

**DRIVEN** by a conviction about the huge potential for equipment leasing in the GCC, Bahrain-based First Leasing Bank (FLB) is gearing up to further entrench itself in the region through setting up operations in the UAE by early next year, with Qatar and Oman to follow suit.

"We are seriously looking at plans to establish a presence either in Dubai or Abu Dhabi early next year, as well as in Qatar, where we are in active discussions with Qatar Financial Centre (QFC). In Oman, we are currently in a dialogue with a local leasing company," says Jassim Awadh, who joined FLB in May this year as business development director, bringing with him years of experience in the region's banking sector. Awadh is charged with the responsibility of pursuing the bank's aggressive expansion strategy.

The UAE accounts for about half of FLB's current portfolio, with 30 per cent of the company's leases written for Kuwait and the remaining for Bahrain.

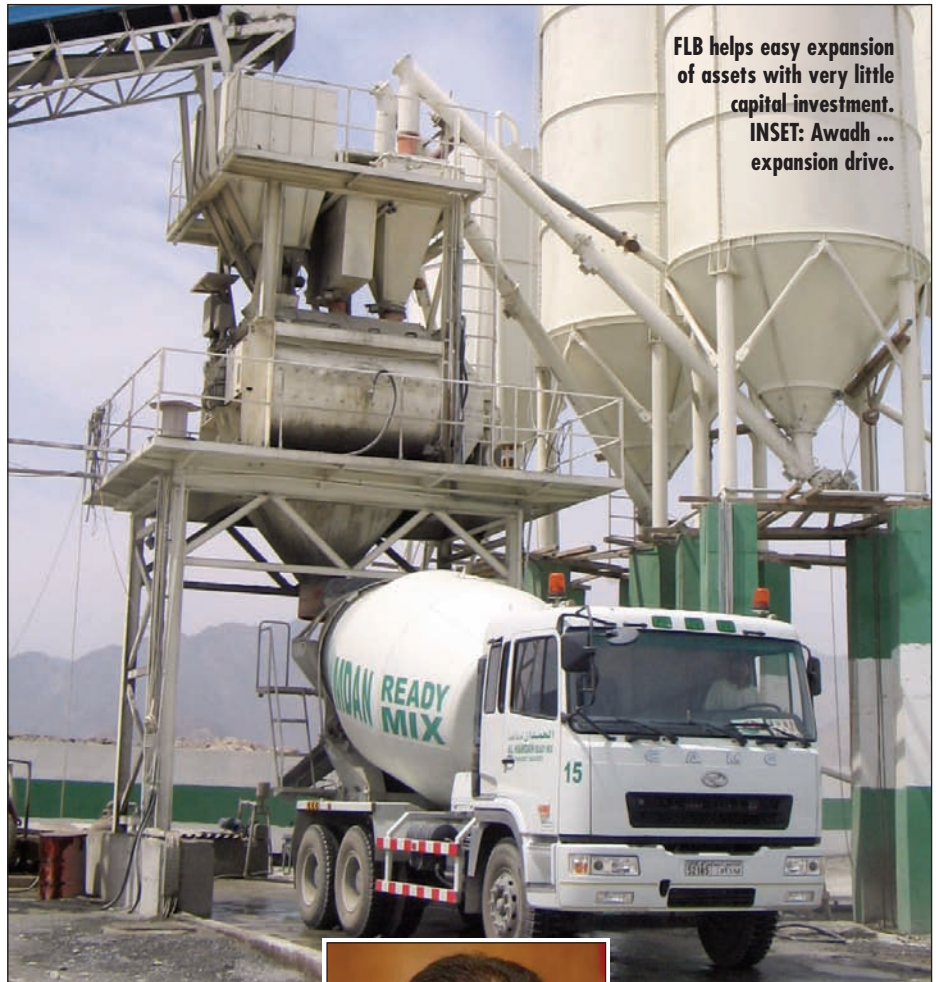
New capital brought in when the company recently completed a private placement – drawing in \$89 million and taking its paid-up capital to \$100 million – has provided a considerable impetus to the bank's drive to take the FLB flag even further. Launched in October 2004 with a capital of \$10 million as the first bank dedicated solely to equipment leasing in the GCC, FLB was recapitalised in December last year. The move also increased its authorised capital from \$100 million to \$300 million.

"After the recapitalisation of our business, we have really taken off," says Awadh. "Our staff strength has doubled to 18 employees and we are currently looking at recruiting further staff over the next year."

Equipment leasing allows construction companies in the Gulf to acquire a range of construction equipment through simple Shari'ah-compliant lending schemes. Under the schemes, the bank can structure most requirements for construction equipment that may include cranes, backhoe loaders, wheel loaders, aerial work platforms, trucks, power gensets, excavators or drilling rigs.

FLB is a provider of high-quality asset-based financing under its two leading products – finance leases and operating leases. A finance lease is an arrangement in which the customer acquires an asset by paying in instalments over a certain period of time. Because the title to the asset passes to the customer at the end of the lease, the customer shows the asset and liability on his balance sheet and takes depreciation. In an operating lease, the customer acquires the

# FLB set to entrench itself in the Gulf



FLB helps easy expansion of assets with very little capital investment. INSET: Awadh ... expansion drive.



use of equipment for a tenure that is less than the equipment's useful life.

"FLB does not recover the total asset value during the operating lease but will recover the residual value by either selling or releasing the asset in the second-hand market once the original customer returns the equipment. This lease has a significant advantage in that the asset does not appear on the customer's balance sheet and thus helps his financial ratios. This improved financial position often lowers the customer's cost of working capital debt from traditional banks," explains Awadh.

"Operating leases are particularly attractive on large projects where contractors may need

to procure special-purpose equipment which may not be required on others, or where the costs of equipment can be prohibitive," he adds.

"The concept of operating leases is new to the region and hence it will take time to gain wide acceptance. Based on experience in the international market, we have seen that the educational process usually takes three to four years and considering that we introduced the concept less than three years ago, now we feel we are on the verge of breaking through to that market," he comments.

FLB expects to conclude \$100 million worth of leasing contracts by the end of this year. He projects that the figure could rise by

20 to 25 per cent over next year. However, he admits that what the company has achieved so far is just the tip of the iceberg – considering the huge potential of the GCC market. According to studies, globally, equipment leasing stands at around 1.5 per cent of the GDP. Given that the total GDP of the GCC states is around \$ 700 billion, this amounts to \$10 billion worth of business waiting to be tapped, he says.

According to Awadh, “what differentiates FLB from other companies/banks that offer leasing options is that our core business is leasing and we have the know-how of the assets. We look at the assets as well as the financial credentials of the lessee. In addition, unlike us, banks do not finance 100 per cent of the cost of an asset. We are backed by a network of institutions which have been in the business for a long time. They assist us in placing equipment back in the market and assessing the value of the equipment.”

“We also offer a value-added service through our equipment knowledge. Another advantage we offer to the client is the speediness and simplicity in getting into a lease – which typically is around two weeks if all the documentation/assets are in order,” he adds. “We are unique in that we are not into consumer financing – our target market is different as we are looking at leasing the more expensive assets.”

The company typically deals with new equipment but, under a mechanism called sale-and-lease-back, FLB often buys relatively recently-acquired equipment from a customer and leases it back, thus allowing the customer to invest the proceeds in another project.

“This option would make economic sense to the contractor as he can earn more by investing his cash into growing his business rather than buying capital assets,” he points out.

Citing examples of some of the

leases FLB has written, Awadh says: “A reputed family business in Fujairah approached First Leasing Bank in order to finance a new fleet of concrete mixers and pump equipment to meet the rapidly increasing demand for concrete. The family – which has been in the construction and real estate development business for more than four decades – also needed to move its batching plant from the city limits to a new industrial area.

“FLB helped the business set up a modern batching plant in the industrial area of Fujairah, providing a complete solution which has enabled the company to make a significant contribution to the rapidly-developing emirate.

“FLB has also provided equipment leases to a construction company in Kuwait as well as to a spa and resort development in Bahrain. The Kuwait project was based on a sale-and-lease-back of the existing micro tunnelling equipment of the company, thereby releasing valuable cash to the company to acquire new equipment.

“The resort had to install its own power generation facility. FLB offered a complete solution with a project financing that converted to a lease. The result was a \$10 million project including six power generators, allowing the resort development to operate off the power grid.”

FLB concentrates on the “middle ticket” market where the leases range from \$1 million to \$10 million and typically have a term of two to five years

Apart from construction, FLB provides solutions for most asset classes including industrial, manufacturing, medical, printing and publishing, telecommunications, IT, transportation, marine and special-purpose real estate.

It has so far signed leases for cement batch plant, construction equipment, printing presses, fleet vehicles, construction equipment and production and processing equipment.

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