their options before starting their development projects, which evidently will lead to a shortage of new properties coming onto the market.

This undoubtedly creates opportunities for the buy-to-let sector.

We are already seeing the estimated rental values of properties growing significantly between the start of development and their completion. For existing properties, our customers, on renewal of their tenancies, have achieved rents that are 8–12% higher with the existing tenants in place, or up to 20% higher with new tenants. It is reassuring to know that the market will support higher rents in an environment where the cost of financing is increasing.

However, investors should be cautious as rents cannot continue to increase. At some point, properties will become unaffordable, and landlords will have to accept nominal increases in rent to avoid long periods of vacancies. Thus, careful consideration should be paid to loan-to-value (LTV – finance to value or FTV in Islamic finance) and Interest Coverage Ratios (Profit Coverage Ratio in Islamic finance), which are a minimum compliance requirement for most banks offering investment solutions.

Opportunities await

Banks offering real estate finance are comfortable to support a sector such as residential property where demand is strong and property values have been sustained, in contrast to the commercial property sector where new ways of working have made a significant impact on demand and prices.

We also think that a strong secondary market and clear legal system will continue to be an attraction for GCC investors looking for a safe haven for their funds. Certainly, we are still seeing strong appetite from GCC investors for all types of residential property, from holiday homes in the centre of London to buy-to-let opportunities in the London commuter belt and in regional cities.

Our bank continues to have confidence in the UK residential property market, but we do recommend that clients make careful choices when identifying an asset in which to invest and consider the appropriate structure around their investment, calculating the financing returns that can be achieved taking into view all the covenants of the financing bank.

For example, it is important to analyse the interest coverage ratio: the ratio of gross rental income to property finance payments. It is also important for investors to be clear about the rate of return that they are hoping to make on the investment and which vehicle to buy/hold their investment in.

Our view is that investors should not be trying to finance more than 60–65% of a property's value since higher financing amounts are likely to start eating into returns which could endanger the future viability of the investment.

But with a careful and thorough approach, including appropriate due diligence, investors can have confidence in the UK residential property market. Al Rayan Bank certainly does, and with a focused strategy on residential investment, the majority of the asset growth of the bank in the last three years has been in this market, which is demonstrated through strong performance in 2022 financials. Given our continuing faith in the market, we remain open for business. ■

Real estate finance in the era of higher interest rates

Raed Hanna of Mutual Finance looks at the outlook for real estate in the UK amid increasing interest rates.

As I pen this article, we find ourselves in a rising interest rate environment with the Bank of England's base rate at 5%, and many people expecting it to rise further. UK headline inflation dropped from 8.7% to 7.9% in June, representing a 15-month low, while core inflation has dipped slightly to 6.9%. We have all been following the mood of the Bank of England and their attitude towards interest rate hikes. With inflation seemingly to be heading in one direction, until recently it has been inevitable that we would see interest rates rising. Other financial markets have followed suit and we have seen very similar characteristics in the US and across Europe.

With our focus on UK real estate, the question that we are asking ourselves is how the increased rates will ultimately impact the property and lending markets. High interest rate environments can have a significant impact on the commercial real estate market. After all, most borrowers rely on banks' and lenders' debt to improve their returns and the increase in rates makes that leverage more expensive for developers and investors, which decreases potential returns and, therefore, demand for new projects.

It has become obvious to us, our clients and other market professionals that with the increased interest rates, it has become more expensive for investors to borrow money to build or purchase properties. This increase has almost certainly led to a slowdown in the construction and development of new properties because developers are now hesitant to take on the added financial burden and project risk that higher interest rates bring.

Generally speaking in the UK the issue is not around the availability of debt – we are seeing increased sources of debt – but rather it is the general affordability of debt, taking into account the increased rates and reduced loan-to-values which lenders are now seeking. To be fair, lenders have not really changed their lending policies. Banks are still keen to lend and there is a great deal of liquidity. The fundamental change has been the Loan to Value (LTV) ratios. Ultimately, the increased cost of borrowing means you simply cannot achieve the same Debt Service Covenant (DSC). I would say that over the past 18 months the average LTV has reduced from 65%–70% down to around the 50%–55% mark.

Whilst current lending is priced and completed in the new interest environment, we find ourselves looking back at other deals that have been done over the past five years. These deals will now look rather less appealing than they once did. We are seeing several lenders who are beginning to experience difficulties with their legacy facilities. Where loans have been made in the past when interest rates were considerably lower, the ability of borrowers to fund debt is now under pressure. However, it is noticeable that lenders are doing their best to work with borrowers to find solutions. We have observed lenders waiving covenant breaches, amortisation, rolling up some element of interest and in some instances taking additional security to support existing positions. It must be said that, overall, we are seeing lenders acting fairly and responsibly to assist clients. There has been no rush to call facilities and generally lenders are working collaboratively with borrowers with mutually beneficial exit strategies. We have not seen any rush to make fire sales of assets.

We have been spoiled by the era of very low interest rates that we have experienced for so long. Looking back at interest rates over the past 25 years, we can see that the base rate has been as high as 15%, so today's rates of around 5–6% could be considered average or even modest when taking a backwards view. The UK base rate averaged close to 10% in the 1970s and 1980s. It fell to around 8% in the early to mid-1990s and then, from 2000 until the financial crisis in 2008, it averaged 5%. The financial crisis, the deep recession that ensued and then the Covid pandemic have resulted in a period of record low rates, with UK rates running at an average of 0.5% until late 2021.

In most recent times we have seen the Bank of England make the following decisions in 2023.

- **February** At its meeting on 1 February 2023, the Bank of England's Monetary Policy Committee (MPC) voted by a majority of 7–2 to increase the Bank Rate by 0.5 percentage points, to 4%.
- **March** Interest rates were increased to 4.25% by the Bank of England. The Bank's decision to lift rates for the 11th time in a row followed inflation jumping to 10.4% in the year to February, despite predictions it would fall.
- **May** The Bank of England raised rates, again, from 4.25% to 4.5% – the highest level in almost 15 years.
- **June** UK base rate was raised to 5% by the Bank of England, as it battled to control soaring prices and inflation.
- Further rates increases happened over the summer.

Essentially, with rates predicted to be at or around 5–6% for the foreseeable future, we should work towards considering this to be the new norm. The days of super low rates are long behind us. The reality is that we should be adjusting and modifying our working practices and outlooks.

Interest rate hedging has been a very important part of looking back at how prudent lending was achieved and we should certainly consider the benefits. Those who had the good sense to fix rates at much lower levels are now reaping the rewards of a valuable position in the current market. Fixed rate or hedged facilities are more secure and provide both lenders and borrowers with a greater sense of certainty and confidence in cashflow. Many borrowers, when taking new debt are now looking at hedging strategies. As a trend, borrowers are seeking to explore whether current fixed rate offerings would work. It is worth noting that over the summer, a five-year fixed rate was 4.8% which was less than the base rate at that time. Lenders should explore all options and work with clients to realise hedged positions.

Ultimately interest rates have a direct impact on the valuation of real estate. One of the more difficult points within lending structures is the valuation position and the feedback from valuers. We have seen the attitude of valuers being one of exceptional caution and prudence. This is squeezing borrowers from both directions with LTV covenants coming under considerable pressure and rates rising. I have to say that, with market activity slowing down significantly, it is increasingly difficult for valuers to identify any comparable evidence to use as a benchmark for revaluations. This leads to valuations being completed on the basis of sentiment and opinion rather than hard evidence. Obviously, any valuer is going to err on the side of caution and perhaps be a little harsher than they would have been historically. Valuers have my utmost sympathy in trying to do their job in the current market with little market information available.

One point that should be noted on valuations is that as a rule we have seen rents either stable or increasing across most sectors. And with rents increasing and valuation yields moving, the drop in values has not been as dramatic as it might have been.

The question we are all being asked is whether we are now entering a buyers' or sellers' market. We really do not see the market being overly distressed at the moment but there are certainly signs of pressure being placed on borrowers to progress the sale of certain assets. There is a larger disconnect between the demands of vendors and the prices that purchasers are prepared to pay. We are seeing a gradual correction and this gap is starting to close, albeit very slowly. Many property agents will see this as the beginning of potential opportunity in the market. I believe that we will begin to see assets on the market soon with heavy discount to historic valuations. That being said, you will need to be either a cash buyer or have significant equity given the level of debt that is available.

As in most things in economics, views vary widely on where interest rates will eventually settle. I see UK rates falling back from a probable peak of around 6%. General projections show UK rates falling slowly to just below 5% at the end of 2025 and to 3.5% in five years' time. My inclination is to think in terms of a new normal, or equilibrium interest rate, of around the 4% mark. That number is a speculation rather than a forecast. However, I feel much more certain in saying that rates of under 1% are a thing of the past! We should learn to embrace the interest rate market we find ourselves in and work to adjust to the 'new normal'. ■

Raed Hanna

Raed Hanna established Mutual Finance in London in 1990 and since then the firm has become one of the largest property finance intermediaries in the sector, arranging more than £1bn per year. It has been involved in financing some of the most high-profile properties in the UK.

Aligning the interests of clients and their lawyers: the opportunity for Damages Based Agreements

'No-win, no-fee' arrangements, whereby lawyers are paid only if their clients win their legal cases – and receive nothing if they don't – have historically been seen as a peculiarly American way of conducting legal business. But Damages Based Agreements (DBAs), as no-win, no-fee arrangements are often known in the UK, are becoming more prevalent in the British legal system.

Leading the trend is London-based firm Spector, Constant & Williams (SC&W). *Arab Banker* asked Richard Spector, SC&W's Head of Litigation, and Aurelia Matonis, one of the firm's Litigation Associates, to explain how DBAs work, and how they can serve to align the interests of clients and their legal representatives.

***ARAB BANKER*: How do DBAs work?**

RICHARD SPECTOR: Hourly billing has been a dominant method for billing in the legal profession for generations. 'Alternative fee arrangements' are a method of pricing legal services using anything other than the traditional hourly billing model. DBAs are one type of alternative fee arrangement.

You can have fixed fee arrangements, no-win, no-fee arrangements or conditional fee arrangements.

DBAs are a no-win, no-fee agreement where the client does not pay the solicitor anything if they lose the case. If they win the case, they will pay the solicitor a fee which is an agreed percentage (capped at 50%) of the damages recovered in the claim.

Alternative fee arrangements in litigation used to be unlawful as there was concern that such fee structures could lead to a conflict of interest between the client and the lawyer. In the 1980s, the UK government started to review this position, and DBAs became lawful under the Damages Based Agreements Regulations 2013.

So how exactly is the success fee structured?

AURELIA MATONIS: There are two main types of alternative fee arrangements: conditional fee agreements known as CFAs, and damages-based agreements known as DBAs.

Under a CFA the solicitor is not paid if the client loses its claim but would receive an additional success fee if the client is successful. The amount paid in fees is based on the solicitor's hourly rate. In contrast, under a DBA, the success fee is a percentage of the damages recovered by the claimant in the claim, and has no correlation to the hourly rates.

A client may prefer a DBA to a CFA because from a client's perspective, the solicitor's fees are proportionate to the damages recovered, whereas with a CFA, there is a minimum that the solicitor will be paid that is based on their hourly rates.

The crucial aspect of DBAs is that not only does the client have to win, whether that is through settlement or judgment in their favour, but the client actually has to recover the funds sought from the opposing party. It is a true joint venture between solicitors and their clients.

How are DBAs affected by the distinction between solicitors and barristers in the UK legal system?

AURELIA MATONIS: The client instructs a solicitor who in turn will normally instruct the barrister. The solicitor prepares the case for trial and the barrister does the advocacy in court. The barrister will normally also advise during the lifetime of the case on specific issues and draft important documents.

Normally, a CFA or DBA is an agreement between a solicitor and a client. But there is no reason why a client cannot have an alternative fee arrangement with a barrister as well, although barristers tend to prefer to be paid on an hourly rate basis. One of the other key features of DBAs which reinforces them as no-win, no-fee arrangements is that the solicitor has to take on the risk of paying barrister's fees.

Why was the law changed to allow DBAs?

RICHARD SPECTOR: DBAs have only been lawful in commercial litigation matters since the so-called Jackson reforms in mid-2013 (named after Lord Justice Jackson, who chaired the review that led to the new rules). They were made lawful because the government saw DBAs as a helpful way to provide wider access to justice for people who were looking for alternative ways to fund cases.

There has always been some controversy about no-win-no-fee agreements, because some professionals consider that they are a way to encourage litigation. But of course, by opening up different methods of funding dispute resolution through the use of DBAs, it provides people with access to justice who may otherwise be excluded from a remedy because they do not have the funds to pay the fees.

The regulations prescribe the requirements that a DBA must comply with to be enforceable in civil proceedings. If the DBA does not comply with the relevant legislation and is therefore unenforceable, the client will not have to pay the representative anything under the DBA. A DBA must not provide for a payment that is more than 50% of the sums ultimately recovered by the client.

Richard Spector

Richard Spector is a partner and the head of litigation at SC&W. Richard engages in banking and insolvency litigation, and regularly acts in high value professional negligence claims, contractual disputes, banking disputes, intellectual property and competition law claims. He works extensively with clients in the Far East and Middle East and has successfully represented clients working in China and Hong Kong. He leads SC&W's practices on DBAs and flexible funding arrangements.

Spector, Constant & Williams is a London-based law firm with extensive international and cross-border experience. It undertakes work in commercial litigation, mediation and arbitration, property disputes and banking & insolvency.

Why would a client choose a DBA rather than the traditional arrangement of paying by the hour?

RICHARD SPECTOR: A client may want to choose a DBA because when they are paying a traditional hourly rate, they are taking all of the litigation risk, but with a DBA they are sharing the risk with their solicitor. They may also consider that this may motivate the solicitor to achieve a better outcome. A key point is that all alternative fee arrangements require the solicitor to take some risk.

We as solicitors always act in our client's best interest. But optically, from a client's perspective, if the solicitor is not getting paid throughout the dispute, then it affects the teamwork and effort put in by both the solicitor and the client. This creates a unique client relationship which you do not have with other fee structures.

A lot of law firms do not offer damages based agreements because it would require them to share litigation risk with the client, but we have embraced them successfully.

It has become a vital part of our client relationship because it means that the client and solicitor are 'in it together' and if the client is successful then we share in that success.

What happens if a client has a judgement in their favour but is unable to recover funds/assets from the losing party? Do they still have to pay the solicitor their share?

RICHARD SPECTOR: The answer is no, the success fee on the DBA is only a percentage of what is actually recovered, not what is awarded. The fees paid to the solicitors are based on the funds recovered.

Couldn't there be a conflict of interest between the solicitor and the client if the solicitor believes that the client will not win the case and should settle (and receive some compensation) rather than fighting to the end and risk losing the case?

AURELIA MATONIS: The solicitor should always advise in the best interests of their client. Litigation is uncertain, and it is a common view across dispute resolution practice that it may be better to settle than to go to trial.

Under a DBA, the solicitor is taking on the most risk because the fee paid is linked to a percentage of the recovery, as opposed to their hourly rate. Ultimately, the decision to settle rests with the client.

Isn't it hard to predict how juries will judge a set of facts, especially in complex cases?

RICHARD SPECTOR: There are no juries in most civil proceedings in England & Wales in contrast to some other jurisdictions. In English civil cases you normally have one judge, although in the Court of Appeal you have two or three judges. It can make a difference which judge you have but you don't know which judge has been appointed until a week before the trial. This adds to the risk everyone takes when they litigate.

For what type of legal case and for what type of client would DBAs be most suitable?

AURELIA MATONIS: Our firm specialises in DBAs in high value commercial disputes, so from our experience, we can say that it is useful for all types of clients because we can take on some of the litigation risk. There are certain risk factors we review before determining the fee structure we can offer. Some of these factors include the prospects of success and the likelihood of obtaining the relief sought. We also compare the quantum of the claim against the amount of work that will be required to obtain the recovery.

In numerous cases, we have secured the prospects of recovery by obtaining a freezing injunction, meaning that the assets of the defendant, such as a bank account or a property, are frozen by way of a court order which prevents the defendant from dissipating its assets prior to the conclusion of the proceedings.

We can also help clients obtain insurance policies to insure against the risks they have of paying the other side's costs if they lose the case. So, from our perspective DBAs are suited to all types of clients particularly where they are dealing with expensive litigation which would ordinarily cost them a lot of money, and where we can take some of that risk off their shoulders. ■

Aurelia Matonis

Aurelia Matonis is an Associate in SC&W's Dispute Resolution Department. She has a broad-based practice and has acted for clients on a range of disputes including insolvency litigation, breach of contract, intellectual property, competition law and professional negligence claims.

A full programme of events, backed by more capacity

With the ending of the Covid pandemic we have expanded and broadened our range of activities.

During the first half of 2023, we held three social activities – the winter party, the Eid dinner, and the summer party – two technical seminars and three corporate lunches. But these simple numbers do not capture the range of informal interactions and business introductions that occur every week.


George Kanaan


Gaby Fadel


Gabriella Sidoli


Andrew Cunningham


Hanan AlMasood


Talar Joulhajian

We continued to act as an interlocutor between the London Arab banking community and UK banking regulators. On 23 May, six executives from the Prudential Regulation Authority came to our offices to give a presentation on their current priorities and themes for Middle Eastern banks. We also continue to act as a Strategic Partner to the European Chapter of the MENA Financial Crime Compliance Group (FCCG), participating in the Chapter's meetings and providing some administrative support.

Our social events were diverse and well-attended. The winter party was held in our offices in Mayfair, the Eid Party was held at Crocker's Folly, one of the most prestigious Lebanese restaurants in London, and the summer party was held high up in the Thames City real estate development near the American Embassy in Nine Elms.

On 16 June, we were pleased to host the Egyptian Minister of Finance, H.E. Mohamed Maait, to our offices, as part of his annual visit to London which is arranged by the British Egyptian Business Council.

We provided a range of technical events for our members, comprising both open seminars and invitation-only lunches for corporate members.

In February, Gaby Fadel joined the Association as Deputy CEO, working alongside CEO George Kanaan to organise and expand our membership and our activities. Gaby is well known in the London Arab banking community, having previously spent many years leading the operations of Byblos Bank in London. Gaby was behind the launch of our five aside football tournaments which have been a roaring success (see page 77).

Our financial position has remained strong, and we have robust liquidity. We have more than 30 corporate members, ranging from the subsidiaries and branches of banks headquartered in the Middle East, to auditors, law firms and professional service providers who work with Middle Eastern banks.

Our website continues to attract readers, with the pages devoted to events, photos, and banking news stories being the most popular.

This edition of Arab Banker magazine is the eleventh since its relaunch in 2013. All editions have been published on time, at the end of September, even during the Covid pandemic and each has generated a small profit for the Association, except for the first, which covered its costs. This year, Andrew Cunningham, our Editor-in-Chief stepped back into his role as Editor of Arab Banker magazine, alongside his other responsibilities managing the Association's website and producing other publications.

George and Gaby are assisted in London by Hanan AlMasood, who manages business development and press relations, and by Gabriella Sidoli, who manages accounts and administration. Talar Joulhajian manages business development from Beirut. ■

Board of Directors

The ABA's Board of Directors is elected at the Annual General Meeting. A list of serving board members, as of 1 September 2023, is given below.

Abdulaziz Al-Khereiji ABA Chairman, ABA board member since 2012
Abdulaziz has been working within London's financial services sector for more than 30 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, ABA board member since 2008
Fawzi is the Managing Director of National Bank of Kuwait (International) plc, the London-based subsidiary and European arm of National Bank of Kuwait (NBK). Fawzi joined NBK in 1985 and held positions in Singapore, Kuwait and London before leaving to take up senior posts at Merrill Lynch International Bank and then HSBC Private Bank. He has been Managing Director of National Bank of Kuwait (International) since 2007.

Hani Salem ABA Treasurer, ABA board member since 2016
Hani is a Director in PwC's assurance practice based in the Channel Islands. He has extensive experience auditing and advising multinational banks, corporate service providers, sovereign wealth funds, real estate funds, and other financial services firms in the Channel Islands, the UK and the Middle East. Hani is a Chartered Accountant in the UK and a Certified Public Accountant from the New Hampshire Board of Accountancy.

George Kanaan ABA CEO, ABA 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.

Gaby Fadel ABA Deputy CEO. ABA board member since 2023 (and from 2004 until 2014)
Gaby was appointed Deputy Chief Executive Officer of the Arab Bankers' Association in 2023. He is a seasoned banker with many years' experience in international trade finance. He has been based in London since 1982. After graduating from Université Saint Joseph in Beirut, he began his banking career with Credit Lyonnais, and then joined Byblos Bank, first in Beirut and then in Brussels. From 1993 until 1999, he worked for Banque Française de l'Orient (part of Credit Agricole). From 1999, until he retired in 2022, he was General Manager of Byblos Bank's branch in London.

Rajeev Adrian ABA board member since 2022
Rajeev is the Chief Executive Officer and Managing Director of ABC International Bank Plc (ABCIB), the London-based subsidiary of Bank ABC Group. Rajeev joined ABCIB in October 2014 as CFO and was subsequently also made Deputy CEO and a Board Director. Before joining ABCIB, Rajeev worked at Royal Bank of Scotland (RBS) in various senior positions, including CFO of International Banking, Chief Administration Officer of Global Banking and Markets and Senior Strategist. Prior to RBS, Rajeev served at Lehman Brothers London in various roles. He began his career in Australia, working at the Office of the Auditor General and at the Australian Securities Commission.

Bana Akkad Azhari ABA board member since 2022
Bana is Head of Treasury Services for Europe, Middle East & Africa (EMEA), at BNY Mellon. She is based in London, having previously been based in Lebanon where she led the bank's Treasury Services Relationship Management and Business Development for the Middle East, Africa and the Commonwealth of Independent States, and was the bank's Chief Representative in Lebanon. Before joining BNY Mellon in 2006, Bana spent nine years with Citigroup where she held various senior positions. She is a member of BNY Mellon's EMEA Executive Committee and the EMEA AML Oversight Committee.

Vivien Davies ABA board member since 2012
Vivien is a partner in the international law firm Fieldfisher, which is headquartered in London. She is the head of the MENA Group at Fieldfisher and an Arabic speaker. Fieldfisher is registered in the DIFC. During her career Vivien has specialised in company, banking and commercial disputes, including complex cross-border disputes, financial sanctions, compliance and international arbitration. In addition to general commercial clients, Vivien regularly acts for foreign banks and enterprises from various industries. Vivien also acts for a host of MENA UHNWIs and is a trusted advisor for many family offices.

Ayda Habboush ABA board member since 2020
Ayda is a partner in the corporate departments of Trowers & Hamlins LLP and is co-head of the firm's Hotel and Leisure Group. She has over 15 years' experience as a corporate solicitor. During her career, Ayda has been involved in a broad range of work including mergers and acquisitions (both in the UK and abroad), with a particular focus on inward investment in UK real estate from the MENA and ASEAN regions, advising banks, institutional investors and ultra-high net worth investors. As a member of Trowers' Islamic Finance team, Ayda advises on the corporate structuring of Shari'ah-compliant acquisitions and the establishment of Shari'ah-compliant offshore funds. She is a fluent Arabic and French speaker.

Yasser Ibrahim ABA board member since 2018
Yasser Ibrahim was appointed General Manager of Arab National Bank's London branch in September 2021. Previously, he had worked in Frankfurt as Partner & Managing Director of International Banking and Co-Head of International Banking Sales at ODDO BHF Bank AG, based in Frankfurt. Prior to that appointment he had been Chief Executive Officer and Managing Director of National Bank of Egypt (UK) Ltd. in London. Yasser also spent more than 25 years at Commerzbank AG in Germany, Bahrain and Egypt. In his last function at Commerzbank, he served as Managing Director and Head of the bank's Representative Office in Cairo. Yasser has served as non-executive Chairman of the Board of Directors of Mercedes-Benz Egypt and as the Vice Chairman of the German-Arab Chamber of Industry and Commerce.

Haytham Kamhiyah ABA board member since 2020
Haytham was appointed CEO of Europe Arab Bank in December 2018, prior to which he had been CEO of Emirates Development Bank in the UAE. Haytham started his career with Arthur Andersen and then joined Capital Bank of Jordan in 1996, where he progressed to become General Manager of the bank in May 2005. He has served as a director of several organisations, including Jordan International Investment Group, Ithmar Islamic Finance Company, Jordan International Insurance Company and Safwa Islamic Bank. Haytham holds a Bachelor's degree in Accounting and Business Administration as well as professional qualifications from the Institute of Certified Management Accountants and from the Institute of Certified Public Accountants in the United States.

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

Ralph Al Raheb ABA board member since 2016
Ralph Al Raheb is a Managing Director of Morgan Stanley and is Head of Emerging Markets Onshore & Offshore Sales for Europe, Middle East and Africa. He is a member of the Morgan Stanley MENA Management Committee, and the Cross-Divisional CEEMEA Management Committee. Ralph joined Morgan Stanley Paris in 2003 as an analyst in fixed income sales covering French financial Institutions. He 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, and in 2018 Head of Emerging Markets Onshore Coverage for the CEEMEA region. In 2020, he was made head of Emerging Markets Onshore & Offshore Sales for Europe, Middle East and Africa. He was named Vice President in December 2007, Executive Director in December 2009 and Managing Director in January 2015.

Sami Tamim ABA board member since 2018
Sami serves as the CEO and member of the board of Ahli United Bank (UK) Plc, which he joined in 2014. He began his career in banking in 1985 with Banque de la Méditerranée in his native Lebanon, before moving to the UK where he led Corporate Banking at Banque de la Méditerranée (UK) Ltd. He subsequently joined Saudi American Bank (part of Citibank) in London where he led the Private Banking team, and then Coutts Bank in Geneva before returning to London in 2005 to join Citibank as a Director in its Private Banking division followed by UBS in a similar role. Sami has broad banking experience that includes commercial and corporate banking, trade finance, private banking and, in his current capacity at AUB UK, corporate governance and senior management oversight.

Amr Turk ABA board member since 2010
Amr is the General Manager of the London branch of Banque Banorient 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 Banque Banorient France and was among the first staff to be involved in setting up the London branch that was, and continues to be, focussed on providing private banking services, property finance and documentary credits. With over 30 years in the UK, Amr has developed an in-depth knowledge of the financial system and he has established links with many corporations and individuals seeking banking services in London.

Shaikha Al-Bahar receives her award from ABA Chairman, Abdulaziz al-Khereiji and CEO, George Kanaan

Shaikha Al-Bahar receives Annual Award for Distinguished Service to Arab Banking

On 10 November 2022, we held our first annual dinner since the outbreak of Covid.

The Covid pandemic prevented us from holding our annual Gala Dinner in 2020 and 2021 so we were delighted to be able to re-instate it last year. Our members and their guests rose to the occasion – we were begging the Jumeirah Carlton Tower Hotel to add new tables, with more places, just hours before the first guests started to arrive!

ABA CEO George Kanaan opened the proceedings by reflecting on uncertain times, and on our sadness at the death of Queen Elizabeth II; but he noted the resilience of the London Arab banking community, our joy at being able to resume in-person events, and our optimism for the reign of King Charles III.

Magician Adam Keisner entertains (L-R) Sir Michael Tomalin, Soulaf Kanaan and Dr Nadey Hakim

Alderman Sir William Russell, the former Mayor of the City of London, introduced our 2022 honouree: Shaikha Al-Bahar, the Deputy Group CEO of National Bank of Kuwait (NBK), and the first woman to receive our award for Distinguished Service to Arab Banking. Accepting the award, Mrs Al-Bahar commented on the work that NBK has been doing to advance the careers of women bankers in the Middle East and beyond.

The keynote speaker was Rt. Hon. Nadhim Zahawi MP, a former cabinet minister and Conservative party chairman, who spoke about his childhood in Iraq and how he moved to London to establish a successful market research company.

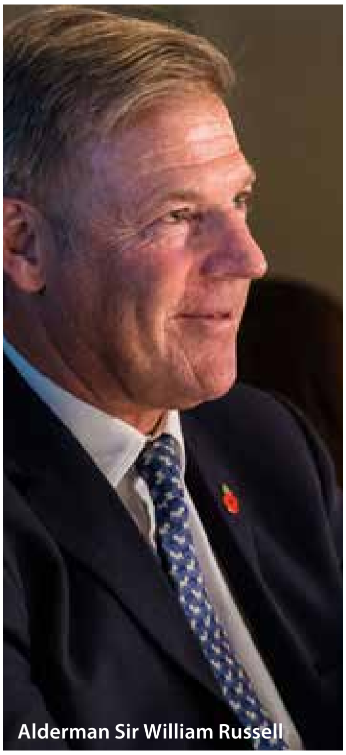
As always, there was plenty to keep our guests entertained, apart from the presentation and the speeches! Jenna Lee-James and Ebony Buckle, professional opera singers, sang a range of popular and traditional musical hits, while magicians Adam Keisner and Matt Knight toured the tables performing astonishing tricks with ten-pound notes, balloons and lemons!

We were so pleased to be able to bring the London Arab banking community back together in one place again after the pandemic, and we were delighted that so many guests from the Middle East were able to travel to join us. ■


Some of the guests from Gulf International Bank, including (centre), Charbel Khazen, manager of the London branch


Shaikha Al-Bahar with, to her left, Isam Al-Sager, Group CEO, and the NBK International team, including Managing Director Fawzi Dajani, to Mr. Al-Sager's left


Opera singers entertained the guests


Alderman Sir William Russell


Nearly 300 guests attended the dinner

Eid dinner at Crocker's Folly by Maroush

We filled the whole restaurant for our annual Eid Dinner on 25 April.

We moved our annual Eid Dinner to Crocker's Folly, one of the Maroush restaurants just north of Mayfair, and what a success it was! It is one of the largest venues for Lebanese food in London, and we filled it!

This is a purely social event that occurs shortly after the holy month of Ramadan. It is an occasion when the whole Arab banking community comes together to celebrate one of the most important festivals in the Middle East.

The event took place with generous sponsorship from Al Rayan Bank, Arab National Bank, Qatar Islamic Bank (UK) and Riyad Bank.

George Kanaan, David Dao, and Richard Agbenu of Ghana International Bank

The Eid Dinner is always one of our most popular events

Belleveue Mortlakes sent a big delegation

Rajeev Adrian, Bank ABC; George Kanaan; and Dickon Johnstone, Themis

Real estate seminar pulls big crowd


The weather was excellent!


Liam Bailey, Knight Frank


Nicholas Haber, National Bank of Kuwait Intl.


Fouad Shakshir, QIB (UK), and Henry Faun, Knight Frank


Ashley Le Feuvre, VG (Jersey), and William Barakat, Trowers & Hamlins


Andrew Sneddon, Trowers & Hamlins

Our annual real estate seminar was once again one of our most well-attended events.

Liam Bailey, Head of Global Research at Knight Frank, opened our seminar with the detail and insight that comes from years of analysing and commenting on the UK residential property market. Liam warned that recent rises in UK interest rates would likely cause problems for many homeowners in the short term, but that the longer-term outlook for London residential property was still strong, with many international investors looking to enter the market.

Nicholas Haber, from National Bank of Kuwait International, provided a European perspective, focusing in particular on Germany, France and Spain, and comparing trends there to those in the UK. Andrew Sneddon, from Trowers & Hamlins, described the various changes to tax regulations that are affecting the profitability and the ease of investment in residential property in the UK.

Henry Faun, of Knight Frank, gave a presentation on The Bryanston, a development near Marble Arch, which is transforming an old site into an exciting new residential location.

The presentations were followed by a buffet dinner. The weather smiled on us, and we were able to spread out onto the terrace.

The event was made possible through generous sponsorship by Arab National Bank, National Bank of Kuwait International, The Bryanston, and Trowers & Hamlins. ■

Energy seminar considers challenges of transition from fossil fuels

Energy and Investment in times of war and transition was the theme of the seminar on 4 July, and our speakers brought an outstanding range of expertise and knowledge.

Lord Howell, a former UK Energy Secretary, who has his finger very much on the pulse of the energy industry today, began proceedings by describing the difficulties the UK has faced in developing nuclear energy to replace fossil fuels. It was a theme echoed later by Daragh Coleman, the Managing Director of CBI Projects, who highlighted broader challenges related to achieving 'net zero' carbon emissions.

Above: Bahar Choudhari; Stefan Butler, National Bank of Egypt; Yousra Salem, Women in Sustainability Network.
Below: Sharef Shalabi; Hatem Lukhai, BACB; Ali Nayli

Ron Beck from Aspen Tech showed how digital technology can enable renewable energy to be produced at scale, and he gave examples from India to show how this is working in practice. Carla Ferreira, from the Brazilian Chamber of Commerce, and Cornelia Meyer, CEO of MRL Corporation, provided additional insights on renewable energy development in advanced and emerging economies.

The event was led and moderated by Carole Nakhlé, the CEO of Crystol Energy and the Director of Access for Women in Energy.

The event was made possible through the generous sponsorship of National Bank of Kuwait, Qatar National Bank, Arab National Bank and BB Energy, and it was presented in collaboration with Access for Women in Energy. ■

Top left: Five of the six speakers, with George Kanaan. L-R: Ron Beck, Carla Ferreira, George Kanaan, Lord Howell, Carole Nakhlé, and Cornelia Meyer. Top right: Daragh Coleman, who spoke about the difficulties of reducing carbon emissions worldwide. Above left: ABA Chairman, Abdulaziz al-Khereiji, Riyad Bank. Above right: George Kanaan with Yasser Ibrahim, the General Manager of Arab National Bank's London branch

Members of the ABA team with the team from R & F Properties/Thames City

The ABA's Hanan AlMasood (centre) with Serina Bsat (L) and Zeena Farouk (R) from National Bank of Kuwait International

Dina Anastas, Walkers Global

Guests from QIB UK

Alicia Pattihis, Axiom DWFM

Musicians entertain guests at the summer party

Thames City real estate development offers spectacular views!

We like parties!

We held winter and summer parties, and we have more planned.

For two years, we were unable to hold social gatherings due to the Covid pandemic and then in December last year, we had to postpone our Christmas party due to disruptions on the London rail and underground network.

We're making up for lost time!

On 9 February we held our Winter Celebration Party at our offices in Mayfair, accompanied by jazz musicians and a feast of fine Lebanese food. The event was made possible through the generous sponsorship of National Bank of Kuwait International and Arab National Bank.

On 13 July, we held our summer party at the Thames City real estate development in Nine Elms. Our guests enjoyed panoramic views of London from the Lounge 39 suite and were able to experience one of London's most prestigious new residential property developments. The event was made possible through the generous sponsorship of Thames City, R & F Properties and Arab National Bank.

We already have dates in our diary for the Christmas party.

Corporate lunches focus on key issues for Arab banks in London

We have continued our programme of corporate lunches on specialised topics.

Corporate lunches enable departmental heads at our corporate member banks to meet with subject matter experts in fields that are top-of-mind and directly relevant to their work. We limit participants to about 20, to ensure that discussions, which are under the Chatham House rule, are easy and lively.

On 9 March, solicitors Constant Spector & Williams made a presentation on new litigation structures in the UK.

On 21 March, Grant Thornton and solicitors Axiom DWFM joined forces for a discussion of how real estate investment structures are changing, not least in response to more difficult economic conditions, and how financing banks can approach insolvency proceedings when transactions are not working out as expected.

BDO hosted our third lunch in their premises on 24 May. The firm's regulatory team outlined their understanding of the policy priorities being pursued by the Prudential Regulatory Authority and the Financial Conduct Authority. Attending from the ABA were CEOs and Chief Compliance Officers of Arab banks' subsidiaries and branches in London. ■

Above: Dee Puckering and David Glover (Axiom DWFM); George Kanaan; Robert Starkins, Grant Thornton; Gaby Fadel; and Andrew Charters, Grant Thornton

Below: Alison Barker, Shrenik Parekh and Jennifer Cafferky delivered BDO's presentation on regulatory priorities for Arab banks in London

And we play football!

This year we inaugurated a 5-aside football tournament for our members.

We hold technical seminars on financial issues, we hold social events and parties … but the Arab Bankers Association has never developed a programme of sport.

Our new deputy CEO, Gaby Fadel, barely had his feet under his desk before he was making plans for a five aside tournament for our corporate members. Matthew Leadbeater of Emirates NBD proved an excellent organiser, managing the programme of fixtures, updating the league tables, and ensuring that pitches were available every Tuesday evening. Special thanks are due to Matthew from all of us.

Eight teams signed up: Ahli United Bank, Arab National Bank, BONY, British Arab Commercial Bank (BACB), Emirates NBD, Europe Arab Bank, National Bank of Egypt and National Bank of Kuwait International (NBKI).

The first matches were played with a league format, and then the top four teams had play-offs.

The play-offs were held on 1 August and pitted NBKI against Emirates NBD, and BONY against BACB. NBKI and BACB emerged victorious.

In a high-scoring final, BACB edged out NBKI to win by 17 goals to 15. In the play-off for third and fourth places, Emirates NBD beat BONY by 11 goals to 9.

Jack Chisholm of NBKI won the 'Golden Boot' prize as the highest individual scorer, with 29 goals.

We are already planning for next season. ■


The NBK International squad


Jack Chisholm receives the golden boot prize from Gaby Fadel


Matthew Leadbeater, Emirates NBD


The winning BACB squad. L–R, Daniel Butler, Chris Ramshaw, Dominic Gorton, Peter Hampson, George Wood, Jonathan Afram and Daniel Williams. Members of the BACB squad not shown are Gil Cohen, Arun Kamboj, Hatem Lukhai, Tobi Odugbesam, Alex Brooke and Chris Martonfalvy

With a diverse landscape and historical sites, Saudi Arabia turns its attention to tourism

Saudi Arabia is aiming to become a major tourist destination, offering not only archaeological and historical sites, but also experiences that range from coffee shops to motor bike rides. *Arab Banker's* Editor, Andrew Cunningham, takes a look at what the Kingdom is offering potential visitors.

When considering Saudi Arabia, the pages of *Arab Banker* magazine naturally turn to developments in the Kingdom's financial sector, and to the Saudi government's efforts to diversify its economy away from the production and sale of crude oil and natural gas. Certainly, there is much to say about the way in which the Saudi financial sector has matured and attracted foreign investment in recent years; and about the increase in the Kingdom's non-oil economy.

But there is a broader story to be told about the changes under way in the Kingdom. Women enjoy immeasurably more social freedom now than in recent years. Concerts and other entertainment that would have been unthinkable a few years ago are becoming commonplace.

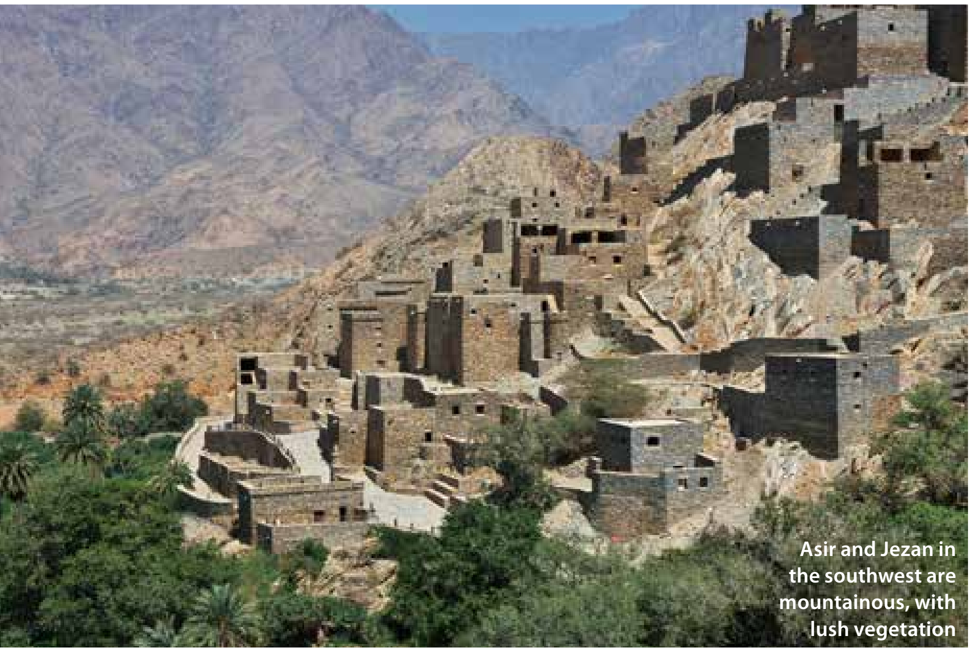
Nor are these changes aimed solely at a domestic or regional audience.

The kingdom is keen to attract western tourists. Earlier this year, one of the huge electronic advertising screens overlooking London's Piccadilly Circus was taken by Visit Saudi, which acts as the Saudi government's tourist board.

The lack of tourism in Saudi Arabia has been due in part to the Saudi government's unwillingness to have significant numbers of foreigners visiting the Kingdom and, perhaps, behaving in ways that clash with traditional Saudi habits. But it has also reflected outside views of Saudi Arabia that have focussed on the prohibition of alcohol (which remains), requirements for women to be fully covered, and a belief that hotel and tourist facilities, though sometimes luxurious, may at other times fall short. (Until recently, Riyadh Airport was almost unchanged since the 1980s.)

In recognising the financial and reputational benefits that tourism can bring, Saudi Arabia is following a path already trodden, successfully, by the Sultanate of Oman. Many decades ago, Oman rejected tourism, despite the beauty of its beaches, its lush countryside in the south, and the many historical forts dotted in the interior. Getting a No Objection Certificate – 'NOC', as visas were known – could be a tense process. Young single women could have difficulties, even when visiting expatriate parents working in the Sultanate. Any public questioning of the national narrative – that, following his uncle's 'abdication' in 1970, Sultan Qaboos had almost single handedly transformed Oman from a medieval kingdom into a modern society – would certainly be considered 'objectionable'.

Mada'in al-Saleh, at Al-Ula



Asir and Jezan in the southwest are mountainous, with lush vegetation

Yet, tens of thousands of European tourists now visit Oman every year: more than 40,000 came from Germany alone in 2022. (Hundreds of thousands visited from the UAE and India.) The Musandam Peninsula, once a neglected backwater off-limits even to expatriates, is now one of the Sultanate's greatest attractions.

And of course, one has to remember that Dubai was hardly a tourist destination until the mid-1990s, but now it rivals Tenerife and Malaga as one of the top three holiday destinations for British tourists seeking a holiday with sun.

So what does the Kingdom have to offer?

The most common image is that of the huge carved rock structures around Al-Ula, in the northwest of the Kingdom. Al-Ula is an ancient oasis town, now a modern city, and in 2008 the region was the first area in Saudi Arabia to be designated a World Heritage Site by UNESCO.

Scattered around Al-Ula are carved rock structures that date back to the first century Before the Common Era (BCE) and were created by the Nabateans, the same civilisation that created Petra, in Jordan.

The rocks around Al-Ula are more spread out than those at Petra, but they are close enough to be a coherent touristic destination. The most famous part of the site is Mada'in al-Saleh, also known as Al-Hijr. In addition to the historical interest, centred on inscriptions in ancient languages, the Saudi authorities are developing rock climbing and desert camping as part of the region's attraction.

The southeast of Saudi Arabia is very different. The mountainous provinces of Jazan and Asir contain green vegetation and forests. Abha, the capital of Asir region, is 2,300 meters above sea level. Architectural styles are very different from the rest of the country – the cultural continuity with Yemen is obvious. The Farasan Islands, about 40 kilometres off the coast of Jazan offer intriguing heritage sites and beaches.

It will be interesting to see how far the Saudi authorities go in developing diving and water sports on the Red Sea coast. Saudi Arabia's Rea Sea coast is twice as long as Egypt's (even after taking into account the coast on the Sinai peninsula). Since the 1980s, the Egyptian Red Sea resorts have been built from nothing and now attract tens of thousands of diving enthusiasts, but this type of mass tourism is not what Saudi Arabia is targeting, at least for the moment.

The Saudi authorities are keen to showcase their major cities, in particular Riyadh, which has a few historical sites, such as the old capital of Diryiah, that have been restored. Visits to coffee shops and museums are being promoted, along with less conventional experiences such as a motorbike tour of the city led by 'Captain Saud' and his team of professional riders!

It is clear that Saudi Arabia is trying to attract regional tourists as well as those from the West. Most tourists visiting Oman are from the UAE. It is reasonable to assume that GCC, including Saudi domestic tourists, and Arab tourists will also be among those visiting the sites in Saudi Arabia.

The question of behaviour and social mores does still hang over Saudi tourism. Will visitors be able to 'be themselves' or will cultural restrictions limit their experiences?

The photos on the Visit Saudi website show men and women mingling together. None of the western women are wearing any form of head covering, though none appear to be wearing shorts. The website is clear that alcohol is banned in the Kingdom. Tucked away in the 'About Saudi' section is a list of Rules of Behaviour that are clearly intended to have applications beyond the tourist industry: "distributing flyers in public places without permission" would be a "violation to public decency", as would "taking pictures or videos, without permission, of people, traffic accidents, crimes or other incidents." The Rules also contain a curiously worded prohibition on, "wearing underwear or sleepwear"!

It is easy to be sceptical, or even cynical, about Saudi Arabia's recently-found enthusiasm for its cultural heritage and new-found willingness to embrace tourism. But the attractions speak for themselves, and at a time when the Kingdom is changing so rapidly, it is only prudent to assume that tourism will soon become a significant feature of the Saudi economy. ■

Arab Banker would like to make clear that no Saudi official bodies were involved with, or consulted for, the writing of this article.

Captain Saud and his motorbike tour of Riyadh

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 £4,000

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

We could have been friends, my father and I. A Palestinian memoir.

Raja Shehadeh

152 pages. Profile Books. £14.99 hardback

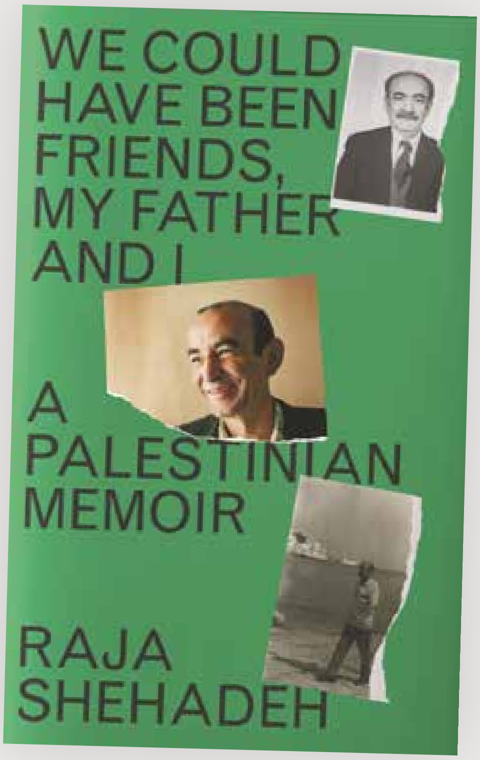
There are so many reasons to read this book but, in the end, there need only be one: it should be read because it bears personal witness to the terrible consequences in Palestine of the creation of the State of Israel in 1948.

To describe those terrible consequences is not to deny the right of Israel to exist. It is simply to recognise that the consequences for Palestinians who were living between the Jordan River and the sea in 1948 have so often been ignored or misrepresented.

Histories of Palestine and of Israel abound. Many focus on the diplomatic machinations that led to the creation of Israel and on the subsequent, fruitless, efforts to reconcile the dispossession of Palestinians with Israel's desire not only to retain and expand the lands under its control but also to populate previously non-Jewish areas with Jewish citizens.

Such histories are necessary, but so too are the personal stories of those affected by these events – the 'lived truths' as we might say today. 'We could have been friends', is one of those personal stories.

Raja Shehadeh was born in 1951. His father, Aziz, a prominent lawyer, had fled from Jaffa to Ramallah in 1948. Young Shehadeh trained as a lawyer, and for a time worked in his father's legal practice.



Shehadeh describes how his family, and many others, believed that their exile would be temporary. They believed that they would be able to return, with justice and compensation, to their homes. The extent to which Palestinians underestimated – for decades – Israeli intent is a theme that haunts the pages of this book. Indeed, the book begins in the early 1980s with Shehadeh reviewing Israeli plans to build networks of roads throughout the West Bank. Now an experienced lawyer, he quickly realises that to build such roads on occupied land would be illegal under international law and would have devastating consequences for the local population. Could the Israelis really be serious? Would not the international community prevent it? As anyone who has visited the West Bank over the past 20 years will attest: of course they were; of course it wouldn't.

As for the role of Jordan, which looms large in this book, Shehadeh adds detail to our knowledge of the collusion between Jewish leaders and King Abdullah that led to Israel occupying both the Jewish and the Palestinian territories defined in the UN partition plan, except for the area that has become known as the West Bank, which was occupied by Jordan.

Shehadeh is scathing about the Jordanian occupation, under which he and his family lived, in Ramallah, after their flight from Jaffa and until Israel seized the West Bank in 1967. He sees the hand of Britain manipulating Jordan through John Glubb, who commanded Jordan's Arab Legion from 1939 until 1956. Shehadeh's father was exiled by the Jordanian government as a result of allegations, which he denied, that he had colluded with Israeli authorities to secure the release of Palestinian bank deposits that had been frozen by Israel. His father also spent two months in the desert prison of Al Jafr, as a result of his political campaigning.

The issue of the 'frozen accounts' is addressed in detail in the book. In February 1948, the British treasury announced that it would exclude the Palestinian Pound, which had enjoyed convertibility with the British Pound, from the sterling area. It also announced that after 14 May 1948 (when the British mandate would end), the Palestinian Currency Board would no longer continue to issue Palestinian Pounds. This led to a run on the banks. But worse was to come: the Israeli authorities then ordered all commercial banks operating within its territory to freeze the accounts of their Arab customers and to stop all transactions on all Arab accounts. The banks were ordered to transfer the balances to the Israeli authorities. Not only had Palestinians been forced from their homes, but they had also been denied access to their bank accounts.

Aziz Shehadeh took up the case and won. Many of the arguments turned on the questions of what constituted Israeli territory and whether banks were obliged to comply with the laws of the Israeli government. Barclays Bank was registered in Jerusalem, then under Jordanian control (which was why the case could be heard in Amman), and the Jordanian government did not recognise Israeli occupation of Jaffa (and a bank registered in Jordan did not have to obey instructions from an occupying authority).

In 1979, Raja Shehadeh was one of the founders of Al-Haq, which is now one of the leading organisations campaigning for human rights in Palestine. The distinction between a human rights approach to injustice in Israel-Palestine and the political approach favoured by his father is a theme that runs through this book. It is a distinction that remains significant and lies at the heart of today's discussions over the future of Israel-Palestine. As the prospect of a two-state solution recedes in the face of Israeli settlement-building on Palestinian land, a human rights approach that addresses the experience of Palestinians living within areas of de facto Israeli control today, and those dispossessed in 1948, 1967, or at other times, appears the more likely to succeed.

Despite its short length, this book is rich in content and historical detail but, above all, it is a personal account of a continuing struggle for justice which has been passed from father to son. ■

Andrew Cunningham

Nazis on the Nile

Vyvyan Kinross

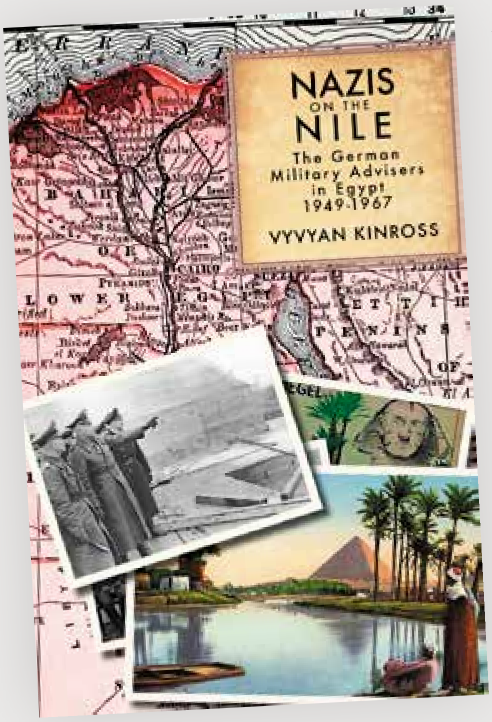
258 pages. Nomad Publishing. £19.95 hardback

After Egypt's armies were mauled and defeated by Israel in 1948, the country's King realised that he needed to move quickly to modernise and strengthen his armed forces.

Since 1889, Egypt had relied on British military assistance that included creating a senior officers' staff college and seconding British officers to work with Egyptian counterparts in Egypt. But in 1948, the British military mission was withdrawn.

To whom could King Farouk turn?

Fortunately for the King, there was a large pool of German army officers who had served in a variety of military and intelligence roles during the second world war, and who were eager to find employment. Many were recruited by the United States to work on ballistics and rocket projects in America, and many others were forcibly transferred by the Russian authorities to work on projects in the USSR. But there were plenty more, often linked through various support networks run by former senior Nazi officials and German army officers.



Nazis on the Nile tells the story of how King Farouk first reached out to former German army officers for advice on how to professionalise and upgrade his armed forces, and how the Egyptian military regime of Gamal Abdul Nasser continued to recruit German military advisors after the overthrow of Farouk in 1952.

The first of these military advisors, Arthur Schmitt, arrived in Cairo in July 1949 – just months after fighting between Israel and Egypt had ended. Schmitt had been a senior officer in the Afrika Korps, serving in north Africa before being captured in 1942.

Schmitt's report on the Egyptian army's performance during the recent conflict pulled no punches, at one point accusing the country's military leaders of conducting the war on 19th century methods. Schmitt's criticisms, and his recommendations for reform, were opposed by the vested interests in the Egyptian armed forces. He was soon side-lined, and he returned to Germany the following year.

It was after the overthrow of the monarchy in 1952 that the recruitment of German advisors became significant. Within days of the coup, the new military rulers had created a Central Planning Board to co-ordinate a programme of military reconstruction. Appointed to lead the Board was Dr Fritz Voss, a former Standartenführer (Colonel) in the SS, who had also led the Skoda Werks munitions factory.

Voss was soon joined by Wilhelm Fahrmbacher, a former artillery general who was put in charge of training Egyptian ground forces, para-military forces, and guerrilla units. British intelligence reports estimated that, soon after its creation, about 80 Germans were working for the Central Planning Board.

Despite having lost the war, German expertise in ballistics and rocket propulsion was advanced – some argue that German technology in this field was ahead of what had been developed in the US and Europe.

Germans were also recruited to help with propaganda, most notably Johann von Leers, who was living in Argentina when he was contacted by an official in the Egyptian Embassy in Buenos Aires with a request to produce some anti-semitic propaganda. Von Leers moved to Cairo in 1956, officially as a visiting professor of language at Cairo University, but in fact as a political advisor in the Ministry of National Guidance. He remained there for ten years, dying in Cairo a rather sad, isolated and eccentric figure.

There were many more colourful characters who found their way to Egypt, including the larger-than-life Otto Skorzeny, who had commanded German special forces during the war, and who played a significant role in recruiting and directing former Nazis to Egypt. Skorzeny's expertise in sabotage was of particular concern to the British authorities eager to maintain Britain's military presence in the Canal Zone.

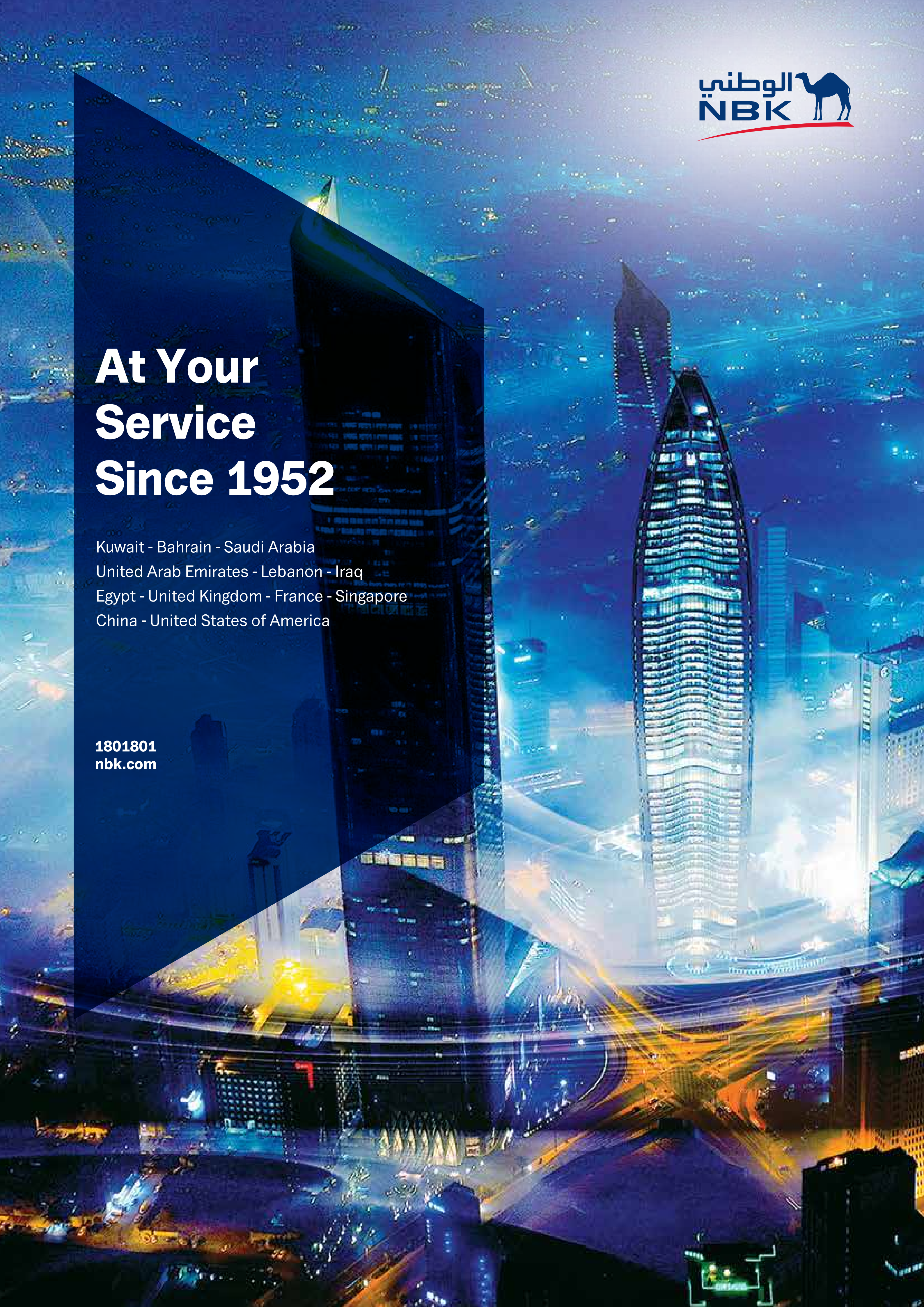
Vyvyan Kinross recognises that much of the history of the German advisors is contested. Miles Copeland, a senior CIA operative who was a confidant of Nasser, dismissed the expertise and impact of the advisors in his own account of the era, *The Game of Nations*, which was published in 1969 – although Copeland's is a very personal account of the era.

Kinross recognises that his account of the German advisors begs the question of their impact and effectiveness, not least in the context of Egypt's subsequent defeat in the 1967 'Six Day War'. His response is to point out that Egypt has become a significant producer of military hardware (albeit not of rockets – that initiative was abandoned in the late 1960s), and its military and security forces have been, and remain, among the most powerful in the region.

The text would have benefited from more robust editing, and the chronology of events is at times hard to follow, but Kinross has an engaging style and the book is easy to read. The core narrative of 228 pages could easily be digested during the course of a flight from Cairo to London!

More importantly, Kinross puts his core theme of the German advisors within the broader context of Britain's efforts to cling on to its bases in the Canal Zone, the development of Nasser's regime, and regional politics in the Middle East. As such, the book should be read not only by those interested in this particular period of Egyptian history, but also those with an interest in the final phases of Britain's colonial past, and still others interested in the fate of Germany and the Nazis after the second world war. ■

Andrew Cunningham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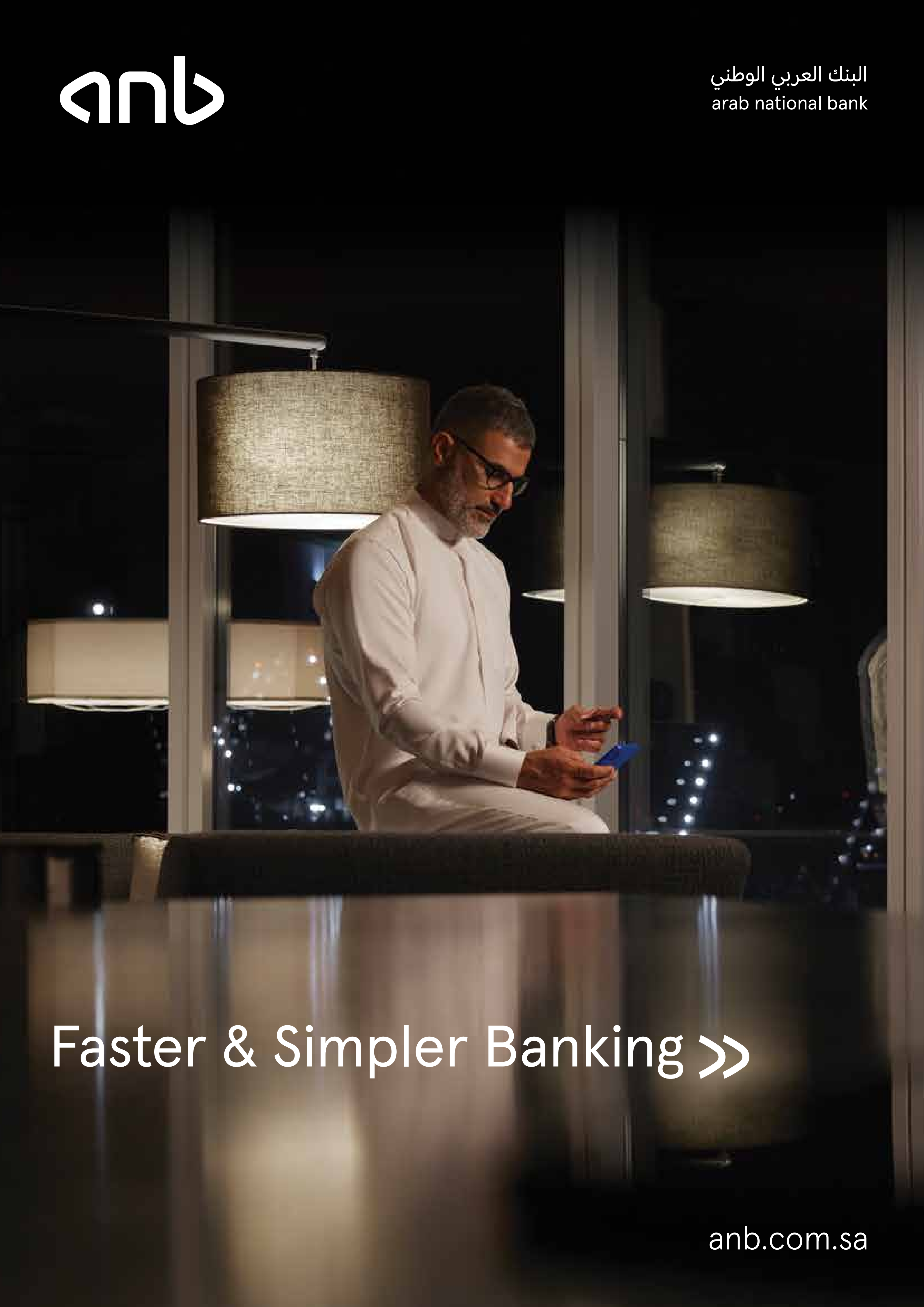
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