

## Varouj Nerguizian

CEO, Bank of Sharjah

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Varouj Nerguizian, CEO, Bank of Sharjah, tells Bloomberg Businessweek Middle East Editor Roger Field about plans for expansion, regulation and why supporting customers in tough times makes good business sense.

### Tell me about the size and scale of the bank?

Bank of Sharjah has grown from a small bank in 1973 with \$4 million capital into a much bigger player today with capital of \$0.6 billion and equity of around \$1.2 billion. We are considered to be the first commercial bank in Sharjah and we were the fifth bank to be established in the UAE. The size of our total assets today is around \$8 billion with \$5.5 billion of deposits and \$4.2 billion of loans. We have a very healthy structure and we have always been liquid. Liquidity has been primary for us even if it comes at a cost in terms of P&L. That was partly due to a ratio that was imposed on us from day one to maintain 20 to 30% of our deposit in cash and securities. We have never encountered a situation where we were short of liquidity, even during the most difficult times of the Gulf Wars or the financial crisis of 2008.

This has been our philosophy: to maintain high liquidity and to back our customers. We support our customers in good times and bad times and we have been successful in proving that this philosophy is beneficial. Of course, the borrower’s integrity remains essential.

**It sounds like a softer approach than many banks would adopt. Does it make good business sense too?**

It is and it does and it has paid off with time. This year we will be celebrating our 45th anniversary. For the last 44 years we have been

able to pay dividends, cash or bonus issue and sometimes both, and we have always made sure that our stakeholders benefit from our activities.

### How has business been over the past year?

We are going through difficult times in terms of geopolitical risk and this is something we were not accustomed to over the recent past.

Over the last couple of years we have been encountering more and more challenges in the region, so growth was not quite as it used to be.

We have been more cautious in terms of loans book growth and we have been more active in deposit collection because we wanted to maintain our liquidity. Within an ever challenging environment we have been taking a more risk-averse approach.

**Where do you have a presence in the region and which markets have the best potential at the moment?**

We are more a UAE-based bank especially with our head office in Sharjah, two branches ►





◀ in Dubai, two in Abu Dhabi and one branch in Al Ain. We are also to a lesser degree active in Beirut thanks to our acquisition of the operations of BNPI Beirut which was an affiliate of BNP Paribas, about 10 years ago. In June of this year we celebrated 10 years of our presence in Lebanon.

**Do you plan to expand into any new territories?**

We don't have any plans to make acquisitions outside of the UAE for the moment. However, I believe that there will be opportunities in the UAE and we will be ready to take advantage of such opportunities when they present themselves. We are witnessing significant consolidation in the industry and region.

**Where do you see growth opportunities in terms of sectors or verticals?**

We have always been extremely active in trade and industries. The emirate of Sharjah captures around 46% of the industrial base of the UAE and this has always been our area of expertise. On top of that we have lately entered the services market as well as real-estate financing.

It was not by choice but more by necessity and we have been doing fine by financing specific projects in Dubai and Sharjah and we are happy to be contributing to the development of dynamic cities like Dubai and Sharjah.

Historically we were also heavily involved in the oil services industry and although this side of the business has declined we would like to reactivate it again as it is an area of natural expertise for us, as for a long time we were very active in the oil business.

We are still working on some projects, mainly related to the trade cycle and infrastructure. We have recently approved certain transactions around a gas project in Kurdistan. Production of gas is a major opportunity for all parties – us as the financier, our client and the country they are operating in. We are moving towards services for the oil industry, so we're financing companies that cater for these big players and at the same time we are getting more involved in infrastructure projects because it is easier to follow up and it generates a very strong revenue stream for the bank.

Ultimately any transaction that we finance always has a social side to it and everyone should benefit. The bank will benefit, but we would usually exit after a few years, and whatever we have achieved will continue to benefit the local population and companies involved.

**You mentioned the service sector as well. Can you tell me about any investments there?**

We have been recently active in the hospitality business, telecoms and a number of other segments and we believe that there is added value in the services industry. After all, the UAE is a country where a lot of people come in and out. This creates a need for services and we are now capturing a big percentage of that.

**Which sector is biggest for you after the service industry?**

The bulk of our activities are trade-related. We finance trade, then comes industries followed by services. These are the three main sectors, and then we have real estate financing, but this is mainly transactional. Real estate finance requires long-term sources of funds and the UAE is a country where deposits work on cycles of three months to maximum one year. New regulations might soon allow corporate bonds – even if they are not rated – and that would create an opportunity to have longer-term deposits. If that happens, the retail real estate market would be interesting as well.

**How is technology changing the banking industry and how are you adapting?**

Bank of Sharjah has been a firm believer in IT. We have always invested in technology. We've always made sure that we are at the forefront of the available technology. Fintech is a new notion and it will replace a big chunk of the activities of banks, especially on the operational cycle.

In the longer term a banker will no longer be someone who makes transfers or receives funds. Bankers will move to advisory roles thanks to fintech. A lot of people speak about fintech but most of them do not really understand what fintech is. The reality is we need to be able to move from what we do today to something more oriented toward your smartphone.



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Fintech will enable us to harness the opportunity of replacing our current operations with new techniques and move forward with an even greater focus on the advisory and private banking role.

In the future a banker will be the party that will give you advice about your business, will tell you where your weaknesses are, what you need to do in order to improve your profitability and sustainability. The rest of the operations will be done by internet or cloud-related solutions. The challenge for banks is deciding which solutions and services they are going to focus on: You have to be able to find the right solution and move forward, and it's a challenge as this is a long-term investment.

**What technologies are you adopting at the moment in terms of services for customers?**

Most of the banks offer similar services and they are all smartphone and tablet driven. This is the new way of banking. The young generation do not want to go to the bank and have a chitchat with the manager; they don't have time for that. They would like to be able to do all their transactions through a smartphone or tablet. The banks that can offer all these services will have a certain advantage. Your internet banking must stand out and have the latest technology. We all know that the young generation is impatient. They want to click and see the answer immediately. This is

important for us when we assess any new product; it's the speed of the service and speed of what we are offering.

**The government of the UAE is putting a lot of effort into diversifying the economy. Do you see banks as having an important role to play in this?**

The economy, especially in this part of the world is driven by the government. The government initiates certain actions or puts in place a vision and all the various parts of the economy, including banks, participate. We have been always proactive with governments. Every time there was a project that required some sort of financing we have been present. It's part of our approach to development because it's not a matter of just profit and loss; you need to have the necessary vision to follow the government's vision, to have the ability and the intention to be there and share the success.

**How is the regulatory climate in the UAE and the GCC?**

The regulatory framework is there to prevent any wrongdoing and excess. The main objective of all regulations is to ensure the safety of the banking industry. It's very important that no bank fails. From that perspective we all respect the regulatory framework. In terms of the current regulatory framework we are happy with the requirements but feel there could be some improvements in its implementation. Unfortunately the regulatory requirements are becoming more time-consuming. I dedicate more than 25% of my time to regulatory-related issues. I am optimistic that this will improve as the UAE's legal framework is being upgraded and once this happens things will be much easier for us to cope with.

**Are the bank's invited to give feedback on regulations to help the government develop?**

Yes of course; especially in the UAE we have a very active association. I think the UAE Bankers Federation has done a great job. Most of the CEOs meet regularly and we have a number of committees. The central bank has a very positive approach. Before publishing a regulation, before blind application there is always a period of concert action. We receive the draft of the regulations; we discuss them and review them and certain committees come up with recommendations. The UAE central bank always listens.

**What are the main challenges that you face in the banking industry?**

Currently it is the geopolitical risk. We need to get more stability back to the region. We have a number of issues that are a burden to the broader GCC and Middle East economies and which need to be sorted out quickly.

Thankfully, the oil price, which was a challenge a couple of years ago, has remained fairly steady and is unlikely to drop drastically. It will be in the range between \$60 and \$80 and at that level almost all of the GCC countries will have a very good stream of revenue and we should be able to move forward positively.

**What's your overriding vision for the Bank of Sharjah?**

I've been associated with Bank of Sharjah for a long time. My ambition is that within the next 10 years Bank of Sharjah will be a much bigger bank, at least three times bigger if not more. When a bank reaches that critical size it becomes a very active participant in the economy. It's not easy; it requires a lot of changes and the ability to seize the right opportunities, but I am sure we will get there. **B**