

Banker

MIDDLE EAST

PLUS:

- 17 **OUT OF TOUCH?**
Contactless payment technology
- 23 **BOARD'S TIFF**
New governance codes
- 36 **BACK FROM THE HEDGE**
IOSCO looks at hedge fund risk data
- 41 **BLUNT TOOLS**
Risky business at UAE banks

A VISION FULFILLED

Abdel Hamid Shoman, Executive Chairman of Arab Bank



Dubai Technology and Media Free Zone Authority

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A vision fulfilled

With an unmatched network spanning five continents and with over 500 branches offering everything from current and savings accounts to Islamic structured financing and private banking products, Arab Bank is one of the most prominent banks in the Middle East. **Abdel Hamid Shoman**, the Executive Chairman of Arab Bank, tells Mike Gallagher about kick starting loan syndications, Islamic structured finance and new opportunities in trade finance



Founded in 1930 by Abdul Hameed Shoman and seven investors, Arab Bank is now headquartered in Amman, Jordan, and constitutes the first private sector financial institution in the Arab World.

In 2009, Arab Bank Group achieved a pre-tax profit of \$782.8 million; total assets reached \$50.6 billion, while shareholders' equity equaled to \$8.1 billion.

Arab Bank has an unmatched global Arab branch network with more than 500 branches spanning five continents. The group enjoys prominent positions in key financial markets and centres such as London, New York, Dubai, Singapore, Zurich, Paris, Frankfurt, Sydney and Bahrain.

Abdel Hamid Shoman is the Executive Chairman of Arab Bank. He was Chairman/Chief Executive Officer of Arab Bank since 2005. He is also Chairman of the Board of Directors of AB Capital, Chairman of the Supervisory

Board of AB Invest, Deputy Chairman of the Board of Directors of Oman Arab Bank - Oman and Member of the Upper House of the Jordanian Parliament since November 2005. Shoman is also the Chairman of Europe Arab Bank and Arab Bank Switzerland Ltd.

Arab Bank's Board of Directors is composed of 11 members elected for a period of four years by the General Assembly. Members possess a wide range of skills and expertise, enabling them to present valuable contributions. The Board meets at least six times a year and has set out an agenda for each meeting.

Which country, apart from Saudi Arabia, has the greatest untapped market for banks in the Middle East and why?

Each country has its own potential in the region; it is a matter of realising that, exploring it, and using it to the fullest, whether it is untapped or not.

To illustrate, Saudi Arabia is the largest economy in the region whose rising per capita income and wealth interact strongly with its rapid population dynamics to create thriving demand for housing, water and energy, health and education among others. However, the Kingdom has some of the largest banks in the region with adequate credit supplies and resources to meet ensuing demands.

But in other countries in the region local economies are nascent and are emerging with equally dynamic populations and resource potentials which have been untapped, side by side with less adequate supplies of banking products than in Saudi Arabia. Hence, these economies are also likely to be quite attractive for the banking business.

Surely demand and supply forces and balances matter a lot, but existing physical and human capital infrastructures, risk and overall investment climate, as well as the overall economic environment are some of the additional factors that help decide future business and banking opportunities.

Islamic structured financing: Where is most of the interest coming from and for what?

The interest that we are witnessing is a result of customers' demands to invest their money in Shari'ah-compliant instruments. Some investors have found Islamic banking to be a more flexible and less regulated environment to perform their banking activities.

The ongoing efforts to standardise Islamic banking practices and the regulatory focus on monitoring the activities of these banks especially during and after the recent financial crises would result in placing more restrictions on these banks and end up narrowing the gap between the performance of these banks and the conventional banks. The recent question marks raised on the Sukuk could also add to the pressures on some of the Islamic products.

Additionally we saw a strong trend of conventional banks offering Islamic products either through Islamic windows or by providing tailor-made Shari'ah acceptable products to their customers. We have Islamic windows in the United Arab Emirates and Qatar. This trend will continue to grow.

An increasing number of budget airlines have sprung up in the Middle East. Is aircraft financing likely to see greater competition amongst regional banks in 2010?

Aircraft financing is not expected to see any increased activity as the discount or budget airlines have encountered problems in arranging financing due to global economic downturn.

In 2010, regional banks are expected to cautiously

monitor the growth trend in budget airlines and the related financing opportunities by taking into consideration the current economic situation, airlines targets as well as niche markets and segments, the general perception and the confidence of the banking industry towards the aviation sector, the growth trends, and the overall operating regime of these airlines, particularly their safety standards and measures and more importantly the stability and strength of their cash flows.

In short, although the Middle East offers great potential for these discount and budget airlines to expand throughout the region, their growth in 2010 will be hampered by the economic realities and more importantly by the overall conservative stance of the regional banks.

Is trade finance seeing signs of a revival? Which areas of trade finance has Arab Bank been active in?

With the global economic crisis impacting overall trade volumes internationally, there has been a natural consequence of drops in trade flows not only due to contracting economies, but also due to a general reduction in credit appetite. From a corporate appetite perspective, companies have been seen to be reverting to traditional trade finance tools to better manage trade related risks. As a result, we are indeed witnessing a revival of the traditional trade finance business.

Arab Bank has long been active in trade finance. Our regional niche as a leading bank in the MENA region allows us to benefit from both sides of the export - import chain. Within MENA we see a diverse array of exporters and importers. We have been there to support our customers no matter where they are located on the supply chain. As a result, we continue to work consistently with our customers to ensure a sustainable business model with our customers, especially in the arena of trade finance.

The culture of continuity has been cultivated since the inception of the bank, and continues today. It has served the bank well, ensuring that Arab Bank continues to maintain its role as a leading provider of banking facilities in its niche markets.

In times of crisis, this policy has allowed it to weather the storm with the least amount of impact on its overall balance sheet, and equally important, on its ability to maintain support to its customer base. This is especially relevant to customers with import/export business requirements allowing minimal interruption to customer needs. Our financial strength is key to ensuring that customers maintain a stable banking relationship and a partner through any economic climate.



Arab Bank offers hybrid treasury services. Is it seeing much demand in this area of hybrid products or do people prefer to stick to plain vanilla?

The demand for hybrid or structured products has always been strongly linked to economic growth. Since the end of 2008 when the global economic slowdown really took hold, we have indeed seen a fall in demand for structured products and complex hedging solutions from corporate customers. We remain committed however to continue to offer these products and services, as we wish to remain well positioned to support our corporate customers' needs as soon as the economy begins to grow. Things look rather different on our consumer banking side. Here we see continued demand for structured products, as our customers continue to look for high quality investment products with a good yield in a low interest rate environment.

Trade finance: has Arab Bank seen much of a resurgence in the Letters of Guarantees / SBLCs area?

Following the economic crisis, companies are seeking opportunities beyond their own borders and beyond the traditional targets previously considered lucrative. Operating within a dynamic and diverse region such as MENA allows us to benefit directly from these variances and shifts in focus. Countries in the MENA region are now being explored as new opportunities for expansion and as a result we are seeing new opportunities in development projects across the area. This is reflected in the expansion of the LG and SBLC business flow.

Everyone talks about having a competitive distribution network. What makes a distribution network truly competitive?

A competitive distribution network entails presence in key locations that facilitate transactions and provide convenience to customers. The Arab Bank group has over 500 branches that span five continents (Asia, Africa, Europe, North America and Australia).

However, these are not the only factors that define a competitive distribution network. Service is a key factor, and what I mean by service is accessibility, the speed, the accuracy and the offering.

The success of any business is to stay up to date to the needs and business developments of its customers. Any

approach that is not dynamic to such requirements is doomed to fail. We recognise this, and accordingly, drive our internal development plans to ensure alignment with external developments, innovations and most importantly, customer demands and expectations.

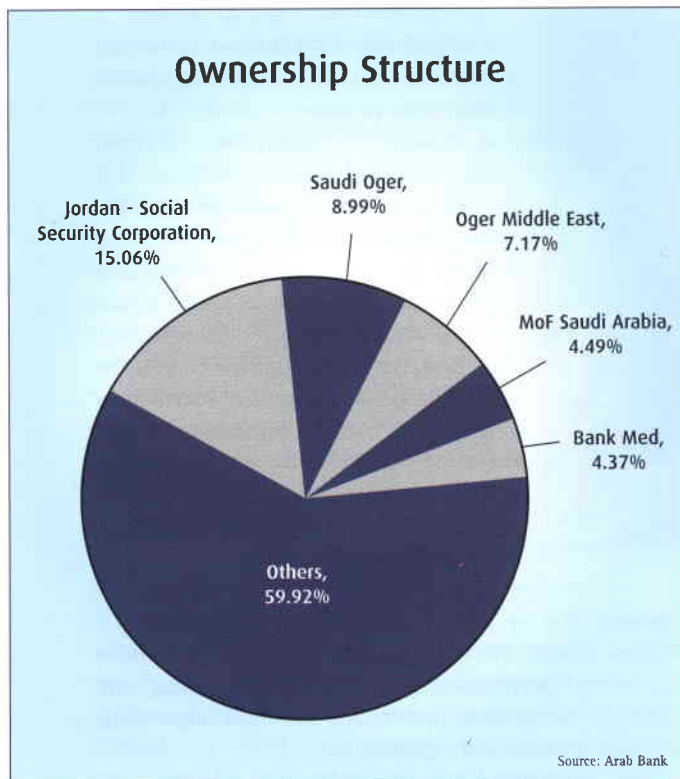
The bank's distribution channels must be in line with such considerations. Whether it means the traditional branch channel or more innovative electronic solutions, Arab Bank is a leader in such solutions. Customers demand efficiency and in order to deliver this, advanced platforms with direct connectivity to systems that allow them to track their transaction banking is a must. As a result, Arab Bank treats the advancement of the efficiency of its delivery channels as a priority.

What are Arab Bank's views on bancassurance in the Middle East? Is it a neglected product? Has it really taken off in the region?

Bancassurance services have become a standard service offered by banks in the developed Arab markets. The bancassurance benefits for the bank are by increasing the range of services offered to the customers through the offering of long term saving products, increased customer loyalty and an increase the non-funded income of the bank. Banks can offer bancassurance services by entering into distribution agreements with insurance companies, establishing joint venture companies or setting up insurance subsidiaries.

Bancassurance is an important component for the future growth of financial services. To provide our

Ownership Structure



customers with a complete line of services, we have been concentrating our efforts on creating the Bancassurance Management and have recruited the necessary talent.

Arab Bank currently has two bancassurance operations in Jordan and Egypt. In Jordan, Arab Bank has acquired a majority interest in Al Nisr Al Arabi, whereas in Egypt, the bank entered into a distribution agreement with Allianz Egypt. The products offered are pension, education and wedding saving plans as well as life insurance products.

The bank is looking into the opportunity of expanding the services across other markets.

How have the Arabi Online and SMS Banking offerings been taken up?

With the latest introduction of the enhanced version of our Internet Banking service, almost 100 per cent of the old platform's most active users were successfully migrated to the new service, 75 per cent of the inactive / dormant registered base were reactivated through focused and direct communication activities and are now active users of the new service.

Active service users grew by more than 40 per cent in the first four months of launching the new service and are

continuing to grow at a rapid pace with the introduction of self registration and a multi-lingual rich proposition.

SMS banking customers grew by 50 per cent in 2009.

Is SMS/ internet banking becoming the most powerful retail selling medium or do people still prefer to talk face to face at bank branches?

Face-to-face is still quite popular in the MENA culture; however internet banking and other banking channels are emerging more and more and are proving to be an important means of accessibility and service to customers. It is more convenient in terms of availability (24 hours, 7 days a week) and is more efficient. However, branches are an important factor as well and they allow us to get to know our customers on a more personal basis.

What was behind the decision to outsource the back office operation to Dubai Outsource Zone?

In the Middle East, Dubai has a lead over other destinations in terms of infrastructure and talent availability. Keeping this in mind, it was decided to build an operations hub in Dubai. Arab Company for Shared Services commenced Arab Bank's back-office operations to cater to the GCC (Gulf Cooperation Council) and Yemen for all of our core back-office functions.

Dubai had already created an outsource zone with all the features required to perform back office functions and the senior management of Arab Bank thought it prudent to have a back-office processing company in DOZ to cater to the bank's needs in the GCC and Yemen. Other leading banks had already drawn up plans/were in stages of implementation of back office processing similar to Arab Bank's strategy.

Arab Bank provides access to Export Credit Agency-backed (ECA) facilities. Which ECAs does it deal with?

Arab Bank as well as Europe Arab Bank have been working with all the active ECAs and ECA facilities and have been part and parcel of all project financings for the last few years. We have worked mainly with JBIC, Hermes, Coface, SACE, KEXIM, KEIC and EXIM Bank.

Where does Arab Bank think the most interesting project finance action will take in the Middle East?

In the past and in the near term (one to three years), the main project finance (PF) activity will be in the GCC Region. Other ME regions such as the Levant and parts of North Africa (such as Egypt) will see some activity, but the bulk of the activity will be in the GCC. Within the GCC region, Saudi Arabia will be the most active country with a very strong

deal flow mainly in the infrastructure space. After Saudi Arabia, the UAE will be the next most active country followed by Qatar, Oman, Bahrain and Kuwait. In terms of sectors, energy (power), water (both desalination and waste water treatment) will be the two most active sectors followed by Oil & Gas and Transportation.

Also, most of the PF activity will use PPP (private public partnership) platforms, as the bulk of the projects will be infrastructure projects.

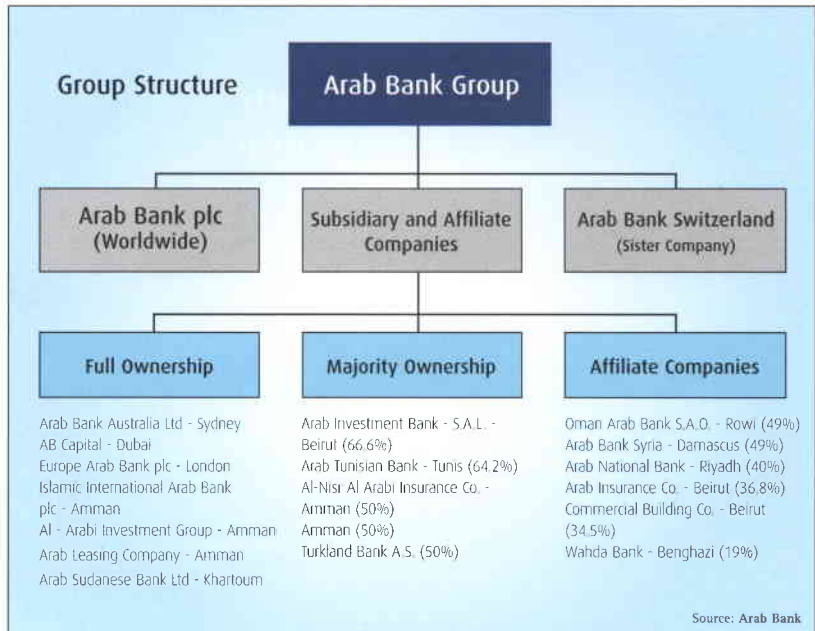
How has the loan syndications business in the Middle East changed since the downturn and how is it likely to evolve in 2010? What lessons have been learned?

Since the economic downturn, loan syndications completely disappeared with most transactions being undertaken on a 'club basis.' Going forward there is no potential for an active syndications market at least in 2010 and perhaps 2011 as well.

The primary reason is that there is no appetite for underwriting large amounts with subsequent sell downs in the syndications market. All the activity is being done at the initial / primary stage on a club basis where banks are participating at their final hold levels.

The main lesson from the banks perspective is that in the past no serious effort was made on the segmentation of the overall financing market (especially for project finance borrowing) vis-à-vis size and tenor bands to create an enabling environment inclusive of the entire segment of the bank market from small to large banks, Islamic financial institutions (IFIs) to conventional banks and other potential debt providers.

To kick start the syndication activity, some form of meaningful market segmentation is required in terms of size (tranches) and tenors. ■



Arab Bank

Name
Abdel Hamid Shoman

Position
Chairman

Country
Jordan

Ownership Type
Public Shareholding

Company Type
Joint Stock

Sector
Financial Services

Industry
Banking
Commercial Banking
Asset Management
Investment Banking
Investment Advisory Services
Securities Brokers and Traders

Principal Activities: Provides commercial banking services including deposits, loans and credit cards; retail banking services, investment banking services including investment advisory; brokerage; asset management services including fund, portfolio and wealth management.

Date of Establishment
1930

Representative Offices
China South Korea

ARAB BANK

zawya
Information that moves your business