Volume XXXIII
Autumn 2022
£5.95

ARAB Banker

The Global Magazine of the Arab Bankers Association (ABA)

GOOD TIMES RETURN FOR OIL PRODUCERS

SAUDI ARABIA OPENS ITS HERITAGE TO TOURISM

FOOD SECURITY PRESENTS THREATS AND OPPORTUNITIES

TOP 50 GCC BANKS

FINANCIAL CRIME AND COMPLIANCE IN THE MENA REGION

EGYPT AND COP 27

Arab Bankers Association
جمعية المصرفيين العرب

Volume XXXIII, Autumn 2022

Contents

Contents

ARAB Banker

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

43 Upper Grosvenor Street
London W1K 2NJ, UK

Telephone + 44 (0) 20 7659 4889
Fax + 44 (0) 20 7659 4868
Email office@arab-bankers.co.uk

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

Andrew Cunningham
Editor in Chief
acunningham@arab-bankers.co.uk

Hanan AlMasood
Business Development and Public Relations
halmasood@arab-bankers.co.uk

Gabriella Sidoli
Accounts and Administration
gsidoli@arab-bankers.co.uk

Talar Joulhajian (in Beirut)
Business Development
Telephone: + 961 1 991620
tjoulhajian@arab-bankers.co.uk

James Drummond
Editor, *Arab Banker* magazine
jdrummond@arab-bankers.co.uk

***Arab Banker* is designed and printed by JPS Print Consultants**
P O Box 1048, Beaconsfield, Bucks, HP9 2YF
Phone: 0800 0834 827
info@jpsprintconsultants.com

For enquiries about advertising:
George Kanaan,
CEO, Arab Bankers Association

For enquiries about editorial:
James Drummond,
Editor, Arab Banker
Arab Bankers Association

Covid retreats but bankers must confront new challenges

What extraordinary times! A year ago, not many of us foresaw a war in Europe, the onset of a worldwide recession, inflation at rates not seen in 40 years, exploding oil and energy prices, and endless sanctions.

But here we are, and as bankers we have to cope. We are in the business of taking risks and the menu of risks is ever increasing.

Over the past year, we have witnessed a receding pandemic and a return to normal life, first in cautious steps and then rapidly. At the ABA, we are back to holding proceedings in person. The appetite for our events has been voracious and bumper audiences have attended. There has been a lot to discuss from sanctions to environmental, social and governance (ESG) issues. In addition, we gave our colleagues in Egypt a platform to present their achievements. We organised a very successful event with HE Dr Mohamed Maait, minister of finance, and featuring a stellar cast of Egyptian bankers and financiers.

For the remainder of the year, we are planning an equally rich agenda which will peak with our annual Gala Dinner. This year's Gala will feature the crowning of the "Arab Banker of the Year" which will be Ms Shaikha Al-Bahar, deputy group chief executive officer (CEO) of the National Bank of Kuwait. This will be a first for us. Ms Al-Bahar will be the first lady to receive such an honour. She comes from an institution which has led the way in the Arab world in promoting women bankers. Witness the recent appointment of Ms Randa Sadik as CEO of the Arab Bank in Amman, Jordan. Ms Sadik cut her professional teeth as a banker at the National Bank of Kuwait.

Back in our region, banks face an uneasy state of affairs. Most obviously, the heady rise in the price of oil and gas has created a fissure between the oil producers, who are doing well and are awash with cash, and the others. These other countries, comprising the majority of the population in the Middle East, are beset by inflationary pressures and imminent food shortages. No one has forgotten the Arab Spring. How will things turn out this time around? Evidently, large-scale financial support may be necessary to avoid nasty bumps and surprises.

In our industry, ESG is putting banks in the area in an uncomfortable position. Many of our banks belong to economies which are almost totally reliant on fossil fuels. How can they address the green agenda being pursued by other countries? These agendas are an effort to stave off an environmental Armageddon. Yet, how do we respond at a time when war in Europe has somehow returned fossil fuels, even coal, to their position at the centre of the world economy? Egypt and the UAE, which are due to host Conference of the Parties (COPs), will find themselves at the centre of global attention. One looks forward to seeing some creative ideas emerge from these events.

Here in London, our members, branches and subsidiaries of Arab banks, are welcoming a more nuanced and proportionate approach by financial regulators. This is embodied in CP5-22, a consultation paper issued by the Bank of England's Prudential Regulation Authority (PRA) and entitled "Definition of a Simpler-Regime Firm". The ABA is planning a common response to this document. Of course, we do not propose that standards be dropped. Arab banks in London remain wholly committed to the highest possible standards. However, regulators now recognise that banks and branches which do not present a systemic threat to the wider system should not be treated in the same way as a major UK bank. For over a decade now, we have argued for proportionality and we are pleased that some headway is being made in this respect.

Elsewhere, the ABA is supporting its member banks in their efforts to fight financial crime. Not only have we held events to educate, train, and raise awareness among our members of threats and how they can be combatted, we have also been instrumental in the creation of the European Chapter of the MENA Financial Crime Compliance Group (MENA FCCG). Through the group, we are hoping to create common ground between compliance officers in our banks in London and their colleagues back at home. We have introduced the group to the UK's Financial Conduct Authority and we hope to make it a powerhouse in this particularly sensitive area in Arab banking.

This issue of the *Arab Banker* is the work of our new Editor, James Drummond, who follows hard on the heels of Andrew Cunningham who remains an essential part of the ABA and the magazine. Andrew has led the *Arab Banker* with distinction over the past decade. We all share a vote of thanks for his contribution.

George Kanaan
Chief Executive Officer
Arab Bankers Association

Region emerges blinking from Covid but poorer states are exposed

It's an ill wind that blows nobody any good. As the Middle East emerges to normality after two years of lockdown and frustration, bankers in the region are breathing a sigh of relief.

World oil demand has returned to near-record levels and a glut of stocks which built up during the pandemic has been drained. Factor in declining shale oil production in the US and Russia's invasion of Ukraine, and the result is sky-high oil and gas prices.

As Robin Mills writes (pages 12–14) in this, the tenth edition of *Arab Banker* since relaunching in 2013, the economic position of the Middle East oil exporters is therefore strong. It is not just upstream oil and gas. The region's refining, aluminium, fertiliser and petrochemical industries are also benefiting from strong margins.

As described by Gerald Butt (pages 20–21), Saudi Arabia, the region's largest economy is even transforming itself into a tourism and heritage destination.

In the capital markets, listings of initial public offerings (IPOs) in Saudi Arabia and in the United Arab Emirates are soaring, and, as HSBC informs us (pages 48–49), there is a robust pipeline of future IPOs into the future. In the UAE, the Dewa IPO saw Dubai enter the top five listing venues in the world in 2022.

The passing of the pandemic is causing bankers to turn to other priorities. Digitalisation means that fewer of us feel the need to go into bank branches. In our extensive profile of National Bank of Kuwait and interview (pages 39–41) with Shaikha Al-Bahar, the bank's deputy group chief executive officer, we learn that fully 98% of transactions were carried out remotely.

Then, there is the environmental, social and governance agenda. Banks in the region have been at the forefront of those adopting a more sustainable programme. Some have issued green bonds, others have developed more sustainable buildings. But financial institutions in the West are being forced by regulators to audit their own emissions, their customers and their supply chains. That means correspondent banks. As Andrew Cunningham, our former Editor, writes (pages 50–51), the hotchpotch of standards which govern reporting around the sustainability agenda is slowly being rationalised.

First Egypt and then the United Arab Emirates will find themselves under global scrutiny at the Conference of the Parties. The United States and Europe are likely to be looking for concessions on the green agenda. These major conferences may prove uncomfortable for hydrocarbon producers and those reliant on desalination for their water.

In the UK, as Raed Hanna of Mutual Finance points out (pages 32–33), investors in commercial property should be preparing themselves now for 2030, a watershed year. By then, more rigorous standards measuring carbon efficiency are due to be introduced across the market. Those buildings which are compliant are already producing stronger yields. The laggards are suffering.

Middle Eastern investors have traditionally favoured London but are now looking further afield according to other industry experts interviewed in this magazine. Distribution centres and retail parks are finding particular favour.

So much for the good news. The international turmoil means that the poorer countries of the Middle East are in a more vulnerable position, compared to the Gulf states.

Russia's invasion of Ukraine has revealed some uncomfortable truths about food security, water management and population growth. As Martin Keulertz explains (pages 60–61), most countries in the region import more than 90% of their cereal needs.

Only Egypt and Morocco produce about half of their cereals domestically. Lebanon, Egypt, Oman, Libya, and the United Arab Emirates are especially exposed to the effects of the war in Ukraine due to their dependency on the Black Sea region.

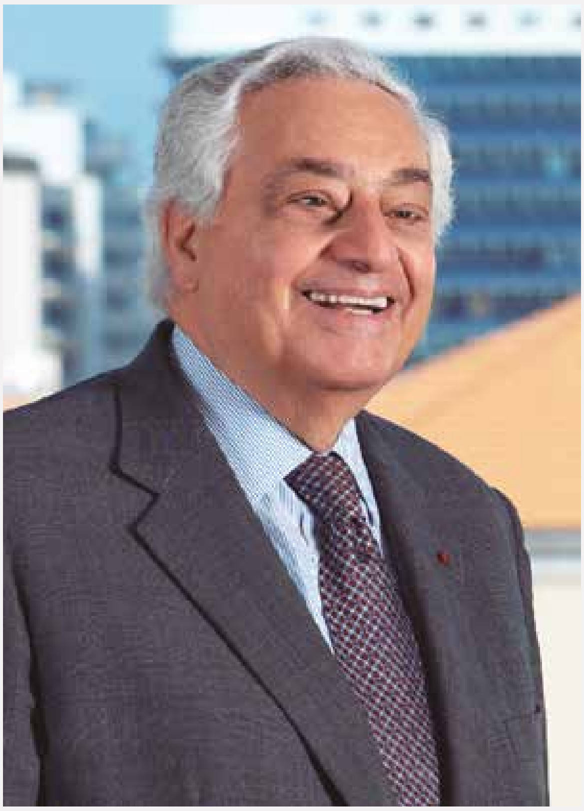
There should be a match here. The oil producing states have plentiful capital while poorer states – think of Sudan or Syria or Iraq – have greater agricultural potential than is currently realised.

Technologies such as hydroponics, drip irrigation, precision agriculture, solar-fed desalination, aquifer preservation, rangeland management and improved food waste management offer opportunities to capital-rich investors.

I am grateful to George Kanaan, the chief executive of the Arab Bankers Association, whose good humour and enthusiasm add greatly to the production of the magazine. Our thanks also go to Antony Gray, who expertly designs the publication, and to Jason Smith of JPS Print Consultants, who prints the magazine and manages its distribution.

James Drummond
Editor

Raymond Audi: an appreciation



Raymond Audi, a former Arab Bankers Association's Banker of the Year, died in July 2022 after an illustrious career during which he built one of the largest financial institutions in Lebanon.

Born in Sidon in the south of the country, Dr Audi helped launch the modern Bank Audi in 1962, with his father Wadih and his brothers Georges and Jean.

More than 50 years later, in 2017, he stepped down from his day-to-day responsibilities at the bank and became honorary chairman. Samir N. Hanna stepped in as chairman.

Dr Audi served as Minister for Displaced Persons in the Lebanese government for a year in 2008–2009 and was a well-known patron of the arts. He began by purchasing old masters but moved into collecting more modern pieces displayed at the bank's headquarters in Bab Idriss, Beirut. He established a mosaics museum housed in Bank Audi's former main building in Achrafiyeh. He also established a soap museum in his home town of Sidon and set up the Audi Foundation, which is dedicated to the promotion and preservation of traditional craftsmanship in Lebanon. The Arab Bankers Association named him as Banker of the Year in 2014.

In addition to its historic presence in Lebanon, Switzerland and France, Bank Audi currently operates in Saudi Arabia, Qatar, Abu Dhabi (through a representative office) and Turkey. Under Dr Audi, Bank Audi pioneered the issuance of global depositary receipts in the Middle East through the listing of some of its shares on the London stock exchange.

New CBJ governor

In January 2022, Adel al-Sharkas was appointed as the new governor of the Central Bank of Jordan, replacing Ziad Fariz who stepped down after 10 years in office. Dr Sharkas is a previous executive director in the CBJ's research department and is a graduate of the University of New Orleans.

New CEO at KIO

The Kuwait Investment Authority (KIA) has appointed Hussain al-Halabi as chief executive of its London investment arm replacing Saleh al-Ateeqi, who was in charge for four years.

The Kuwait Investment Office (KIO), then known as the Kuwait Investment Board, was established in London in 1953, eight years before Kuwait gained its independence, making it the world's oldest sovereign wealth fund. The KIO is thought to manage a third of the more than $700 bn in assets within the KIA.

Mr al-Halabi previously worked for St Martins Property Group, a real estate investment fund owned by the KIO. Mr al-Ateeqi, a former partner with McKinsey, ran the KIO from 2018.

The KIO, which has around 100 staff in London, invests directly, predominantly in public equities and fixed income, but also in alternatives like real estate and private equity.

KFH to acquire Ahli United Bank creating second largest Islamic bank globally

In July 2022, Kuwait Finance House received approval for its long-mooted acquisition of Bahrain's Ahli United Bank (AUB) for $11.6 bn.

KFH offered one share for each 2.695 shares in Ahli United implying an offer of $1.04 per share.

The merger sees the creation of the seventh-largest lender in the Gulf with $121bn in assets, operating in 12 countries, according to KFH chairman Hamad Abdul Mohsen al-Marzouq. Mr al-Marzouq said that the acquisition had first been mooted back in 2016 and had received positive appraisals from a series of consultants including those acting on behalf of government shareholders in KFH.

The acquisition makes KFH the second largest Islamic bank globally by assets behind Al Rajhi of Saudi Arabia, and the second largest bank in Kuwait by assets after National Bank of Kuwait, according to Fitch. It also becomes the largest bank in Bahrain by total assets following a likely merger of AUB and KFH's existing Bahraini subsidiary, Fitch said.

In 2018, KFH, a sharia-compliant institution founded in 1977, had 504 branches, 1,263 ATMs and around 15,000 employees.

Besides Bahrain, AUB has operations in Kuwait, Egypt, Iraq and the UK, as well as associates in Oman and Libya. It also operates a branch in the DIFC in the UAE. Among its shareholders are the Public Institution for Social Security, Kuwait, and the Social Insurance Organisation, Bahrain. It has 4,000 employees and 154 branches.

Egypt appoints new acting head of central bank following resignation of governor

The Egyptian president appointed veteran financier Hassan Abdulla as acting central bank governor in August 2022, following the resignation of Tarek Amer.

Mr Abdulla was previously chief executive and vice president of the Arab African International Bank (AAIB).

Mr Abdalla was born in August 1960 and gained a bachelor's degree in business administration from the American University of Cairo in 1982, according to local media. In 1992 he received an MBA from the same university. In 2004 he became CEO of AAIB, in which both the Central Bank of Egypt and the Kuwait Investment Authority have stakes.

At the time of his appointment he was also chairman of United Media Services, a state-controlled media conglomerate.

Mr Amer was appointed to the central bank in November 2015 and resigned before the end of his second term following a widespread ministerial reshuffle. After his resignation he was appointed as an adviser to President Abdul Fattah al-Sisi.

Egypt is contending with surging inflation and fears of food shortages following the Russian invasion of Ukraine and the Covid epidemic. Despite the deposit of significant amounts of foreign currency by Gulf states, the Egyptian pound has come under renewed pressure. Mr Abdulla will likely have to contend with rising levels of poverty and negotiating a reform package with the International Monetary Fund.

HSBC appointments

Julian Wentzel was appointed Head of Global Banking for the Middle East, North Africa and Turkey (MENAT) region, taking up the Dubai-based role from September 2022. Mr Wentzel, who has more than 25 years of banking experience, was previously Head of Global Banking for the UK and International Europe based in London. He succeeded Gareth Thomas, who has taken on the role of Chief Risk Officer for the bank in the Middle East, North Africa and Turkey region.

Arab Bank appoints new CEO

Randa Sadik was named as the CEO of Arab Bank, the country's largest bank by assets. Ms Sadik, who has an MBA degree from the American University of Beirut, joined Arab Bank in 2010 and was previously deputy CEO. She succeeded Nemeh Sabbagh who retired at the end of January 2022.

Ms Sadik worked for 24 years at National Bank of Kuwait, where she became general manager of the international banking group.

Arab Bank was first established in 1930 in Jerusalem as Arab Bank Limited and was the first public shareholding company to be listed on the Amman Stock Exchange in 1978. It became Arab Bank plc in 1990.

Ms Sadik is also chairman of the Arab Tunisian Bank, of the management committee of Al-Arabi Investment Group, and she is vice-chairman of Arab Bank Australia ltd. She is also a board member of Oman Arab Bank.

Byblos Bank London

Byblos Bank has appointed Lama Assi Dandachli as manager of the London branch of Byblos Bank Europe, replacing Gaby Fadel who has retired. Ms Dandachli joined Byblos in 2003 after three years with ABN Amro. She is a graduate and former instructor at the American University of Beirut. At Byblos, she was most recently the head of business banking in the corporate department and for the middle market, responsible for Beirut, and the south and north regions.

Gaby Fadel, a well-liked and highly respected ABA board member, was appointed head of the Byblos branch in 1999.

Byblos Bank was established in Jbeil, Lebanon, in 1950. Its branch network is spread across Lebanon. The bank also has expanded to several other countries, including Armenia, Belgium, Cyprus, France, Iraq, Nigeria, Sudan, Syria, the United Arab Emirates, and the United Kingdom.

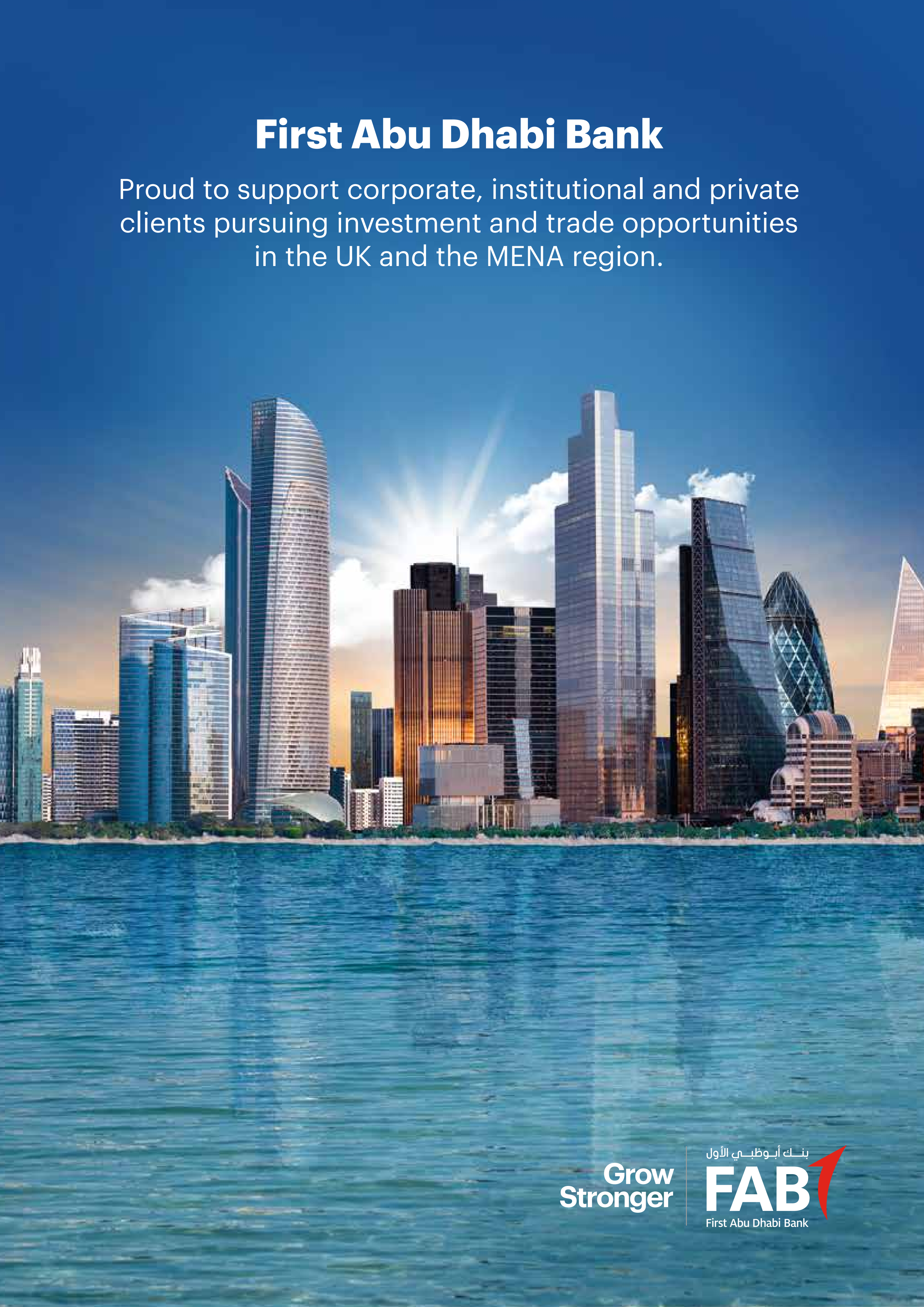
QNB London appoints new general manager

Paul McDonagh has been appointed as the new general manager of Qatar National Bank's London operations following the death of Paul Mason.

Mr McDonagh joined QNB in December 2021 from Lloyds Bank, where he was head of business strategy and multinationals.

First Abu Dhabi Bank

In May 2022, First Abu Dhabi Bank (FAB) appointed Tony Worthington as Chief Executive of its London operations. Tony joined FAB from Qatar National Bank in London where he was Acting UK General Manager and Head of Corporate & Institutional Banking. Tony is a former Managing Director of Standard Chartered Bank where he held the roles of Head of European Corporate Client Coverage and Global Head of the Telecoms, Media & Technology ("TMT") coverage business.


First Abu Dhabi Bank
Proud to support corporate, institutional and private clients pursuing investment and trade opportunities in the UK and the MENA region.
Grow Stronger
بنك أبوظبي الأول
FAB
First Abu Dhabi Bank

The good times return for Gulf energy producers but others are vulnerable

The Russian invasion of Ukraine combined with an energy slump in 2020 caused by lockdowns in response to the Covid-19 pandemic have combined to limit oil production. At the same time limited spare capacity and a return to high demand mean that oil and gas exporters are enjoying high returns.

Robin Mills of Qamar Energy looks at how the region can navigate and capitalise on the coming profitable, yet volatile, years.

Energy is central to the current series of global economic and political crises. But in the Middle East, oil exporters are benefitting significantly from high energy prices, even as others in the region remain vulnerable to those high prices both directly and indirectly.

Today's global problems have four main strands: a growing confrontation between the US and China; Russia's invasion of Ukraine and its broader struggle with the West; high commodity prices and general inflation and shortages; and climate change. In turn, these are interrelated.

Most obviously, the tightening of sanctions on Russia and its own limiting of gas supplies to Europe have driven energy prices – particularly for gas and electricity – to record highs. European states are trying to replace Russian gas, mostly delivered by pipeline, with liquefied natural gas (LNG) brought in by tankers from the US, Qatar, Nigeria and elsewhere. However, there is minimal spare capacity in the global LNG business, major new projects are not expected to be complete until around 2026–27, and most volumes are tied up in long-term contracts to Asian buyers.

Europe has introduced a near-total ban on Russian oil imports, which should cut its purchases by 90% by the end of 2022. Sanctions on shipping and insurance make it harder for Moscow to find alternative markets in Asia. Estimates of the loss of Russian exports vary widely, but between 1–3 million barrels per day (mn bpd) seem plausible, from pre-war levels of about 7.8 mn bpd.

The war also threatens exports of food, fertilisers and some important metals. Russia is a major or leading exporter of nickel, copper, palladium and aluminium, critical components of a clean energy economy. Deteriorating American trade relations with China, tariff barriers, and the after-effects of the Covid-19 pandemic, have snarled up supply chains and raised costs further.

At the same time, the need for action against climate change – and the very poor financial returns from the oil and gas industry between 2014–20 – have deterred investment into new fossil fuel projects. This, and the anti-nuclear power stance of countries such as Germany, have left Europe dangerously dependent on Russian oil and gas, as now becomes apparent to all.

Non-carbon energy systems, such as renewables and electric vehicles, have advanced enormously in recent years in performance, cost-competitiveness and scale. But they have not yet filled the gap left by falling investment in fossil fuels.

The slump in demand in 2020 caused by lockdowns in response to the Covid-19 pandemic left deep scars. Globally, some 2.13 mn bpd of oil refining capacity closed down. US oil production dropped 3 mn bpd, and it remains more than 1m bpd below pre-pandemic levels. American shale oil companies are sticking to a mantra of capital discipline and returning cash to shareholders, rather than investing heavily in new drilling. In any case, they say they are constrained by shortages of skilled workers and equipment.

OPEC+

Following the oil price slump of late 2014, the OPEC+ group came together in 2016. For the first time, Russia and a group of other important oil producers, such as Kazakhstan and Oman, cooperated with the Organisation of Petroleum Exporting Countries (OPEC) in introducing, then sticking to, production cuts. Saudi Arabia and Russia share top billing as the world's largest oil producers with the US, all yielding around 10–11 mn bpd of crude in normal times. Riyadh had for some time realised that it could not contend simultaneously against both Texas and Siberia, for risk of losing market share, and that some kind of pact was needed.

OPEC+ discipline threatened to break down in April 2020, when US crude prices briefly went negative, -$37.63 per barrel, amid the initial onslaught of the coronavirus. But Donald Trump intervened to bring them back together. They agreed to cut a record 9.7 mn bpd of output. Since then, the group has gradually been bringing back production. But it has become increasingly apparent that most members cannot produce up to their targets. Nigeria and Angola have been the most egregious laggards, but Algeria, Kuwait and others now appear to be close to their maximums. Iraq could possibly add a few hundred thousand barrels per day, but its export terminals are creaking.

Three OPEC countries were exempted from cuts because of their political problems: Venezuela, Libya and Iran. Libya's fractious politics keep its production on a roller-coaster, with frequent interruptions to major fields and export terminals, and a gradual decline as lack of maintenance, war damage and underinvestment take a toll on its facilities.

Iran could bring back 1–1.5 mn bpd of exports within a few months of US sanctions being eased. It currently sells about 1m bpd, mostly to China through disguised routes. But it now faces competition from discounted Russian crude. The prospects for a resumption of 2015's nuclear deal, the Joint Comprehensive Plan of Action, abrogated by President Trump in May 2018, appear uncertain despite Tehran's economic problems and Washington's search for more hydrocarbons to replace Russia.

Spare capacity is limited and demand is high

Only Saudi Arabia and the UAE hold substantial spare capacity, about 3 mn bpd between them. They are constrained by the other members, though. Ahead of the OPEC+ meeting on 2 June 2022, the US encouraged Saudi Arabia to boost output. There was talk that Russia's compliance with quotas could be suspended. In the end, all that happened was an agreement to accelerate production increases over the next two months, instead of three.

When the Covid-induced cuts expire, after August, a new agreement may be reached, or else a free-for-all in which only Abu Dhabi and Riyadh would really be free. They value their new relationship with Russia, and do not want to seem to support the Western sanctions against Moscow. On the other hand, they face a dilemma, whereby cheap Russian crude competes in their key Asian outlets, pushing them to send more to the declining markets in Europe.

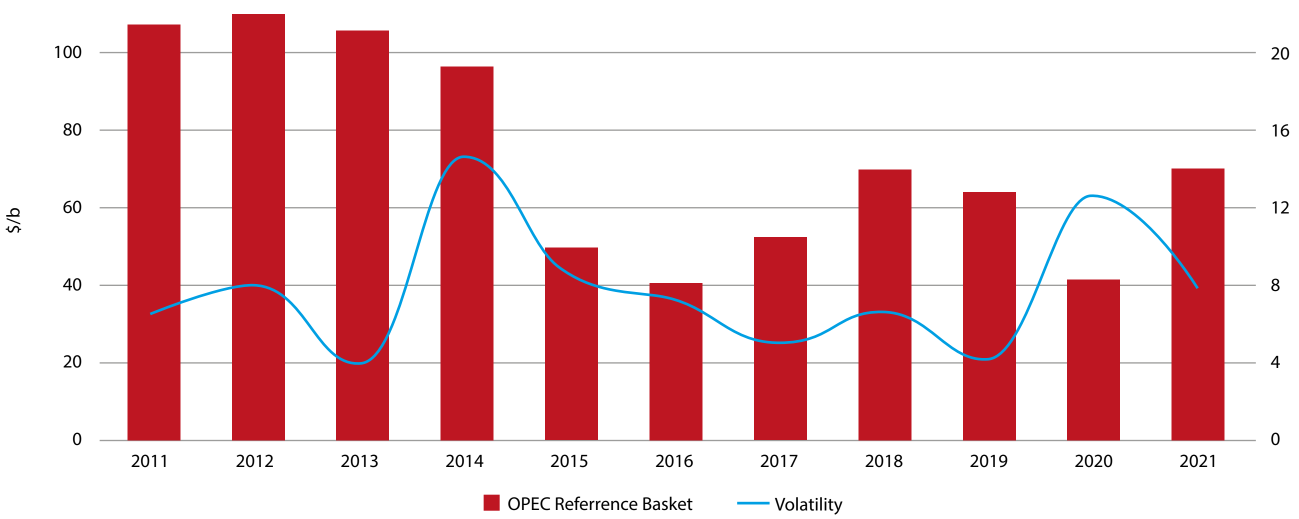
In the face of these supply problems, the easing of the infection, and government stimuli, have brought world oil demand back to near-record levels. The glut of oil stocks that accumulated during the lockdowns has now been drained.

There are two obvious threats to this demand outlook. The first is a repetition of more serious Covid outbreaks and lockdowns in China, or even the appearance of a yet more dangerous variant worldwide. The second is a global economic slowdown, as central banks raise rates to clamp down on inflation.

Oil producers are comfortable

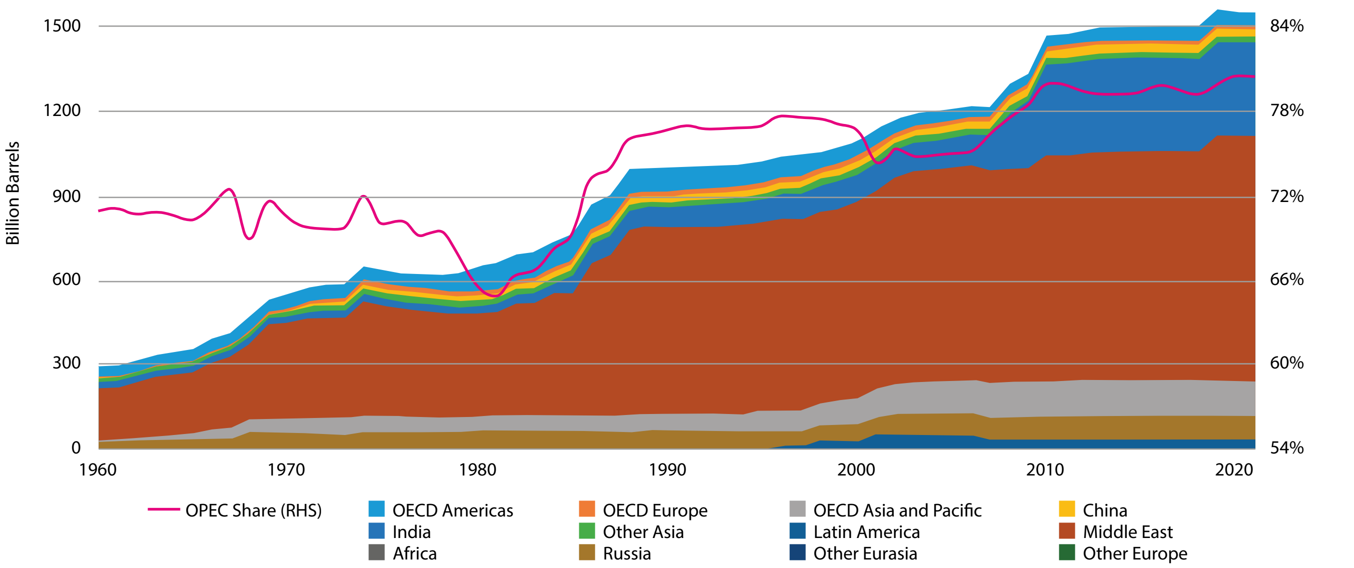
For now, the economic position for the Middle East oil exporters is comfortable: rising production, for those who can,

Figure 1: OPEC Reference Basket ($/b)



Source: Opec Annual Statistical Bulletin 2022.

Figure 2: World proven crude oil reserves (billion barrels)



Source: Opec Annual Statistical Bulletin 2022.

high oil prices, and exceptionally elevated LNG prices, which are benefiting Qatar in particular. The region's oil refining, aluminium, fertiliser and petrochemical industries are also gaining from strong margins. Saudi Arabia's deficit in 2021 dropped from $78 bn to $19.6 bn, the best fiscal position in eight years, and the budgeted surplus of $24 bn for 2022 is likely to be substantially exceeded.

The UAE will add about 0.5 mn bpd of oil production capacity by 2030, Saudi Arabia 1 mn bpd by 2027, and Iraq has cut back its target to 6 mn bpd by 2027, which would be a 1.2 mn bpd gain. Qatar is well advanced in expanding its LNG capacity by 64% by 2027, while the UAE also plans a new plant. Kuwait's oil investment plans, though, appear mired in politics.

The Europeans have engaged particularly with Algeria, Qatar and the UAE in the hope of securing additional gas. In the absence of a major recession, the next few years should be strong ones for hydrocarbon earnings. The key is to invest these revenues in economic diversification, keep up the pace of reform, and develop new industries.

Renewables

The UAE, Saudi Arabia, Oman, Egypt and Morocco, in different ways, have become leaders in the nascent hydrogen industry. The UAE, Saudi Arabia and Bahrain have set net-zero carbon goals; Egypt will host the annual UN climate conference, COP27, in November, and COP28 follows in the UAE next year. This is increasingly urgent: the Ukraine war and high oil and gas prices have given a strong impetus to decarbonisation and the development of renewables, hydrogen and electric vehicles. Oil demand growth will slow and may have gone into reverse later this decade. Many regional countries are suffering from worsening drought, desertification and heatwaves.

The prospects for regional oil importers are poor

The outlook for the politically-troubled and the oil importers is worrying and more urgent. Egypt, Morocco and Jordan benefit from ambitious renewable energy programmes, and Egypt has an important role to play in the growing East Mediterranean gas sector, with re-exports of gas from its under-used LNG plants.

But war-torn Syria and Yemen and crisis-struck Lebanon suffer from sharply rising food and fuel prices. Egypt and Tunisia are seeking IMF packages. Iraq's fiscal position is greatly improved, but negotiations on a new government after elections in October 2021 drag on. As Iran-linked parties exert themselves after a poor electoral showing, the semi-autonomous Kurdistan region's independent oil sector has come under legal pressure from Baghdad. And the provision of basic services of water and electricity continues to be disastrous.

One or other of these vulnerable countries could create the conditions for another crisis to envelope the region. Further advances of Iran's nuclear programme, with a failure to renew the JCPOA, could be another flashpoint for conflict that might drag in Iraq and neighbouring states. High energy prices have reminded global powers of the Middle East's economic centrality. But the region has to navigate and capitalise on the coming profitable yet volatile years. ■

Robin M. Mills

Robin M. Mills is CEO of consulting firm Qamar Energy, and author of *The Myth of the Oil Crisis*.

GCC banks produce strong performance

Commercial banks in the Gulf Cooperation Council performed well in 2021 and are set to show strong results again for 2022. Their financial strength will serve them well as GCC economies face up to the challenges presented by the move away from carbon-based energy. *Arab Banker's* former Editor, Andrew Cunningham, presents our annual overview and listing of the biggest GCC banks.

All but one of the 62 active commercial banks in GCC were profitable in 2021, and all but three reported higher net profits than in 2020. In some cases, net profits were substantially higher as loan loss provisions fell or were written back as the economic dangers of the Covid pandemic receded.

At an operating level (pre-provisions), performance was good, but a little more mixed. Forty nine of the 62 banks reported higher income.

Ratios of operating expenses to operating income are low (that is, good), exceptionally so for Qatari banks, and some others. Returns on equity were mixed, with most banks showing ratios of between 5% and 10%.

Capital levels are high, with 54 of the 62 banks showing risk-adjusted capital ratios above 16%. Of course, GCC banks' ratios are flattered by the zero-weighting of exposures to local currency-denominated government debt, a practice which remains entirely legitimate under international standards. Nonetheless, the fact remains that most GCC banks are showing capital ratios that are well in excess of international norms.

Taken all together, the picture is of a healthy banking sector. Some of this can be attributed to the support provided by governments to banks and to their customers during the pandemic, and to accounting forbearance – though GCC banks are hardly alone in having enjoyed such support.

The healthy overall picture also owes much to the merger and acquisition activity in the years which preceded the Covid pandemic. In the UAE, the authorities in Abu Dhabi and Dubai consolidated some of their investments in local banks, while in other countries weaker banks have been swept into stronger institutions. This has been particularly noticeable in Bahrain, which continues to boast a very large number of licensed institutions – a legacy of Bahrain's history as the region's 'offshore' centre – but a relatively small number of active local banks.

In Sharjah, Investbank declared its fifth consecutive annual loss in 2021, but Bank of Sharjah and United Arab Bank returned to profit after declaring some large losses in previous years. Sharjah Islamic Bank has been consistently profitable in recent years.

Banks in Saudi Arabia and the UAE continue to dominate the ranks of the largest GCC commercial banks. Saudi Arabia and the UAE each contribute four of the largest 10 GCC banks, when ranked by equity. (See Table 4)

Saudi National Bank (SNB), the product of the merger, last year, between National Commercial Bank and Samba Financial Group, showed equity of $43.5bn at the end of 2021, making it by far the largest in the region, by equity, although Qatar National Bank is the largest in terms of assets ($302.4bn), followed by First Abu Dhabi Bank ($272.4bn), with SNB third ($244.1bn).

As *Arab Banker* was going to press, Kuwait Finance House and Bahrain's Ahli United Bank, both well performing,

How many banks are there in Bahrain?

The Central Bank of Bahrain's Statistical Bulletin lists 87 licensed banks, which is more than in all of the other five GCC countries combined. But a closer look at the names of the banks listed, and some historical perspective, is needed.

The large number of banks is the result of Bahrain's history as the region's offshore banking centre. At a time when it was hard, if not impossible, for foreign banks to acquire branch licenses in the GCC, those foreign banks would set up 'Offshore Banking Units' in Bahrain to service the region. The late 1970s and early 1980s were the heyday of the Bahrain offshore banking market, with the OBUs recycling billions of petrodollars through the international financial system.

In 2006, there was a major overhaul of Bahrain's financial sector and this included abolishing offshore status. Most of those who had held OBU licenses re-registered as wholesale banks.

The CBB lists 24 retail banks, 49 wholesale banks, and 14 Islamic banks, of which six are retail and eight are wholesale.

The retail sector comprises nine local banks and 15 foreign banks. Among the locals are five commercial banks, two development banks (Bahrain Development Bank and the Housing Bank), and one bank that is under administration. For historical reasons, Ahli United Bank holds two licenses.

The Wholesale sector comprises 12 local banks and 37 overseas banks. Six of the local banks are not operating (for example, some are under administration), two are investment bank/asset managers (SICO and UGB). The other two include Bank ABC and Gulf International Bank (GIB), that also have retail licenses.

The retail Islamic banks comprise four local banks, one that is the locally incorporated subsidiary of a Kuwaiti bank, and one, Bahrain Islamic Bank, that has been acquired by National Bank of Bahrain. The wholesale Islamic banks comprise six that are locally incorporated (including Bank ABC) and one that is dormant. The other two are overseas banks.

Table 1: Structure of the UAE banking market, end-2021

		Assets	Domestic Credit	Resident Deposits	Equity
Abu Dhabi	$bn	413	182	217	49
	% of total	46	41	45	45
Dubai	$bn	419	219	219	52
	% of total	46	50	46	47
Other Emirates*	$bn	73	40	45	9
	% of total	8	9	9	8

** Ajman, Fujairah, Ras al-Kheimah, Sharjah, Umm al-Qaiwain*
Source: Central Bank of the UAE Monthly Bulletin

Table 2: Aggregate figures of active GCC commercial banks, end 2021 ($mn)

	Equity	Assets	Loans	Customers' Deposits	Number of banks
Bahrain	18,033	153,728	72,704	97,057	10
Kuwait	39,674	322,135	196,061	204,498	9
Oman	14,434	93,747	67,413	65,102	8
Qatar	60,554	539,067	365,073	359,681	8
Saudi Arabia	126,589	809,829	517,325	565,296	10
UAE	106,678	851,479	457,103	555,075	17

The balance sheet figures sum the figures for all of the active commercial banks in the respective country. Note that this results in some double accounting when banks consolidate their subsidiaries (for example, Bahrain's Ahli United Bank consolidating its Kuwaiti subsidiary of the same name, or National Bank of Kuwait consolidating its subsidiary Boubyan Bank.) Note also, that these figures do not represent all banking resources in the respective countries since overseas banks, or the subsidiaries/branches of overseas banks, are not included.

announced that they had reached agreement on the terms of a merger. (See page 9.)

Although it is normal to speak of the UAE as a single entity, politically it is a federation of seven emirates, and two of these, Abu Dhabi and Dubai account for more than 90% of the assets and liabilities of the federation's banking system. Both Abu Dhabi and Dubai have bigger banking systems than Bahrain and Oman and, in some respects, they are bigger than the Kuwaiti banking system. (For details, please refer to tables 1 and 2)

Similarly, some nuance is required when considering the Bahrain banking system. A small number of banks dominate the system in terms of financial assets and liabilities, but there were 87 licensed banks at the beginning of 2022. Many of these are branches of overseas institutions, some are investment banks or asset managers, and some are in the process of being wound down. (See table 3)

Bright prospects, but a few clouds

Looking ahead, the prospects for GCC banks appear good, as interest rates rise and oil prices remain strong. Many GCC banks hold large amounts of non-interest-bearing deposits, and so stand to see net interest margins widen as interest rates continue to rise. Rating agency Fitch estimates that about two thirds of Saudi banks' deposits are non-interest bearing.

High oil prices are also supporting economic activity in the region. Brent crude averaged $105/b in the first six months of 2022, compared to $71/b in 2021 and $43/b in 2020, according to Nicosia-based Middle East Economic Survey.

Nonetheless, there are some clouds amid this generally bright picture. Over the summer of 2022, the Saudi authorities injected about $13bn into the banking sector to try to stem the rising cost of local funds. The Saudi interbank offered rate trebled to more than 3% between the end of 2021 and the middle of 2022.

In April, Fitch downgraded several Qatari banks, citing their increasing reliance on foreign funding. Most Qatari banks are now showing loan-to-deposit ratios above 100%, while aggregate data for the system shows foreign liabilities accounting for 16% of Qatari banks' total balance sheet in March 2022, more than double the figure five years earlier.

Longer term challenges

Over the long term, the prospects of GCC banks will be determined by the ability of GCC governments to respond to global efforts to reduce the use of carbon-based products (including, most obviously, oil and gas) and to put their fiscal structures on a more sustainable basis. However unrealistic some of the predictions for renewable energy growth may be, it is hard to imagine that hydrocarbons, and in particularly crude oil, will remain central to the global energy mix over the long term – say, 30 or 40 years from now.

Saudi Arabia is already selling itself as an 'energy economy' rather than an 'oil economy' but it is too early to tell how far the GCC economies will be able to develop renewable energy on a scale that is at all comparable to their current hydrocarbon industries. A recent report by Apicorp estimated that Saudi Arabia, Kuwait and Qatar generate less than 1% of their energy from renewables, with the UAE generating about 5%. (In the European Union, renewable energy represented 22% of energy consumed in 2020, according to the European Commission.)

As for fiscal reform, there seems little reason to believe that the social contract which underpins the GCC low-tax economies will change, with the result that most governments will remain reliant on a combination of hydrocarbon exports and investment income to balance their budgets.

These challenges are significant, but GCC banks face them from a position of strength. Most still enjoy high credit ratings, low costs of funds and strong asset quality. They have high capital ratios. Their governments are committed to supporting them, as has been amply demonstrated during the Covid pandemic. We should expect GCC banks to return many more years of strong performance. ■

Table 3: Structure of the Bahrain banking system

	Total assets	Assets in Bahrain	Assets in (other) GCC	Equity
Retail banks	68,360.7	3,579.6	22,126.2	8,841.7
Wholesale banks	118,102.7*	14,263.4	17,232.3	37,816.9**
Islamic banks (retail and wholesale	34,554.8	2,737.9	26,473.4	3,258.6

**For reference: assets in Western Europe were $33,707.5 and assets in the Americas (including north and south) were $13,146.7. **In the CBB report this item is listed as 'Other' liabilities, with a footnote explaining that it, 'Includes Capital & Reserves'.*
Source: Central Bank of Bahrain

Table 4: Largest 50 GCC commercial banks, ranked by equity size (end-2021)*

All figures in $ mn except for the capital ratio which is %

	Bank	Country	Equity	Assets	Net Loans	Customers' Deposits	Net Profit	Total Capital Ratio (Basel)
1	Saudi National Bank	Saudi Arabia	43,460.4	244,083.1	132,407.6	156,717.4	3,413.4	19.2
2	First Abu Dhabi Bank	UAE (Abu Dhabi)	30,722.5	272,384.6	111,681.5	167,311.8	3,415.2	15.4
3	Qatar National Bank	Qatar	27,686.1	302,448.7	211,306.2	217,354.8	3,776.3	19.3
4	Emirates NBD	UAE (Dubai)	22,758.0	187,182.9	114,981.0	124,296.5	2,533.9	18.3
5	Al-Rajhi Bank	Saudi Arabia	17,971.9	166,523.9	120,908.3	136,726.1	3,937.3	19.6
6	Abu Dhabi Commercial Bank	UAE (Abu Dhabi)	16,165.9	119,883.9	66,515.9	72,171.4	1,428.8	16.8
7	National Bank of Kuwait	Kuwait	14,799.6	110,179.6	65,340.9	60,565.2	1,260.9	18.1
8	Saudi British Bank	Saudi Arabia	14,158.9	72,731.3	44,738.5	49,866.1	854.8	21.8
9	Riyad Bank	Saudi Arabia	12,629.3	86,973.3	58,017.7	56,519.3	1,608.8	19.0
10	Duabi Islamic Bank	UAE (Dubai)	11,290.4	75,991.4	50,834.2	56,049.8	1,199.7	17.1
11	Banque Saudi Fransi	Saudi Arabia	10,596.3	57,620.3	39,466.8	37,901.5	921.1	21.1
12	Arab National Bank	Saudi Arabia	8,311.3	51,399.0	33,822.7	36,236.4	579.8	21.4
13	Alinma Bank	Saudi Arabia	8,200.0	46,319.1	33,715.2	32,323.9	723.4	23.0
14	Kuwait Finance House	Kuwait	7,643.8	72,184.6	37,620.6	52,567.3	1,027.4	18.7
15	Qatar Islamic Bank	Qatar	7,031.6	53,657.5	35,531.2	36,274.6	983.1	18.9
16	Masraf al-Rayan	Qatar	6,825.3	48,156.0	33,427.8	29,595.3	477.4	21.2
17	Commercial Bank of Qatar	Qatar	6,661.2	45,784.7	27,118.0	22,678.3	637.6	18.1
18	Ahli United Bank	Bahrain	5,918.0	41,913.4	22,075.1	25,203.9	607.2	17.0
19	Mashreq Bank	UAE (Dubai)	5,724.7	48,210.1	22,187.9	27,632.9	292.9	14.5
20	Bank Muscat	Oman	5,605.7	34,071.4	23,955.9	22,869.8	494.2	21.3
21	Abu Dhabi Islamic Bank	UAE (Abu Dhabi)	5,598.1	37,268.0	24,030.3	29,846.1	634.5	18.6
22	Saudi Investment Bank	Saudi Arabia	4,352.6	27,124.6	15,433.8	16,424.8	283.5	20.8
23	Bank ABC	Bahrain	4,235.0	34,897.0	16,768.0	20,734.0	128.0	16.9
24	Doha Bank	Qatar	3,944.7	27,975.7	17,340.3	13,933.7	194.7	20.2
25	Dukhan Bank	Qatar	3,870.2	30,638.7	20,814.2	21,424.2	330.2	18.4
26	Bank Al Jazira	Saudi Arabia	3,710.1	27,455.5	16,670.4	20,923.9	268.6	24.4
27	Commercial Bank of Dubai	UAE (Dubai)	3,694.2	31,099.1	20,814.3	22,524.4	395.0	15.8
28	Bank Albilad	Saudi Arabia	3,198.8	29,598.6	22,143.7	21,657.0	450.3	18.7
29	Gulf International Bank	Bahrain	3,093.0	31,797.0	11,657.5	20,994.8	52.7	16.1
30	Burgan Bank	Kuwait	3,087.4	23,439.2	14,175.4	13,787.8	161.0	17.5
31	Commercial Bank of Kuwait	Kuwait	2,719.7	14,211.5	7,547.4	7,022.3	181.2	18.6
32	Boubyan Bank	Kuwait	2,485.1	24,356.9	18,265.0	18,615.2	159.0	16.4
33	Qatar Internat. Islamic Bank	Qatar	2,408.1	17,098.1	10,246.6	10,693.5	277.6	16.7
34	National Bank of Ras al-Khaimeh	UAE (Ras al-Khaimeh)	2,282.3	15,331.0	8,790.5	10,251.0	206.5	17.0
35	Gulf Bank	Kuwait	2,208.1	21,719.8	15,101.0	14,259.2	139.5	16.7
36	Ahli United Bank (Kuwait)	Kuwait	2,145.8	15,151.7	11,072.4	10,303.1	103.4	18.2
37	Ahli Bank of Qatar	Qatar	2,126.4	13,307.4	9,288.9	7,727.0	197.4	20.6
38	Sharjah Islamic Bank	UAE (Sharjah)	2,095.2	14,964.2	7,898.9	10,481.5	140.0	20.8
39	Al Ahli Bank of Kuwait	Kuwait	2,021.9	18,643.3	11,221.2	12,964.8	90.8	18.3
40	Bank Dhofar	Oman	1,820.5	11,569.0	8,721.3	7,755.4	65.4	17.7
41	Sohar International Bank	Oman	1,554.9	10,774.6	6,808.3	6,240.6	73.8	19.1
42	National Bank of Fujairah	UAE (Fujairah)	1,545.4	11,693.7	6,974.7	8,767.4	31.4	19.1
43	Bank of Bahrain and Kuwait	Bahrain	1,454.9	9,800.7	4,288.8	5,672.2	142.8	23.6
44	National Bank of Oman	Oman	1,447.8	10,636.7	8,049.9	7,604.5	79.0	15.8
45	National Bank of Bahrain	Bahrain	1,419.9	12,030.8	6,354.9	8,446.2	145.9	22.1
46	Warba Bank	Kuwait	1,377.6	11,861.3	8,194.7	7,583.2	55.7	15.8
47	National Bank of Umm al-Qaiwain	UAE (Umm al-Qaiwain)	1,375.3	3,578.4	1,794.0	2,096.7	71.9	44.7
48	Oman Arab Bank	Oman	1,366.5	8,954.6	7,176.3	7,324.9	18.5	16.8
49	Kuwait International Bank	Kuwait	1,185.1	10,386.6	7,522.2	6,830.1	36.8	19.2
50	AlAhli Bank	Oman	1,112.9	7,956.1	6,260.4	5,685.5	71.9	16.7

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

Together toward green environment and renewable energy

Saudis connect with their ancient heritage

After years of popular and institutional scepticism, the Kingdom is starting to appreciate the social and economic benefits of an emerging heritage/ tourism sector

Monday 25 January 2021 is a day that the Gulf Cooperation Council (GCC) will savour for many years to come. It was when the reputation-tarnished body was for once justified being in a buoyant, even optimistic mood. For the leaders of the six member states had gathered in Saudi Arabia and agreed to end an intra-Gulf dispute which had contained the potential to cause the GCC to disintegrate. Their agreement ended the diplomatic and economic blockade of Qatar that had been imposed in June 2017.

Heads of state or their assigned deputies endorsed a declaration reaffirming their commitment to the GCC Charter, pledging to achieve coordination and integration among member states on a path towards eventual unity.

After that, following the tradition of the 40 previous summits, the six leaders stood for a joint photograph.

The second remarkable aspect of this particular meeting was that the staging of the photo call broke with tradition in one particular respect. Instead of the leaders standing amid desks and a podium in an elaborately decorated reception room in one of the Saudi royal palaces, on this occasion they posed outdoors. For the summit was held away from the major cities – at al-Ula, once a thriving trading town of mud-brick buildings which lies in the north-west of the Kingdom, in the barren hills north of Medina close to the Red Sea. It stood on what was the main pilgrimage route to Islam's sacred cities of Mecca and Medina. When in the early 1900s the Ottomans built a railway from Damascus to carry pilgrims, al-Ula was one of the last stops on the line southwards.

Today, much of al-Ula has been restored – one of the first success stories of Saudi Arabia's newly launched initiative to save and preserve its heritage. To show the world the progress being made, the GCC leaders were photographed on a stone platform with tall, restored buildings and stunning rock formations providing a dramatic background. The late afternoon sun cast slant shadows in front of the leaders.

With al-Ula and other projects, the Kingdom's heritage/ tourism sector is notching up successes. But the path thus far has been far from easy.

Passion for national heritage

Remarkably, the development of this new sector is largely down to the efforts and inspiration of one man. Prince Sultan bin Salman Al Saud is the oldest surviving son of the Saudi monarch, King Salman. He is passionate in his belief that Saudis – the young in particular – should be encouraged to learn more about their national heritage from the pre-Islamic era onwards – and that this necessitates restoring and preserving buildings from bygone times.

Prince Sultan himself was brought up with a love of the desert and the traditional pastimes of desert life. "I would go off on long hunting trips with my father," he recalls. "Sometimes we were way for weeks at a time. I learned to train and handle falcons. These trips instilled a deep-rooted love of Saudi and Arab values. From that time on, my passion has been to trace our heritage through its presence on the ground and through archaeology."

During the early 1980s, a time of rapid development and change in the Kingdom, Prince Sultan wrote his Master's dissertation at Syracuse University on historic Saudi tribal patterns. Back home in 1984 he published a paper pointing out how oil wealth had led to the destruction of old buildings, and how it was essential to preserve what was left of ancient Riyadh and the earlier city of Diriyah.

In 1985, Prince Sultan, after a career in aviation, became the first Arab or Muslim to travel in space – on STS-5q-G Discovery. On the back of that experience and the accompanying publicity, he travelled extensively, giving him a chance to observe how other countries had developed heritage/tourism sectors.

This in turn led to the establishment of Al-Turath Foundation a decade later, with the aim of promoting "awareness of national, Arab and Islamic heritage; to develop national heritage to become part of human life, and to develop a source of pride in the national identity and culture".

Against this background, it is perhaps not surprising that Prince Sultan was chosen in 2000 to be the first head of the Saudi Commission for Tourism and National Heritage (SCTH). But when he first heard about the Royal Order appointing him he hesitated before responding. "I have to admit that my initial reaction was more negative than positive," he says. "For Saudis the word 'tourism' had negative associations, it was a dirty word. They didn't want foreigners coming in and trampling on their country. I had deep reservations about how our very conservative society would react."

Breaking down resistance

The Prince's reservations were well founded. He met with resistance at every level: "You can't set up a tourism industry in isolation. You need cooperation from other ministries and state and private bodies. Most were reluctant to help. It was hard. For example, we had to lobby the government to get financing for an airport to serve al-Ula – essential for wooing visitors there. We got it in the end, but like so much it was all a struggle, like trying to clamber up a slippery slope. Metaphorically we had rocks chucked at us."

But the Prince and his team persisted, taking city mayors to successful tourism sites in Europe and elsewhere to show them how such projects could be incorporated into modern-day living without trauma, while creating a healthy income stream at the same time. In this way they could see that "tourism could become plausible, respectable and enjoyable. We used the media to get the same message across to the public. And eventually we won the battle." In fact, he adds, the Saudi people "were quicker than institutions to adopt to the notion of tourism sitting comfortably in a Saudi setting".

Shifting perceptions

As part of that tourism/heritage strategy, Prince Sultan's aim is to change the attitude of young Saudis towards their own country and its past. "Too many of them sit at home in front of screens and see the state as some kind of giant ATM machine handing out cash for nothing. I tell them to get out of the cities, go and look at the mountains, look at the amazing colours. Visit small villages. Hear what villagers have to say. Look at the buildings they live in, taste their food. Find out how it differs from what you're used to. This is all part of our culture, our heritage. We must stop blocking out the past, destroying things just because they are old."

Diriyah – historical and cultural heart

At present, much of the heritage focus is on a vast scheme to restore the ruins of Diriyah outside Riyadh – the first 'capital' of what was eventually to become Saudi Arabia after the emergence of the Al Saud dynasty and its links with Wahhabi Islam. The Diriyah project aims both to preserve heritage and create a mass tourism site on a gigantic scale. According to the Diriyah Gate Development Authority, this SR64 bn ($17 bn) project covers 7 square km and will create a "mixed-use historic, culture and lifestyle development. Diriyah will become the Kingdom's historic and cultural heart, proudly showcasing to the world Saudi Arabia's 300+ years of history."

With such developments now under the wing of the newly established Ministry of Tourism, the sector which was created with such difficulty over the past two decades is finally part of mainstream Saudi life. The hope and expectation are that it will soon be making a significant contribution to the Kingdom's non-oil revenue as the country moves away from reliance on hydrocarbon income. Projects like Diriyah will be part of a package of tourism opportunities that already includes several international sporting events like Formula One and tennis and golf tournaments – aside from desert and beach experiences.

"I said several years ago that heritage would be one of the Kingdom's top three income sectors in the future and people laughed at me," Prince Sultan says. "I'm increasingly confident that I will have the last laugh. For in the end we did climb up that slippery slope, despite the metaphorical barrage of rocks we faced."

It is tempting to say that the success of the 2021 GCC summit at al-Ula and its dramatic setting which was on display to the world were good omens both for future Gulf cooperation and the burgeoning of Saudi Arabia's new appreciation of its ancient heritage. The coming years will show if this assessment is sound. ■

Gerald Butt

Gerald Butt is a Middle East analyst and writer, drawing on five decades of covering the region. He won the Sony Award for his BBC Radio coverage of the civil war in Lebanon; he later reported for the BBC on the first Palestinian intifada, before editing the Cyprus-based weekly Middle East Economic Survey. Today, he is a UK-based independent consultant on the Arab Gulf region, advising governments and corporate clients. Butt is also an adviser to the Oxford Analytica think tank.

MENA Financial Crime Compliance Group launches initiatives to combat trade-based financial crime and corruption

Michael Matossian, executive vice president and chief compliance officer of Arab Bank, helped found the MENA Financial Crime Compliance Group (FCCG) six years ago and is its current deputy chair. Here, he provides an update on the Group's activities.

Financial crime transcends borders and betrays communities and ecosystems. It steals trillions of dollars from people all over the world while allowing criminals to expand their illicit operations. Addressing the true human, societal, and economic impact of financial crime is a never-ending challenge that requires cross-border collective action from policy makers, governments, law enforcement, regulators, and financial institutions.

The financial services industry is under pressure from government and regulators to demonstrate convergence with international standards and to demonstrate best practice. While banks cannot be expected to be the world's policemen, we can embrace a higher purpose by recognising our moral obligation to act as gatekeepers to stop the flow of the proceeds of crime.

Methods of detecting and preventing the abuse of the financial system cannot remain static as criminals constantly find creative ways to perpetrate their crimes. A new paradigm is needed, one that deepens cooperation amongst all participants in the financial sector, both public and private, towards a sharper, more risk-targeted approach. This collaboration will allow various stakeholders to connect the dots more quickly across the sector to spot areas with the highest perceived risks and evolving threats warranting enhanced vigilance and controls.

This is an area that MENA FCCG, a group of 13 leading financial institutions from nine MENA countries, has championed over the past six years since its inception in 2016.

When we launched MENA FCCG, we said that the purpose which underpinned the Group was to make a "collective impact in the fight against financial crime". Here are our most recent actions undertaken to deliver on this mission.

Notable accomplishments

As regulatory requirements across Europe are generally stricter with higher levels of personal liability than their parent companies in the Middle East, compliance officers are further challenged to accelerate adoption of leading practices and emergent technologies.

In November 2021, the Group officially launched a Europe chapter at an inaugural meeting in London. The chapter aims to extend MENA FCCG's objectives to Europe by bringing together compliance professionals of Arab banks operating in Europe to enhance financial crime literacy and support implementation of best practices. The establishment of the chapter is a major milestone for MENA FCCG; it seeks to extend the Group's activities to Europe to provide a hand to Arab banks in embracing leading practices and meeting heightened regulatory expectations.

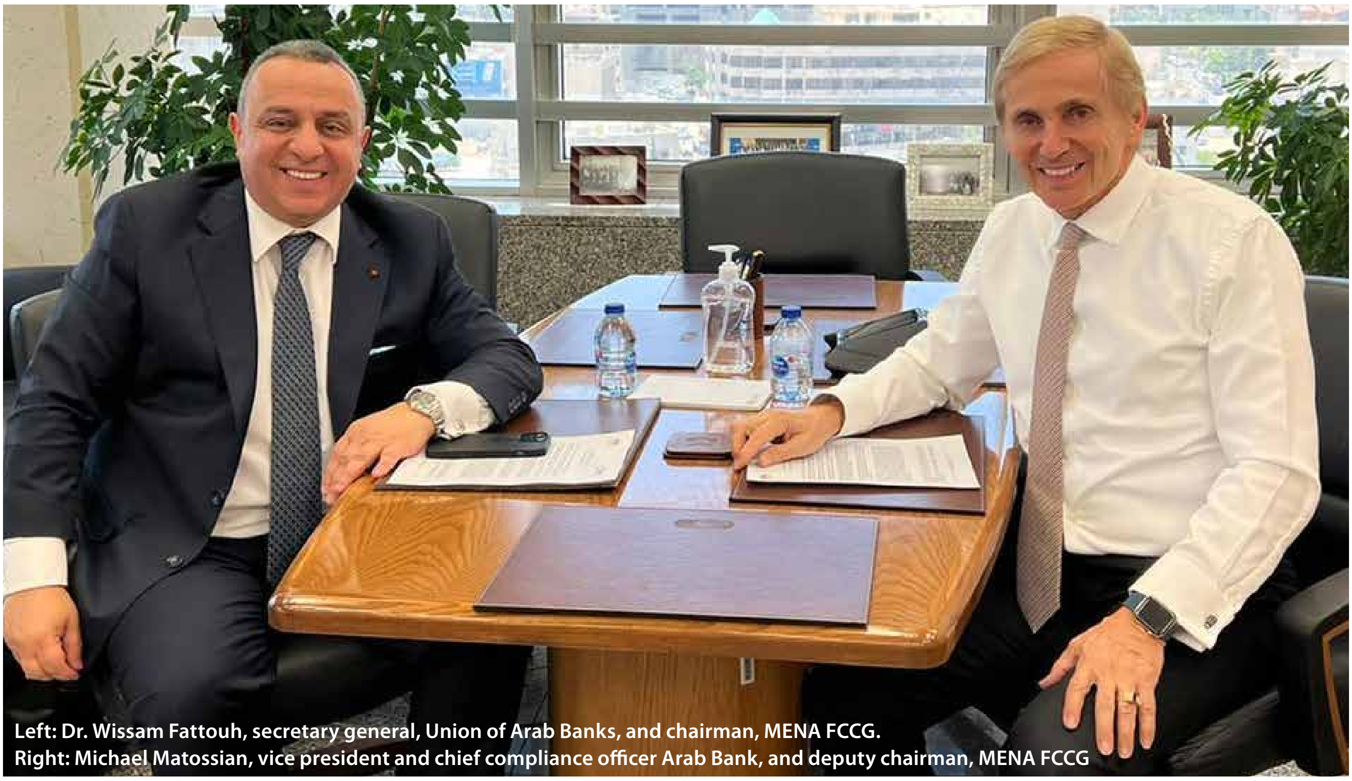
Thomas Noone, head of compliance and MLRO at Europe Arab Bank (UK), chairs the group. The chapter currently has 11 founding member banks. FCCG Europe operates as an autonomous body under the umbrella of the MENA FCCG.

The Arab Bankers Association acts as the strategic partner and the chapter has entered a strategic alliance with Themis Services, a specialist financial crime consultancy. "MENA FCCG is an extremely useful group in a part of the world where banks are seen as at a greater risk than average from a financial crime point of view," said George Kanaan, ABA Chief Executive Officer. "The European chapter is also of great value vis-a-vis host country regulators. We have already had a meeting with the FCA which was a foundation stone on which much will be built. The ABA supports this initiative in all of its aspects and stands ready to help in any way it can," he added.

The chapter's advisory committee also includes two MENA FCCG representatives to ensure proper support by the parent. The chapter has already made significant progress in a short time. This includes contacts with the City of London Corporation, the City of London Police Authority, regulatory authorities in the UK and international standard setters and regulators such as the Financial Action Task Force, Interpol, the Organisation of Economic Cooperation and Development, and the European Banking Authority. We are planning a workshop to which we will invite the heads of compliance of all Arab banks operating in Europe.

Outside its support of FCCG Europe, MENA FCCG continued actions towards making a difference in the fight against financial crime. Notably, the Group continued working with the Global Coalition to Fight Financial Crime (GCFFC) – MENA Chapter on three major initiatives:

(1) promoting the establishment of a Public Private Partnership (PPP) in the MENA region at the domestic level with a view to creating the first transnational PPP for sharing financial intelligence. An effective PPP needs political support, must create a relationship of trust among participants, and address data protection issues in relation to sharing tactical information relevant to law enforcement or national intelligence investigations both domestically and internationally. Actions are underway. For example, in 2022, the Group delivered a presentation on sanctions compliance to law enforcement and prosecutors in Jordan at an event organized by the Financial Services Volunteer Corps (FSVC)



Left: Dr. Wissam Fattouh, secretary general, Union of Arab Banks, and chairman, MENA FCCG.
Right: Michael Matossian, vice president and chief compliance officer Arab Bank, and deputy chairman, MENA FCCG

and had follow-up meetings with the head of the government's AML unit.

(2) augmenting the work of the GCFFC Expert Working Group on Anti- Bribery and Corruption (ABC). One idea that is being discussed is to enrich current indicators by conducting an independent analysis of existing ABC indexes and the various proxy indicators used to measure elements of development, business conduct, and governance. This analysis would then be used to identify areas of potential weakness in assessment methodologies. The Group could then engage with the producers of each index to enrich and support their work.

and

(3) establishing a regional project on Trade Based Financial Crime (TBFC). An experts working group will soon release a comprehensive TBFC reference guide in English and Arabic enriched with latest real-life case studies. The guide offers in-depth insights into how illicit funds, goods or services move through trade flows. Significantly, MENA FCCG is contemplating the feasibility of a university-accredited course as a certificate programme for TBFC deploying this soon to be released guide. The purpose of this university-accredited course is to make an immediate impact on the careers of the participants, as today's real world requires a high level of technical expertise. A well-trained workforce with hands-on experience in detecting and preventing the criminal exploitation of trade finance can dramatically improve detection, meet regulatory obligations, and make a collective impact in reducing financial crime.

A fundamental pillar of MENA FCCG's work is outreach to banks across the region and capacity building. The Group made contact with the Federation of Sudanese Banks to explore how MENA FCCG members can provide support to banks in Sudan in bolstering their compliance programs via awareness sessions (in the form of webinars) in collaboration with the Federation.

Sudanese banks have long been isolated from the outside world. If the country is to resume its proper place in the international community and economic linkages are to be re-established, these institutions need to understand and begin applying best practices and current standards. As part of its outreach, MENA FCCG also has plans to reach out to Libyan banks.

MENA FCCG is committed to make a difference in the fight against financial crime and has set its objectives into the agendas of many regional and international regulatory agencies and standards setters.

Financial crime is an infinite challenge; we are conscious we cannot win at this game, but we can effectively manage the risks it poses to the economies and communities where we live and work by building greater staff capacity and keeping up to date on the latest typologies and improving year-over-year. Looking forward for continuing collective actions towards enhancing the global response to the changing face of financial crime. ■

MENA FCCG Founding Members

National Bank of Egypt

Ali Ansari
Incoming MLRO – NBE UK

Iain Mckenzie
Senior Compliance Officer – NBE UK

Arab National Bank

Billal Mushtaq
Incoming MLRO – ANB London

Bank Audi

Dominique Godin
Head of Compliance – Audi France

Banque Banorient

Meng Barnie
MLRO – Banque Banorient London

Banque Misr

Pierre Henry Poissonnier
Head of Compliance – BM France

BLME

Andrew Dales – Deputy Chair
MLRO – London

EAB

Tharanga De Silva – Secretariat
Deputy MLRO – EAB London

Thomas Noone – Chair
Head of Compliance

Stephane Ruprich Robert
Head of Permanent Control – EAB Paris

Mashreq Bank

Vincent Holley
Head of International Banking Compliance – Mashreq UK

John Mills
MLRO – Mashreq UK

QNB

Makram Barhoumi
Head of Compliance – QNB Paris

Riyad Bank

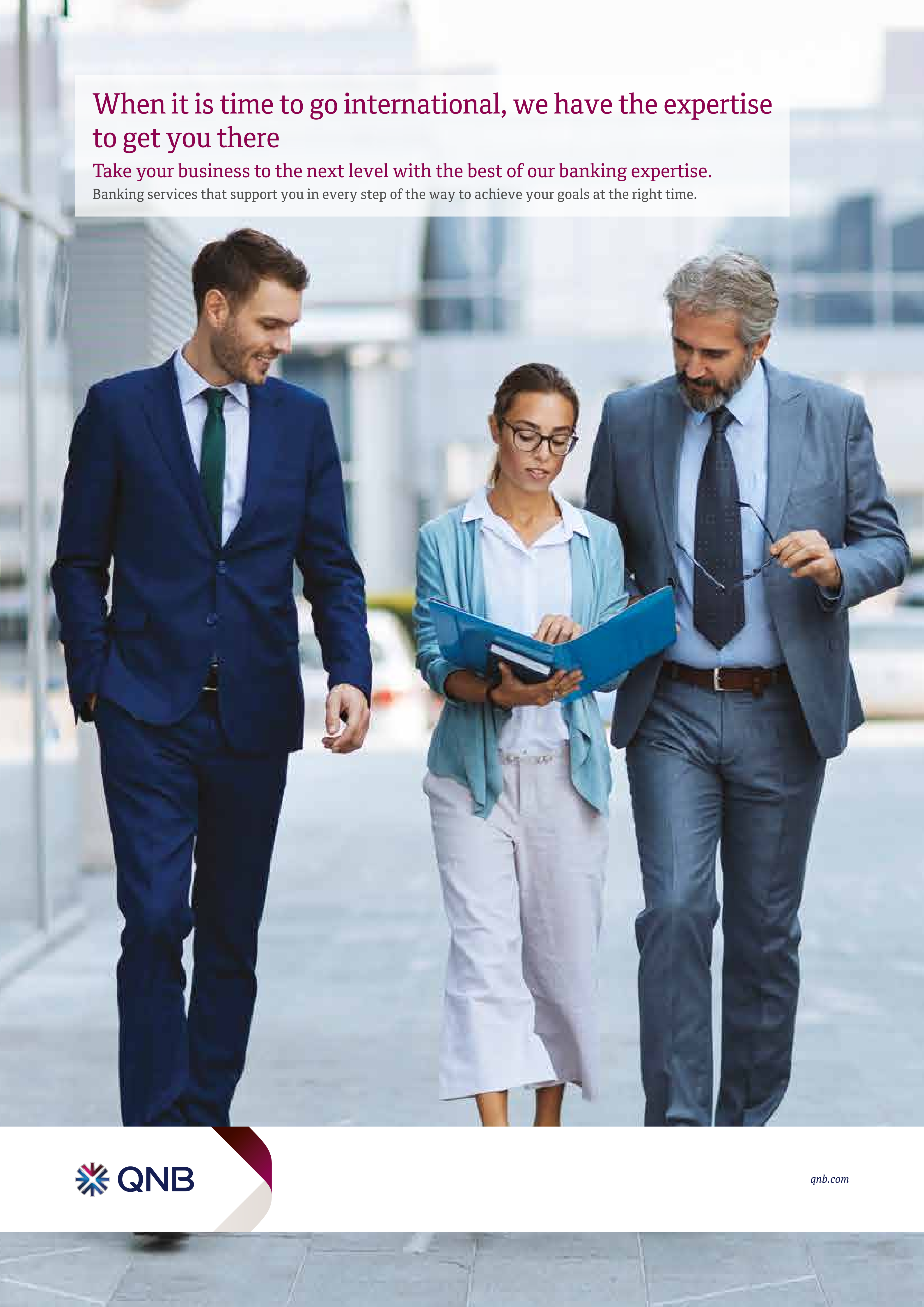
Sharon Gaughan
MLRO – Riyad Bank London

Bank ABC

Leanard Phillip
MLRO – Bank ABC London

National Bank of Kuwait

Juliette Mayard
Head of Compliance – NBK Paris


When it is time to go international, we have the expertise to get you there
Take your business to the next level with the best of our banking expertise.
Banking services that support you in every step of the way to achieve your goals at the right time.
QNB
qnb.com

2022 real estate: Dry powder. Refinancing. Rising interest rates. Explosive returns. Trophy assets.

Arab Banker caught up with Paul Bulstrode (Senior Manager at VG), Ayda Habboush (Partner at Trowers & Hamlins) and Mike Williams (Group Partner at Collas Crill) to make sense of an enigmatic real estate market.

***ARAB BANKER*: Before and during Covid there were reports of plentiful liquidity and "dry powder" being held by real estate investors. Has this changed and how are you seeing the market today?**

AYDA HABBOUSH: The market is buoyant, busy and people want to do deals. I don't think Covid has had a negative impact; it did delay purchase activity at the start of the pandemic as investors were not able to travel but once restrictions started to lift, activity quickly started to ramp up, but yes, the delay has resulted in a build-up of dry powder.

The other impact is a question of in what and where investors should deploy capital. When investors are looking to invest or expand into the UK, they need to consider that high inflation is causing interest rates to rise, and that might have an impact on their existing portfolios.

Additionally, lenders' appetite for certain sectors and asset classes has shifted. A changing retail sector, as we all know, is probably not the most popular sector now. So, investors need to adapt to and think about what they are investing in and when the most appropriate time to strike is.

PAUL BULSTRODE: I agree; we saw that covid delayed purchases for foreign clients, specifically our Middle Eastern investors who like to physically see the assets which was less possible during the pandemic. It is now a question of where investors can find value with so much demand for assets. Picking up on the point about lenders, we're seeing quite a few refinancings at the moment including short one- or two-year agreements with the option to renew thereafter. At the same time, on certain assets where value has not appreciated, it is requiring investors to allocate additional equity funding to satisfy loan-to-value requirements.

MIKE WILLIAMS: I would add that in terms of the deal flow, we see that a full spectrum of investors, from sovereign wealth funds to high net-worth individuals and family offices, private equity, and pension funds, are continuing to do deals. We are however hearing that some of the challenger banks and some of the non-bank lenders appear to currently be seeing a pause on deal flow because of the price of money going up and inflation. I think they are pausing to see how they should price things.


Paul Bulstrode


Ayda Habboush


Mike Williams

Political and public sentiment toward tightening of regulation around beneficial ownership of UK assets has resulted in the introduction of the long-awaited UK Register of Beneficial Ownership. How has this been received by your clients and what impact has it made on their choice to invest in UK real estate?

MW: Whilst a register such as this deals away people's privacy, it is not the only reason why investors use offshore vehicles and, for this reason, I think the impact is likely to be muted. Jersey is attractive to real estate investors for a host of reasons; for instance, a Jersey property unit trust can make tax transparency elections which can be helpful to investors in some countries. And if you're holding UK property through a company or a unit trust, then there's no stamp duty on the transfer of the shares or units, whereas there would be stamp duty if you transfer the property in your own name.

PB: From VG's perspective, there remain a lot of unknowns. The Register expands the UK's interest beyond the People with Significant Control Act (PSC) in respect of companies, to oversees ownership of UK property and land. We don't expect that this new legislation will cause any significant issues. Where assets are held, the responsibility for filing will largely rest with professional trustees, like VG. What remains unclear in the case of Jersey trust structures is when an individual related to the trust might satisfy one or more of the conditions requiring them to register. These trusts are largely used by our Islamic client base for UK land and property and represent about 40% of my team's business. We are still waiting for the rules to be clarified.

AH: This is such a new piece of legislation; people are only just starting to wake up to the fact that it exists. It's not yet in force, so no one has had to actually do anything yet, we are waiting for the Government to advise when the legislation will take effect. And so, I don't think we can right now say, with any sort of fair judgment, what the impact will be. That said, I don't think it will have a negative impact. I think there may be some noise about privacy. However when the Government introduced the PSC register some years back, it didn't have a negative impact on overseas investors doing business in the UK. People just got on with it and I think people will just get on with this. The key point for real estate investors is to work with your lawyers and advisers from now to ensure you have got your house in order for when the legislation comes into force, particularly those with larger portfolios.

There has been a value explosion in real estate markets. Is this a UK or global trend and do you expect to see prices continue to increase?

PB: The UK and US are where we've seen a hike in transactions more recently, but specifically the US property market has seen some incredible value changes; from 2016 to January 2022, we've seen an astronomical increase in value, with some assets delivering as much as 80-90% returns. The market has slowed a little now, but it's increasingly difficult to find value in certain sectors because the prices are continuing to go up. Prices will be affected by interest rates, but we don't expect demand or transaction volume to dissipate.

AH: The level of transactions has been very high but, because of the lack of availability of stock, or good stock and stock in the right sector and of the right asset class, prices are inevitably being driven up. It has got to the point where it's becoming a pipe dream for some investors to find logistics and distribution units because that is the trophy asset of the moment. Owners are holding on to them and buyers are being priced out. We are finding that some investors are simply realising that if they want good yields, they need to turn to other asset classes like the still popular out-of-town retail parks perhaps, a sector in which we are seeing a large increase in interest.

Commentators are hinting that there might be a global recession; do you agree and what impact will this have on the real estate market?

MW: According to the world economic outlook, growth is expected to drop from 5.7% last year to 2.9% this year. So, a recession isn't predicted either internationally or in the UK. But it's certainly the case that if there is a downturn in the market, there may be buying opportunities if there are distressed sellers. But at this stage it doesn't appear that there will be a recession. As Paul and I have said, demand is still quite strong for UK real estate because the UK is among the world's largest economies and is seen as a stable place to invest in the longer term.

AH: As Mike has said, I don't think a recession has officially been predicted, but if indeed we do go into recession, this may force some investors to sell or be forced to sell by their lenders which may present some interesting opportunities for those with dry powder who are ready to pounce when the time is right.

PB: Any downturn would enable opportunities in other areas, predominantly equities, and that is where some money otherwise allocated to real estate may go which would provide opportunity for our other VG clients or indeed those real estate clients who have a wider investment base. But we do not expect there to be a large negative hit on real estate activity in the medium term. There may be some price adjustments or delays in sale.

Covid prompted a shift in the sectors, jurisdictions, and source of funding flow within the market. What trends are we seeing today?

MW: One area in which we expect there to be increased competition is in sustainable buildings. We see two things. Then first is demand from tenants for more energy efficient buildings that are economical and consistent with their corporate values. Second is the need to refurbish existing real estate that won't meet increased regulatory requirements that come in in 2030. Savills produced a report earlier this year in which they said about 80% of the current stock of commercial property stock won't make the grade.

PB: I think you're right. If you've got an asset that needs to be adapted for 2030, then you either do it or you realise that it's 2022 now and you're not going to get much value from your asset in its current state. People will either need to refurbish the buildings and make them compliant or sell their properties to a developer who is prepared to do so. It depends on what type of asset you have got. A lot of companies are having to do the development themselves to a point where they can adapt the whole building for the new tenants that are coming in.

AH: You need to make sure your assets meet ESG requirements and that they meet tenants' requirements. People are looking at their supply chains when it comes to assessing ESG and for a landlord or an investor, your supply chain means your tenant. As Paul has rightly said, there's not much time between now and 2030. It is also worth mentioning that lenders have a say too and were one of the first players in the market to introduce ESG compliance requirements in facility agreements. If an investor is refinancing or if looking for new lending, then commercial real estate lenders will look at how ESG compliant and how sustainable the asset is is in deciding whether or not to grant that finance or renew facilities.

And in terms of the financing?

MW: In terms of the UK real estate space, although we do some work for Middle Eastern asset managers and high net worth individuals, much of our work involves working for Islamic lenders, and we see on the Islamic side that the Abu Dhabi Islamic Bank is very, very active in providing Islamic financing.

PB: The majority of our client base's current funding requirement continues to come from Islamic lenders, but conventional financing remains important too. A few years ago, it was all bank lending, but now we're seeing others coming to the party, in particular firms where the base capital comes from a number of private individuals. From an equity point of view, most of our investment into UK real estate comes from Middle Eastern investors who we see broadening the types of assets they are buying.

AH: We have recently been seeing some Sharia boards, especially the Sharia boards of Middle Eastern investment banks, start to look at different asset classes that they would not have previously looked at such as supermarkets and hospitality, depending on the makeup of the non-Sharia element of those assets.

We see Far Eastern investors continuing to come to the UK as well, the majority of whom are Malaysian and Sharia compliant. Surprisingly, we are starting to see some Korean banks entering the UK real estate market as the new player in the conventional financing market.

With markets so buoyant and high competition for property, prices have risen. What opportunities are there for existing and new entrants to the real estate market?

PB: The UK is still by far the favoured jurisdiction. We have seen increased US exposure, but in my 15 plus years of US real estate experience, US real estate and its investors have seen changing structuring advice. European real estate has its challenges regarding tax but, with the correct structuring advice, this can be mitigated. Sector wise, we're pleased to see interest in hotels picking up particularly those who saw the pandemic as an opportunity to rebrand or modernise.

AH: Things are starting to look up in the hospitality industry, which is good news for investors, but it is obviously not as buoyant a sector, especially for Middle Eastern investors as out of town retail parks and logistics centres, and even offices. That's not necessarily a bad thing because it means that investors, especially Middle Eastern investors who traditionally only looked at London, are looking at the wider regions now. Retail parks and the logistics distribution centres are, by definition, out of town therefore people are looking out of London and that will direct more investors towards other cities and areas in the UK which may result in better yields.

MW: As a Channel Islands based law firm, the majority of the transactions on which we work relate to UK real estate. The UK is seen as a stable market and safe place to invest, although assets offering the 6% yield that many investors seek have become increasingly difficult to find. The decline in sterling and increased price of oil may also have fuelled activity. We have been told by some clients and intermediaries that some investors have turned toward the US and Europe to achieve a higher yield. ■

Real estate investors return in numbers but supply is a problem

James Drummond, *Arab Banker's* Editor, talks to Shaf Ali of Belleveue Mortlakes, the London property surveyors, about trends in the British property market as much of the world emerges from the pandemic.

ARAB BANKER: What dynamics are you seeing from Middle Eastern investors now that Covid appears to have ended?

SHAF ALI: Obviously during the pandemic period, Middle Eastern clients have not been in the country. So, this is probably the first time in two or three years that they have spent the summer in London. And when they're in London, they are looking around to buy.

Middle Eastern investors have become more sophisticated over the past three to five years. They're more clued up. I remember back in 2014 and 2015, they were buying assets in prime London on a whim. What I mean by that is, if they saw a property they liked, they would probably go ahead and purchase it against our advice. If we said, "You are paying too much," they just wouldn't care. They would just still go ahead and buy it. But the difference now is, I think they listen to advice and they're a little bit more prudent, a bit more selective.

Is London still the centre of activity?

We are seeing purchases as far afield as Norfolk to Bournemouth, Manchester, Birmingham and Leeds. We're noticing both Middle Eastern and non-Middle Eastern ultra-high net worth individuals buying stock outside London because the prices are lower. The yields are more attractive. You're getting better returns. You could buy decent one-bed or three-bed property in Manchester from £180,000 to £250,000. You'll get a phenomenal return. Returns in London are not that great. You're looking probably anywhere between 1.95% to probably 3% at best. Traditionally, London's always been about a capital appreciation rather than return. So, we've noticed a number of clients are buying up student accommodation. Returns are very good. Blocks of flats near universities also do very well. We've noticed clients buying up industrial parks.

Supply is definitely an issue. Without a doubt, there's not enough. Especially in key areas like houses in Fulham and Chelsea. Flats are less of a problem but houses are a problem. There's a massive demand for three-bed and four-bed family housing in prime locations. You've got good schools and infrastructure. Again, if you look at Mayfair, you look at Kensington, there just aren't enough properties on the market. So when a property does go on the market, the price is usually pushed up to take account of demand. So not only do you get external interested parties, you may get people who own a flat in a block of, say, 50 flats. You may have an individual who lives in the same building who wants to buy a flat in the same building either for the investment or for family.

How do you go about valuing a property that has not moved in several years?

We would have a look at the sales brochure and sales particulars and say, judging by the photographs, floor area and others that have sold in the block, we think the asking price is higher than we would expect or we think your clients should offer X, Y or Z. And we leave it to them. It's for them to go and negotiate a price. If they agree a purchase price, nine times out of 10, we are instructed to do the valuation on behalf of the bank. So we're seeing more of a steer before they commit. Where that wasn't happening before.

When the bank instructs us, they tell us what they think the property is worth. We obviously do our number crunching, and most of the time we are there or thereabouts.

And what happens when a deal goes sour?

Our core business is valuations for banks and private clients. That's our bread and butter. We handle receiverships but probably, we do no more than, I would say 10 or 12 a year. That could range from a one-bedroom flat in North London to a £20 mn asset in South Kensington. A lot of work that we do get from the receivership side is with short-term lenders.

Has the market been affected by Russia's invasion of Ukraine and sanctions on Russian citizens?

We've been involved with probably a dozen or so transactions where Russian-owned individuals have either transferred assets or sold assets to another party. This involves properties around Knightsbridge, Kensington and Chelsea. The Russians prefer Chelsea for some reason, perhaps because it is affiliated to the football club.

I wouldn't say there's been a huge adverse impact because you've got other nationalities now looking to buy. Nigerians are now back and are looking to buy. The Americans are looking to buy. Saudi, Qatari and Kuwaiti investors are making enquiries in London. ■

Shaf Ali

Shaf Ali is the co-founder of Belleveue Mortlakes chartered surveyors and one of its partners. Acting as the head of valuations he focuses on providing professional services for a number of financial institutions. Shaf has over 25 years' experience in the property industry and is a qualified member of the Royal Institution of Chartered Surveyors. With a globally active client base, he specialises in commercial and residential secured lending valuations.

UK real estate investors and lenders need to prepare for regulatory changes

Raed Hanna of Mutual Finance examines the outlook for real estate in the UK amid increasing regulation embodied in the Environmental, Social and Governance (ESG) agenda.

In the UK, real estate lenders across all platforms have a role in contributing to de-carbonisation, de-gassing and improvement of the assets they lend against. This is being driven from both a moral and regulatory standpoint.

In recent years occupiers, landlords and investors in British real estate have become increasingly pre-occupied by the environmental, social and governance (ESG) implications of their selection process when acquiring assets. Real estate lenders are starting to act responsibly and adapting to this changing environment. However, it is not a simple task. Lenders are now recognising this and adapting their processes.

The built environment is at the forefront in meeting oncoming change for good reason. Real estate assets across the western world are in some cases antiquated and thus emit significant amounts of carbon dioxide (Co_2) each year. Even newer, greener buildings still contribute significant levels of Co_2. Reports suggest that the US, the UK and EU countries are responsible for around 40% of Co_2 emissions worldwide.

Buildings have a physical effect on our environment. We see the green belt, areas which are protected from building, coming under increasing pressure as populations rise, with new developments needing increased outside space.

This means that governance should be focused and ensure that all counterparties are aligned to outcomes. Strong ESG criteria and clear, honest practice should make sure that policies are implemented and targets achieved rather than "greenwashed" whereby misleading information is provided about how products appear more environmentally friendly than they actually are.

Real estate lenders should take responsibility in ensuring that the next generation of assets not only begins to de-gas and de-carbonise but also improve health, wellbeing and the working/living conditions of end-users.

Assets which embody best practice are already starting to benefit. We see these buildings commanding better yields compared to less ESG-focused assets. Soon we will see assets becoming disadvantaged through poor ESG.

Changes to EPC ratings are the first in a number of new initiatives by the British government to improve energy efficiency across commercial lettings. Since 2018 a minimum Energy Performance Certificate (EPC) rating of E has been in place for new tenancies, but from 1st April 2023 this is set to change and the same rule will apply to all existing leases. This means that it will be unlawful for a landlord to continue to let a commercial property with an EPC rating of less than E.

The British authorities use Standard Assessment Procedure (SAP) to assess and compare the energy and environmental performance of buildings. These look at the quality of building materials, insulation and lighting, among factors which determine an asset's carbon emissions.

The 2023 changes are however a precursor to reaching a new target set out in the government's energy White Paper which was unveiled in December 2020 to achieve net zero emissions in the UK by 2050. A White Paper is a statement by the government of policy or future strategy. This latest document includes increasing the Minimum Energy Efficiency Standard (MEES) for all commercial properties to an EPC rating of B by 1st April 2030.

A phased implementation will be introduced to help landlords reach the new targets and will consist of two compliance windows each lasting two years. At the start of each compliance window, the landlord is required to present an EPC, and at the end of the compliance window, the landlord is required to have brought the property up to the minimum EPC standard required at that time.

Compliance window 1 is expected to begin in April 2025 and landlords will be required to submit a valid EPC by this date. This means that, if the property does not have an EPC, or its current EPC has expired, then a landlord will be required to obtain a new certificate. If the valid EPC is a rating of C or above, the property will be compliant, but

if not, the landlord will be required to undertake works necessary to bring the property up to a C rating or above by 1st April 2027, unless an exemption applies.

Listed properties, and buildings within a conservation area, are not necessarily exempt from the requirement to have a valid EPC. The owner of a listed building needs to understand whether or not their property is required to have an EPC.

However an EPC is not currently required for a listed property or building within a conservation area when it is sold or rented if compliance with minimum energy performance requirements unacceptably alters its character or appearance.

Where does this leave lenders and investors? Real estate lenders are divided between banks and others. These other platforms must now ensure that their capital is sourced from entities with strong ESG credentials and can demonstrate that this is the case. The lender and capital should be aligned and should work towards a common goal.

Real estate is particularly problematic as many assets were never built with today's expectations in mind. As a separate asset class in its own right real estate is also competing for capital alongside other greener investments which are more appealing from an ESG standpoint. However, the lower barriers to entry in real estate remain and significant levels of equity are targeting ESG-leading real estate assets. One element that should also not be overlooked is the source of equity from investors. This sounds obvious but is not often considered when reviewing a loan. Strong anti-money laundering and know-your-customer governance are vital.

It is important that wherever possible a uniform and standardised approach and methods are used to gain a realistic evaluation to provide accurate disclosure. While there are some fixed reference points like EPC certificates, others are more subjective: it is tough to assess social impacts, for example. There should be transparency allowing disclosure of elements of any ESG calculation.

The industry is going to have to learn to work with these variances and ensure that the right results are achieved without greenwashing the transactions.

Lenders which encourage best practice can offer preferential loan renewals or indeed ratcheted margins for improving assets. Offering improved financial incentives to borrowers improves not only the asset but eases refinance risk. Lenders ultimately want to know that the assets on their books are both saleable and re-financeable.

Certain lenders have stood up and taken public responsibility for their lending choices. In 2020, Aviva, the insurer, joined a growing list of those who have allocated significant quantities of capital, over £1bn in this case, to target real estate assets where carbon reduction is prioritised.

Aviva will deploy this money using its own framework to measure results. All successful methods and attempts to address ESG should be applauded.

I believe that there needs to be an industry framework and identifiable standards to promote sustainability. This should include ongoing reporting, transparency and disclosure. We currently see valuation reports completed at drawdown and then updated every few years. I think it is conceivable that going forward we will see independent ESG reporting incorporated into loan covenants to ensure best practice from borrowers.

We are aware that documentation from the Loan Market Association now includes social loan principles which, working with other industry contributors, seeks to introduce high level guidance and a more standard and consistent method of assessment.

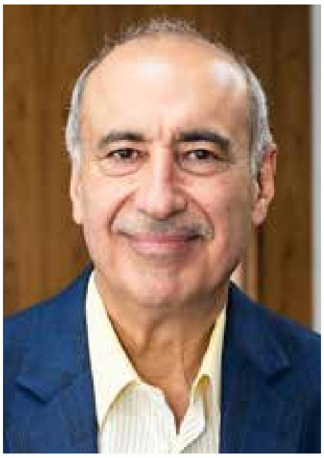
Including clauses in loan documentation that can provide lenders with the ability to enforce governance is a tough issue. Governance is often deemed a matter of opinion culturally and corporately having different implications. But I believe that with common sense and collaboration, it can be applied

This is the point at which the lender can analyse the borrower, recognise operational strengths and identify their partners, team and the elements that make up their supply chain. Lenders are at risk here. Without full scrutiny, borrowers may introduce bad practices and utilise improper building materials, for example. Lenders should ensure there is a constant and open dialogue confirming ongoing governance.

ESG is here to stay and we should embrace it. It is up to us all to make sure we live in a better world, endeavouring to leave the next generation in a better position than we find ourselves in today. ■

Raed Hanna

Raed Hanna has a BSc (Hons) and an MSc degree from City University in London. In 1990, he established Mutual Finance in the UK, focusing on property and corporate finance. Mutual Finance has quickly become one of the largest property finance intermediaries in the sector, lending more than £1bn per annum. It has been involved in financing some of the most high-profile properties in the UK.



Surviving and prospering in interesting times

The complications of Brexit and subsequently of Covid presented London-based financial institutions with a series of unprecedented challenges. Then came Russia's invasion of Ukraine which further raised risks and roiled commodity markets and supply chains. Here, Rajeev Adrian, who has taken over as CEO of Bank ABC in London, talks to *Arab Banker* and reflects on his first years in office.

***ARAB BANKER*: You are fairly new to the role at ABCIB (ABC International Bank). Can you tell us a little about your background? Did you take over at the height of Covid?**

RAJEEV ADRIAN: Yes, I am relatively new to the role, but certainly not new to Bank ABC. I was initially appointed as the acting CEO in December 2020 and was confirmed as CEO in July 2021. Prior to this appointment I served as the deputy CEO and CFO. In my career of 30 years, I have worked at RBS and Lehman Brothers in London, and in audit and forensic investigations in Australia.

The first 18 months as CEO have been challenging, interesting and enjoyable. I came into the role while we were still grappling with Covid-19 pandemic and the resultant global economic challenges with supply chains being affected the world over.

So, managing a business and stakeholders had its challenges. But with a solid team we have here in ABCIB (ABC International Bank) and support from the wider ABC Group, we overcame these challenges. Managing staff and their well-being whilst supporting clients in their times of need was our key priority and I believe we delivered on that.

At that time, you not only had to manage Covid but also presumably the fallout from Brexit. How did you manage that?

To preserve our pre-Brexit model, post Brexit, in October 2020 we created ABC SA, a subsidiary of ABCIB, headquartered in France to house our branches in Milan, Frankfurt, and Paris.

So, whilst we were tackling the various challenges posed by the pandemic, we also had to embed and run a new subsidiary. This did add to the pressures, but it was the right thing to do for our clients and the bank, so we just had to get on with it. Once again, this couldn't have been possible without a highly dedicated and focused team.

These changes also warranted hiring of some key personnel in both ABCIB and ABC SA, which was also a remarkable success as we managed to interview, recruit, and integrate staff mostly remotely.

Roughly how many people are you?

We have about 230 in London and about 90 across the continent.

Did you take any support from the UK government?

We never sought government support in any form as we always felt confident in our model and in our abilities to manage in these challenging times. Our business model largely entails supporting trade finance business from Europe to MENAT (Middle East, North Africa and Turkey) and real estate financing in the UK. So, we very carefully managed our business to ensure capital and liquidity were optimised to meet our clients' needs, and therefore seeking government support was never an option we considered.

The Ukraine situation must have further complicated matters. How do you see the geopolitical environment?

The fallout of the Ukraine situation has impacted the world in many ways, and we are no different. We did not have a notable exposure to Russia, but we continue to carefully evaluate and manage any business that has a Russia/Ukraine connection. A significant amount of grain and wheat comes from Russia, so like others who support trade finance business involving these essential commodities, we must ensure all related controls are very tightly managed. Ensuring that the three lines of defence model is never compromised is key. It's all about understanding markets, client needs, AML controls and the sanctions legislation. There is no room for compromise on any of these aspects.

How do you navigate the sanctions landscape post-Ukraine?

Understanding and navigating the sanctions landscape is very important and as I said, there can never be any compromise when doing this. The sanctions space is ever evolving. It is imperative for all organisations to ensure that they remain on top of this and to seek external counsel where necessary. Any lapse in following sanctions legislation is not an option; for institutions like us managing risk should be BAU, business as usual, and embedded in our DNA.

What are the challenges for banks going forward?

One of the main challenges and the biggest opportunity is digital adoption. Digitalisation/automation and reducing manual processes is changing the landscape of the industry. It is not only a growth strategy, but it is also a defence strategy. If one does not invest in this area, not only will others bypass you, but new entrants will also eat your lunch.

As a group, we are steadfast on our digital transformation journey and have covered significant milestones in the past 18 months, especially in the area of transaction banking. We have embarked on a journey to automate various processes of the value chain to make our client interaction simpler and more effective. We believe this will stand us in good stead in the future. Bank ABC was recently voted the Best Bank for Digital Solutions by Euromoney Awards for Excellence 2022. The bank also emerged the Best Bank for Digital Innovation in the Middle East at The Banker Innovation in Digital Banking Awards 2022.

Other than digitisation, what else are the strategic priorities?

Climate change, diversity and inclusion, culture and conduct and greater focus and understanding of market dynamics like high inflation, high interest rates, cost of living etc, are some of the key areas of focus for us.

Banks have a key role to play in making the world a more climate friendly place and we all have to heed this call. Having a diverse and inclusive organisation and an ever-evolving culture and conduct framework for the better is a must for long term sustainability and it is imperative we get this right and remain an ever-learning organisation.

The market dynamics we face today are almost unprecedented. Certainly, most people in the banking sector today have not witnessed the macro factors we are seeing today, so dedicating greater time to understand and manoeuvre these is essential, to better define targets and strategy going forward.

How is the next year shaping up?

With the past few years' experience and the strategic priorities covered above, next year promises to be exciting but not without its challenges mainly due to the ongoing geo-political and economic situation. That said, I remain optimistic for Bank ABC, and I am looking forward to working with all our stakeholders and helping them achieve their objectives and in turn achieving ours.

So, is it safe to say you are relishing the job?

I absolutely am. It's a huge responsibility, which I never, ever take lightly. I am grateful for the group and the board for their faith in me and I am thankful for the staff across all our locations, without whose dedication and support I will not be able to deliver on my mandate. They are the true heroes, and they forever will have my gratitude. ■

Top 10 priorities for Middle Eastern banks operating in the UK

For international banks operating abroad with a UK presence there is a substantial number of priorities to balance. While parent organisations might be pursuing important strategic initiatives, and subject to other factors within their region, local offices have also to operate effectively in the prevailing regulatory conditions.

In this article, Bruk Woldegabreil and Shrenik Parekh of BDO, the consultants, explore the top 10 regulatory and business priorities for Middle Eastern banks operating in the UK.

For Middle Eastern banks which operate in the UK, the financial services regulatory regime presents challenges. Firms are required to keep pace with rules that are complex and continually evolving. UK banks 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 firms to ensure fair outcomes for consumers and the PRA creates policies for firms to follow, as well as supervising other aspects of a bank's business.

1. Financial Resilience

Global events over the last few years have reinforced the need for firms to be financially resilient. The Covid-19 pandemic and now the war in Ukraine have exerted significant stress on the finances of individual firms, presenting risk to customers and the stability of financial systems. The UK regulators have urged firms to assess the changing economic environment and respond with measures to ensure that they can withstand financial shocks. This includes monitoring the credit risk and traded risk of portfolios whilst maintaining adequate risk management and governance frameworks.

2. Operational Resilience

The FCA and PRA have emphasised the importance of operational resilience with new rules (PRA Supervisory Statement 1/21) introduced in March 2022. In the light of recent unforeseen crises, firms are now required to plan for the unexpected, so that when disruption happens, they can minimise the impact on customers, external stakeholders, supply chains and the broader economy. Many of the new requirements are already in force. However, there is a transition period until 31 March 2025, when banks will need to demonstrate that they can act within set impact tolerances.

3. Climate Change and Environmental Social Governance (ESG)

Since January 2022, the PRA has been supervising how banks manage climate-related financial risks. The expectation is that firms will take a long-term, strategic approach that keeps pace with the latest knowledge, tools, and best practice. In particular, the PRA will be interested in how firms quantify risk in this area and use data to inform business strategy, risk appetite, and decision-making.

In addition to the Bank of England and the PRA taking a supervisory role on ESG, the FCA is also ensuring ESG is embedded in all of its own activities, from authorisations to supervision. In autumn 2022, the FCA is due to publish a consultation paper on how the sustainability of funds might be indicated through classification, labelling and disclosures.

4. The Consumer Duty

The ability of firms to assure good consumer outcomes has been a hot topic within financial services regulation for several years. The FCA view is that consumer outcomes are not improving sufficiently, and that a fundamental shift in mindset is needed. The FCA has recently published final rules and guidance for its new Consumer Duty, affecting all firms with retail and SME (small and medium-sized enterprise) clients. The new rules will go much further than 'Treating Customer Fairly' and there will be a lot for firms to do. The deadline for implementation is July 2023 and the FCA has required boards to approve implementation plans by end of October 2022 and maintain ongoing oversight of delivery.

Bruk Woldegabreil

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

5. Culture and Diversity and Inclusion

Culture in financial services remains a top priority for the UK regulators underpinning all initiatives. Good organisational culture should promote good behaviours which supports good outcomes for customers, shareholders and the wider markets. The FCA assesses culture against four key drivers: purpose, people, leadership and governance, and banks will need to demonstrate an active approach to setting, measuring and monitoring a firm's culture.

In April 2022, the FCA published Policy Statement 22/3 which marks the first requirement for listed firms 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 applicable to firms that fall within FCA listing rules, certain UK issuers and overseas listed companies, the new requirements are likely to be a first step in setting wider benchmarks for the financial services sector.

6. Prudential Requirements and Reporting

A PRA consultation paper, also published in April 2022, sets out a new "strong and simple" initiative, which aims to address the complexity which can arise where the same prudential requirements are applied to all firms. This simplification is likely to benefit smaller banks which are implementing the remaining Basel 3 standards and the new Operational Continuity in Resolution (OCIR) requirements, designed to facilitate orderly resolution of regulated firms and to avoid the need for taxpayer-funded bailouts, which both come into force at the start of 2023.

Regulatory reporting continues to be a significant focus following the "significant deficiencies" identified by the PRA from its thematic reviews into regulatory reporting. The regulator has emphasised to UK banks that it expects the regulatory reporting process "to receive no less care, diligence, and rigour than [statutory] financial reporting".

Shrenik Parekh

Shrenik Parekh is a Director within the Financial Services Advisory team of BDO UK. He has more than ten years' 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 number of financial services institutions including banks, investment firms and asset managers.

7. Governance

Good governance also remains at the heart of the UK regulatory regime, particularly in light of the Senior Managers' and Certification Regime (SMCR), which allocates clear responsibilities and accountability. Appropriate governance and board effectiveness (including "tone from the top") are intrinsically linked to setting strategy, overseeing activity, risk management and regulatory compliance. It is vital that boards have the right skills, experience, diversity, and dynamics to achieve successful outcomes in respect of compliance with the UK regulatory regime.

8. Economic Crime

Anti-Money Laundering (AML) and Counter Terrorist Financing (CTF) are priorities for UK regulators. In recent years, they have imposed several high-value fines for control failings, some of which have led to expensive remediation programmes.

The FCA has reaffirmed its expectations of firms' AML/CTF arrangements. In June 2022, the FCA reiterated that when undertaking correspondent banking business, firms are required (by sections 33 and 34 of the Money Laundering Regulations) to apply enhanced due diligence and enhanced ongoing monitoring, with further specific measures, where the respondent is a non-UK entity. Failing to have adequate arrangements in place could have significant and long-lasting consequences for banks.

9. Technology and Cyber

There has been increasing application of technological solutions and automation in banking, including the use of artificial intelligence (AI). While this has many benefits for customers and banks, it also carries risk. Firms need to ensure that they have robust controls in place to identify, assess, manage, and monitor technology and cyber risks. This is a critical component of operational resilience. PRA Supervisory Statement 2/21, outsourcing and third-party risk management, introduced in March 2022 sets out new requirements, in particular for the cloud-based technology services on which firms increasingly rely.

10. Data

In January 2020, the FCA and PRA announced plans to become more data-driven in the way they operate and supervise. This has seen investment and development in the way data is captured, analysed, and used. Similarly, there is an expectation that banks will adopt a more data-centric approach and ensure that they have the right high-quality data to manage their business effectively.

Convergence on global priorities

For Boards and senior management of Middle Eastern banks, the convergence of priorities between their head office jurisdictions and local markets provides an opportunity to harmonise approaches to regulatory compliance and operational management.

Three global priorities should be front of mind for all leadership teams: ESG and addressing climate change financial risks; cyber security and improved financial resilience and increased adoption of AI and FinTech solutions. ■


LIVE
HERE
ICONIC LIVING AT BATTERSEA POWER STATION
MAKE LONDON'S NEWEST VILLAGE YOUR HOME
SALES ENQUIRIES
+44(0)20 3883 5158
sales@bpsdc.co.uk
BATTERSEA
POWER STATION

Shaikha Al-Bahar: seizing opportunities in diverse markets

Shaikha Al-Bahar has been the deputy group chief executive officer of National Bank of Kuwait (NBK) since March 2014. She is the chairperson of NBK Egypt and NBK France. She also serves on the board of NBK (International), United Kingdom, and NBK Global Asset Management. Al-Bahar also served as the chairperson of Human Development and Urban Planning under Kuwait's Supreme Council for Planning and Development, where she worked on Kuwait's healthcare and education reform strategy.

Here she talks to *Arab Banker*, about the challenges and opportunities facing the bank after Covid.

***ARAB BANKER*: What are NBK'S priorities as we emerge from Covid? What are the goals for 2023?**

SHAIKHA AL-BAHAR: Covid-19 has left a devastating trail in its wake, yet we are highly optimistic about the post-Covid future. As a leading financial organisation in the GCC and the bank of choice in Kuwait, we are in a prime position to drive growth across the region. Over the years, we have successfully built a robust business model with a broad customer base and one of the strongest brand names in our industry. We are also backed up by one of the highest stand-alone credit ratings across the region from the three main credit rating agencies. This sets us apart from our competition and adds to our responsibilities to continually aspire for innovations and boost our investments in key strategic initiatives.

In 2023, we will continue to focus on two key strategic initiatives. First: we remain highly focused on our digital transformation journey, moving one step further towards achieving this goal. We realised early on, that digitalisation is the cause of large-scale and sweeping transformations across multiple industries, not just banking but telecoms, healthcare and even education. Our world today is undeniably digital.

Digital transformation is the future of banking, and it is far beyond just moving from traditional banking to a digital world. It runs through all areas of the bank, across all of its geographical centres and through all of its products. The bank seeks to instil a "a digital mindset" culture in its staff. In 2018, we appointed a chief data officer and a chief digital officer and launched a range of new technology and issues including a biometric card for Android, smartphone fingerprint and a facility for customers to video chat on mobile phones. NBK is also investing in its back-office operations. The approach has been focused on increasing the utilisation of robotics and machine learning to improve our operational efficiency and offer a personalised experience to meet the evolving banking needs of our clients.

Our digital banking platforms allow us to leverage the flexibility, capacity, and speed of this evolving concept, and to move away from conventional infrastructure and processes to expedite our business processes safely and securely. On the front-end, in addition to the ongoing development and enhancement to the group's online and mobile banking platforms, across various markets, we launched Weyay, the first digital bank in Kuwait, in December 2021. That was a great achievement, and one of the major milestones in our digital transformation journey that we embarked on in 2019.

What does digitalisation mean in concrete terms?

Online and digital banks target young people. We are blessed with a relatively young population. In the GCC and Kuwait, about 50% or 60% of the population are under the age of 25. Today's youth are the cornerstone of tomorrow's society and our future clients. At NBK, young people are at the heart of our strategies which are mainly focused on how to attract and attain this valuable segment. Brand loyalty and customer retention are at the forefront of our priorities, as we regard digital offerings as a means of tying in customers to the institution and building loyalty.

These clients are tech savvy. They don't want to deal with banks or visit branches. They want to conduct all their transactions digitally. We have made that available and brought a fully digital banking experience in the palm of their hands. For instance, in designing "Weyay" products and services, we took into consideration that they suit the new bank's digital character and the nature of its customers from the youth generation. Account opening is fully digital without any of the usual paperwork. We continue to add new services and expand our offering. Now customers can receive their credit cards and open their accounts online. Soon they will be able to apply for loans, even file mortgage applications, and a huge array of other services online. Basically, we strive to market all our offerings through our digital platforms. This is basically what a digital bank means. This goes beyond our front-end services. It covers back-end operations as well, as we continue to invest heavily in machine learning and robotic process automation (RPA), the driving force of banking operations.

You mentioned a second priority for the bank ...

Diversification is among our priorities in 2023. In addition to geographic diversification, we always strive to diversify our business segments and earning streams. This has always been one of our key strategic pillars.

We have recently been more focused on wealth management, as we consolidated NBK Capital and the Private Banking Group to form NBK Global Wealth Management (GWM) division. The new division therefore combines the extensive investment banking and asset management capabilities of NBK Capital with the expertise, client-focused interfaces and HNWI (high net worth individuals) services developed by the Private Banking Group. Through GWM, we aim to grow our market share in asset management by providing exceptional solution-driven relationship and advisory services with a view to expanding the share of wallet for our existing client base in Kuwait while also extending further in regional markets including Saudi Arabia.

Watani Wealth Management Company, a subsidiary of NBK Group, currently operates in the Saudi market, offering a wide range of services and products, after receiving the necessary approvals from the Capital Market Authority of Saudi Arabia (CMA) to operate in the Kingdom. Saudi Arabia has always been a key market for NBK, with over $1.3 trillion in wealth. It is highly targeted by all international private banks but through our regional franchise and strong brand presence we will have an edge in the Saudi market.

We always strive to create value for our shareholders. Our growth model is mainly focused on organic growth in our key growth markets, across the GCC and in Egypt. In the GCC, as I mentioned earlier, we remain focused on Saudi Arabia and the UAE, as we continue to leverage our digital leadership to organically grow in those markets. We consider "Weyay" a starting point towards launching similar strategies in other markets across the region. We are currently satisfied with our geographical footprint and we don't seek to expand outside our network. However, we remain focused on seizing any opportunities that may emerge in different markets that can create synergies for us and align with our growth ambitions.

You have NBK International in London. Where else do you operate?

NBK is an international bank, and we always strive to offer great opportunities to our clients both in Kuwait and all over the world. We see international activity as one of our differentiating factors over other local and regional banks and established NBK in western markets early with branches or subsidiaries in London, New York, and Geneva since the early 1980s.

Regionally, NBK started expanding through starting an operation in Bahrain in the 1980s, when it was the offshore banking centre in the GCC. We currently operate in Saudi Arabia, the UAE, Bahrain and of course our local market in Kuwait. So, we have presence in four out of the six GCC countries. There is also NBK-Egypt, and we maintain our operations in Lebanon, albeit on a smaller scale. We recently exited Jordan, as we did not see it as a growth market for our future operations.

We still maintain our operations in Iraq despite the numerous challenges we face there. Iraq is one of the most under-banked markets in the Middle East; however, it still lacks a solid regulatory framework to govern the financial sectors and safeguard its growth.

Our branch in New York is part of our initial strategy to capture investment and trade flows with Kuwait and the GCC. Meanwhile, in Europe, we have subsidiaries in London and Geneva. We also had a representative office in China that was later converted into a fully-fledged branch to capture growing business opportunities between China and the Middle East. Our presence in China provides us with financing opportunities, since the Chinese regulations stipulate that banks should be licensed there in order to conduct business in the Chinese market.

We also have had a strong presence in Singapore since the 1980s. NBK France became our newest arm in Europe in 2019. It provides access to the European Union member countries through passporting rights, thus taking over the role performed by NBK London after Brexit.

And to what extent are rising interest rates and inflation around the world a concern?

Interest rates are an effective tool of monetary policy in the face of global inflation. We have seen recent increases in benchmark interest rates and more are expected in coming quarters which will benefit the bank in general. That said, an element of uncertainty still exists with respect to the ongoing global geo-politics and inflationary conditions. However, we remain optimistic about continued improvement in the overall operating environment in the second half of the year.

The Central Bank of Kuwait (CBK) has been taking a measured approach to rate hikes as opposed to the US Fed that has been more aggressive. This less hawkish approach reflects CBK's continual monitoring of domestic and international economic and geopolitical developments that resulted in high global inflation rates, mainly driven by increased commodity and energy prices and continuous supply chain disruptions, which constitute a key source of imported inflation affecting the consumer price index in Kuwait.

Despite fresh shocks to the global economy from the Ukraine war and Covid-linked lockdowns in China, Kuwait's economic performance and outlook has looked to be on a stronger footing in recent months. Oil prices have surged, crude oil production is rising, bank lending growth is at a more than a decade-high and consumer demand remains strong, helping to underpin the non-oil sector's post-pandemic recovery. Meanwhile, Kuwait's public finances have benefitted immensely from the climb in oil prices. This year, the government can look forward to its first fiscal surplus since 2014, estimated to reach 8.8% of GDP. The turnaround will enable the authorities to start recapitalising the General Reserve Fund, which had been close to depletion.

On the consumer spending front, strong private consumption continues to support the recovery in the non-oil sector. In April, consumer spending rose 35% year on year to KD2.9 bn, supported by robust demand and improved consumer confidence.

Kuwaiti banks will experience better operating conditions this year due to higher oil prices and continued recovery from the pandemic, and we expect banks to record improved earnings in 2022, thanks to a more supportive environment, as well as higher interest rates. Funding conditions are also expected to be favourable.

You're a senior female executive in the Arab banking sector. The head of Arab Bank in Jordan is a woman. How have things changed for women in Middle Eastern financial institutions?

At NBK, we strive to leave our mark and support women's empowerment. Supporting women to reach their full potential has always been one of NBK's priorities, stemming from the bank's belief in the importance of gender diversity and inclusion as critical factors to sustain its success in the future. We are proud to be one of the first private sector institutions in the region to endorse the UN Women's Empowerment Principles (WEPs). We were early to adopt a more systematic approach towards gender equality, which contributed to comprehensive adoption of these principles, and also provided us with a framework to work on the overall UN Sustainable Development Goals including gender equality as one of the key pillars. We follow a unique approach with regards to guaranteeing equal opportunities, as we ensure equal opportunities for all our employees, with no exception, with the aim to motivate them to innovate. This approach is also clearly manifested in having no salary gap between women and men employees in the bank.

On a personal note, I have been fortunate to work with, and learn from, highly professional, educated, and dynamic individuals from across the region and the wider world. Professional standards are extremely high. The working environment is meritocratic and wholly supportive of individuals' career aspirations irrespective of background, race, gender, or creed. The culture at NBK is very diverse and results-oriented, with active encouragement given to those individuals keen to advance their knowledge and develop their skill set. The bank has made it a point to invest in its human resources, through management training and professional development programs at all levels.

However, taking a wider scope, especially in the Middle East, the gender gap is closing in education and health, but not in the economy. Across countries in the region, established societal structures substantially limit the access of women to political and economic life. MENA is also the region with the lowest rates of women in management positions. Our role is to continue being a role model, replicate our experience across the region, and ensure meaningful participation of women in the workplace.

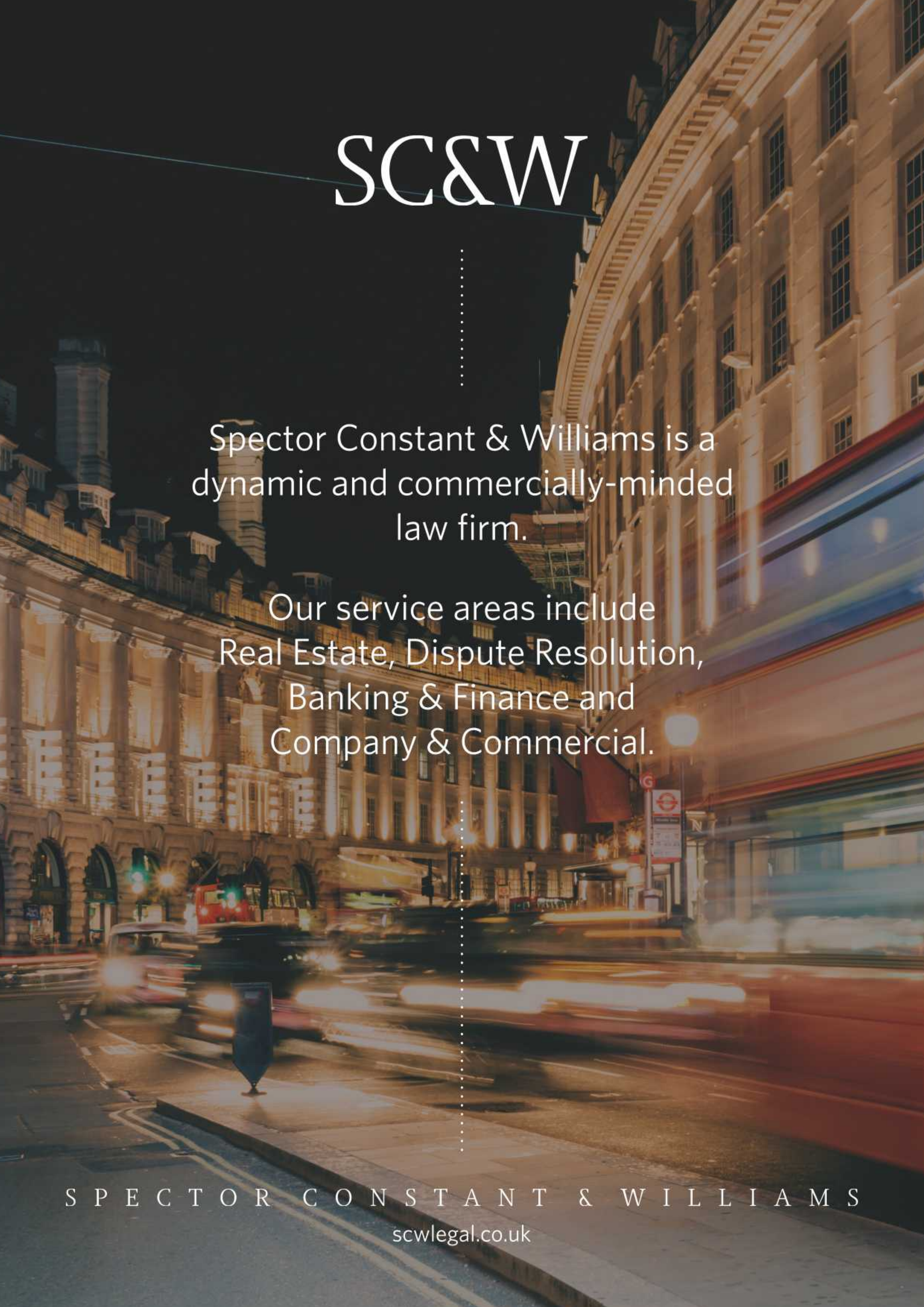
But has it perhaps been an advantage being a woman?

Kuwaiti women have long been recognised as pioneers with a voice in social, political, intellectual, and cultural fields, throughout the country's history. Our leaders recognised early on that economic growth can't be achieved without the full economic empowerment of women. This is one reason why the World Bank Kuwait Country Engagement Framework (CEF) includes a stand-alone Gender Engagement Framework, which mandates that all advisory services provided by the World Bank in Kuwait be viewed through a gender lens. Furthermore, as part of the SDG 5 program of the General Secretariat of the Supreme Council for Planning and Development, and in collaboration with the Kuwait University Women's Research and Studies Centre, UN Women, and the United Nations Development Program (UNDP), the Women's Empowerment Program (WEP) initiative in Kuwait was launched.

Having said that, women everywhere continue to face barriers. Focusing on a few success stories might unintentionally create the impression that gender equality exists worldwide. That is not the case. Personally, I have been very lucky to be part of NBK Group's culture, constantly nurturing female leaders. However, that doesn't mean that the path has been paved for all women. We have to work twice as hard as our male counterparts to be on an equal footing. Hopefully, we can create a new normal for the banking industry and the private sector through our various strategic initiatives.

Meanwhile, we continue doing our part. As a member of the UN Women's Empowerment Principles, NBK continues to roll out initiatives supporting females, as we remain focused on closing the gender gap. We are proud that female employees represent 46% of the workforce, which is a remarkable achievement across the banking sector and the regional labour market. Moreover, the bank is keen to empower more women through mentoring and offering them career development opportunities, like our 'Women in Leadership' program, which fast tracks the learning and careers of talented women in leadership positions.

In conclusion, we have made strong strides in gender equality and women's empowerment, that only leaves us with the drive to strive for greater accomplishments going forward. ■


SC&W
Spector Constant & Williams is a dynamic and commercially-minded law firm.
Our service areas include Real Estate, Dispute Resolution, Banking & Finance and Company & Commercial.
SPECTOR CONSTANT & WILLIAMS
scwlegal.co.uk

National Bank of Kuwait: 70 years of resilience and ambition

National Bank of Kuwait was the first locally-owned bank to be established in Kuwait and the first indigenous bank to be established in the Gulf. It has survived invasions and market crashes and prospered for seven decades. Innovation and development of local talent are at the core of its success.

Here *Arab Banker* profiles the bank and looks at its priorities for the future.

Kuwait prefers to keep a low profile. The abundant oil wealth and sometimes fractious domestic politics of the country of 4.2m mean that it does not court the limelight or involve itself in regional rivalries.

National Bank of Kuwait, the country's pre-eminent financial institution, on the other hand has much larger ambitions both domestically and around the world. Established by leading merchant families in the 1950s, it has survived and prospered for seven decades.

When Kuwait became independent from the United Kingdom in 1961 NBK was given authority to manage the exchange of Gulf rupees, the currency introduced by the British in 1959 to replace Indian rupees, for a new local currency the Kuwaiti dinar. The bank's central role in the economy continued to the 1960s and 70s as the influx of oil wealth enabled Kuwait to lead Gulf financial markets in innovation and in overseas expansion.

Perhaps its most famous episode was the 1990 Iraqi invasion of Kuwait when NBK was the only local bank that was able to maintain significant banking operations during the Iraq occupation. Its London branch, as it then was, was able to re-establish management control and assumed responsibility that allowed customers to withdraw funds that had been deposited in Kuwait. NBK was also instrumental in financing Kuwait's reconstruction when it arranged the largest loan at that time in the Arab world, thus proving its leading role in serving Kuwait's economy.

Previously, in 1982, the bank stepped to support the wider sector after an epic stock market bubble burst and left other institutions technically insolvent. NBK was named the Sole Surplus Bank because it was the only financial institution which was not adversely affected by the Suq al-Manakh crash. It had published reports before the crash warning of the risks and potential impact of such a crisis on institutions across the country.

Rarely for a leading GCC bank, NBK has emerged from domestic regional and international crisis without the need for injections of capital from its host government. In fact, its shareholder base of leading families has not changed since the bank's foundation. The Public Institution for Social Security holds 5.8% of the bank's capital and no other shareholder public or private holds more than 5%. The bank has been listed on the stock exchange since 1984. NBK's market capitalisation as of 31 December 2021 was $23.7 bn.

NBK is ranked amongst the 50 safest commercial banks in the world by Global Finance, amongst the top 10 banks in the region and the most valuable banking brand in the country by Brand Finance. It has long-term credit ratings of A1, A, A+. Moreover, NBK has physical operations across 13 countries.

In 2021, international banking contributed 25% to the group's net operating income, with Islamic Banking – through its subsidiary Boubyan Bank – contributing 21%.

Covid affected activities across all banks in Kuwait in 2020. But in 2021 NBK recorded a 12-month net profit of KD362.2 mn, rising 47.1% from KD246.3 mn in 2020, driven by increasing net interest income, fees, investment income and lower provisions.

The Kuwaiti banking sector comprises 22 banks, including 11 domestic banks (five conventional, five Shariah-compliant and one specialised), and branches of 11 international banks (10 conventional and one Islamic).

The gradual return to normal business activities in Kuwait had a positive impact on banking results in 2021 in terms of higher credit growth and better non-interest income trends. This improvement, combined with a promising outlook, allowed banks to take much lower provisions than in 2020, resulting in solid increases in profitability

Table 1: National Bank of Kuwait, key figures

NBK Key Figures ($mn)	End-2021	End-2020	End-2019	End-2018
Total Assets	109,939	98,239	96,523	90,506
Loans and Islamic Financing	65,198	57,866	54,584	51,157
Customer Deposits	60,433	56,542	52,532	47,480
Total Equity	14,767	13,689	14,045	12,214
Net Profit	1,258	855	1,405	1,300

The sector as a whole is well capitalised, with an average capital adequacy ratio of 18.1% in 4Q21, 8.7% higher than the required minimum of 10.5%. Non-performing loans to total loans stood at 1.04% in 4Q21.

Strategy and priorities

As outlined overleaf by Shaikha Al-Bahar, the deputy group CEO, NBK has two priorities as it looks ahead to 2023: digitalisation and wealth management. Digitalisation involves automating the customer experience with the institution and limiting face to face contact. Bankers view the sophistication of their digital offering as a means of tying in customers to the institution and building loyalty. In 2021, mobile banking, internet banking and automated teller machines and cash deposit machines accounted for nearly 98% of NBK's total transactions over the year.

In 2021, NBK launched Kuwait's first fully digital bank, Weyay, meaning "with me", to provide innovative digital banking services. Weyay is a separate brand passively endorsed by NBK, and is visually and structurally aligned to attract customers in the under-35 demographic in Kuwait – which accounts for two-thirds of the population.

NBK's Islamic banking arm, Boubyan Bank, also has Nomo, an Islamic digital bank launched by Bank of London and the Middle East (BLME), a subsidiary of Boubyan Bank.

Digital transformation runs through all areas of the bank, across all of its geographical centres and through all of its products. The bank seeks to instil "a digital mindset" culture in its staff. In 2018, it appointed a chief data officer and a chief digital officer and launched a range of new technology including a biometric card for Android, smartphone fingerprint and a facility for customers to video chat on mobile phones.

NBK is also investing in its back offices. The idea is that a slicker, more efficient processing leaves managers free to spend their time more productively. In Kuwait the bank joined the Ripple network which allows for instant cross-border payments. It was the first local bank to use blockchain technology for cross-border transfers.

The second priority is wealth management. In 2021, the bank consolidated NBK Capital and its private banking group to form NBK Global Wealth Management division. The new division combines the investment banking and asset management capabilities of NBK Capital with the services to high net worth individuals developed by the private banking group. In 2021, assets under management reached $17.7 bn.

Table 2: National Bank of Kuwait Share Performance (fils)

ESG

In the Gulf, the bank has been a pioneer in embracing environmental, social and governance agendas. It has embarked on a campaign to achieve world-class ESG practices and reporting. NBK initiated intensive planning in 2021 to devise a strategy to guide sustainability initiatives. The ESG vision seeks to place sustainability at the heart of the bank's strategy, corporate culture, and operations. It foresees the integration of these elements into an ESG framework that leverages existing governance structures to apply sustainability principles at every level. In the course of 2021, NBK reinforced the responsibility of the board and board sub-committees to align with critical ESG issues. It is also prioritising the promotion of women to senior management positions.

The bank updated its sustainability webpage and issued its fifth annual sustainability report. These engagement channels highlight the bank's social, economic, and environmental initiatives, and the implementation of corporate governance principles, in accordance with the Global Reporting Initiative (GRI). The bank also recognises commitments to supporting the Kuwait National Development Plan and the global sustainability agenda encapsulated by the UN Sustainable Development Goals in addition to voluntarily alignment with Boursa Kuwait's sustainability guidelines.

NBK's international operations

The bank sees international activity as one of its differentiating factors over other local and regional banks and established itself in western markets early with branches or subsidiaries in London, New York, and Geneva operating profitably from the early 1980s.

A branch in Singapore has provided a window on Asia since 1984, Paris was added in 1987, and the bank opened a branch in Shanghai, China in 2005. In the Middle East, the two main priorities are Saudi Arabia and Egypt. NBK has pulled out of Jordan and Vietnam. Its branch in Singapore is prospering.

In the 1980s and 90s there were few opportunities to expand within the Middle East. Like many GCC banks, NBK opened a branch in Bahrain in the 1980s, when it was the offshore banking centre for the GCC, and it opened a subsidiary in Lebanon as the Lebanese economy began to blossom in the years after the ending of the 15 year civil war.

In the 2000s financial deregulation and healthy economic conditions driven by higher oil prices created new opportunities to build a Middle East franchise. In 2006 NBK won a licence to open a commercial banking branch in Saudi Arabia. In 2007 it bought a majority stake in Cairo based al Watany Bank of Egypt and it signed an agreement to take a 40% stake in Istanbul based Turkish Bank. NBK moved quickly when the Iraqi banking market opened after the overthrow of Saddam Hussein. In 2005 it took a majority stake in Credit Bank of Iraq. Around the same time, it established branches in Jordan and in Dubai. A branch in Abu Dhabi followed in 2013.

The international network has two purposes for NBK. Like other banks, it wants to follow its customers when their business takes them abroad. That is why the London subsidiary is so important as are the operations in Paris, New York and in Asia.

Kuwait Vision 2035

Kuwait has a long-term policy vision under the banner of "Kuwait Vision 2035". It encompasses six strategic aims: increasing GDP growth; encouraging the private sector; supporting human and social development; promoting demographic policies; enhancing and improving the effectiveness of government administration and consolidating the country's Islamic and Arab identity

NBK's home country gives it a solid base on which to build. Kuwait has one of the lowest industry breakeven oil prices in the world and a fiscal breakeven lower than some other GCC countries, making it more resilient to low oil prices. Oil earnings are channelled into two funds, one for current expenditures and the other which is the massive

Table 3: National Bank of Kuwait Net Operating Income by Geography

Net Operating Income (KD 000's)	2021	2020
Kuwait	682,289	636,422
Other Middle Eastern and North Africa	159,165	146,741
Europe	36,763	32,918
Others	28,101	26,440
Total	906,318	842,521

Future Generations Fund. The assets of the latter are not disclosed in public but are thought to be in the region of $700 bn.

The sovereign wealth funds and very low debt underpins Kuwait's investment grade sovereign credit rating.

Following a decline of 8.9% in 2020 due to the twin shocks of Covid-19 and lower oil activity/prices, economic output is estimated to have rebounded by 1.1% in 2021, led by gains in private consumption and non-oil activity more broadly (+3.5%).

Oil sector GDP is estimated to have contracted by 1% in 2021 in line with Kuwait's participation in the OPEC+ production cut agreement. Looking ahead, headline GDP growth could reach 8.5% in 2022 on oil (+12.8%) and non-oil sector (+3.7%) output gains, with the latter benefitting from additional refining sector value-add.

The fiscal deficit in FY21/22 is expected to narrow to around 8.5% of GDP from 33% of GDP the year before. With oil prices expected to average about $100/bbl, the fiscal balance could post a surplus of 8.8% of GDP in FY22/23 – if expenditures come in at around the same level as is estimated for FY21/22.

Inflation averaged 3.4% in 2021 and could reach 4.3% in 2022 amid elevated global food and commodity prices, rising housing rents and robust domestic demand.

Consumer spending continued to accelerate in April, rising 35% y/y to KD2.9 bn, supported by robust demand and improved consumer confidence.

Private credit expanded by almost 8.0% y/y in February 2022, the best reading since 2016, thanks to rebounding corporate credit growth (+3.6% y/y) and strong household borrowing (+13.4% y/y). Business credit grew at the fastest rate since November 2020, driven by strong lending to the oil and gas, industrial and real estate sectors. The Central Bank of Kuwait followed the US Fed and raised its key discount rate twice since March, by a total 50 bps to 2.0%, with more rate rises expected in 2022. Deposit growth, having turned positive in January, accelerated to 2.7% y/y in February, on increasing private sector deposits (+4.1% y/y), though government deposits continued to slide (-4.1% y/y).

In 2021, property sales reached a 7-year high of KD3.7 bn, driven by buoyant residential sector activity. In the month of March 2022, total sales were up 9% y/y to KD356 mn. Final approval of a mortgage law in 2022 could boost activity (and prices) as well. ■

Isam al-Sager, Group CEO of NBK.


How do we fix
a problem with
no boundaries
by pushing
our own?
Climate change knows no borders.
That's why HSBC is aiming to
provide up to $1trn in financing
and investment globally to help our
clients transition to net zero.
Find out more at
www.business.hsbc.ae
HSBC
Opening up a world of opportunity
Issued by: HSBC Bank Middle East Limited U.A.E Branch, P.O.Box 66, Dubai, U.A.E, regulated by the Central Bank of the U.A.E for the purposes of this promotion and lead regulated by the Dubai Financial Services Authority.
© Copyright HSBC Bank Middle East Limited 2022. ALL RIGHTS RESERVED. No part of this document may be reproduced, stored, distributed or transmitted in any form without prior written permission of HSBC Bank Middle East Limited.

Middle East IPO boom

Investors are increasingly viewing the Middle East as a safe and reliable opportunity, as well as a region that is open and eager for business. Economic and social liberalisation, including deregulation, have combined to create an ideal environment, writes HSBC's Samer Deghaili.

The world economy has been facing evident stresses over the past two years, to put it mildly. Just as we saw light at the end of the pandemic tunnel, a new challenge in the form of soaring food and energy prices emerged, partly as a result of the war in Ukraine. The continuing impact of these dual macro-economic shocks can combine to create a bleak outlook.

However, in the Middle East, there are a number of reasons for optimism.

In June 2022 we at HSBC hosted stock exchanges from across the Gulf Cooperation Council at an investor conference in London. This, in and of itself, was not particularly remarkable, were it not for the geopolitical climate.

But the London event was significant, because it placed the Middle East region firmly in the spotlight as a potential catalyst for global economic growth.

We were able to bring together Saudi Exchange, Boursa Kuwait, Abu Dhabi Securities Exchange, Dubai Financial Market, and the Qatar Stock Exchange for the first time. The atmosphere at the event was philosophical about the recent challenges, but also cautiously optimistic about the future, based on recent market performance.

IPO listings in Saudi Arabia and in the United Arab Emirates are soaring, and there is a robust pipeline of future initial public offerings (IPOs) into the future.

These developments are hugely important for regional and wider global prosperity. Billions of dollars are being raised internationally to drive long term investment in the region. This is something we see in our wealth management business, in our investment banking business, and especially in our markets and securities services business which in the first quarter of 2022 had its best quarter on record.

HSBC has been involved in nearly all the IPOs of the past year, so we are at the forefront of this economic

KSA – stc
$3.2 bn – December 2021

stc is a leading fixed-line and mobile operator in Saudi Arabia and regionally. In addition to its telecom business, stc has subsidiaries which offer digital banking and payment services and outsourcing services. HSBC acted as Joint Global Coordinator, Joint Financial Adviser, and Joint Bookrunner in the secondary public offering of stc shares by the Public Investment Fund through a fully-marketed offering (FMO). An FMO makes the shares accessible to a wider range of investors and improves trading liquidity. This transaction represents the first ever FMO in Saudi Arabia, the largest ever secondary offering in the Kingdom, the largest FMO in the last 10 years, and the largest EMEA secondary placing in the last three years.

The FMO was multiple times oversubscribed and priced at SAR 100 per share on 10 December, representing a discount of around 9% to the closing price on 9 December. Books were covered within a day of book-building, and the retail offering of up to 10% of the transaction size was executed over one day.

The transaction set a strong precedent and was a success under the backdrop of elevated market volatility following the Omicron variant outbreak.

Dubai – Dewa
$6.1 bn – April 2022

Dewa is the exclusive electricity and water utility provider in Dubai. The group generates, transmits and distributes electricity and potable water to end-users throughout Dubai. Dewa's landmark initial public offering in April became the largest IPO on record in the UAE. Demand for shares was more than 37 times the total on offer and its completion saw Dubai enter the top five listing venues in the world in 2022.

diversification and growth. We helped clients in the region raise more than $19 bn from investors worldwide in 2021.

The drivers behind the current IPO boom are manifold. Stronger energy prices have created liquidity but economic and social liberalisation, including deregulation, have combined to create an ideal environment. Investors are increasingly viewing the Middle East as a safe and reliable opportunity, as well as a region that is open and eager for business.

This trend is particularly apparent in Saudi Arabia, where total foreign ownership of Saudi equities currently stands at $95bn (including strategic investments). Of course, the market has corrected itself somewhat in cash terms, prompted by regional and global volatility, but overseas investors were net buyers of KSA equities by $9.2bn year-to-date as at June 2022, according to Tadawul data.

The UAE market has been a net beneficiary of the current favourable equity capital market activity in the region, with all IPOs in 2022 receiving huge interest and multiple times book coverage from local as well as international investors.

In the UAE, the Dewa IPO (see above) saw Dubai enter the top five listing venues in the world in 2022, according to Bloomberg.

Abu Dhabi also witnessed unprecedented transactions including the Borouge IPO (book coverage – around 42 times oversubscribed), which was the largest ever IPO in Abu Dhabi and the largest MENA chemicals IPO to date.

The opportunities in the Middle East are being recognised around the world. Portfolio investors see the robust pipeline of stock market listings, home-grown companies are investing to expand and diversify internationally, overseas corporates are seeking access to the region's fast-growing consumer sector and the digital economy, and other clients are focused on the progress being made in the region's transition to net zero.

The current growth and optimism can help the rest of the world weather the global challenges we are currently facing. It is also a great opportunity for Middle Eastern economies to take a leadership role in tackling not just the current food, energy and pandemic challenges, but also the longer-term issues of climate change and the journey to net zero.

The fact that the next two UN climate change conferences, COP27 and COP28, are taking place in Egypt and the UAE respectively shows how much the world is looking to our region for solutions and innovations in tackling pressing social and economic challenges. We are confident that, with continued support from HSBC and our partners in the public and private sectors, our region can deliver. ■

Abu Dhabi – Borouge
$2 bn – June 2022

The UAE IPO market continued its momentum into the summer, with the Borouge flotation becoming the fourth offering sponsored by Abu Dhabi National Oil Company (Adnoc) on the Abu Dhabi Exchange (ADX). Borouge, a joint venture between Adnoc and Borealis, is one of the world's leading providers of polyolefins. The company undertook the IPO to bolster Abu Dhabi's growing equity capital market as well as to raise additional proceeds through the sale of shares for both shareholders.

Given the uncertainty in markets, the shares were offered at a fixed price of AED2.45 (implying a market cap at listing of around AED73.6 bn/$20.1 bn). This decision, combined with extensive pre-IPO investor engagement and a pre-deal investor education exercise, resulted in huge demand. The books were covered, ie the shares were fully subscribed, after only one hour and total demand exceeded $83 bn, with shares 42 times oversubscribed.

KSA – Nahdi Medical Company
$1.3 bn – March 2022

Nahdi Medical Company is the largest retail pharmacy chain (with a total of 1,151 pharmacies) and a fast-growing omni-health platform in Saudi Arabia. Nahdi's pharmacies cater to the needs of over 100 mn customers annually and operate across the largest brick and mortar network in Saudi Arabia, serving 97% of the population.

The offering represented the largest-ever private IPO in Saudi Arabia, the largest in the market since that of Saudi Aramco, and the largest retail pharmacy offering.

Despite volatile market and geopolitical conditions that effectively shut out IPO markets globally, the IPO attracted significant local, regional, and international demand. The institutional tranche (90% of the offering) was 59 times oversubscribed. The retail tranche was 13 times oversubscribed.

Samer Deghaili

Samer Deghaili, CFA, is head of capital markets, Middle East, North Africa and Turkey, HSBC Bank Middle East Ltd.

New international standards on sustainability disclosures loom on the horizon

Policy makers' recently discovered passion for everything related to the environment and to climate change has spawned a plethora of international standard setting bodies. Do you know the difference between the Task Force on Climate-related Financial Disclosures (TCFD), the Value Reporting Foundation (VRF), and the Sustainability Accounting Standards Board (SASB), to name just three?

The newly created International Sustainability Standards Board (ISSB) will consolidate the work of many of the existing bodies into a single organisation with the aim of providing a single set of authoritative and verifiable reporting standards on environmental and climate related risks. *Arab Banker's* former Editor, Andrew Cunningham, explains the role of the ISSB and its work to date.

The formation of the ISSB was announced in November 2021 at the COP 26 conference held in Glasgow and the new organisation has already issued Exposure Drafts (ED's) for its first two Sustainability Disclosure Standards.

The new standards will enable investors and correspondent banks, among others, to quantify and compare the extent to which companies (including banks) are exposed to environmental and climate related risks, and to make their own judgements on the steps companies are taking to adjust their business models to the new climate change realities. Middle Eastern, and particularly GCC banks, will be among the most heavily scrutinised under the new disclosures, given the reliance of many on lending to hydrocarbon industries, and taking deposits from them.

The ISSB is in the process of establishing physical offices in Frankfurt and Montreal and is in discussions to establish another office either in China or Japan, along with satellites in other cities such as London. In January, it appointed a chairman, Emmanuel Faber, formerly CEO of the food company Danone, and a vice chairman, Sue Lloyd, who was previously the vice chair of the International Accounting Standards Board (IASB)

The ISSB will be a sister organisation to the IASB, which issues International Financial Reporting Standards (IFRS). Those standards will henceforth be known as IFRS accounting standards, to distinguish them from the IFRS sustainability disclosure standards that will be issued by the ISSB.

So, in future, when asking a company or bank about their reporting, the question will no longer be, "Do you report in line with IFRS?" but rather, "Do you report in line with IFRS Accounting Standards and IFRS Sustainability Disclosure Standards?"

Like its sister organisation, the ISSB will be governed by the IFRS Foundation Trustees and, ultimately, a Monitoring Board.

The ISSB's remit is to create a high-quality, global baseline of sustainability disclosures focused on the needs of investors and financial markets. 'Sustainability' will cover environmental, social and governance issues, with the first task being to create climate-related sustainability standards.

To benefit from the work already done by other like-minded bodies (and to accelerate the publication of its own standards) the IFRS Foundation created the Technical Readiness Working Group (TRWG) which brought together the Climate Disclosure Standards Board, the IASB, the TCFD, and the VRF. This last body incorporated both the Integrated Reporting Framework and the SASB.

Both the CDSB and the VRF are being formally merged into the ISSB, with completion set for the second half of 2022.

On 31 March 2022, the ISSB issued exposure drafts for its first two proposed standards. IFRS S1 is entitled, General Requirements for the Disclosure of Sustainability-related Financial Information. IFRS S2 is entitled, Climate-related Disclosures.

The text of draft IFRS S1 runs to 17 pages, and that of IFRS S2 to 12 pages. The full exposure drafts are much longer, since they include the questions that the ISSB would like respondents to address, as well as definitions of technical terms.

Both follow the TCFD's structure which is based on four major themes: Governance, Strategy, Risk Management and Metrics &Targets.

The purpose of the General Requirements exposure draft is to require companies to disclose information about their significant sustainability-related risks and opportunities which will be useful to users of general-purpose financial reporting when they are assessing enterprise value and deciding whether to provide resources to the company.

The draft notes that sustainability-related information is broader than information reported in financial statements since it might include, for example, decisions made by a company which could result in future financial inflows and outflows, but which have not yet met the criteria for recognition in the company's financial statements; or the effect on a company's reputation, performance and prospects of environmentally related actions which it has taken.

The standard also states that sustainability-related financial disclosures should be reported at the same time as financial statements and that they should be for the same reporting period.

The Climate-related exposure draft requires companies to disclose information about their significant climate-related risks and opportunities that will enable users of financial reporting to assess the effects of climate-related risks and opportunities on the company's enterprise value, to understand how the company is using its resources to respond to climate-related risks and opportunities, and to evaluate the company's ability to adapt its business model and operations to climate-related risk and opportunities.

The ISSB adopts the 77 industry categories that were defined by the SASB. Each of these has specific industry-based disclosure requirements. The 77 categories are broken down into 11 sectors. Commercial banks are one of the five industries listed under the Financials Sector, alongside, Asset Management and Custody Activities, Insurance, Investment Banking and Brokerage, and Mortgage Finance.

Of course, companies and banks already disclose a large amount of sustainability and climate-related information. To take one example, Barclays' 2021 climate-related financial disclosures, conducted under the TCFD standards, run to 58 pages. Among the disclosures is the bank's exposure to carbon-related assets, according to 22 sub-sectors. (It was £103,747mn, comprising 15% of total loans and advances, down from 16% last year).

Compared to the TCFD and other bodies, the specific contribution that the ISSB is hoping to make lies in making disclosures relevant to the users of financial statements and linking the disclosures explicitly to the current and future value of a company. Standards such as those of the TCFD have a much broader remit and aim to accommodate the needs of stakeholders with many different agendas.

The ISSB also hopes to replicate the work of the IASB in establishing global standards.

Of course, one must immediately recognise that the global accounting landscape is split in two, with most of the world following IFRS while the world's largest economy, the USA, uses US GAAP. The ISSB's response to this challenge is that US GAAP was well established by the time that the IASB (and its predecessors) began work on the creation of a global set of accounting standards. This bipolarity does not already exist in the world of sustainability standards.

Nonetheless, the question remains whether the ISSB's standards will in fact be become the global standard. Although the exposure drafts use the word 'require', the ISSB has no power to require anyone to do anything. If companies are required to make disclosures in line with ISSB standards it will be because their national authorities have mandated it.

This raises the spectre of national authorities making local adjustments to the IFRS Sustainability Disclosure Standards, in the same way that they often do with IFRS Accounting Standards. How many times do we hear local accountants saying, "Here in Country X we have 'Country X' IFRS, but they are no different from IFRS."? (The comment begs the question "If there's no difference, what is the point of having your own 'Country X IFRS'?")

The ISSB is addressing this by presenting its own standards as a baseline, upon which national authorities can add locally specific requirements. The baseline should not change from country to country.

It is expected that companies will have their sustainability disclosure statements audited, in the same way that their financial statements are audited against IFRS Accounting Standards (or GAAP in the USA), and that if they are fully compliant, companies will say so in an explicit and unqualified statement of compliance.

As for the date of implementation: that is one of the questions that the ISSB poses in the exposure drafts. How long after the finalisation of the standards should they take effect?

Comments on the drafts were due by the end of July 2022 and the process of appraising and then incorporating them into final standards will likely take many months.

But these new standards are coming. The basic content is unlikely to change. Banks and companies should start preparing now! ■

Egypt takes centre stage at COP in Sharm el-Sheikh as Central Bank targets green finance

Egypt can point to tangible achievements in its environmental agenda but Cairo's priority at COP is likely to be to secure funding from developed countries to meet climate change commitments.

And, as Patrick Werr writes, problems have been mounting in the form of inflation and Egypt's perennial shortage of foreign exchange.

For two weeks in November 2022 Egypt is likely to be the centre of world attention. The government is due to host the 27th Conference of the Parties, a United Nations climate summit, in Sharm el-Sheikh, a resort on the Red Sea.

The Sharm el-Sheikh venue will allow the Egyptian government to showcase some of its renewable projects, including the Benban photovoltaic solar power plant near Aswan, said to be one of the world's largest, and a string of rapidly expanding windfarm projects across the Gulf of Suez. These take advantage of Egypt's high and stable wind speeds.

In 2021 around 11% of Egypt's energy came from renewable sources and the government was targeting 20% of supply by 2022 and 42% by 2035, according to Apicorp, an investment company.

Cairo has announced a series of projects to produce green hydrogen, billed as the clean energy of the future, in industrial zones along the Suez Canal where the product can easily be loaded onto ships. As of summer 2022, Cairo had signed seven preliminary agreements with international companies worth billions of dollars for the construction of green hydrogen and green ammonia plants.

Cairo is also going ahead with a partnership with Russia to build its first nuclear power plant at Dibaa on the Mediterranean west of Alexandria.

But, like many other emerging economies, Cairo's priority at Sharm el-Sheikh is likely to be to secure funding from developed countries to meet climate change commitments. Wealthy countries have been accused of not delivering on an annual $100 bn in financial aid worldwide from 2020 to 2023 they had earlier promised.

Egypt's GDP per capita is only $3,500 and its population of 108 mn is growing at around 2% a year. The country suffers from persistent pollution and growing water stress. There are concerns that parts of Egypt's Mediterranean coast and low-lying areas in the fertile Nile Delta are particularly vulnerable to rising sea levels.

Moreover, the country is a significant hydrocarbon energy exporter. Its liquefied natural gas plants at Idku and Damietta are major earners of precious hard currency and in 2021 Egypt still pumped more than 600,000 b/d of oil, according to BP.

That is not to say that Cairo has been a laggard in embracing green standards. Egypt, along with other UN members, is due to submit a national plan on cutting greenhouse emissions, known as a nationally determined contribution. As in other countries, financial sector regulators are trying to push a more sustainable and environmentally conscious agenda. Ahead of the COP, the Central Bank of Egypt (CBE) announced that it was joining the Network for Greening the Financial System.

The initiative seeks to meet the United Nations' sustainable development goals and adopt the principles of the Paris climate agreement. Notably, the CBE said its aims were to enhance the role of the banking sector in managing environmental and climate change risks and directing capital into sustainable projects.

In 2016 in the wake of the landmark Paris accord, Cairo launched a national strategy for a green economy.

Then, in 2020, Egypt sold $750 mn in five-year green bonds, the first sale of such bonds by a government in the Middle East and North Africa region. The proceeds of green bonds must be invested in sustainable projects and companies.

In 2021, Commercial International Bank, the country's leading private sector institution, issued $100m in green bonds in cooperation with the International Finance Corporation.

These initiatives and the outcomes of the Egypt COP will be watched closely. Africa is the region most harmed by climate change, despite it being the smallest contributor to emissions, Egypt has said. Moreover, the next COP (28) is due to held in the United Arab Emirates, a very different Arab country but also a large exporter of hydrocarbons.

Once again, the issue of coal is likely to be at the centre of negotiation in Sharm el-Sheikh. Egypt assumed the COP presidency from Britain, which held the 2021 summit in Glasgow, Scotland. The aspiration was that the almost 200 countries which attended that event would pledge to reduce global carbon output by nearly half by 2030. But, in the view of many activists and analysts, the commitments made at Glasgow disappointed. Importantly, no binding agreement was reached to phase out power plants fired by coal, one of the most polluting fossil fuels.

Instead, the transition away from coal has since been slowed further by higher oil and gas prices caused by the coronavirus pandemic and by Russia's invasion of Ukraine which has obstructed gas and oil supplies. India, China and even Germany have increased coal production to compensate.

Banking

For the first time in a decade and a half, Egypt in 2021 privatised a state-owned bank, a move that investors hope marks the start of a long-anticipated deepening of the private sector's role in an over-crowded sector. In a transaction finalised in November 2021, the government sold 51% of state-owned Arab Investment Bank (AIB), owned by the state National Investment Bank (NIB) to EFG Hermes, Egypt's biggest investment bank.

EFG was itself the subject of a takeover bid by First Abu Dhabi Bank (FAB) but in 2022 FAB withdrew its offer, citing market uncertainty and global volatility. Earlier, FAB had bought the Egyptian operations of Bank Audi of Lebanon for an undisclosed sum, bringing it 53 additional branches and over $5 bn in assets, according to reports.

Instead, larger Gulf banks have been pursuing a strategy of direct investment and organic growth. National Bank of Kuwait and Qatar National Bank both operate sizeable subsidiaries in Egypt.

Investors had been hoping that privatisations would also breathe new life into a stock exchange which has been in the doldrums in recent years. As of mid-2022, Egypt's benchmark EGX30 share index had dropped by nearly half from its peak in April 2018.

For the government, the AIB sale was part of a plan to clean up the balance sheet of NIB, which was established in 1980 to finance government projects but which had since racked up a large portfolio of overdue debts. Egyptian laws for pursuing and enforcing debts remain a problem for investors, particularly those from overseas.

For EFG Hermes, the purchase was part of a plan to expand into commercial banking to become a universal bank. NIB retains 24% of AIB and the Sovereign Fund of Egypt, founded in 2018, 25%.

The last significant wave of government bank sales was in 2004, when the authorities began divesting their shares in about 38 joint venture banks, culminating in the sale in 2006 of almost all of the state-owned Bank of Alexandria, now called AlexBank.

The sale of AIB preceded that of Banque du Caire, which had been planned for April 2020, but was postponed indefinitely by the outbreak of the covid pandemic. The government had been hoping to raise $500m from the sale of 20–30% of Banque du Caire, Egypt's third biggest state-owned bank by assets, via an initial public offering on the stock exchange.

The Banque du Caire sale is likely to remain on the back burner as long as the stock exchange remains depressed, asset managers say. Also slated for eventual sale is state-owned United Bank of Egypt, although no timeframe has been set.

In the meantime, the government has focused effort on new legislation and regulatory changes to encourage fintech investment, partly in the hope it can lure the many unbanked citizens of the Arab world's most populous country into the formal financial system. The hope is that nimbler and cheaper providers will wean poorer Egyptians off their historic reliance on cash and cash alone.

In September 2020, the government passed a new law that set out the central bank's role in fintech, with provisions allowing it to issue banking licences to fintechs. In late 2021 it passed a second law which set out the role of the Financial Regulatory Authority in regulating non-banking fintech activities such as nano-finance, consumer tech and insurance tech.

In October 2021, Egypt sold about 25% of E-finance for Digital and Financial Investments, a state-controlled payments firm which alone is authorised to operate the government's financial network, in an initial public offering worth $371.7 mn.

Economics

Coming hard on the heels of the coronavirus pandemic, the hike in US interest rate and the Russian invasion of Ukraine hit Egypt's economy hard and seem to have caught Egypt's economic planners off guard. Not long afterwards, the government announced a new plan to raise $40bn over the next four years through "private participation", a departure from the past half decade of relying on the state to act as the motor of economic growth.

The Ukraine crisis pushed tourism, which had been slowly recovering from the pandemic, into another slump. Russian and Ukrainian visitors together accounted for 31% of all tourists and 15% of tourism revenue, according to government officials. The likely cut-off of Russian and Ukrainian wheat and subsequent rise in world commodity prices added to the problems. Inflation was running at around 13% mid-2022.

The Fed hikes and the Ukrainian crisis prompted foreign investors to pull $20bn out of Egypt's treasury market in the first few months of 2022, officials said. The exodus prompted the CBE to devalue the currency by 14% in March and the government started talks with the International Monetary Fund for a new financial support package, its fourth in six years.

The government also turned to its Gulf allies for support. The CBE received deposits worth $5 bn from Saudi Arabia, $3 bn from the UAE and $3 bn from Qatar. Saudi Arabia also promised to invest another $5 bn in Egypt, the UAE $2.1 bn and Qatar $2–3 bn.

The array of challenges pushed the government towards the private sector to attract new investment. In April, President Abdel Fattah al-Sisi ordered the government to draw up plans to attract $40 bn in private investment over the next four years. The following month Prime Minister Moustafa Madbouly outlined a plan for private involvement in electric vehicles, data centres, networks for oil and gas and expansion of gas liquefaction plants, communication towers, and wind power.

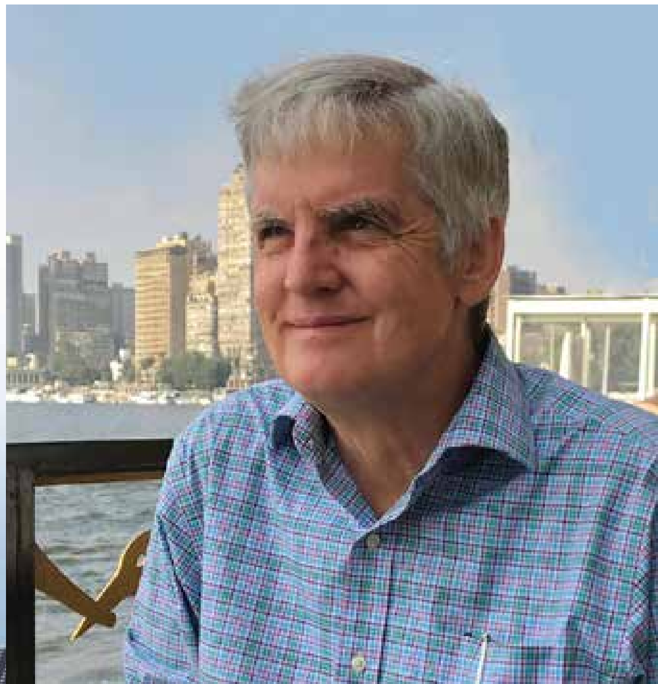
But in recent years, private investors have been reluctant to put money in Egypt due to the dominant and expanding role of the state in the economy. Foreign direct investment as a percentage of GDP has been sliding steadily over the last four years, dipping to 1.3% in 2020/21 from 3.4% in 2016/17. Previous promises to sell stakes in state companies in the last few years have born little fruit.

The new plan aims to attract $10bn in private investment over each of the next four years. Some $9 bn in assets had been identified for sale and another $15 bn were being prepared for market. The prime minister said he hoped to bring shares in 10 state companies and two military companies to the stock exchange by the end of 2022.

But asset managers caution that few state firms are in a position to be sold and most require serious internal reorganisation. ■

Patrick Werr

Patrick Werr has worked in Egypt as a financial and economic reporter for three decades.



Sovereign ratings in the Middle East hold steady but environmental factors present long term threat

Ratings on Middle East governments have changed little over the past year, but the rating agencies are more optimistic about the future, with six countries seeing their outlooks changed from stable to positive or from negative to stable by at least one of the big three international agencies. Nonetheless, the picture is mixed, with some downgrades.

Arab Banker's former Editor, Andrew Cunningham, summarises recent developments in sovereign ratings.

In March 2022, Fitch downgraded its rating on Kuwait by one notch to AA- citing continuing constraints on decision making which hinder the government's ability to address fiscal challenges. In simple terms, the conflict continues between the ruling family and its government on one side and the parliament on the other, despite the formation of a new cabinet in December 2021 and the convening by the Emir of a national dialogue to address differences. Among the disagreements is the proposed national debt law, which would enable the government to issue debt to fund its deficits.

Fitch is now the only one of the three big international agencies that rates Kuwait in the AA range. Moody's took Kuwait to A1 (equivalent to A+ in the notation used by Fitch and S&P) in September 2020 and S&P downgraded to A+ in mid-July 2021.

Nonetheless, all three agencies now have stable outlooks on Kuwait's ratings, implying that the downgrades have now run their course. In July 2022, S&P changed its outlook to stable from negative

Rating outlooks on Saudi Arabia have improved

Ratings on governments in the Middle East ('sovereign ratings')*

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

		24 July 2022	6 July 2021	J July 2016
Bahrain	Fitch	B+ stable	B+ stable	BB+
	Moody's	B stable	B negative	Ba2
	S&P	B+ stable	B+ negative	BB-
Egypt	Fitch	B+ stable	B+ stable	B
	Moody's	B negative	B stable	B-
	S&P	B stable	B stable	B-
Iraq	Fitch	B- stable	B- stable	Not rated
	Moody's	Caa1 stable	Caa1 stable	Not rated
	S&P	B- stable	B- stable	Not rated
Jordan	Fitch	BB- stable	BB- negative	Not rated
	Moody's	B+ stable	B1+stable	B1
	S&P	B+ stable	B+ stable	BB-
Kuwait	Fitch	AA- stable	AA negative	AA
	Moody's	A+ stable	A+ stable	AA
	S&P	A+ stable	AA- negative	AA
Lebanon	Fitch	Rating withdrawn	Rating withdrawn	B
	Moody's	C no outlook	C no outlook	B2
	S&P	SD	SD	B-
Morocco	Fitch	BB+ stable	BB+ stable	BBB-
	Moody's	BB+ stable	BB+ negative	BB+
	S&P	BB+ stable	BB+ stable	BBB-
Oman	Fitch	BB- stable	BB- negative	BBB
	Moody's	BB- stable	BB- negative	BBB+
	S&P	BB- stable	B+ stable	BBB-
Qatar	Fitch	AA- stable	AA- stable	AA
	Moody's	AA- stable	AA- stable	AA
	S&P	AA- stable	AA- stable	AA
Saudi Arabia	Fitch	A positive	A negative	AA-
	Moody's	A+ stable	A+ negative	A+
	S&P	A- positive	A- stable	A-
Tunisia	Fitch	CCC	B negative	BB-
	Moody's	Caa1 negative	B- negative	BB-
	Not rated	CCC negative	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

**Long term foreign currency ratings, on 26 July 2022.*

largely on the basis of an expectation of favourable oil prices and production levels at least until the end of 2023. But S&P also predicted that the Kuwaiti government will diversify its sources of funding over the next two years, ending the previous fiscal funding impasse and the depletion of liquidity in the state's reserve funds. This is a very different point of view to that expressed by Fitch in March and it is hard to see why the bickering between the parliament and the government, which has characterised Kuwaiti political life for decades, should suddenly abate.

A positive or negative outlook indicates that there is a good chance that the agency will upgrade or downgrade its rating at some point over the next 18 months. (The precise definitions differ from agency to agency.)

Oman was upgraded by S&P to BB- in April 2022. The agency cited both higher oil prices and the Omani government's "ongoing reforms". These reforms comprise a plan to reduce reliance on oil receipts over the medium term, a 5% Value Added Tax which was introduced in April 2021, and gradual reductions in electricity and water subsidies. S&P's press release announcing the upgrade made a passing reference to the accession of Sultan Haitham to the throne in January 2020, replacing Sultan Qaboos, who had led Oman for nearly 50 years. The unstated implication was that the "ongoing reforms" are the product of a new regime.

Both Fitch and Moody's changed the outlooks on their BB- ratings on Oman from negative to stable over the last year. Alongside Bahrain, Oman is the only GCC state to be rated in the sub-investment grade range.

In July 2022, Moody's downgraded its rating on Sharjah to Ba1, taking the emirate into sub-investment grade territory for the first time since it assigned a rating of A3 in 2014. S&P still has Sharjah at BBB-, the lowest investment grade rating, but with a negative outlook.

Of course, Sharjah is not strictly speaking a 'sovereign' since it is one of the seven emirates which comprise the United Arab Emirates (UAE).

Improved outlooks on Saudi Arabia

All three agencies have changed their outlooks on Saudi Arabia over the last year: Fitch changed its negative outlook to stable in mid-July 2021, and then from stable to positive in May 2022., Moody's changed its negative outlook to stable, and S&P changed its stable outlook to positive.

Moody's is the most bullish on the Kingdom, with a rating of A1, one notch higher than Fitch and two higher than S&P. (Moody's A1 equates to an A+ from Fitch and S&P.)

When changing its outlook from negative to stable in November 2021, Moody's said that the Saudi government would reverse the increase in its debt burden that occurred during the Covid pandemic. This improvement would arise in part due to higher oil prices and production, but also due to, "stronger fiscal policy effectiveness." All three agencies point out that the Kingdom increased VAT from 5% to 15% during the pandemic.

S&P has historically been the most bearish on Saudi Arabia, but in changing its outlook to positive in March 2022, the agency cited higher oil prices, and a diversification of the economy, including efforts to make Saudi Arabia, and Riyadh, more attractive destinations for international companies.

In November 2021, S&P changed its outlook on Bahrain's rating to stable from negative. Moody's did the same in April 2022. S&P has Bahrain at B+ and Moody's rates it one notch lower. Both agencies cited efforts at fiscal reform, and the boost to government revenues from higher oil revenues. S&P noted the fiscal support package of $10bn provided by Kuwait, Saudi Arabia and the UAE, of which $6.3bn was received in 2018–20. The agency predicts that the remainder will be disbursed in full before the end of 2023, as planned.

Moody's goes negative on Egypt

Moody's changed its outlook on Egypt's B2 rating from stable to negative in May 2022, citing a significant narrowing of the country's foreign exchange reserve buffer and therefore a reduced ability to absorb external shocks. Moody's estimates that Russia's invasion of Ukraine triggered nearly $14bn in non-resident outflows between February and April. Non-resident holdings had been $31bn in February. On the other hand, Moody's says that immediate risks are mitigated by $22bn in financial commitments made by GCC sovereigns, $11bn of which has already been deposited and the remainder pledged in the form of foreign direct investment and asset purchases.

S&P rates Egypt at the same level as Moody's, but with a stable outlook, while Fitch rates one notch higher, also with a stable outlook.

Morocco retains its BB+ ratings from all three agencies, with Moody's changing its negative outlook to stable in July. Jordan retains BB- or B+ ratings, again all with stable outlooks, this time following Fitch's adjustment from negative to stable.

All three agencies are rating Tunisia in the C range, implying a very high likelihood that investors will not be repaid in full.

Algeria continues to be the only significant economy in the region that is unrated or, to be precise, the only significant economy on which there is no public rating. Moves to receive a public rating would be a welcome sign that the Algerian authorities are serious about opening their economy and capital markets to foreign investment.

Environmental factors exert negative pressure

All rating agencies are now incorporating Environmental, Social and Governance (ESG) issues into their analysis. It is hard to tell the extent to which ESG factors actually move ratings when set against more immediate issues such as debt service coverage and foreign reserves. But the agencies are certainly claiming that ESG is now a significant part of their rating methodologies.

To the extent that this is true, it will exert negative pressure on the ratings of Middle East sovereigns. For example, Moody's assigns 'Highly Negative' environmental profiles to nine of the 12 countries which it rates. Oman and Iraq are assigned 'Very Highly Negative' profiles. Tunisia is described as 'Moderately Negative'.

These assessments are based on factors such as the speed at which a country is moving to carbon neutrality, physical climate risks, water management and waste and pollution.

It is clear that the move away from hydrocarbons as sources of energy, and the broader climate change agenda, will affect Middle East economies in many ways, from decreased global use of oil and gas, even higher temperatures, and increased public interest in the way in which scarce resources, such as water, are being used. It will be interesting to see whether Middle East governments are able to make the profound policy adjustments which will be needed to stay on the right side of the climate change policy agenda and, if not, when policy rigidity on climate issues will lead to specific, climate-related downgrades. ■

The Arab world's food crisis threatens poorer states but also offers investment opportunities

Inflation in food prices was seen as a major cause of the unrest which gripped parts of the Arab world in 2010 and 2011. The Russian invasion of Ukraine has sparked fears that grain shortages in the Middle East may cause similar instability. But oil producers have ample excess liquidity to help poorer countries. Awareness is growing that consumption patterns and lifestyles must change.

Martin Keulertz, an expert on food security in the region, looks at the threats – and opportunities – of the crisis.

In the words of Vladimir Lenin, "wheat is the currency of currencies". That dictum is being tested in the Middle East. The Russian invasion of Ukraine launched in February 2022 severely impacted global food markets – and wheat in particular. Some Arab countries – Lebanon, Egypt, Oman, Libya and the United Arab Emirates – are especially exposed to the secondary effects of the war due to their dependency on the Black Sea region for strategic food imports.

Across the region, a lack of natural resources such as arable land and water has not matched high population growth. However, there are also opportunities for investors to be reaped in the future.

In early 2022, the United Nations Food and Agriculture Organisation (FAO) Food Price Index reached its highest ever number since it was first published in 1961 recording levels of above 150 against a baseline of 100 in 2015. Arab consumers are especially exposed to price hikes due to high reliance on staple food imports such as wheat, cooking oils, barley, soy and maize. Fertiliser costs also spiked due to the pivotal market position of Russia and the Ukraine as major exporters to global markets.

Droughts in countries such as Iran, Syria, Iraq and Turkey have added to shortfalls in global and regional wheat production. Even India abandoned plans to export more wheat to the Arab world due to unfavourable weather conditions.

The Arab world has insufficient arable land and water resources to produce meaningful domestic and regional staple food supplies. Most countries in the region import more than 90% of their cereal needs. Only Egypt and Morocco produce about half of their cereals domestically. As a result, countries around the region have embarked upon bullish imports of such staples. In normal times, a sound policy is to utilise comparative and competitive advantages sourcing foods from global commodity markets which can access large amounts of arable land and readily available water resources such as rainfall. But when things go sour, these policies reveal worrying structural vulnerabilities.

Why wheat matters

No crop embodies current food security concerns the Arab region more than wheat. The grain provides 24 to 49% of daily caloric intake, most commonly in the form of bread. According to the United Nations Economic and Social Commission for West Asia, Arab consumers consume on average 130kg of wheat per capita per year due to the role of bread in current diets. This is double the amount in OECD countries. Within the region, the GCC countries consume the lowest quantity of wheat per capita with about 90kg per year. The Maghreb countries, on the other hand, are the largest consumers, eating more than 160kg per capita per year.

Russian and Ukrainian wheat have long been cheaper than other sources due to their lower quality which is benchmarked through the protein content of Black Sea wheat. Much Russian wheat is of third or fourth grade quality compared to American varieties. While high quality wheat from the United States contains about 13.5% protein, grain from Russia and the Ukraine has a lower protein content of 11.5%. It is good enough for breadmaking purposes and explains why Russia and Ukraine have become the main sources of supply to Arab countries.

According to S&P Global Platts, Russia and Ukraine together were projected to export 60mn tonnes of wheat in the crop year of 2021–22. UN Secretary-General Antonio Guterres warned in May that the conflict "threatens to tip tens of millions of people over the edge into food insecurity followed by malnutrition, mass hunger and famine". Lebanon, Egypt, Oman, Libya and the United Arab Emirates are vulnerable to any trade distortion in the Black Sea region as they are major importers of wheat from the two exporters. Yemen, Tunisia, Syria, Jordan and Morocco are also highly exposed with levels up to one third of all wheat supplies sourced from Russia and Ukraine. Other countries such as Saudi Arabia, Algeria, Kuwait, Qatar and Bahrain appear far less vulnerable due to diversified import sources. Barley, commonly used as animal feed for meat and dairy production, is similarly sourced from the two countries at war making it another highly vulnerable supply chain during times of crises.

The timing of the crisis

The winter and spring months are usually the busiest for grain exporters. Domestically produced stocks run low in the late autumn given the limited production potential. It is no coincidence that the Arab Spring reached its boiling point during the winter months of 2010/11 when prices spiked for a second time after 2007/08. In 2022, similar patterns can be observed. Food prices were already high during the Covid-19 pandemic in 2020/21 and only began to stabilise in the second part of 2021. The war in Ukraine comes at a bad time as consumers in the Arab world again face higher food prices within a three-year period. The peak of the crisis is unlikely to be seen until the winter months 2022/23.

The spike in food prices contributed to political unrest on Arab streets in late 2010. However, this time it may be more pronounced, due to high population growth in the region over the past 11 years. In 2021, inflation was already at nearly 15% in the Middle East and North Africa, according to the IMF.

Since 2011, the region has seen an increase of 85 mn people – equivalent to the population of Egypt in 2011. At the same time, sub-optimal economic development since 2011 has led to increasing current account deficits leaving governments in most affected countries such as Egypt, Algeria, Tunisia, Jordan and Morocco with little financial leeway to import more food at higher prices.

Investing into an Arab food system

At the same time, oil and gas prices are providing strong returns for economies such as in the GCC. High revenues from hydrocarbons can also provide badly needed investment capital to cushion the effects on poorer Arab countries. Most importantly, they can stimulate investment in food security technologies such as hydroponics, high efficiency drip irrigation technology, precision agriculture, solar-fed desalination, aquifer preservation, better rangeland management for livestock production and/or improved food waste management amongst others. Oman's plan to invest $3.4 bn in food security through its "Vision 2040" and the UAE's planned $4bn investment in agricultural technology such as the Food Tech Valley in Abu Dhabi serve as examples for enhanced strategic prioritisation of food security and can act as examples for the region.

However, governments also need to encourage consumers to make significant dietary changes and eat other crops such as fruits and vegetables, legumes, sorghum, potatoes and hard wheat (durum wheat), which are all part of traditional Arab diets. A look into the past in many ways offers business opportunities for the future. In fact, the traditional diet in the Eastern Mediterranean is very similar to the diet recommended by an international group of scientists in 2018.

The so-called EAT-Lancet Commission modelled a diet that does not exceed planetary boundaries while at the same time supporting human health. Without dietary changes around the world, humanity will not be able to feed itself by 2050. The Arab region could lead on global dietary change by investing in high-tech agriculture to produce the commodities needed for a traditional Arab diet rich in vegetables, fruits, legumes, indigenous grain and only some meat, fish and dairy. ■

Dr Martin Keulertz

Dr Martin Keulertz is an Adjunct Assistant Professor at the American University of Beirut's Food Security Programme. He also works as a lecturer in environmental management at the University of Western England, Bristol.

Understanding the UAE's 2022 FATF greylisting

When the Financial Action Task Force, the global financial crime watchdog, put the UAE on increased monitoring it shocked many in the region. No one, it seems, is immune. However, the UAE government has been highly pro-active in dealing with the challenges outlined by the Paris-based body. Its response can serve as a model to other countries which are also identified.

Here Eliza Thompson of Themis, a financial crime tech platform, outlines some of the steps that the UAE has taken to have itself removed from increased monitoring status.

In March 2022 the Financial Action Task Force (FATF) added the United Arab Emirates (UAE) to its list of jurisdictions under increased monitoring. Often referred to externally as the "greylist", it identifies countries which are actively working with the FATF to address strategic deficiencies in their regimes to counter money-laundering, terrorist financing, and proliferation financing. In coordination with the FATF, these countries develop action plans and commit to resolving their strategic deficiencies within an agreed timeframe. The FATF closely monitors country progress on these plans.

Since 2020, government stakeholders such as the Central Bank of the UAE (CBUAE) and the Financial Intelligence Unit (FIU) have announced new policies and guidance for the effective combating of money laundering and terrorist financing threats, demonstrating high levels of commitment across the country. The Ministry of Foreign Affairs and International Cooperation (MoFAIC) has taken a leadership role in coordinating AML/CFT policy across the UAE, adopting a positive and mature approach.

MoFAIC, in coordinating with relevant authorities, is working closely with international partners to identify, disrupt, and punish criminals and illicit financial networks. Notably, representatives from MoFAIC recently participated in a high-level coordination meeting on AML/CFT to discuss the UAE's progress in countering financial crimes. The UAE Expert Group for AML/CFT has also successfully conducted 44 meetings with counterpart jurisdictions, with a particular focus on training of AML/CFT experts in the UAE as part of efforts to develop a strong talent pool of anti-financial crime professionals.

Also, of particular note, the UAE established a new Executive Office of Anti-Money Laundering and Counter Terrorism Financing in February 2021. The office is affiliated with the Ministry of Foreign Affairs and aims to act as a national coordinator with internal, intergovernmental and international organisations to tackle financial crime in the country. Since its inception, the Executive Office of AML/CFT has been active in forming new policies, approaches, and strategic priorities.

In August 2021, Dubai established a specialised court for money laundering and other financial crimes that will sit within the Court of First Instance and Court of Appeal. Going forward, cases that involve or appear to involve money laundering will be transferred to the new specialised court.

Deployment of financing penalties

The Executive Office of AML/CFT announced that the total value of AML/CFT penalties collected in 2021 amounted to nearly AED 3.848 bn (around $ 1 bn). These included fines for non-compliance with AML/CFT regulations, penalties on major financial institutions in the UAE, tax evasion and money laundering fines on individuals, and confiscations.

The UAE has also demonstrated its commitment to using legal mechanisms to target and disrupt networks linked to the financing of terrorism and its associated activities. For example, in September 2021, the UAE added 38 individuals and 15 entities to its terror designation list. The list included four Emiratis, eight Yemenis, six Nigerians, five Syrians and five Iranians, along with individuals from India, Afghanistan, Lebanon, Jordan, and Russia.

The UAE has prioritised the use of asset confiscation to combat illicit financial activity and terrorist financing. Notably, the Executive Office of AML/CFT announced in January 2022 that UAE authorities confiscated AED 2.33 bn (around $625 mn) in illicit funds throughout the year. Around AED 1 bn of these funds was linked to money laundering offences, AED 300 mn to the proceeds of overseas crimes, and AED 15 mn to gold and other precious metals. However, the UAE did not publicise the specific actors or jurisdictions related to these confiscations, which reflects a major gap that remains – namely a lack of transparency or adequate reporting on predicate crime statistics.

In 2021, the Ministry of the Economy (MOE) circulated regulatory updates for designated non-financial businesses and professions (DNFBPs), designating them as an AML/CFT priority area for the UAE. Specific DNFBPs were targeted, including real estate brokers and agents, dealers in precious metals and stones (DPMS), account auditors and company service providers. The updates outline requirements for DNFBPs, including the need to appoint a compliance officer, abide by the updated 2020 beneficial ownership regulations, report suspicious transactions, register on the goAML system, and register on the automatic reporting system for sanctions. The MOE gave DNFBPs until April 2021 to register with the UAE's goAML system and the Automatic Reporting for Sanctions Lists or risk facing fines ranging from AED 50,000 to 5 million.

New guidance on suspicious transaction reports (STRs)

In June 2021, the CBUAE issued new guidance requiring all UAE financial institutions to file STRs using the goAML platform within 35 days of detection of any suspicious activity. The guidance also requires a case investigation to be completed within 20 days, along with other actions such as internal recommendations.

In August 2021, the CBUAE issued updated guidance on AML/CFT measures for registered hawala providers (RHPs) to assist in the understanding and effective implementation of AML/CFT obligations for RHPs. Under this guidance, RHPs must comply fully with UAE requirements regarding targeted financial sanctions and STRs. RHPs are also required to establish and maintain effective AML/CFT compliance programmes, which should include a competent compliance officer, appropriate customer and agent due diligence, transaction monitoring and record keeping.

In January 2022, the UAE launched a country risk assessment for proliferation financing risks. The project will with consult with UAE public and private sector stakeholders, and assist in implementing new requirements on identifying, assessing, and

Eliza Thompson

Eliza Thompson is a financial crime researcher at Themis. This is an abbreviated version of a detailed report available at https://themisservices.co.uk/understanding-the-uaes-2022-fatf-greylisting.

understanding proliferation financing risks, with the aim of developing appropriate measures to mitigate or reduce them. The project will provide an opportunity for national authorities to highlight and indeed deepen their efforts in combating such threats and their role in protecting the global financial system.

Utilisation of advanced analytics and technology

The UAE has prioritised the integration of advanced analytics and technology into its AML/CFT system, including the implementation of digital tools, toolkits, and training. The UAE's focus on investment in its technology and digital sectors, including crypto and FinTech, presents both challenges and opportunities when it comes to risk exposure. These sectors have considerable financial crime vulnerabilities, such as the risk of social media and mobile banking apps being used to trade illicit commodities or wildlife. At the same time, emerging technologies can be utilised to combat illicit financial activity, including through the deployment of digital due diligence tools.

In September 2021, the UAE's National Committee for AML/CFT announced the adoption of a regulatory framework for virtual assets in the UAE, concordant with approved AML/CFT standards, and assigned the CBUAE and the Securities and Commodities Authority to oversee its implementation. This aligns with FATF's recommendation on the integration of virtual assets and virtual asset service providers (VASPs) into AML frameworks globally, as they present risks related to abuse for financial crime purposes.

This platform helps provide a national ecosystem for the exchange of verified KYC data between licensing authorities and financial institutions, and saw many of its founding members go live with the platform during 2021.

The UAE has embraced the use of digital toolkits, tools, and training to enhance both public and private sector knowledge of financial crime risks. A major recent example is the UAE's support for the IWT Digital Toolkit, developed by the UK government's Serious and Organised Crime Network (SOCnet) in collaboration with Themis, the World Wildlife Fund, and the NGO, TRAFFIC. The toolkit is aimed at supporting financial institutions in addressing illegal wildlife trade (IWT) risks and reporting suspicious transactions relating to IWT. ■

Navigating global sanctions in 2022 and beyond

As the US, EU and UK ramp up sanctions against Russia in response to the invasion of Ukraine, Fieldfisher sanctions specialist Vivien Davies considers the implications for financial institutions.

On 28 June 2022, the UK Office of Financial Sanctions Implementation (OFSI) announced that it had imposed a £15,000 penalty on Tracerco Limited, a UAE-based subsidiary of Johnson Matthey which provides products and services to the oil and gas industry.

Tracerco was found to have made funds available for the benefit of a designated person in breach of financial sanctions on Syria when it made two payments totalling £2,956.43 to a UAE-based travel agency for flights on the listed Syrian Arab Airlines (SAA) between May 2017 and August 2018. The flights constituted part of a remuneration package for an employee.

Tracerco voluntarily disclosed the breach, which resulted in a 50% reduction of the possible monetary penalty, in line with OFSI's published enforcement guidance.

This was the first financial penalty the UK has imposed since 25 June 2021. It demonstrated that a breach of financial sanctions may be triggered when funds flow through a third-party intermediary, in this instance a travel agency.

How did we get here?

Sanctions law is complex. Pre-Brexit, EU listings were part of UK legislation, although the UK still had to contend with the extra territorial reach of certain US sanctions. Following Brexit, the UK has established its own independent sanctions regime implemented by OFSI. This now also needs to be considered.

The UK sanctions regime imposes extensive restrictions on dealing with people listed as "designated persons", including prohibitions on making or receiving payments from "designated persons"; dealing with the "economic resources" of "designated persons"; and participating in activities which directly or indirectly circumvent the sanctions regime.

UK financial sanctions apply both within the UK and to conduct by British persons outside the UK. The UK has published guidance on what constitutes a "UK nexus", giving an indication of the circumstances in which OFSI considers UK sanctions will apply.

On 15 June 2022, we saw the introduction of new provisions under the UK's Economic Crime Act to prevent individuals and businesses from committing sanctions breaches and severely penalising those who flout the rules. The Economic Crime Act (Transparency and Enforcement) Act 2022 ushers in amendments to section 146 of the Policing and Crime Act 2017, regarding penalties for sanctions breaches.

The amendments allow OFSI to impose monetary penalties for sanctions breaches even where the person does not know, or have reasonable cause to suspect, that they are in breach of, or have failed to comply with, sanctions obligations. This will create a strict liability offence and is designed to make it easier for OFSI to exercise its powers to impose fines on those who break the rules.

Since January 2019, OFSI has issued only seven penalties for breaches of financial sanctions, and historically has been relatively slow to act. However, following Russia's invasion of Ukraine and an ever-expanding sanctions regime, coupled with OFSI's renewed emphasis on enforcement, a rise in enforcement activity and penalties is to be expected.

The Middle East: a not-so safe haven?

The United Arab Emirates is fast becoming the international hub of choice for Russian companies and wealthy individuals seeking to run their businesses and protect assets while avoiding sanctions, thanks in part to the UAE's neutrality during the war in Ukraine.

While some of Russia's largest banks were cut off from the SWIFT international payments system following the invasion of Ukraine, lawyers, bankers and other officials claim sanctioned businesspersons were able to move money through smaller banks to the UAE and Turkey.

Russians were among the top purchasers of Emirati real estate before the start of the Ukraine conflict, according to recent media reports, which also claimed Russians were buying property in Dubai and even using cryptocurrency as a way of getting money into the Gulf state.

The country's property market has also allegedly been a channel for money laundering.

Consequently, the Paris-headquartered Financial Action Task Force (FATF), an international organisation which aims to combat money laundering, put the UAE on a monitoring "grey" list in 2022, alongside Turkey, Jordan, Pakistan and others.

Considerations for financial institutions

A bank or banking group could find itself subject to different sanctions regimes from the UK, EU, US and other states where it has operations. The changes introduced by the Economic Crime Act have not been widely publicised so may catch many businesses and their officers unaware. Keeping track of the evolving position on sanctions will be a challenge for banks.

The Tracerco Limited case highlights the necessity of appropriate policies and procedures, including effective due diligence and screening of counter parties.

Among the checks organisations ought to ensure are in place are: that the make-up of a syndicate does not include a designated entity; that a borrower group does not contain a designated entity or any entity to whom loans and credit are not permitted; and that the financial services or funds are not supporting or funding goods or services subject to trade sanctions (for example, energy-related goods and services or technology transfer) and whether there is any exception or possibility of any licence to permit the transaction.

Staying ahead

Companies and individuals now need to keep a sharp eye out for potential enforcement risks. Sanctioned parties often seek to find ways to circumvent prohibitions and may unwillingly, or through indifference, put another party at risk of a violation.

In this context there are some points to consider. First, if goods or services are being funded as part of a trade finance transaction, lenders will need to check if they fall within the scope of those prohibited by trade sanctions. If so, is there any exception or licence available to support the transaction?

The nexus is clear: British sanctions apply to all activities in the UK and any performed elsewhere by British nationals. Moreover, in practice, banks and financial institutions are likely to have operations in the EU, or EU subsidiaries which may be involved in certain transactions or employ EU nationals who will be required to comply. If this is the case, particularly when it comes to processing financial transactions, people will likely need to comply with the EU regime.

Businesses should conduct a risk assessment to identify and address any risks arising from the UK's new stand-alone sanctions and export regimes and ensure systems are in place to monitor UK and EU sanctions developments.

Appropriate licences should be in place and the relevant terms and conditions complied with. Consider your contracts and sanctions clauses and how wide you want to draft these. Due to the extent of asset freezing provisions, extended Know Your Customer (KYC) and due diligence will be required to ensure counterparties are not indirectly controlled by a designated person.

Care is needed when dealing with a group of companies where the ultimate beneficial owner (UBO) is designated.

The importance of a global sanctions compliance policy

Sanctions represent a significant regulatory risk which cannot be eliminated. But with attention to detail and robust implementation of comprehensive sanctions programs, the risks can be mitigated substantially.

Elements of sanctions compliance, from setting strategy to overseeing lists, can be run at a global, regional, or local level.

Global approaches can be more efficient and effective. A central sanctions unit makes ensuring adequate resources, staffing, and expertise easier. The most important reason for the shift to global programmes, however, is that the issue is now too important not to merit central oversight.

Failure in this area has already cost major banks hundreds of millions of dollars, and regulators continue to press ahead with new powers and initiatives.

Companies need to design well-thought-out systems which minimise their exposure and document why they have taken relevant decisions. They need to monitor implementation, run systems rigorously; and review changing risks regularly.

At the very least, this will reduce the number of likely sanctions breaches and, if any occur, increase the chances of leniency from regulators. ■

Vivien Davies

Vivien Davies is a Partner and Head of Fieldfisher's Sanctions group. With an established Middle East practice, Vivien has a particular focus and interest in servicing the needs of Middle East and North African clients and also heads up the MENA desk at Fieldfisher. A fluent Arabic speaker, Vivien is a board director and member of executive committee of the Arab Bankers Association.

Become a Member

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

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

Arab Bankers Association
جمعية المصرفيين العرب

ABA Membership Application

PLEASE TICK ✓ BELOW AS APPLICABLE

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

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

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

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

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

Nationality ....

Institution ....

Position/Title ....

Address ....

....

....

Telephone ....

Fax ....

E-mail ....

ABA Sponsor/Referee ....

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

☐ **Please bill me**

☐ **Please debit my card**

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

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

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

Post or fax to:

ABA
43 Upper Grosvenor Street
London W1K 2NJ

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

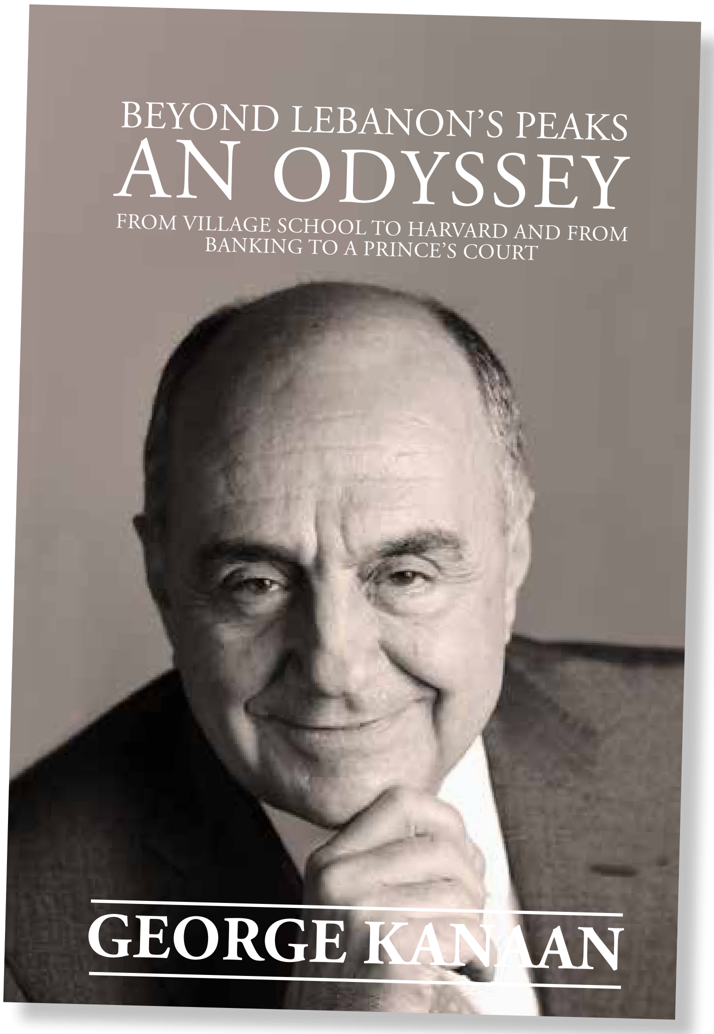
www.arab-bankers.co.uk

From Lebanon's peaks to high finance, our CEO George Kanaan publishes his memoires

Many people in London and the Middle East know George Kanaan through his position as Chief Executive Officer of the Arab Bankers Association – a post that he has held since 2009. But before taking on the leadership of the ABA, George spent more than 30 years working in global and Middle East finance.

In November 2022, Nomad Publishing will issue George's memoires. They are a treasure trove of insights and anecdotes about Middle East finance, and about life growing up in Lebanon in the 50s and 60s.

Andrew Cunningham, *Arab Banker's* former Editor, has been given an advance copy.



There was nothing inevitable about George Kanaan developing a career in global finance. He graduated in engineering from the prestigious Bechtel School of Engineering at the American University of Beirut and then studied for a Master's degree in environmental engineering at Carnegie Mellon University in Pittsburgh. It was only after several years working on traffic and transportation projects in the US and Lebanon that George went to Harvard Business School, after which he took a job with Citibank.

Two things stand out from George's descriptions of student life. The first is the cultural richness on offer – concerts, plays, discussions of the latest novels and of controversial articles in the New York Times. Those who know George today can attest that these cultural opportunities fell on fertile ground. As I write this, George and his wife Soulaf are heading for Austria on their annual pilgrimage to the Salzburg Opera Festival. And anyone who has visited George's office in London will have been intrigued by his magnificent book collection.

At Citibank, George held various roles, including running the training centre in Athens, but it is the descriptions of working for Samba (then the Citibank joint venture in Saudi Arabia), in the 1980s, that are among the most fascinating of these memoires. These pages are essential reading for anyone interested in the history and development of Saudi Arabia.

Many of the big personalities with whom George worked with in the Kingdom were people he had met while studying in the US – a group of high-performing Arab students, not only from Lebanon, who went abroad in the 1970s, and led the modernisation and development of the Gulf states during the 1980s, 1990s, and beyond. It was a time when informal relationships and friendships were crucial, and chance meetings with old friends could lead to fabulous opportunities.

After Saudi Arabia, George moved to London to open and manage Samba's office in the UK, which included an asset management arm. The memoires describe George's insistence on knowing his customers' source of wealth – a commonplace today, but not so in 1980s – and his refusal to offer risky products to wealthy clients, even if such products had the potential to bring big profits to the bank.

Again, big personalities stand out. While George was running Samba in London, the bank's CEO in Riyadh was Shaukat Aziz, who later become one of the most senior managers at Citibank, and then prime minister of Pakistan. The two remain close, and Shaukat Aziz gives a ringing

George (left) with his brothers Pierre and Adel, outside the monastery of Deir al-Sheer, near Souq El Gharb

endorsement of these memoires on the book's back cover.

In 1990, George was lured away from Samba to manage – and reorganise – the private financial office of Prince Khalid bin Sultan, the son of Saudi Arabia's immensely powerful defence minister (and future king) and the co-commander, with General Norman Schwarzkopf, of the allied forces during the first Gulf war. For those unfamiliar with the activities and mores of senior Saudi royals, the pages in which George describes his years with the prince offer eye-popping insights. The sums of money involved – as private income, as spur-of-moment investments in real estate developments, or as payments for services rendered – beggar belief.

George went into his work for the prince with his eyes wide open – it took the prince's advisors many months to persuade him to accept the job. Even so, after four years the relationship soured, in part because the prince fell from grace within the Saudi royal family. After crossing certain members of the Saudi royal family, even more senior than him, Prince Khalid lost influence and was effectively side-lined. His relationship with George deteriorated at this time, and there was a lot of unpleasantness, with George being harassed by representatives apparently working for the prince.

In the memoires, George is philosophical about his time with Prince Khalid. Although it ended badly, and with many months of stress, it gave him an insight into how the upper levels of power in the Kingdom really operate behind the scenes. Even after a rigorous review by the publisher's lawyers, the passages in which George describes his work at this time are extraordinary!

In 2009 George took the role that most of us now know him for – CEO of the Arab Bankers Association. The Association had been in the doldrums for several years and needed new blood and an infusion of energy. Within a few years, the Association was again financially stable, and was holding frequent events for members and their guests. Of particular note George re-instated the Annual Gala Dinner, which now includes an award to a leading Middle East banker, for 'Services to Arab Banking'. Recipients have included Raymond Audi, Naaman Azheri, Adel Labban and Nemeh Sabbagh. George would be the first to recognise Soulaf's contribution to the success of the Association's social events.

Through descriptions of George's early life, Beyond Lebanon's Peaks provides poignant descriptions of George's, home country, and in particular of his hometown of Souq El Gharb, in the innocent years before the start of the Lebanese civil war.

There is much in this book to attract anyone with an interest in the Middle East, and even those who think they know George Kanaan well will discover new details of his life and career.

Beyond Lebanon's Peaks will be published in the UK by Nomad in November. ■

George receiving his high school graduation certificate in June 1963.

Re-engaging face-to-face with our members

The Association held six events in the first half of the year

During the Covid lockdowns we used video conferences and emails to keep in contact with our members but, as we all know, those are no substitute for in person events where everyone can mingle, exchange opinions and catch up with news.

We were disappointed, but not surprised, that we could not hold our annual gala, for the second year in a row, in October 2021. Cancelling our Christmas party was a bigger blow. We really thought that large gatherings would be possible by December, but it was not to be.

However, with increased confidence that the virulence of the epidemic was reducing, we re-launched our in-person events in April with an Iftar dinner at Noura restaurant in Mayfair. It was a wonderful occasion, with nearly 100 members and their guests.

We then moved swiftly to re-launch our technical seminars. During the spring and early summer, we held events on ESG, Sanctions, and the London real estate market. On 19 May, we were particularly pleased to be able to welcome the Egyptian Minister of Finance, H.E. Dr. Mohamed Maait and a high-level Egyptian delegation for a seminar on Egyptian banking and finance. All of these seminars were followed by a buffet dinner, during which participants could mix informally with the speakers and each other.

We finished the first part of the year with our summer party, a relatively new event, but one which is now firmly established in our calendar of events.

The Association's financial position remained strong during the Covid pandemic, and it remains strong today, with our corporate membership at near record levels. In last year's magazine, we confirmed that we had not made any members of our staff redundant during the pandemic, nor had we put anyone on furlough, and that remains true today. We continue to work out of our offices at the Arab British Chamber of Commerce Building in London's West End.

Our website, which was re-launched early in 2021 continues to attract readers, and to act as a platform from which to advertise our events and keep members informed about developments in regional and global finance which may be of interest to them. We continue to publish a regular listing, curated by Pamela Smith, of Middle East-related cultural events in London.

This edition of *Arab Banker* magazine is the tenth since its relaunch in 2013. All editions of the magazine have been published on time, at the end of September, even during the pandemic, and each has generated a small profit for the Association, except for the first edition, which covered its costs.

Earlier this year, Andrew Cunningham relinquished his role as Editor of the magazine, handing it over to James Drummond. Andrew remains the Association's Editor in Chief.

The Arab Bankers Association is led by George Kanaan, our Chief Executive Officer. George is 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. ■

Hanan AlMasood

Andrew Cunningham

Talar Joulhajian

Gabriella Sidoli

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 2022, 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.

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. Rajeev holds a Bachelor of Commerce (B.Com) and a Master of Business Administration (MBA) and is a Fellow of the Australian Society of Certified Practicing Accountants (FCPA).

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 and has received two Law Firm of the Year Awards in the last 12 months. Vivien is the head of the MENA Group at Fieldfisher and an Arabic speaker. Fieldfisher is also registered in the DIFC. During her career she 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 Andresen 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. In 2005, he obtained the Advanced Management Programme Diploma from INSEAD Business School.

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. Ralph graduated from Paris IX with a master's degree in Economics and a Master's degree in Finance and Asset Management.

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 the London manager for Bank 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 Blom Bank France and was among the first staff to be involved in setting up the London branch that was, and continues to be, focussed on providing private banking services, property finance and documentary credits. With over 30 years in the U.K., Amr has developed an in-depth knowledge of the financial system and he has established links with many corporations and individuals seeking banking services in London.

Social events resume with our Iftar celebration

The ending of Covid restrictions in the UK enabled us to hold our first social event in two years.

L–R Rajeev Adrian, Bank-ABC; George Kanaan; Zeeshan Iqbal, Riyad Bank

We held our Iftar party at Noura, the Lebanese restaurant in London's Mayfair on 7 April. More than 80 members and their guests attended.

An Iftar is the meal that Muslims eat at sunset, during the month of Ramadan. Before the covid pandemic, an Iftar party was one of the social events that the ABA would hold every year. We were delighted to be able to resume the tradition this year.

The event took place under the generous sponsorship of Qatar Islamic Bank (UK) and Bank of London and the Middle East. ■

Abdulaziz al-Khereiji and Mrs Khereiji

The team from Bank of London and the Middle East

The National Bank of Kuwait table

ESG as an opportunity to grasp, not a challenge to fear

Our speakers provided detailed updates on their work on ESG issues

We held a seminar on ESG issues for banks on 10 May. Vijay Singh and Irina Velkova, from Grant Thornton, explained recent regulatory initiatives on ESG both in the UK and overseas and offered suggestions for how banks should respond positively to the new requirements. Mirosav Maly, from the European Bank for Reconstruction and Development, not only described how his bank is structuring environmentally friendly projects, but he gave a specific example of the financing programme that he and his team are arranging for National Bank of Egypt. Stuart Sinclair, who at that time was an independent director of Lloyds Bank, made recommendations on key governance issues that boards should address, based on his own experience both as a director and as a CEO.

The panelists were introduced by Simon Hills, the Director of Prudential Policy at UK Finance, who also moderated the discussions.

After the question-and-answer session, participants enjoyed a buffet dinner.

The event took place under the generous sponsorship of Grant Thornton and Riyad Bank. ■


Irena Velkova, Grant Thornton


Carel van Randwyck, Themis; and Veronika Spacapan, EBRD


Sacha Exposito, Riyad Bank


Simon Hills, UK Finance


Stuart Sinclair


Mona Mroue, Banna Akkad and Christopher Finan, all from BNY Mellon


Todd Wilcox, HSBC; and Rami Abul Naga, Central Bank of Egypt


H.E. Dr. Mohamed Maait, Minister of Finance


Karim Helal, Carbon Holdings


The team from Unibin Group


Hani Kablawi, BNY Mellon

Banking and Finance in Egypt – integrating the ESG agenda

Egypt's Minister of Finance led the high-level delegation

On 19 May, we hosted a seminar and reception for the annual British Egyptian Business Association's business mission to the UK, which this year was led by H.E. Dr. Mohamed Maait, the Ministry of Finance.

Joining the minister at the seminar were Rami Abul Naga, a Deputy Governor at the Central Bank of Egypt, Sherif Samy, the Chairman of Commercial International Bank, Karim Helal, the Managing Director of Carbon Holdings, and Todd Wilcox, the CEO of HSBC Egypt.

The seminar, which was followed by a buffet dinner, was generously sponsored by BNY Mellon, whose Managing Director, Hani Kablawi, moderated the discussion.

Much of the discussion focussed on Egypt's presidency of the COP27 conference in November 2022, and steps which Egypt's banks and other financial institutions are taking to address climate change risks and opportunities. ■

Henry Williams, Themis

The shifting sands of sanctions and sanctions compliance

Expert speakers updated members on latest developments

This seminar was held on 14 June and focussed on the sanctions that have been applied to Russia following the invasion of Ukraine, but it also addressed wider issues, including the sanctions that continue to be applied to entities in Syria and Iran.

The seminar was delivered by Vivien Davies, from Fieldfisher, Henry Williams and Carel van Randwyck, of Themis, and Antonio Valente, from Lloyds Bank.

The seminar was particularly topical because, as Vivien Davies explained, the UK was introducing new and stricter regulations the following day.

Henry Williams and Carel van Randwyck demonstrated one of Themis's digital tools which tracks sanctioned entities and individuals, and companies and people who are informally linked to them.

Antonio Valente outlined how his bank addresses the practical issues of sanctions compliance and led an interesting discussion on the respective roles of the business line and the compliance function.

The seminar and discussion was followed by a buffet dinner that enabled speakers and participants to mingle informally. The event was made possible through generous sponsorship from Fieldfisher and Themis ■

George Kanaan; Vivien Davies, Fieldfisher;
James Drummond, Editor, Arab Banker

Antonio Valente, Lloyds Bank

Meng Barnie, Banorient; and
Nora Amin, then of National Bank of Egypt (UK)

Prime London property in a changing world

Our annual real estate seminar heard optimistic views on the prospects for London prime real estate

Our annual seminar on real estate is one of our flagship events, attracting around a hundred participants, many of whom have considerable experience of investing in London, and global, property.

Liam Bailey, from Knight Frank, began the seminar with the broad view and the attention to detail which we have come to expect. In particular, he noted the increased demand that is arising because investors have begun travelling again as the Covid pandemic recedes. Bassam Khazen, from National Bank of Kuwait (International) commented on how investors have been adjusting their financing structures as the market revives, and Matt O'Brien, from Towers & Hamlins, considered the implications of the Register of Overseas Entities which the UK government is introducing in order to increase transparency of ownership in the UK property market. Finally, Richard Luffingham presented The Whiteley, a major new real estate development in London's Bayswater, on the site of the old Whiteley's shopping centre.

The presentations were followed by a spirited discussion, and then by a buffet dinner.

The event was made possible through generous sponsorship by National Bank of Kuwait (International), Towers & Hamlins, and The Whiteley. ■


Richard Luffingham, Finchatton


Faisal Kudsi, George Kanaan, Bahaeddine Bassatne, Ghyath Armanazi


Katharine Abou Diwan, Marsh


Maisam Fazal, AlRayan Bank


Neel Bose, FTI Consulting; Melissa Hancock, AGBI; Soulaf Kanaan; Anis Ahsan, Habib Bank UK.


Magali Chartouni, HSBC; Sherif Atef, HSBC; Nadeem Yaghnam, QIB UK

Summer party at Battersea Power Station

We were delighted to re-instate our summer party this year.

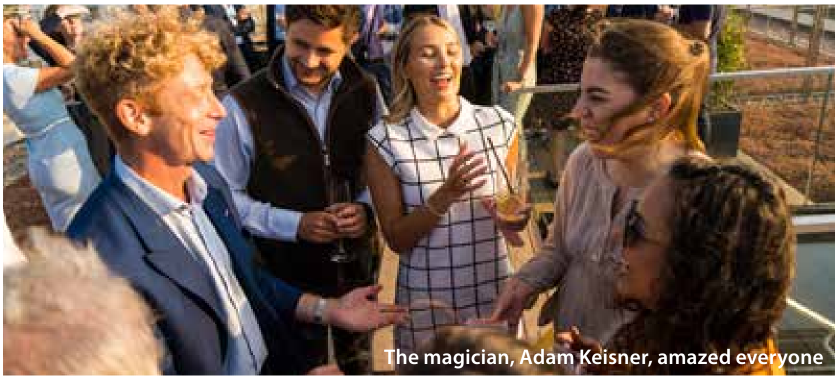
Our summer party is a fairly new initiative – we held our first in 2018 – but it is already a firm favourite with our members. This year, we were hosted and generously sponsored by Battersea Power Station Development Company, and we held the party in one of the development's stunning apartments, with spectacular views over London.

A jazz band entertained guests with mellow tunes, and two magicians astounded them with card tricks.

We can't wait for the Christmas party!


Yasser Hassan, National Bank of Egypt (UK); and Ayda Habboush, Trowers & Hamlins


Yasser Ibrahim, Arab National Bank


The magician, Adam Keisner, amazed everyone


Bibi Kantharia, Olivia Peagam and Mariam AlMasood, all from Battersea Power Station Development Company


Andrew Cunningham, Arab Bankers Association; and Ashley Jackson, Belleveue Mortlakes


The view was magnificent

Al Farabi Concerto: introducing new classical music from the Arab world

Kareem Roustom (Syria) at the BBC Proms

Al Farabi Concerto supports the careers of young Arab composers of classical music and enables Western audiences to hear at first hand the artistic contribution of the Middle East.

Since 2007, Al Farabi Concerto has organised 56 premières of original classical music in London's major concert halls by composers from Egypt, Jordan, Kuwait, Lebanon, Morocco, Palestine and Syria. Performances have featured the most acclaimed musicians including the English Chamber Orchestra, the London Sinfonietta, and the conductors Sir Colin Davis and Diego Masson.

Here Oliver Butterworth, the Concerto's founder, tells the story of the pioneering not-for-profit organisation and outlines future plans.

As an orchestral musician of over 30 years, I have taken part in many premières of compositions by composers young and old. However complex new works can be, both to understand and sometimes to play, I know that new music is the essential lifeblood of classical music, opening new paths to creativity for all.

I had always felt an empathy and interest in the Arab world since my student days. In 1968, I had arrived for violin study in Prague (alongside some unwelcome soldiers) to find that I was sharing a flat with a Syrian chemistry student, Bassem El Sayeh. Over the next two years, Bassem showed extreme tolerance with my daily, sometimes excruciating, violin practice. We became lifelong friends, meeting up over the next 30 years whenever Bassem was in the UK.

As a professional musician, I began promoting concerts of new music in London in 2002. At our Turkfest festival of new music, I met a composer who suggested that we should include composers from Arab countries in our concerts.

My wife Julia, a clarinettist, and I began researching Arab classical music activity in 2004 and we discovered immense musical riches across the region. It was not just the excellent conservatoires in Damascus, Beirut, Amman, Palestine and Cairo, the very good symphony orchestras in Egypt, Lebanon, Syria and Jordan, but most importantly composers with great talent and individual voices who deserved to be better known.

In June 2007, we organised our first concert. This took place at Plaisterers' Hall in the City of London and included music by Tarek Ali Hassan of Egypt, Zaid Jabri of Syria, Fouad Fakhouri of Jordan and Waleed Howrani of Lebanon.

All the composers were present at the performance which was introduced by Sir Peter Maxwell Davies, then Master of the Queen's Music, and by Sir James Craig, the former British ambassador to Syria and Saudi Arabia. Following the concert, Sir Peter wrote: "I hope that this is something that will go on for a long time so that we composers can get to know each other and love and respect each other's work."

Later, we decided to name our concerts after al-Farabi, a polymath who was known as the "Second Teacher", Aristotle being the first. Among his many interests, al-Farabi was an expert in music, contributing to notation and inventing several instruments. His book entitled "Kitab al-Musiqa, The Great Book of Music" is world-renowned.

Our aim has always been to present the works of Arab composers performed by acclaimed European orchestras and ensembles, in major venues and in established concert series, and to promote international recognition of what is taking place in Arab countries.

Al Farabi Concerto has become important, not only because it supports the careers of young Arab composers and buttresses the artistic reputations of countries in the region, but also because it enables Western audiences to hear at first hand the artistic contribution that the Middle East can make.

It is wonderful for example to see that Saudi Arabia is now promoting concerts within the Kingdom. This sends a positive signal to those who retain religious reservations about music performance. It is also good to see that, unbeknown to many, the Syrian National Symphony Orchestra has continued its concert schedules through difficult times under its indefatigable and gifted conductor Missak Baghboudarian.

Funding is always a challenge. In our early days, I was fortunate to meet the British businessman Antar Nakshbandi, sadly no longer with us, who became a close friend, and who helped tirelessly in finding sponsorship. Our first instinct in raising funds was to concentrate on British companies who had business interests in the region and this has been successful up to a point. But the major part of sponsorship has come from generous Arab donors from within the region.

Apart from raising funds for individual concerts and projects, we need each year to raise in the region of £20,000 to cover administration costs and overseas research, particularly travel to the region.

Since 2007, we have organised 56 premières in London's major concert halls with music by composers from Egypt, Jordan, Kuwait, Lebanon, Morocco, Palestine, and Syria. These concerts have enjoyed excellent reviews in the national press. The Guardian said: "Al Farabi Concerto is that rare thing – a concert series that really matters."

Musical Opinion wrote: "The Al Farabi Concerto – an initiative to promote the music of Middle Eastern composers

Houtaf Khoury (Lebanon)

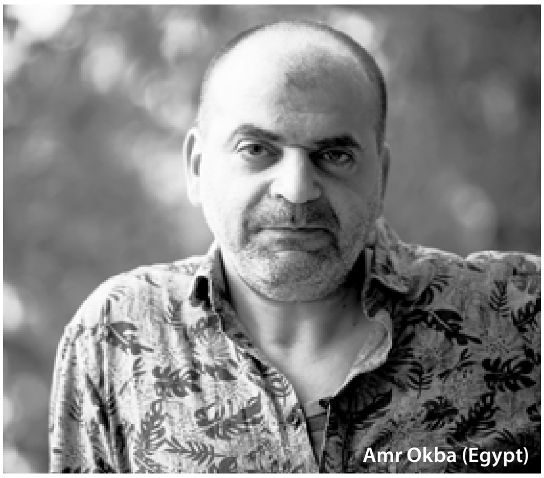
Missak Baghboudarian (conductor of the Syrian National Symphony Orchestra)

Antar Nakshbandi


Nabil Benabdeljalil (Morocco)


Fouad Fakhouri (Jordan)


Zaid Jabri (Syria)


Amr Okba (Egypt)


Ahmed Madkour (Egypt)

Recording Projects

We are currently seeking sponsorship for the first four recordings in this new series:

Duo: violin piano music by Boghos Gelalian, Kareem Roustom, Houtaf Khoury, Amr Okba, Aziz El-Shawan, and Gamal Abdel-Rahim.

Chamber Ensemble 1: various music by Mohamed Saad Basha, Ahmed Essyad, Nouri Iskandar, Ahmed Madkour, and Toufic Succar.

Chamber Ensemble 2: various music by Abdalla El Masri, Iyad Mohammed, Ali Osman, Ramz Sabry Samy, Mohammed Sidiq, and Hassan Taha.

Chamber orchestra music by Zaid Jabri, Solhi Al-Wardi, Youssef Khasho, Rachida Ibrahim, and Nabil Benabdeljalil.

Please note that composers and precise repertoire are still to be confirmed. Detailed budgets will be available for each individual recording and launch.

Please contact Oliver Butterworth by email (info@alfarabiconcerto.co.uk) or telephone (0207 703 7372) if you are interested in supporting this unique project.

We prefer to discuss sponsor's requirements directly with each sponsor, enabling Al Farabi Concerto to create personal and detailed packages which are properly responsive to the sponsor's wishes.

Al Farabi Concerto is a not-for-profit company.

Details about sponsorship and donations can be found at www.alfarabiconcerto.co.uk.

alongside their Western counterparts in London concert venues – [is] a political, peaceful, beautiful and positive initiative, one that has begun to communicate values across cultures."

There are many different genres of music and each country has its own homegrown traditions. But classical music has one distinct advantage over other forms in that it can travel. A composer's new work can be performed anywhere across the world by a different country's musicians simply because the music is notated. This is not to underestimate the immense talent to be found in other music genres. Traditional music is truly inspiring and exciting as are the Arab contributions to more popular genres featuring performers such as Umm Kulthum, Nancy Ajram, Fairuz and Lena Chamamyan.

But great classical music has something more to offer. The reason why people still listen to Mozart, Puccini and Shostakovich is because, whatever the instrumentation or style or the century from which it comes, this great music reflects humanity in all its complexity and resonates with the human heart.

Amongst the many concerts since 2007, some events stand out

A Wigmore Hall concert of Palestinian music by Samir Odeh-Tamimi, Patrick Lama and Mounir Anastas. This was the first time Palestinian music had been played in this revered hall.

A Cadogan Hall concert of Moroccan music by Nabil Benabdeljalil, Ahmed Essyad and Maurice Ohana, at which Princess Lalla Joumala Alaoui was present.

The première of "Cities of Salt", an opera by the Syrian

Cadogan Hall rehearsal of Rachida Ibrahim's 'Music for Ney and Strings' with the Dutch Nieuw Ensemble and Wafaa Safar (Ney)

composer Zaid Jabri at the Royal Opera House, Covent Garden. Zaid's new opera "Southern Crossings" was premièred in June 2022 in New York.

The Queen Elizabeth Hall première of music by Amr Okba, an Egyptian composer, with the London Sinfonietta. Amr has since had performances of his symphonic music recorded by the BBC Symphony Orchestra.

A St John's Smith Square concert featuring Lebanese music by Abdalla El-Masri, Bechara El-Khoury, Houtaf Khoury, Toufic Succar and Bushra El-Turk. This was particularly memorable as all the composers were present to hear their music.

A Cadogan Hall concert featured "Music for Ney and Strings", a work of exceptional beauty by one of the few female composers from the Arab world, Rachida Ibrahim of Kuwait. This was performed by Wafaa Safar playing the ney, accompanied by a string orchestra from Holland.

After 17 years of bringing music by Arab composers to major concert halls of the UK, we feel the time has come to begin a series of new recordings which will be the first internationally distributed series of Arab music performed by acclaimed British musicians. This is in addition to our concert series. As wonderful as concerts can be, they are sometimes quickly forgotten. The new series of recordings will have a more enduring lifespan and a worldwide audience.

Much of the chosen CD repertoire will emanate from discoveries over the last few years of the most talented Arab composers.

The recordings will be distributed worldwide in all suitable formats including Compact Disc and SACD (Super Audio CD) and through download on various international streaming platforms such as Spotify, Idagio, Primephonic, itunes, Qobu and the Arab Anghami.

This first CD will feature the distinguished violinist Simon Smith with pianist James Kirby playing major pieces from Egypt, Lebanon and Syria. The music stretches from Gamal Abdel-Rahim, the Egyptian founder of the first composition school in any Arab state, to the younger Kareem Roustom, who has had significant success at the BBC Proms.

Future recordings will continue the survey across the Arab region through performances of solos to chamber music to orchestral and choral works.

We are very aware of the musical riches that await this exciting project. Let us celebrate the power of music, a power which is greater than international boundaries, which shows us what we have in common and which makes us more sentient human beings. ■

Oliver Butterworth

Oliver Butterworth won the Sterndale-Bennett scholarship to the Royal Academy of Music in 1965, studying with Manoug Parikian, and later continued his studies in Prague with Jaroslav Pekelský.

On his return to London, after freelancing with the London Symphony Orchestra, he joined the English Chamber Orchestra in 1971, working mainly with Benjamin Britten, Raymond Leppard and Daniel Barenboim.

He made his London recital debut in 1979 at the Purcell Room, and in 1981 he was appointed leader of the Dartington Ensemble and Piano Trio, performing regularly at the Queen Elizabeth Hall, Purcell Room and Wigmore Hall, at major festivals across the UK and Europe, and broadcasting for BBC Radio 3.

As a teacher, Oliver was senior lecturer at Dartington College of Arts from 1981 to 1990, and professor of violin and chamber music at Trinity College of Music from 1987 to 2007. From 1990 to 2001 Oliver was also artistic director of the London Schools Symphony Orchestra. As well as teaching violin and chamber music, he has conducted and trained young string orchestras in the UK, South America and the Far East

Since 2005, Oliver has been artistic director of the Al Farabi Concerto concert series bringing performances of new music by young Middle Eastern and North African composers to the major venues in London and in the Middle East.

Oliver was awarded an ARAM from the Royal Academy of Music in 2002.

Balancing Environmental, Social, and Governance Goals. What Banks and Companies Can Do on ESG and Sustainability

Walid R. Alameddin

139 pages. Archway Publishing. £9.95 paperback

Middle Eastern banks may look on the trinity of environmental, social and governance standards with a mixture of suspicion and unease. After all, many institutions are based in countries which are hydrocarbon exporters (bad), reliant on water desalination (also bad), or are poor (not great) – in some cases a combination of all three. The ESG agenda can seem like an exercise in forcing businesses to right all of societies' ills while at the same time imposing more consultants, bearing rich country standards, on hard-pressed profit-making entities.

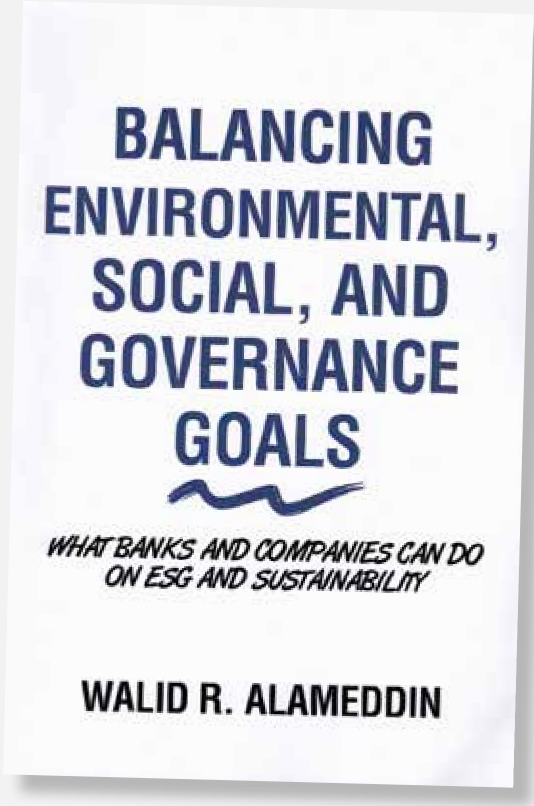
That suspicion is not helped by the fact that there are no generally accepted common standards for ESG reporting and measurement. The three pillars are separate and, where reporting standards exist, they are at an early stage of development. None has gained overall acceptance.

But the rise of the responsible investor and the goal of carbon neutrality by 2050 mean that bankers in the Middle East cannot escape the ESG agenda. Governments must submit nationally determined contributions (NDCs) to explain how they will share in achieving the goals set out in the Paris agreement of 2015. The NDCs consist of two parts: in the first, governments must explain how they will limit greenhouse gases and, in the second, they must demonstrate resilience to rising temperatures. In doing so, they are likely to put pressure on banks as a critical mechanism in monitoring and controlling behaviours. This stuff is not going away.

Some larger institutions with subsidiaries in Western financial centres will already know that regulators in London, Brussels and New York are serious in forcing banks to comply with ESG agendas. Multilateral lenders such as the International Finance Corporation and the European Bank for Reconstruction and Development are stringent in imposing standards on joint venture partners.

This book is a useful and timely handbook for the uninitiated and the reluctant. It serves as a primer for banks and corporations which are facing up to ESG responsibilities for the first time and a glossary for those unfamiliar with the language of ESG. There are discussions on carbon capture and on the Paris Agreement on climate change. There are chapters on the metrics for measurement of greenhouse gas emissions, and how banks can measure their own carbon footprints.

The fact that these messages come from a familiar figure in the person of Walid Alameddin, a former banker with Citibank and a long-standing consultant in the region, helps greatly. Mr Alameddin successfully led Lebanon's Banking Control Commission in the 1990s and so is attuned to the need for banks to be strong and profitable – his perspective is not one of an out-of-touch academic. The book is not however aimed specifically at the Arab world or Middle East



but rather at emerging economies generally.

Mr Alameddin's consultancy surveyed 701 banks in 41 emerging economies in 2020 and 2021 and found that only 32% did any ESG reporting – and some was perfunctory at best. Those institutions which did report tended to be larger. However, many of the 68% which did not comply were planning to do more ESG reporting.

The author argues that banks in emerging markets have a crucial role to play because their technological and human resources are often the most sophisticated in the countries in which they operate. He preaches the virtues of first gathering information, then benchmarking and measuring.

He leans on the Dasgupta report, a review on biodiversity published in 2021, on Morgan Stanley's Plastic Waste Resolution, and the EU's water exploitation index. He introduces concepts new to this reader such as blue bonds and desalination bonds, debt linked specifically to funding sustainable water projects.

The Middle East has not been negligent in meeting and discovering green finance. In 2020, Saudi Electricity and Qatar National Bank issued green bonds, which must go to fund sustainable projects. And in Egypt, Commercial International Bank followed in 2021.

In the UAE, the MAF Group has made a commitment to be carbon neutral by 2040, according to the book, while Abu Dhabi is teaming up with Abengoa of Spain to build the world's largest solar powered desalination plant.

Above all, Mr Alameddin recommends a balanced approach. He reminds readers that the Basel committee believes that what is expected of a bank or financial institution should be proportionate, and commensurate with its size. The largest Middle Eastern banks fall into a medium-sized segment so reporting should not be so onerous.

There is the odd typo and one glaring repetition in this book. But the book is useful. Better to come to terms and to understand the obligations of the ESG programme now rather than panic when forced to comply. ■

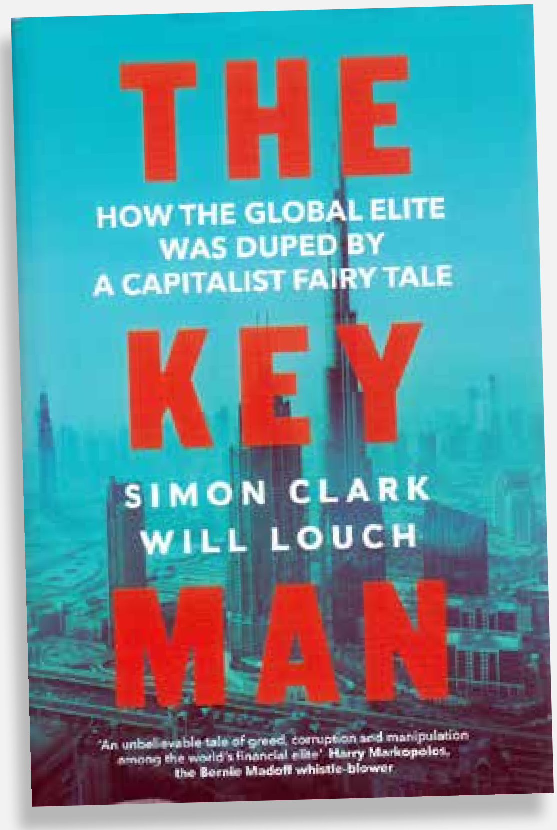
James Drummond

The Key Man

Simon Clark and Will Louch

336 pages. Penguin Business. £20 hardback.

The rise and fall of Arif Naqvi, the now-disgraced founder of Abraaj Capital, is a story which readers of Arab Banker should study and inwardly digest. This engrossing book tells the story of a charismatic, domineering chief executive officer who succeeded in gulling some of the most respected names in global finance: assorted US pension funds and their advisers, the Gates Foundation, the Vatican, Opic of the US, CDC of the UK and Proparco of France, among them. He seduced esteemed university professors, journalists who should have known better, and experienced operators in his own chosen field of private equity. He was a regular at the World Economic Forum in Davos.



His pitch was "impact investing". He claimed that Abraaj could find gold in awkward emerging markets where others could not through direct investment in businesses from retail to consumer goods to medical testing to power plants. In his peak years after the 2007-2008 sub-prime crash, Naqvi would claim that the real corruption in the world financial system was in Wall Street and the City of London. He suggested that concerns over governance in developing countries were misplaced. Emerging markets should be viewed as global growth markets, to say otherwise was condescending and even racist.

There is significant Middle Eastern involvement in this tale. Abraaj was headquartered in Dubai even if most of its operations were domiciled in the Cayman Islands; Naqvi was a brilliant networker and caught high net worth investors from the Gulf in his web. Among his senior lieutenants were many impressive, go-getting Middle Eastern accountants, venture capitalists and would-be entrepreneurs. Some stood up to him, others did not. Some realised that their inflated pay packets were based on false assumptions and quit, others did not. His fraud – and the fraud of those who stayed with him – diminishes the wider region.

This book joins others in its field such as *Billion Dollar Whale*, which charted the IMDB scandal in which Gulf investors also featured. Both tales have uncomfortable associations with the collapse of Bank of Credit and Commerce International.

It could nearly have been so different. Early strokes of good luck certainly helped. And what looked like a highly speculative investment in Karachi Electric, the utility which provides power to Pakistan's commercial capital, nearly turned out for the best for Abraaj.

Sustained efforts by Abraaj in adverse circumstances to reform the utility, a proposition which had defeated even the Pakistani army, were admirable in their persistence. If Naqvi and his lieutenants had succeeded in disposing of Karachi Electric to the Chinese and realising cash at a critical time it may be that Abraaj would still be with us.

Instead, Abraaj was brought down by Naqvi's lifestyle and enormous vanity but also bad investments in a humdrum milk business in Turkey and an ice-cream venture in Ghana.

What then are the lessons to be learned? How to tell the difference between a highly successful growth business and a Ponzi scheme like Naqvi's? Both often need powerful personalities at the top to succeed.

First, if it seems too good to be true then it probably is. Abraaj's excesses were suspected over a decade before Naqvi's arrest at Heathrow in April 2019. Why was Abraaj ostensibly able to make money where others failed? Volatile exchange rates make for huge volatility in returns.

Second, treat unvalidated reports with due scepticism. With the stroke of a pen, Naqvi boosted internal valuations to claim profits where they did not exist. He was able to borrow millions of the back of such bluster.

Third, if you invest, make sure that your funds are put to their proper use promptly. Ensure that profits and asset realisations are returned in a timely fashion. Abraaj categorised investors by those who were likely to kick up a fuss when they realised that their money was not being returned to them on time and those who did not bother to ask where their money was.

Fourth, ask where the supervisory function is. Abraaj was a partnership. Naqvi was a bully. There was no chairman, there was no audit committee and no remuneration committee to control him internally.

And five, for regulators, ensure there is an outlet for whistle-blowers. Disgruntled former employees may seek to abuse or slander their old bosses but regulators should be able to cope with that. It was a whistle-blower who contacted the authors of this tale and it was a whistle-blower who brought down Bernie Madoff.

The authors are current and former correspondents of the Wall Street Journal. In detailing Naqvi's excesses, they keep an eye on the inhabitants of the poorer countries which he claimed to be helping, noting the costs of Naqvi's private jet travel and luxury hotel stays and detailing how long the average inhabitant would have to work in order to afford something similar. There is the odd sign that they had to write this book at speed and it could do with a dramatis personae and a photo or two but it is very readable and informative. Highly recommended. ■

J.D.