

The 9th Carthage Insurance And Reinsurance Meeting 2007

BUSINESS LIFE

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PLUS:
Lebanese
Divided
on Cost of War

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AGAINST
ALL ODDS

Main Interview:
James A. Cracco



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James Cracco, CEO of First Leasing
Bank Bahrain



LEASING TO DRIVE GCC GROWTH

James Cracco says that the growing economies of the GCC are in need of alternative capital formation methods.

The Chief Executive Officer of First Leasing Bank Bahrain, James Cracco, explained in an exclusive interview with BUSINESS LIFE the inner workings of the leasing industry and its international operations. He also spoke about the state of the industry in the GCC and its future prospects, detailing some of the problems it faces, such as poor awareness in the GCC general population. The CEO also spoke about First Leasing Bank's future expansion plans and new projects, detailing some of the new services it will be offering, including high tech computer leasing.



James Cracco with the team of First Leasing Bank

BL: Could you brief us about your background?

James A. Cracco: I have been in Bahrain for three and a half years. I came here to set up First Leasing Bank. Although I have an international business background with several overseas assignments and extensive business and personal travel, I had never been in the Middle East before the First Leasing Bank opportunity. My career did not begin with leasing but in the automotive and high tech sectors with the international divisions of Chrysler Corporation and Unisys Corporation. In fact, I joined the leasing subsidiary of Unisys Corporation almost by accident. The Unisys Corporation had established a subsidiary to finance their products; I had just returned from an overseas assignment and took over the sales and remarketing area. I later became the president of that company. Then, I joined a privately owned independent leasing company named Leasetec Corporation. Leasetec had operations in 26 countries and was probably the pre-eminent leasing company specializing in operating leases. Leasetec was ultimately acquired by KeyBank where I was responsible for all domestic and international sales and private label programs for the leasing subsidiary. From there the path fortunately led to Bahrain.

BL: It is well known that First Leasing Bank is one of the leading banks in Bahrain, specialized in the introduction and expansion of leasing equipment in the GCC. Are you planning to expand to Yemen, Jordan, Lebanon and Syria?

James A. Cracco: Those countries could be areas of future expansion, but the bank is currently focusing on developing the equipment leasing market in the GCC. We finance most kinds of assets, including

industrial equipment, process and manufacturing equipment, medical equipment, transportation, marine, printing presses and so on. Given that wide range of equipment plus the fact that the GCC is growing and expanding, we feel First Leasing Bank has a lot of opportunity here for the time being.

BL: So how long would it take the leasing business to settle and start expanding to new areas like Lebanon or Jordan?

James A. Cracco: We might look at some individual transactions in non-GCC countries but beyond that I think that First Leasing Bank would need another year and a half to two years in order to develop the market here, build the portfolio, establish a firm groundwork, and then move out to other countries. There is, by the way, already an active leasing market in Pakistan, Egypt, Morocco, Turkey and Jordan that is developing quite rapidly.

BL: What are the different leasing classes and their payment procedures?

James A. Cracco: We specialize in two fundamental types of leasing, the finance lease and the operating lease. From an everyday business perspective, a finance lease is an instalment sale where the customer ends up owning that asset. An operating lease is more like a long term rental in which the customer only pays for the time they use the equipment. The customer returns the asset to First Leasing Bank when they are done using the equipment. For example, a lot of companies lease their corporate jets-- in that case you have an asset that has an economic life of 15 years but the company wants to lease it for only, say, four years and then upgrade to a new plane. So

through an operating lease, the customer would only pay for the first four years and then return the equipment to First Leasing Bank. What customers get out of this operating lease is better cash flow, not having to worry about disposing or selling the asset and—of major importance—that asset does not appear on the customer's balance sheet. In other words, it is a very attractive option for customers.

BL: What is the number of leasing institutions in the world and who are the top companies in this sector?

James A. Cracco: We are talking about a \$600 billion annual worldwide market which represents one-fifth of the total global capital investment. When you

look at the participants in that market you notice that they are a very diverse group: from industrial companies that set up their own leasing company to only finance their own manufactured or marketed equipment (referred to as captive leasing companies) to others that finance both in-house manufactured equipment as well as other manufacturers' products. Then there is another group of independent leasing companies. Finally, you have some banks that are involved in different forms of leasing. However, the banks tend to enter and leave the market constantly. For example, in the US, banks currently finance 50% of the leasing market which is double the percentage of five years ago but there are also indications that a number of the bigger banks are backing away from the equipment leasing market. Therefore, it is very hard to know how many leasing institutions there are, but what's clear in this global market is that there is no single leader. Leasing remains a highly fractionalised market partially because service and ability to structure to the customers needs remain so important.

BL: Which leasing bank has the biggest capital in the US and in the region?

James A. Cracco: You really have to look at the amount of assets and capital banks devote to leasing versus all the other activities but that is impossible to do because most banks do not divulge that information. There are some very large banks that do not have leasing arms at all but some of the banks are large players and there are a number of them. The major ones are in Australia, US, and Europe. The Japanese banks and trading companies were quiet for the last few years but they are making

a comeback. There are many names but some that come to mind are CitiBank, Royal Bank of Scotland, Macquarie, ABN Amro, Bank of Tokyo-Mitsubishi but they are really too numerous to mention. In the GCC, the main players are First Leasing Bank in addition to a lot of banks that offer leasing as a secondary product. Typically, however, traditional banks only offer finance leases. There are also several leasing companies based in Kuwait and Oman that do a mix of consumer car leasing, real estate, and/or equipment leasing. First Leasing Bank, however, is the only bank or leasing company that specializes only in equipment leasing.

BL: What about the giant market of Saudi Arabia or Iraq?

James A. Cracco: In Saudi Arabia, the banks are involved in a lot of financing, though not necessarily equipment leasing. I think there is talk of several leasing companies starting operations. We have had many conversations with various entities about a joint venture in Saudi Arabia, so clearly that is a market people are considering moving into. Because of the war, Iraq is a different issue and given our focus on the GCC we really haven't looked at that.

BL: What are your expectations of Iraq's market once the country's security situation stabilizes? Will it have a big potential?

James A. Cracco: Absolutely. The ironic fact is that the earliest recorded leasing took place in what we now call Iraq in the ancient Sumerian Empire. So we are talking about leasing going full circle as it started in this area of the world. However, growth has been slow in the modern Middle East and the GCC in particular.

BL: There are a few financial institutions that offer leasing products. Do you have any intention to acquire any of the existing institutions?

James A. Cracco: No, we really don't have any plans to acquire any other company. Our operating principles have always been organic growth and building our own portfolio.

BL: How was the company's performance in the 2005/2006 fiscal year, and what are your expectations for 2007?

James A. Cracco: We did our first transaction in Bahrain in 2005, while 2006 was a year of expanding our cross border activity, particularly in Kuwait and in the UAE. By the end of 2006, we had increased our capital to USD 100 million. We have a clear and focused plan for 2007 and are confident that we will increase our market penetration and profit. Additionally, we are planning to open a new office in the UAE and expand

into Qatar and Oman. Profits will depend on leasing and particularly on projects that we handle. Some of these new projects really do not yield the greatest profit until the lease is terminated and we move to the second cycle with the same equipment.

BL: Don't you think that the region's companies need leasing oriented training institutions?

James A. Cracco: Actually, the Bahrain Institute of Banking and Finance (BIBF) already offers a number of courses. They have courses on Islamic finance, Sukuk and conventional leasing. In addition to that, there are a number of private seminar courses that are given around the region as well as in Europe and the U.S. We use those courses to improve our performance. We also have our own in-house training that concentrates on operating leases and asset evaluation.

BL: Don't you think that this market needs to raise awareness regarding leasing?

James A. Cracco: One of the characteristics of the GCC is an excellent cash flow in an oil and gas based economy that traditionally did not need additional funding. In addition, the big, well funded or family owned companies have a philosophy of 'own your own assets'. That's a similar history to all countries, where companies start as family businesses owning their own assets and eventually look at ways to deploy their assets and cash more effectively. That change in attitude and market expansion leads to leasing and other capital alternatives. I don't think that the GCC is different and the economy is evolving to a point where companies are starting to use alternative capital formation methods.

BL: What are your plans for the rest of the year?

James A. Cracco: We are looking at a variety of investments to balance our portfolio. We are looking at some specific almost boutique type real estate investments and small projects, but more of a concept consistent with equipment leasing. An example would be not only leasing the equipment inside a warehouse but also financing the warehouse itself.

BL: Do you think about introducing high tech computer business leasing?

James A. Cracco: Actually, we have already done some high tech computer leasing and have also leased telecommunication equipment. To us, technology is another asset that has to be understood in order to be able to utilize our business model. Technology assets are really not different from a crane

or a corporate jet in as much as all assets go through the same analytical process. Given that, we are interested in doing more high tech leasing.

BL: In your opinion what do Middle East customers prefer: leasing or asset ownership? How do you compare the American and the European markets to the MENA region?

James A. Cracco: It is still a market in transition. As I said before, MENA is an area where people want to own assets. Now that many businesses have recapitalised and sold at least part of their stock to the public market, they are looking at more efficient capital alternatives; therefore leasing. I think the time is exactly right. Typically, what happens is that businesses and governments first start looking at finance leases because that's a way to own the asset. Eventually people come to the conclusion that it is not important who owns the asset but who uses the asset and that leads to operating leases.

BL: How do we calculate the return on equipment?

James A. Cracco: With any asset class, we need to understand the nature of the asset itself and study what it is worth going five or six years and even more into the future. In our operating leases, we often offer the customer three choices: they can return the equipment at the end of the lease, exercise renewal options, or purchase the equipment. The investment we make in that equipment is about understanding what the equipment is going to be worth at the end of term and pricing accordingly.

BL: What asset classes should be introduced to the market?

James A. Cracco: We have a very good range of equipment. There are some areas that we are not active in but it is better to think about leaseable asset classes conceptually. Almost any asset that could be moved or is transportable is something that could be financed. For example, if a building needs power generators, we could lease that but we would not lease the same building's plumbing system.

BL: Do you think that equipment leasing is speeding up in this region?

James A. Cracco: Without a doubt, we have been busy from the beginning and have expanded accordingly. The GCC national economies are growing and diversifying. The building of new factories and new businesses has provided the backdrop to familiarize the business community with the ease, speed, and flexibility of equipment leasing. Leasing is definitely a market on the move.

Fueling economic growth through equipment leasing

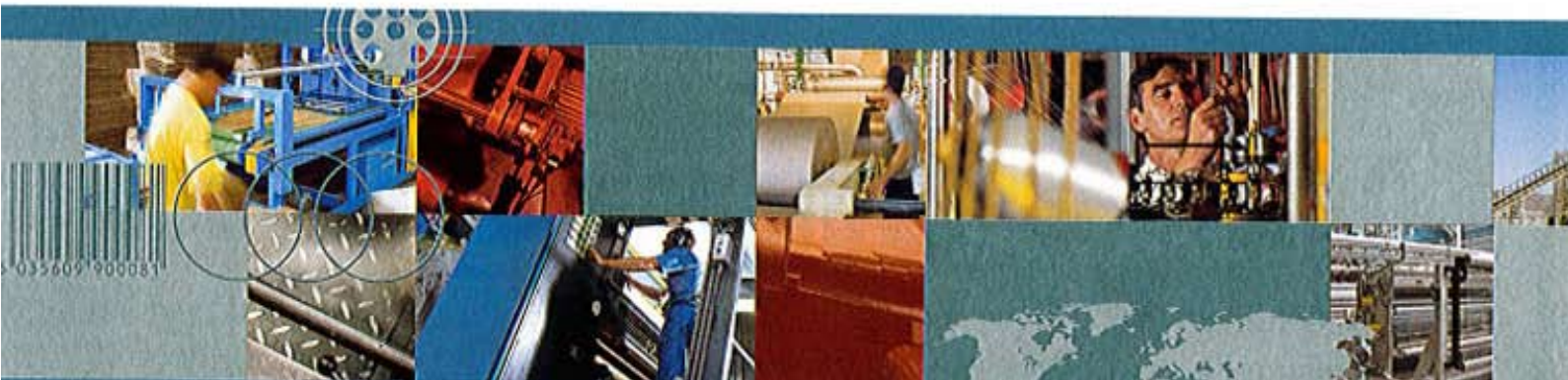
First Leasing Bank is a Bahrain-based Investment Bank, and is the first bank in Bahrain dedicated exclusively to the introduction and expansion of equipment leasing throughout the Gulf Cooperation Council (GCC) countries. The Bank conducts both government and commercial transactions in Bahrain, Kuwait, Oman, Qatar and the United Arab Emirates.

First Leasing Bank's shareholders and management team have a unique combination of experiences, background, and financial acumen. First Leasing Bank presents the Gulf with an unequalled combination of local knowledge and international experience in lease-financing for transactions of US\$500,000 and above.

More than just a leasing company; First Leasing Bank is a provider of high-quality asset-based financing. The Bank structures a range of products and services for lessees and vendor partners, and will finance most asset classes providing solutions for industrial, manufacturing, medical, printing and publishing, material handling, telecommunications, IT, transportation, and marine amongst others.



بنك الإجارة الأول
FIRST LEASING
BANK



For further information contact:

First Leasing Bank B.S.C.(c)
PO Box 1908, Manama, Kingdom of Bahrain
Telephone: +973 1756 3444
Fax: +973 1758 2887
Email: info@1stleasingbank.com

www.1stleasingbank.com