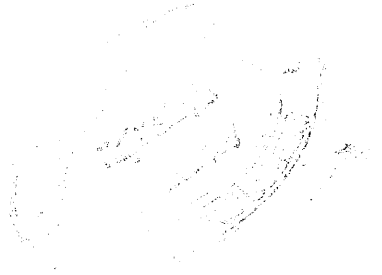


**A STUDY OF SELECTED INTERNATIONAL FIRMS DOING
BUSINESS IN OR FROM THE MIDDLE EAST**

Case Studies of DHL-Middle East, Arab Banking
Corporation, International Turnkey Systems and
Investcorp.



by

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Project submitted to the University of Bahrain in partial
fulfillment of the requirements for the degree of
Master in Business Administration

January 1995

ABSTRACT

This project highlights the experiences of some well known companies involved in international operations. It shows not only the Middle Eastern firms' (ABC, Investcorp and ITS) international business operations but also western firm's (DHL) businesses in the Middle East. Every effort has been to provide as much detail as possible about these firms' management, organization, product-mix, marketing, and competition among other issues. The project thus seeks to offer valuable insights and hopefully will be of use and interests to many business students, practitioners and entrepreneurs. The cases have been written in such a way that these could be easily developed as teaching cases and this is one of the inherent objective of the project.

PREFACE

This project marks the beginning of case-research based MBA dissertation at the University of Bahrain. Many people - professors, colleagues, executives and library officials - have greatly contributed to the completion of this study.

I would like to express my gratitude to Dr. Mostafa Khan for his continued guidance, advice and encouragement to conduct this research. Advice, comments and encouragement from Professor Lyn S. Amine of Saint Louis University are also gratefully remembered. Constructive suggestions and comments from my readers Dr. Mohammed Al Mosawi and Dr. Ali Al Khalifa are greatly appreciated. My managing director Mr. Saad Al Barrak has also been extremely supportive not only during this project work but through out the whole period of my MBA studies at the University of Bahrain. I am grateful to him.

I would also like to extend my thanks and appreciation to the officials at the DHL in Bahrain and library officials at the Arab Banking corporation and University of Bahrain for their support and services.

Finally, I must acknowledge my gratitude to my family - my wife and my children - whose continued support, understanding and encouragement helped me to complete the MBA program during the last five years.

CONTENTS

Introduction	Page 1
Case-1 DHL Worldwide Express-Middle East	1-23
Case-2 Arab Banking Corporation	1-41
Case-3 International Turnkey Systems	1-29
Case-4 Investcorp	1-28

INTRODUCTION

This project presents experiences of four major international firms. This is in fact a case-research based project. A case is defined as typically a record of business issues which actually have been faced by business executives, together with surrounding facts, opinions, and prejudices upon which the executives had to depend (Gragg, 1940). While three of the selected companies in this project i.e. DHL Worldwide Express (DHL), Arab Banking Corporation (ABC) and International Turnkey Systems (ITS) operate in international markets including the Middle East, Investcorp runs their operations in Europe and North America from the Bahrain based head office.

Importance

In recent years case research has achieved more attention and importance from the academics. The American Assembly of Collegiate Schools of Business (AACSB) has played a major role in this regard. Since the mid 1980s, the AACSB approved and recommended that case-research publications should be accepted as publications. North American Case Research Association (NACRA) also plays a pioneering role in fostering case research. In addition to publishing the Case Research Journal, the NACRA organizes annual national conference devoted exclusively to the presentation and discussions of case studies. The NACRA has now even some regional associations involved in actively encouraging case research (Academy of Management, 1994a). Besides, the Academy of

Management and the International Association for Business and Society (IABS) arrange and conduct special sessions on case research during their annual conferences (Academy of Management, 1994b). The case-research environment has further been stimulated by the top rated journals such as Harvard Business Review, European Management Journal, and Global Business Review which regularly publish case studies. Case-research based thesis or dissertation is also not new. At the MIT's Sloan School of Management case research is actively encouraged for students' dissertations. Such research works are eventually developed as teaching cases. For example, out of 10 comprehensive cases in the text of Urban and Star (1991) *Advanced Marketing Strategy*, 8 are based on the M.S. theses conducted at the MIT.

Despite such importance accorded to case research, there has hardly been any efforts in the Middle East to develop case studies. In fact cases of Middle East based firms are rare even though such research materials will be useful not only to the western professionals and managers but also to Middle Eastern businessmen and executives. Keeping this in mind, this project was initiated 18 months ago. Hopefully, the cases presented here will eventually be developed as teaching materials in marketing and international business areas and the participants or students will have some benefit from it.

Methods

The cases were selected carefully in order to enable the regional or international readers to identify them easily. Insights into all these cases provides learning opportunities to the

readers and users.

Data and information related to the selected cases were collected from variety of sources. Initially company records such as annual reports were collected from each of the firms. Regional news papers and magazines were also reviewed. Literature search was conducted at the University of Bahrain Library's Research and Information section. These searches from ABI Information on CD-ROM resulted in many references for these companies which were collected and reviewed. The ABC library was also very useful and the staff there were very cooperative. Information was also collected from the officials at the regional DHL, United Parcel Services (UPS), TNT Skypack, and ITS offices.

Efforts were made to write and present the cases according to the guidelines of the Case Research Journal which appears in Exhibit 1. For the sake of simplicity, cases have been numbered as independent cases, therefore, chronological page numbering has not been followed. Each case ends with the author's comments regarding the case summary, lessons learned, and epilogue/postscript, where applicable.

Limitations

Studies of this nature needs very close contacts and communication between the senior executives and the researcher. This has not been possible in most of the cases except ITS. The researcher depended heavily on the secondary information.

Although these can be treated as teaching materials, the accompanying instructor's note have not been developed. Such notes will, hopefully, be developed in collaboration with my supervisor.

These are all comprehensive cases, but the ABC appears to be much longer. However, it needs to be mentioned that attempts were made to provide as much information as possible so that two or more cases (case series) may be developed from this later.

Reference:

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CASE 1

DHL Worldwide Express - Middle East

CONTENTS

	Page No.
DHL Worldwide Express : Middle East	1
Company History and Background	2
Industry Background	3
Market Trend	4
Competition	5
UPS	6
Federal Express	8
DHL's Entry in the Middle East	10
New High-Tech. Hub in Bahrain	13
Sophisticated Technology and Speedy Service	15
The Future	18
Summary and Concluding Comment	21
References	24

APPENDICES

Exhibit: 1	DHL Stations in the Middle East
Exhibit: 2	Arab World in Figures
Exhibit: 3	UPS Fact Sheet
Exhibit: 4	UPS Advertisement in the Middle East
Exhibit: 5	Bahrain Airport
Exhibit: 6	SNAS Advertisement in Saudi Arabia
Exhibit: 7	DHL Advertisement in the Middle East
Exhibit: 8	Map of DHL's GCC operations
Exhibit: 9	New DHL Building in Bahrain
Exhibit: 10	Bar Code Scanner & Conveyor System
Exhibit: 11	Federal Express Advertisement
Exhibit: 12	DHL Advertisement
Exhibit: 13	DHL Advertisement

DHL Worldwide Express - Middle East

DHL Worldwide Express (DHL) is today one of the world's largest express delivery company currently operating in 219 countries worldwide from 19 hubs and 1610 stations (cities). Today the company has 35,000 employees, 9,700 courier vehicles and 137 aircraft (owned, leases or rented) (DHL Corporate Report:1994). The company estimates that it has 35%-40% market share in Europe and 43%-47% in Asia. The top management of the company believe that DHL will become the acknowledged global leader in the express delivery of documents and packages. This leadership will be achieved by establishing industry standards of excellence for quality of service and by maintaining the low cost position relative to their service commitment in all markets of the world. In a recent statement Patrick Lupo, the chairman and chief executive officer said, "Our worldwide expansion and record of growth reflects the globalization of trade. As our customers have secured new markets, DHL has expanded alongside them, supplying the support structure" (DHL Corporate Report:1994).

In November 1993 the company has inaugurated its newest and the most sophisticated regional sorting center (hub) in Bahrain for the Middle Eastern market. For the Middle East market development DHL has allocated a \$60 million budget and only \$15 million of this has so far being spent for this Bahrain hub development. Among the company's 19 hubs, the Bahrain is the fourth largest. This regional office now has approximately 200 employees and 70

percent of them are Bahrainis. In the Middle East the company currently serves 17 countries from 89 stations (Exhibit:4.1) and DHL has an expressed objective of maintaining and enhancing its leadership position in this regional market.

Although the company is making substantial investment in the region in an attempt to secure their presence and dominant market share, the management is now considering as to how to attain and sustain competitive advantages. Low cost operations and low price services as well as the speed of delivery/collection are the keys in this business. Other major international competitors viz., Federal Express, United Parcels Services and TNT Skypack are also quite active in this regional market. Federal Express is currently building their hub in Dubai and are currently extending their operations into Saudi Arabia, the biggest market in the area.

Company History and Background

In 1969 three enterprising Californian businessmen, Adrian Dalsey, Larry Hillblom and Robert Lynn (DHL) recognized a business need within the maritime industry. At the time, cargo ships moving between the west coast of America and the Hawaiian islands wasted valuable time and money while sitting idly in the port, waiting for custom clearances. The three founders of DHL identified the need of ship owners for cargo manifests to arrive before the ships themselves - thus speeding cargo clearance, reducing port turn-out time, saving port fees and greatly increasing each ship's earning capacity. By harnessing the speed of modern jet flight to send these manifests DHL helped create a new industry:

express delivery.

Over the last two decades DHL went on to enhance their market by identifying similar needs in other segments i.e., international banking, construction, oil prospecting and the expanding economies of the Middle East. In order to be able to serve these customers, the company has opened new DHL offices at an average rate of one every 8.5 days. Today, after more than 23 years of growing to customer needs, DHL lays claim to the world's largest international air express network, linking more than 80,000 cities in over 200 countries.

Industry Background

The express shipment business is essentially commodity business. It suffers from a lack of differentiation in the same way as the airline industry, which basically offers the rental of an airline seat from one place to another. In the express shipment industry, lack of differentiation is perhaps even more acute because the customer does not even have the chance to experience the service personally. By contrast, an airline passenger can evaluate different airlines on the basis of the enjoyment of a flight or a meal, or the assistance of a cabin attendant, or an on-time arrival.

For these reasons, competition for customers in the express shipment industry focuses on proxy measures of performance that

the customer can use as criteria for choosing an express carrier. Loyalty then builds presumably on the customer's continuing satisfaction with the level of service provided by the express shipment company. Proxy measures of performance include reliability and on-time performance records; package tracking information and in-house computer terminals; a range of price points; availability of volume discounts; total number of destinations; and frequency of pick-ups and deliveries.

Market Trends

"The air express industry is going through a major transition and DHL is seeking to lead that change", President and chief executive Mr. Lupo said in 1993. "In the Middle East, the business is growing at a healthy 16 percent per annum and it has become a key market in our overall global strategy. This is a result of increased customer demand for a wide range of expedited services."

The current trend in the use of air express is to move heavy-weight, break-bulk consignments and parts, with door-to-door delivery in days rather than weeks. The cost is more than compensated for by big savings in inventory and time reduction. Another related trend is the move among manufacturers and suppliers to centralize distribution, thereby cutting inventory cost dramatically.

DHL's Middle East sales development manager, Mike Wood, said that there has been a dramatic upsurge in heavyweight cargo shipped by

air in recent years. "This is particularly true (in the Gulf) where nearly everything has to be brought in from other parts of the world. In the past, using conventional airfreight would take four weeks or more... to transport, clear and collect heavyweight dutiable items. But with the new service launched, the duration of the delivery will be cut down to just a few days, door-to-door" (Manama, Bahrain, June 21, 1993)

Middle Eastern economies, particularly the Gulf Cooperation Council (GCC) countries, are mainly dependent on the oil revenues. During the late 70s and 80s this region has witnessed major developments in their industries, housing, educational institutions, hospitals and roads and communications facilities mostly funded by the oil revenues. Now in the 1990s the oil market does not seem to be stable, (per barrel price in 1990 was \$20, in late 1993 \$13), and this may have impact on government and private sector spending in the region with a resultant impact on the express delivery industry. Exhibit:2 shows some economic indicators of the Arab World.

Exhibit:2 Arab World in Figures.

Competition

Traditionally all types of mail and packages have been carried as cargo by commercial airlines. Express shipment companies still have to rely on some airlines to cover smaller, more distant markets, but are rapidly building their own fleets and routes to

avoid this type of dependency. Moreover, the express shipment companies have infrastructure on the ground to support door-to-door service, whereas airline carriers only serve their customers from airport to airport. The airlines' great strength is their ability to compete on price for cargo shipments because their passenger traffic contributes to the fixed costs of flying each route. Freight forwarders are professional service companies that take over where the airlines leave off. They are specialized in customs clearance procedures, packaging and labeling requirements, insurance, transportation options, rates and discounts, and local delivery arrangements.

The market for express delivery of documents and parcels is growing fast in the Middle East and all major international players such as, United Parcel Service (UPS), Federal Express and TNT Skypack are all present in the region.

UPS

Founded in 1907, UPS is today the largest US transportation company with 1992 annual revenue of over \$16.5 billion. Additional facts about UPS appear in Exhibit:2. Compared to DHL, UPS has been a relatively new entrant in the international markets. In 1985, UPS operated in Canada and a handful of European countries. Since then, it has lit out across Europe and the Far East, adding some 145 countries in 18 months during 1989-90. Its foreign market share rose from 2% in 1988 to around 6% in 1989. But the \$200 million in international losses have hurt the firm. Kent

Nelson, the chief executive officer of UPS predicts that foreign operations will break even by 1993. Two major strategies followed by UPS are low price and growth through acquisitions.

Exhibit:3 UPS, the Fact Sheet

Exhibit:4 UPS ad in the GCC

In 1990, UPS acquired a small British courier firm, International Messengers Limited (IML) which was operating in the Arabian Gulf region, and entered into the Middle Eastern market. The company has established offices in Bahrain and Dubai; and in other GCC countries, viz. United Arab Emirates, Qatar, Kuwait and Oman they have agents or franchisees. UPS Bahrain manager, said in 1993 that only except DHL no other express courier company was currently doing business in Saudi Arabia, the largest GCC country.

During 1987-88, the former Chairman of UPS, John Rogers, made an attempt to buy DHL but nothing came of it. Roger then went on to acquire several operations in Europe as a means of progressively building a ground service and expanding air coverage in the continent. UPS traditional strategy of moving in by buying small, foreign couriers, however, has proven complicated. "You can't impose the UPS culture on people outside the US. You have to let them assimilate at their own pace," says Donald Layden, senior vice-president. With its size and clout, however, UPS has lots of breathing room. After all, while the company lost almost twice as much as Federal Express in 1988 in overseas, Federal's losses put

a much greater strain on its resources. UPS moves slowly, observes on executive, "but when it moves, it's the 900-pound gorilla."

Federal Express

Federal is another major U.S. air courier services firm founded by Fred Smith, a Vietnam war veteran. The company is based in Memphis, USA and started operations in 1973. The company provides wide range of express services for the time definite transportation of documents and goods throughout the world using an extensive fleet of aircraft and vehicles; offers aircraft charter services; and provides full range of integrated transportation and business solutions, including transportation expertise, logistics management and other specialized services. Federal has the largest share of the US market (48% compared to 26% of UPS). In the fiscal year 1992, the company annual revenue hit \$7.55 billion; employees numbered 93,000 worldwide, making some 300,000 daily calls (pick-ups or drop-off). Four hundred and fifty-four aircraft and 31,000 vehicles serviced an average daily package volume in 1993 of 1.7 million worldwide.

For years Fred Smith, Chairman of Federal Express, had been saying that the company would have to become a global player if it was to survive in the year 2000. So in 1989, Federal acquired the cargo airline Tiger International, owner of the "Flying Tigers" name, for \$895 million. With the acquisition of Tiger, Federal inherited some problems such as, unionized workforce,

poorly maintained aircraft and an increase in debts. The purchase however, offered them an expanded fleet of aircraft, additional ground facilities, and valuable distribution experience in the heavyweight air cargo business. Another major benefit they gained was immediate access to landing rights in Japan and to other southeast Asian countries. So they started to serve this market via the Anchorage hub in Alaska.

Federal Express regional office in the Middle East was based in Bahrain, but 1989-90 they moved this office to Dubai anticipating better business prospects there. They have business operations in all the GCC countries except in Saudi Arabia. They are currently building their Middle East hub in Dubai and trying to have a sponsorship in Saudi Arabia. Once they succeed in concluding such an arrangement, they will be a major competitor of the DHL.

Besides the above major competitors, TNT Skypack, the big Australian transportation company (1991 revenue is \$3.8 billion) is also operating in the region in the express delivery market.

Other competitors in the Arabian Gulf include commercial airlines from all parts of the world. As seen in Exhibit: 5 competitors include Northwest Cargo, Cathay Pacific, Air France Cargo along with Federal's Flying Tigers. Cathay Pacific, like DHL, is planning to expand its cargo operations with flights to London, Frankfurt, and Hong Kong. In contrast to most airlines whose cargo revenue is only about 10 percent of total revenue, Cathay's cargo revenue stands at about 22-25 percent. Facing an over-

supply of cargo service in Dubai (United Arab Emirates), Cathay is seeking to diversify its market coverage by expanding its operations in Bahrain.

Exhibit:5 Bahrain Airport

In recent years a new type of competition has emerged in the time-sensitive document segment of the market that may prove to be insurmountable -- fax machine. Recently, annual growth rates for overnight letters in the US market, for example, slowed to around 10% in 1990, from 25% in 1988 and a high of 58% in 1984. All express delivery companies are likely to suffer to some extent in this segment. 'Barid Mumtaz', an express delivery service operated by the Postal Services Department of Bahrain, is also in operation.

DHL's Entry in the Middle East

DHL opened its first Middle East office in Bahrain in 1976. The location was determined by its good air links and proximity to the major markets in the region. The company opened offices in the Eastern Province of Saudi Arabia in early 1977, followed by offices in Riyadh and Jeddah later that year.

The United Arab Emirates (UAE) was next in 1978, with full on-line stations in Dubai, Abu Dhabi and Sharjah. The other main DHL countries in the Gulf all went on-line by the end of the same year.

During the heady years of the Middle East oil boom (late 70s and early 80s) DHL acted as a vital communication link. Partly because no other air express service arrived on the scene until the 1980s, "DHL" became a generic term and to "DHL" something meant to send it by the fastest possible means.

By the late 1978, the rapid growth of the air express resulted in a need to supplement the services provided by regional airlines through the use of aircraft in the Gulf. In 1979, DHL's associate in Saudi Arabia, SNAS Trading and Contracting, bought an F-27 and based the aircraft at the DHL facility at the Bahrain International Airport. SNAS is named after their Saudi sponsor's name which is : Prince Saud bin Nayef bin Abdul Aziz Al Saud. By the mid-1980s, the airport had become the regional hub of DHL operations and in 1988, a purpose-designed sorting facility was opened. This hub was linked with other DHL hubs around the world and served as a gateway to the Middle East region. International shipments, both inbound and outbound, were collected, the details recorded and sorting carried out for onward delivery.

As the use of the air express services in the Middle East expanded, so did the fleet of aircraft operated by SNAS and DHL, particularly over the past five years. In 1988, the fleet comprised three Metros flying five sectors. Today, five Metros and one Convair operate 10 sectors: Bahrain, Riyadh, Dhahran, Jeddah, Dubai, Abu Dhabi, Doha, Muscat, Kuwait and Shiraz in Iran.

Exhibit:6 SNAS Ad in Saudi Arabia

Exhibit:7 DHL Ad in GCC countries

DHL's operations today are a far cry from those early days when delivering a consignment may have meant picking it up from the airport and then driving around until the destination address could be located. Few Middle East cities, in the past, had street or even building names or numbers. Moreover, the fast growth fueled by petro-dollars meant that quite literally, the topography would change every month. Typical of this was Riyadh, which had barely 100,000 people in 1975 and now has a population approaching 2 million.

From one-office operation in Bahrain 18 years ago, DHL has grown to 89 customer service centers in 17 countries around the Middle East employing over 1,200 people. In Saudi Arabia, there are 27 SNAS offices and they are actively promoting their services (Exhibit: 6). Simultaneously, the DHL is also promoting their services in the GCC countries through English (and its Arabic version in Arabic newspapers) advertisement (Exhibit: 7) in the region.

Though the DHL's Middle East operation covered only the Gulf until 1978, it has expanded considerably since to spill well beyond the confines of the Gulf. It now extends from Libya in the west to Pakistan in the east and from Turkey in the north to Yemen in the south. DHL today operates throughout the entire Middle East.

Exhibit:8 Map of DHL GCC Operations

The company has never closed its doors to customers. Throughout the civil war in Lebanon, DHL's Beirut offices remained open. DHL also maintained its services during the Gulf crisis of 1990-91. The company was the first air express service back into Kuwait, just days after the country's liberation. DHL was allowed access to Kuwait Airport and overland by road when all else was strictly limited to military traffic. DHL ferried freighters full of building materials, spare parts and specialized equipments for the ravaged country.

New Hi-tech Hub for the Middle East

The DHL Worldwide Express Middle East Distribution Center at Bahrain International Airport was officially opened on November 2, 1993 by the Prime Minister Shaikh Khalifa bin Sulman Al-Khalifa. The BD 3.38 million (BD1=\$2.65) building, constructed over a period of 18 months, is the most advanced of its kind anywhere in the world.

Exhibit:9 Photograph of DHL new building in Bahrain

DHL chairman and chief executive Patrick Lupo said at the ceremony that the facility is ideally positioned at the airport and will be the nerve center of DHL's operations in the Middle East. "That we made this investment, at a time when the world is going through a recession, is a sign of our confidence in the economies of Middle East," said Mr. Lupo. The leading-edge technology has

been applied throughout the two-story, 7,000 square meter building, which is set on an 11,000 square meter air side site. Fully automated processes, which incorporate the latest bar code scanning technology, will enable up to 4,000 parcels and 8,000 documents to be sorted per hour.

A data transmission center will, meanwhile, link the DHL Regional Distribution Center (RDC) to 200 countries that make up the DHL worldwide network. An integral part of the facility is mechanized handling equipment for airline containers and other freight, a very important element in the changing face of express distribution.

The Bahrain center has been designed to meet the distribution needs now and into the next century. Special handling systems are installed to rapidly improve transit times through the facility. On the air side of the site, DHL and SNAS aircraft will have ramp access up to the door of the center. On the land side, DHL vehicles are able to load and unload documents, packages and freight for Bahrain and other destinations reached by the Saudi-Bahrain Causeway.

"This investment is part of a \$60 million expenditure in the Middle East," said Ken Allen, DHL's Middle East regional manager. "It has been made with the future in mind, as shipment volumes are projected to rise 20-30 percent per annum and weights by substantially more. Over the next four years, we will be making further substantial investments in physical installations,

technology and training," he said.

Bahrain was chosen for the site of the center for geographic and business reasons. The Bahrain International Airport is well served by regional and international airline providing air links to all important commercial areas. The King Fahd Causeway, meanwhile, gives additional access to the important market of Saudi Arabia and other countries in the peninsula.

Sophisticated Technology and Speedy Service

In the construction and designing of the Regional Distribution Center (RDC) in Bahrain, DHL has sought the services of specialists in the field of automated sorting equipment and information technology and combined it with its own in-house skills, in the design and construction of a facility that is unmatched anywhere in the world.

The RDC's function is the forwarding, distribution and consolidation of all material passing through it. It also serves as a data capture center for all inbound and outbound material within the region. Within the secure area of the facility, state-of-the-art sorting systems for documents and packages have been installed. These use the latest high-speed bar code reading technology to give fast and accurate distribution of all shipments. All shipments will be transported to, from and around the region in unit load devices (ULDs), sealed containers that fit into aircraft holds.

A new computer data transmission center is an integral part of the facility, linking the Bahrain hub to the 200 countries that make the DHL worldwide network. The facility has a special section for handling heavier freight into and out of the Middle East. This area comprises racking, special handling equipment and computerized inventory control systems. Every shipment will now be automatically scanned and sorted. There will be more check-points but less handling by people and therefore less possibility of human error.

Shipments were previously picked up and put down as many as eight times; this number will now be reduced to two. Missorts previously stood at 0.2 percent; with the new hub they will be 0.002 percent, one in every 50,000, the management believe.

The shipment processing cycle can be split into two distinct sections: parcels and documents. It begins with pre-alerts from stations and other hubs, telling Bahrain how much material is coming on a particular aircraft. The ULDs will arrive at a central loading area adjacent to loading conveyors. The materials arrive in three types of bags: green, containing documents; blue, containing documents for New York bank; and red, containing dutiable items.

All bags are sorted. The red bags are opened and the contents are individually placed on the conveyor, which takes them to the

mezzanine floor. This is only of the two times they will be handled. Green bags are not opened but placed on the conveyor, on which they automatically travel to the designated document sorting area on the first floor. Dutiable items from the red bags are individually X-rayed when they reach the mezzanine floor by one of the three latest scanners.

Exhibit:10 Sophisticated Bar Code Scanner & Conveyor System

After the X-ray and checking, the item goes to the loading station where the bar code on the specially designed label is read by a hand-gun reader. Simultaneously, the parcel is weighed. It travels automatically along a conveyor to one of the 23 exits. Computers designate its destination and determine if it is a heavy or light parcel. Handling crews then load the heavy parcels directly into the ULDs. The lighter parcels go back into the bags and then into the ULDs.

The contents of the green bags are put on to a sorter career on the first floor arrival area. Bar codes are again read by specialized equipment which translates the information into a destination number for automatic dispatch into the correct destination chute. The items are guided directly into bags and once the bags are full, a take-away conveyor carries them to the labeling position before re-entering the feeding lines of the parcel sorting system.

On the air side of the building, containers are loaded on or off

'dollies' by fully powered conveyor spurs which include a leveling function to accommodate variations in the height of the dollies. Inside the facility, containers are moved and manipulated on high-performance, low-friction gravity roller conveyors and power-assisted, rail-mounted transfer tables.

On the road side of the facility, heavy freight bound for the causeway is loaded on to long-haul 40-foot trucks by a fully automated scissor lift. These trucks are especially built and equipped with rollers to facilitate easy and prompt load on/off of containers from the aircraft.

The Future

The ambitious regional hub of DHL is now in operation. Whether they will achieve their projected target is yet to be seen. To what extent their business is likely to be affected by lower oil prices cannot be ascertained at this stage. What will happen now (in 1994) that the Saudi Arabian market has been opened to others, such as Federal Express? These and other related issues are currently being considered by the DHL regional managers in the Middle East.

In an effort to reduce their cost, DHL Bahrain management has realized that they can transport heavy cargoes in all GCC countries through the Saudi-Bahrain causeway and can still deliver overnight. This means that only the express documents and parcels can be transported to distant places by air. Furthermore, in order to expedite the customs clearance at the causeway, they

usually initiate the formalities ('legalization procedure') of the documents and parcels, either at the Saudi Embassy in Manama or at the Causeway, even before the arrival of cargo in Bahrain. This is possible because of the advanced technology in use, and they know exactly how many parcels and documents are being transported by individual aircraft and accordingly they prepare the papers and initiate the legalization process.

In January 1994, the Gulf Air has introduced a daily cargo freighter from Bahrain to Brussels via Sharjah (in UAE). This new Boeing 757 freighter flies overnight to Brussels where DHL's European hub is located. DHL and Gulf Air have agreed on some business arrangements to their mutual benefits. These includes transporting DHL's cargo and parcels by the freighter as well as delivery of Gulf Air's cargo by DHL's operations. Such an arrangement has obvious advantage for both DHL and Gulf Air.

Furthermore, Japan Airlines (JAL) and Lufthansa, the world's largest air cargo shippers, acquired minority stake share in the DHL International in December 1990, with an option to expand their holdings (DHL Corporate Annual Report:1992). Lufthansa and JAL have later exercised their options to acquire controlling interest in DHL International. Together with the Japanese trading company Nissho Iwai Corporation, JAL and Lufthansa now control 57 percent of DHL International. "The company's alliance with JAL, Lufthansa and Nissho Iwai significantly strengthens our uplift and long-haul capabilities and enhances our airport han-

dling capacity throughout the world," says Patrick Lupo. " For customers, it means access to a much broader menu of services. Indeed DHL is well poised to meet the future. Our success, however, can only be measured by our ability to anticipate and meet our customer's logistics needs by staying ahead of continuing global change" (DHL Corporate Annual Report 1992, p2).

Patric Lupo has expressed his confidence and optimism about DHL's future. "As we look ahead, we see exciting opportunities for our customers and for ourselves. International agreements like GATT (General Agreement on Trade and Tariffs), NAFTA (North American Free Trade Agreement) and the expansion of European Economic Area reflect changing, more open patterns of international trade..... In this world of tomorrow, only one quality of service is good enough: the best. That's why DHL's 35,000 employees, backed by state-of-the art equipment and technology, are dedicated to providing the highest level of service in the air express industry. I believe this dedication to service quality will maintain DHL's position as world leader in the air express industry for the next 25 years" (DHL Corporate Annual Report:1994, p1). Only the future will witness whether such an optimism will materialize.

SUMMARY AND CONCLUDING COMMENT

In this section we would like to offer our observations and comments regarding the theme or focus of the case, the inherent lessons and, where applicable, the update or epilogue.

i. Brief Analysis of DHL-Middle East

This case presents the story of a very successful multinational firm's entry in the Middle East. It shows how the company has gradually expanded its business in this regional market and has strengthened its presence with substantial capital commitment. It is interesting to note that despite the different socio-cultural and legal environment of the region, DHL kept growing fast. One of the important requirements for foreign firms doing business in the region (e.g. Saudi Arabia) is that they need to have a local sponsor or partner. DHL was the first express delivery company to enter the Middle East. They were also able to establish contact with an influential Saudi prince who was in fact their sponsor. SNAS was their associate in Saudi Arabia. This business relationship has its inherent benefits too. For example, DHL and SNAS lorries and other transports usually get quick services at different customs points of the country. This helps reduce the required time for delivery which is very crucial for any express delivery company. Moreover, SNAS has its own lorries and aircraft and DHL is using this resources. Thus they have avoided initial high investment. Recently, in a similar way, DHL is using Gulf Air's daily cargo service to and from Brussels where DHL's European hub is located. This means that wherever there is a possibility, the company is using resources of other firms or part-

ners. All these instances suggest that DHL has adopted a typical 'regeocentric' attitude of a multinational enterprise. Some of their moves have contributed to their competitive advantage. Modern facilities at Bahrain hub, business relationship with SNAS and Gulf Air are obviously the major strengths of the company. However, as the growth potential of the market is high, other express delivery companies including Federal Express, UPS and TNT Skypack are making determined efforts to increase their business in the region.

ii. Lessons

What we learn from this case is that an appropriate attitude is needed for an international firm to successfully operate in a different socio-cultural environment than domestic market. Furthermore, the gradual approach adopted by DHL appears to have been useful. Initially the company entered a few markets and then the business was expanded to other markets. This approach helped them to gain valuable market knowledge such as, type of customers, services needed, local contacts and so on. Based on such knowledge of one market they moved to other markets in the region. Top management's support and commitment have also been a major factor their success in the region. They have kept monitoring the developments in this regional market and have gradually capital commitment. In the early 1990s DHL approved a budget for US\$60 million for the Middle East market, \$9 million of which has already been spent for the Bahrain hub. Senior managers of the company, including the CEO Patrick Lupo, frequently visit the region not only to provide motivation and support to his managers but to get first hand information from the field.

iii Update/Epilogue

For many years DHL has effectively had a private operator monopoly in Saudi Arabia through associate company SNAS. Other international express companies such as, FedEx, UPS and TNT Skypack have been able to provide only a delivery service in the country. That situation has changed in 1994 when FedEx started operations in Saudi Arabia (Exhibit 11). This entry of FedEx in the Gulf's most important and biggest market has intensified competition. DHL, being the leader in the Middle East, is responding with new strategies in product-mix (low weight and heavy weight), pricing and promotion in order to maintain its position. Exhibits 12 and 13 provide a few examples. Similar promotional campaigns were run in the other GCC countries too.

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Exhibit:1 DHL Stations in the Middle East

COUNTRY	CITY	
BAHRAIN	Manama	
CYPRUS	Nicosia	
	Larnaca	
	Limassol	
EGYPT	Alexandria	
	Cairo	
	Port Said	
IRAN	Tehran	
JORDAN	Amman	
	Aqaba	
KUWAIT	Kwait	
LEBANON	East Beirut	
	West Beirut	
LIBYA	Tripoli	
OMAN	Muscat	
	Salala	
PAKISTAN	Islamabad	
	Karachi	
	Lahore	
QATAR	Doha	
SAUDI ARABIA	Abha	Hofuf
	Al Baha	Jeddah
	Al Jauf	Jubail
	Al Kharj	Khafji
	Al Khobar	Makkah
	Arar	Medina
	Dammam	Nejran
	Dhahran	Riyadh
	Gassim	Tabuk
	Gizzan	Taif
	Hafar Al Batin	Yanbu
	Hail	
SUDAN	Khartoum	
SYRIA	Aleppo	
	Damascus	
	Homs	
TURKEY	Adana	Busra
	Ankara	Istanbul
	Antalya	Izmir
U.A.E.	Abu Dhabi	
	Dubai	
	Sharjah	
YEMEN	Sana'a	
REGIONAL H.O.	Bahrain	

Source:DHL Express Club Magazine, 1991.

The Arab World in Figures

	Domestic Economy				External Assets/Liabilities				External Trade and Payments				Current Account (\$ mn)	
	Population (mn)	Nominal GDP (\$ mn)	GDP Growth (%)	Annual Rate of Inflation (%)	Average Oil Production ('000b/d)	Int'l Liquidity (\$ mn)	Commercial Banks Foreign Assets (net) (\$ mn)		Total Debt (\$ mn)	Debt to BIS Reporting Banks (\$ mn)	Average Monthly Exports (\$ mn)	Average Monthly Imports (\$ mn)		Services & Transfers Balance (\$ mn)
							June 1993	June 1993						
ALGERIA	25.9	45,200	2.6	28.4	748	1,435	5,430	26,349	14,119	943	615	2,239	1,590	
	25.2	42,911	1.2	26.6	772	1,457	6,887	27,919	14,815	951	567	1,111	2,167	
BAHRAIN	0.5	4,354	7.7	0.2	42	1,302	1,779	2,549	1,222	285	304	681	993	
	0.5	4,213	4.6	0.8	42	1,199	1,977	2,339	1,081	260	160	605	796	
DJIBOUTI	0.4	480	1.0	1.0		75	114	190	26	5	37	189	44	
	0.4	476	2.6	2.2		81	127	197	31	5	12	141	28	
EGYPT	55.9	41,768	4.4	12.4	892	12,235	9,573	40,431	3,969	1,478	559	8,313	2,812	
	54.5	11,691	1.1	9.1	874	9,641	9,587	41,008	5,603	274	591	7,568	1,903	
IRAQ	19.3	51,156			483			19,103	4,963		7			
	18.7	58,861			526			21,259	5,965	11	60			
JORDAN	4.0	4,792	11.3	6.1		699	171	7,977	1,747	797	212	1,013	765	
	3.9	4,082	1.8	2.9		767	186	8,649	2,109	102	210	778	194	
KUWAIT	1.3	21,703	45.0		1,880	4,214	2,862	9,826	8,292	839	479	958	873	
	1.4	11,201	-45.0		1,058	5,147	2,611	4,119	8,022	591	640	22,663	25,891	
LEBANON	2.8	5,992	5.0	10.0		1,740	2,835	1,812	1,388	517	349	911	2,246	
	2.8	4,784	15.0	6.0		1,496	2,658	1,560	1,511	69	102	994	1,817	
LIBYA	4.9	13,169	2.5	2.0	1,378	5,886	238	4,341	1,545	781	401	1,982	708	
	4.7	28,429	1.0	12.0	1,413	6,684	825	4,649	1,491	781	179	1,690	2,271	
MAURITANIA	2.2	1,120	2.4	15.7		45	78	2,303	137	48	17	335	160	
	2.1	1,071	-0.5	1.4		61	185	2,232	95	49	11	35	18	
MOROCCO	27.0	28,762	-2.9	5.1		3,522	166	21,418	4,845	284	510	2,308	427	
	26.4	27,651	5.2	1.8		1,584	63	21,304	5,528	125	557	1,579	196	
OMAN	2.0	11,489	6.8	0.9	780	1,618	573	2,854	1,556	650	291	2,413	166	
	1.9	10,188	9.2	2.5	750	1,192	370	2,899	1,527	611	271	2,016	117	
QATAR	0.4	6,980	1.4	2.0	403	662	1,665	1,493	1,711	306	137	1,650	42	
	0.4	6,623	-13.2	4.4	421	694	1,850	1,801	1,456	217	144	1,574	144	
SAUDI ARABIA	17.5	121,103	2.9	2.8	8,194	7,428	20,060	17,089	17,344	4,452	2,877	11,423	19,431	
	16.9	115,112	9.7	0.9	8,112	5,915	22,655	17,450	15,169	4,117	2,917	19,127	27,710	
SOMALIA	7.9	835				117		2,447	4	10	11	3	81	
	7.7	1,015				146		2,449	17	10	7	119	157	
SUDAN	25.0	6,196	-1.5	89.6		43	272	16,085	732	22	86	91	506	
	24.5	8,524	0.7	104.2		24	575	15,814	829	25	88	171	938	
SYRIA	13.0	33,050	9.6	14.3	560	5,314	1,835	16,513	687	232	273	103	55	
	12.5	28,170	11.6	8.1	515	5,170	1,118	16,867	741	220	275	164	699	
TUNISIA	8.4	15,249	8.0	4.4	110	7586	893	8,476	1,385	310	484	1,098	945	
	8.2	11,188	1.9	4.6	110	987	1,059	8,100	1,465	120	485	71	468	
UAE	2.0	14,977	2.7	4.0	2,190	5,748	10,332	10,797	7,192	2,286	1,463	1,296	2,642	
	2.0	11,914	0.8	4.0	2,266	5,712	10,727	10,159	8,761	2,112	1,568	6,701	1,535	
YEMEN	12.3	10,108	-2.5	35.0	236	1,559		6,516	310	27	119	59	342	
	11.9	8,101	1.9	21.5	190	1,912		6,129	401	51	126	611	229	

Quarter I, 1993 * 1st Half 1993 * 1992 * June 1992/June 1991 * Quarter III 1993 * October 1993 * January-September 1993 * 1990 * September 1993 * 1991 * June 1993 * Quarter II, 1993 * September 1992 * March 1993

Note: Figures in italics are for period one year previously. For all definitions and sources see technical notes on page 8.

Source:



News from United Parcel Service

FACTS: UNITED PARCEL SERVICE

FOUNDED	August 28, 1907 in Seattle, Washington
HEADQUARTERS	Atlanta, Georgia
CHAIRMAN AND CEO.....	Kent C. (Oz) Nelson
1991 DELIVERY VOLUME.....	2.9 Billion Parcels and Documents
1991 REVENUE	\$15 Billion
DAILY DELIVERY VOLUME	11.5 Million Parcels and Documents
DAILY AIR DELIVERY VOLUME	775,000
(UPS Next Day Air & UPS Second Day Air combined)	
EMPLOYEES	256,000
CUSTOMERS	More than 1.1 Million
(Shippers who receive automatic daily pickup service)	
OPERATING FACILITIES	2,250
AUTOMOTIVE VEHICLE FLEET.....	129,000 Vehicles
(Vans, tractors, trailers, etc.)	
UPS JET AIRCRAFT (Including those on firm order)	757's 55
	727's 52
	DC-8's 49
	747's 11
	TOTAL 167
CHARTERED AIRCRAFT	266
DAILY FLIGHT SEGMENTS.....	Domestic 971
	International..... 496
AIRPORTS SERVED	Domestic 349
	International..... 209
AIR HUBS: U.S.A.....	Main U.S. Air Hub: Louisville, Ky.
	Regional Air Hubs: Philadelphia, Pa.
	Dallas, Tex. and Ontario, Calif.
EUROPE.....	Cologne/Bonn, Germany
ASIA PACIFIC.....	Hong Kong, Singapore
SOUTH AMERICA.....	Miami, Fla.

— BEHIND THIS SHIELD — IS EVERYTHING YOU EXPECTED FROM IML.



AND MORE

IML Air Courier is now an integral part of UPS, the world's largest package delivery company.

At UPS, in over 60 years of delivering packages, we have developed a unique dedication to this simple task.

We have also set ourselves some very high standards.

IML shared these standards.

So although the IML name will disappear, the quality of the service you associated with the company will not.

As the brown livery and gold shield of UPS become increasingly familiar, remember, they represent all that you expected from IML.

The same dedication to service.

The same dedication to reliability. With the added strength of the UPS network, 468 aircraft, 119,500 vehicles, 286,000 people serving over 185 countries and territories worldwide.

At UPS, however, we see little merit in being the biggest, unless you get there by being the best.

So our aim will not be simply to get your business, but to earn your trust, the only way we know how. One delivery at a time.



United Parcel Service

As sure as taking it there yourself.

Call toll free 800-4774



●The Cathay fleet...adding an exciting new dimension to Bahrain's aviation industry

Source: Gulf Daily News, May 8, 1993, p.13.

A Proud Tradition.

Only SNAS can offer you:

- Commitment to service in Saudi Arabia since 1978.
- A fleet of dedicated aircraft.
- Heavyweight container trucks and vans.
- Lasernet, our computerised confirmation of delivery system.
- Over 300 professionally trained staff operating from 27 locations throughout the Kingdom.
- Access to DHL, the world's largest air express network, serving customers in more than 200 countries.



And now, special low
rates on your
heavyweight shipments!

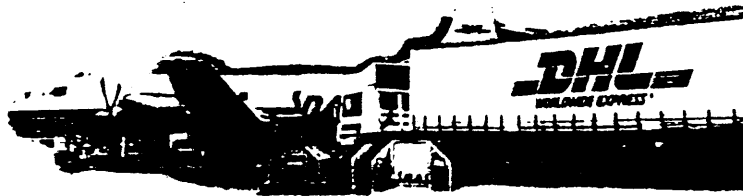
Please send me details of special rates from SNAS on heavyweight shipments!

Company name		
Name	Job Title	Phone no.
Address		
Area of interest (please tick)	☐ Heavyweight Freight (Inland and Outland)	
	☐ Overweight Domestic Deliveries up to 1 Tonne	
	☐ International Packages over 10 Kgs	
Just call a SNAS representative in your area for company information		
Riyadh 4621919 Jeddah 6693388 Dhahran 673333		
or send to:		
Heavyweight Opportunities		
P.O. Box 7977, Jeddah 21472		
or Fax Jeddah 6696642		



'THE HEAVYWEIGHT SOLUTION'

Any WEIGHT Any SIZE OVERNIGHT?



**DHL delivers overnight
anywhere in the Gulf!**

- ☒ Door-to-door service.
- ☒ No weight or size limit.
- ☒ Proof of delivery.
- ☒ Special rates for regular DHL customers.

For more details on our overnight services, call Chris Williams on:
U.A.E. Freephone 800 4004
or complete this coupon and send it to:
DHL overnight services, P.O. Box 6252, Dubai, U.A.E.
or fax Dubai 373418.

Name: _____

Company name: _____ Job title: _____

Address: _____ Tel: _____

Area of interest: (please tick)

- ☐ GCC overnight distribution services.
- ☐ International overnight services.
- ☐ Heavyweight Middle East inbound express freight services.
- ☐ Special rates for regular DHL customers.

DHL
WORLDWIDE EXPRESS®

Exhibit: 8 Map of DHL Middle East Operations

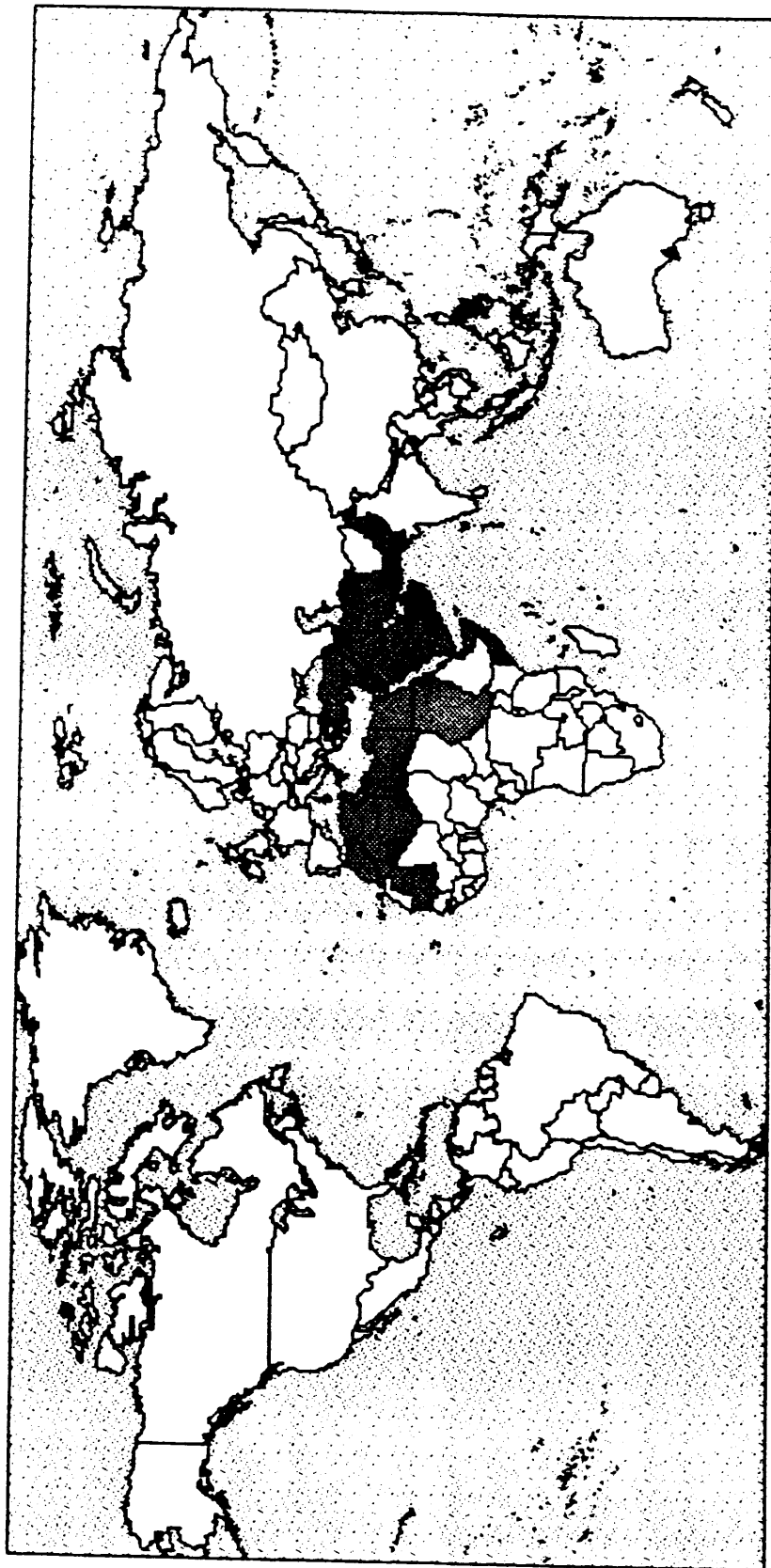
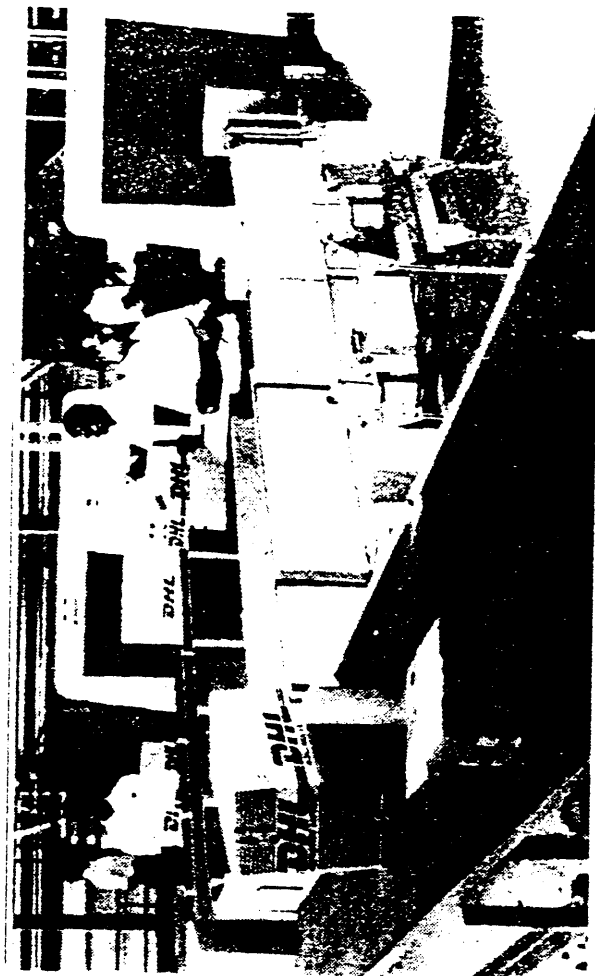


Exhibit: 9 New DHL Building in Bahrain



●The DHL Regional Distribution Centre at Bahrain International Airport.

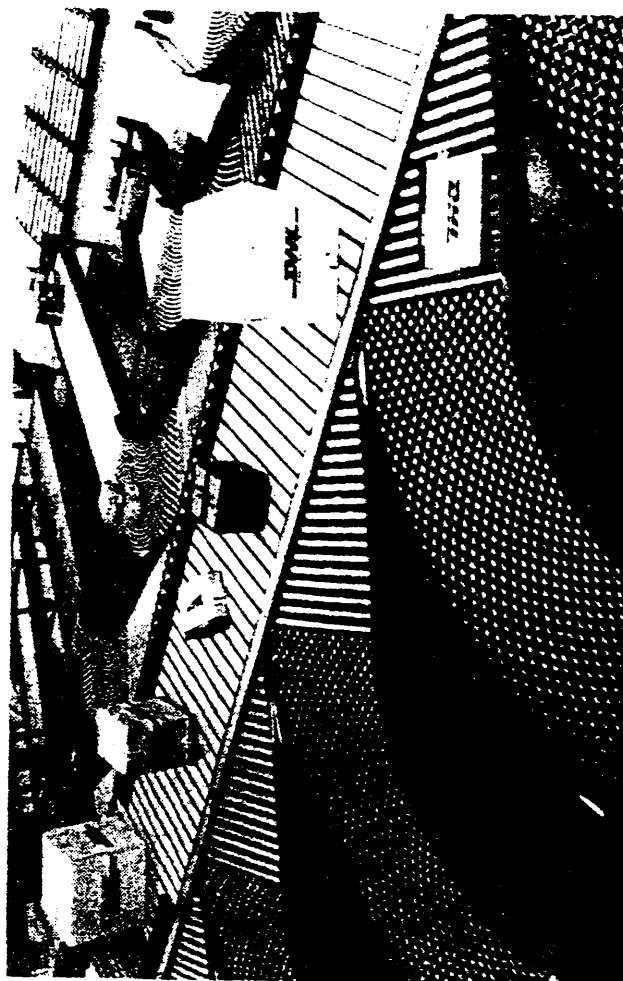
Source: Gulf Daily News, November 29, 1993



● DHL staff scan dutiable items with advanced X-ray equipment.



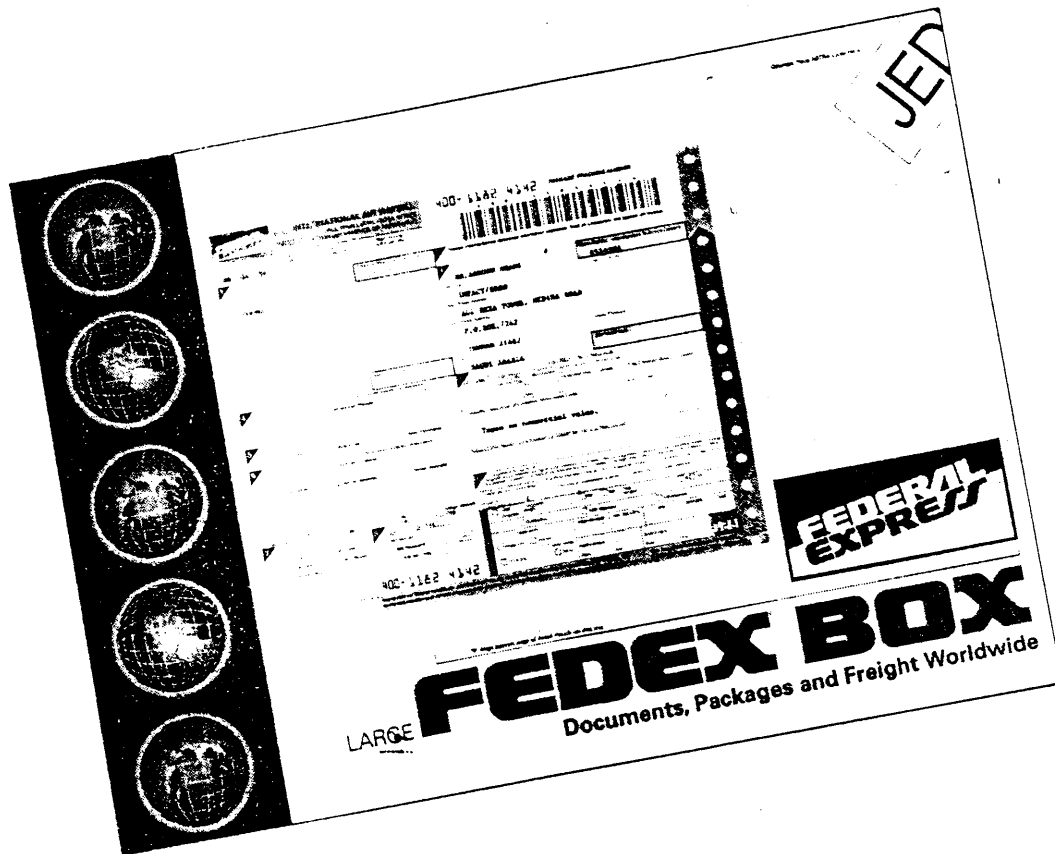
● Sophisticated bar code scanner



● The state-of-the-art conveyor system at the DHL Regional Distribution Centre.

Source: Gulf Daily News, November 29, 1993

Now you can ship overnight to Saudi Arabia...



and get free gifts from the no.1 in Air Express.

Federal Express, the World's largest air express carrier, now delivers the goods in and out of Saudi Arabia. Overnight delivery to the major business centres of the Kingdom means you can now choose to get it there quickly with the world's No.1. And remember, collect the pink copies of your Saudi destination FedEx airway bills issued between July 1 and August 11, 1994 and bring them in for great free gifts. For details on our new Saudi service, call one of our Customer Services Hotlines and make sure your packages and documents really fly:

Dubai 821821, Abu Dhabi 724050, Kuwait City 564 0677, Manama 530440.



The best way to ship it over there.

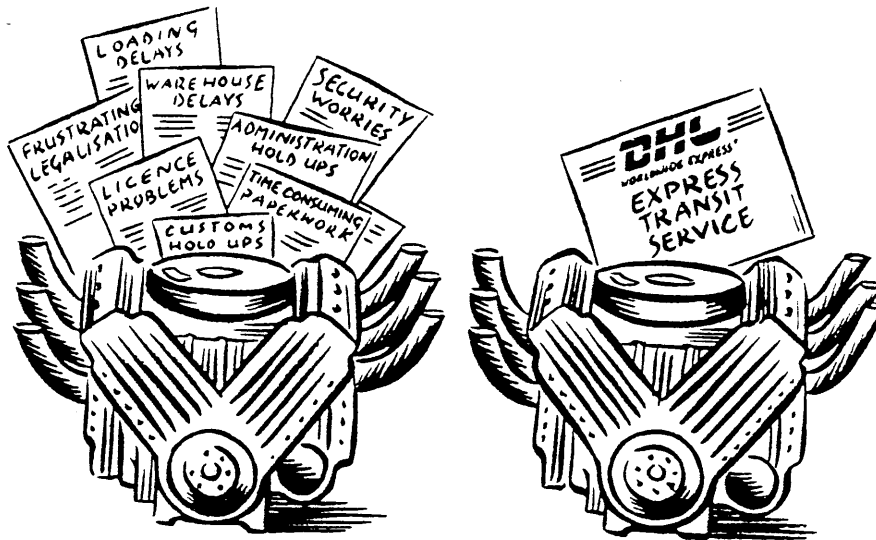
Free Gifts

2 Saudi destination air waybill copies
for a **FedEx T-Shirt**

5 Saudi destination air waybill copies
for a **Boss Radio**.

10 Saudi destination air waybill copies
for a **World Time Clock/Calendar**.

*Gifts must be redeemed before August 31, 1994.



It's the same motor, but the one on the right goes 3 times faster.

It's amazing what streamlining and fine tuning can do when applied to the importing of heavyweight freight.

With conventional systems, because of the variety of agents and the complex procedures involved, you can wait three weeks or more for your consignment to arrive, clear customs and find its way to its final destination.

Now DHL's Express Transit Service (ETS) speeds up freight delivery to between three and six days. ETS is a priority, inbound,

airfreight service with time-definite transit. Door-to-door. Customs cleared. Computer-tracked. Legalised.

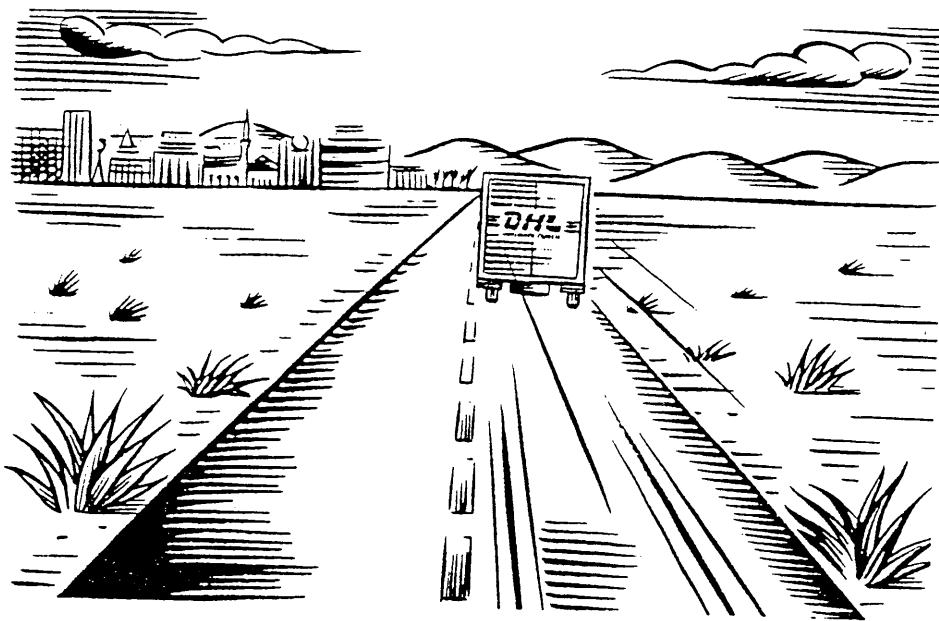
No weight or size restrictions. No hidden surcharges. It is the easiest method of importing goods into Bahrain. And by far the fastest. In fact, the only thing that doesn't go fast is your money.

So why not find out how the ETS importation and distribution system can help save your company time and money.

Call your local DHL office on 534 141.



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WORLDWIDE EXPRESS®



Introducing Gulf Wide Distribution. Now freight takes the express lane.

Have you ever wondered why it takes so long to ship freight around the Gulf? Why it's so complicated and why you are never quite sure if and when your important consignments will finally get there?

Well, now there is an alternative. DHL's unique Gulf Wide Distribution Service (GWD) revolutionises the way you can distribute heavier weight shipments around the Gulf. GWD is faster, three days instead of six days.

It's much easier, DHL sorts out all the paperwork, customs, licences etc., *all* the paperwork. And it's much more reliable.

Our own planes and trucks run when your consignments are ready to

go and we track and control them with our unique computerised tracking system. And, of course, it's a door-to-door service, with very attractive rates:

Bahrain	Bahrain	Bahrain
↓	↓	↓
Dubai	Qatar	Kuwait
50kg	100kg	150kg
BD48	BD75	BD105

But don't take our word for it, challenge us with your freight shipment.

And, let us prove that with DHL's Gulf Wide Distribution, heavier weight shipments don't have to take the slow lane anymore. Ring us on 534 141 and we'll take a heavy load off your mind.



CASE 2

Arab Banking Corporation

CONTENT

Arab Banking Corporation	Page 1
Company History and Background	2
The Grwoing Years	3
Organization of the Bank and Branch Network	4
Acquisition Strategy	6
Industry Situation and Performance	7
Internationalization Process Continues	9
Geographical Distribution of Assets	11
Product Range and Business Activities	12
Commercial Banking	12
Treasury Operations	14
Investment Banking	15
The Subsidiaries	17
ABC - Daus & Co. GmbH	17
ABC Banque Internationale De Monaco SAM	19
Banco Atlantico	20
International Bank of Asia Ltd.	23
ABC International Bank	30
ABC - Jordan	33
Situation in 1994 and the Future	35
Summary and Concluding Comment	37
Refereces	41
Appendices:	
Exhibit : 1 Top 100 Arabs	
Exhibit : 2 Selected Consolidated Financial Data, 1981-1992	
Exhibit : 3 Consolidated Statement of Income and Retained Earnings	
Exhibit : 4 Consolidated Balance Sheet	
Exhibit : 5 Geographical Distribution of Assets and Liabilities	
Exhibit : 6 Highlights of ABC Subsidiaries	
Exhibit : 7 Investments in Subsidiaries	

Arab Banking Corporation - Bahrain

With a 1992 equity of \$1.4 billion and assets of \$19.5 billion, the Arab Banking Corporation (ABC) is the Arab World's second largest bank, followed by the Riyadh Bank of Saudi Arabia (Exhibit 1). During the last 14 years, this Bahrain based institution has become a major international bank led by Abdulla Saudi, the founding President and Chief Executive Officer. Today the bank has a worldwide network spanning 33 countries. The bank has major subsidiaries in Germany, Spain, U.K., France, Hong Kong and Jordan.

In January 1994 the ABC was, however, faced with some major issues. Credit card and traveller's cheque transactions of one of its newly established subsidiary, the Arab Financial Services (AFS), had been suspended in the U.S. The United States took action under the UN Security Council resolution that froze Libyan financial assets from December 1, 1993 over the 1988 bombing of a Pan Am airliner over Lockerbie, Scotland. There is also implicit external pressure to replace Abdulla Saudi who is a Libyan national, from the position he holds. Besides, the bank was contemplating new moves to strengthen its position in fast-growing South East Asia, particularly in China, and some additional Middle Eastern countries.

COMPANY HISTORY AND BACKGROUND

Arab Banking Corporation was incorporated on 17 January, 1980 by Amiri Decree in the State of Bahrain. The views from the headquarters of the Arab Banking Corporation (ABC) provide panoramic vistas across Manama and far beyond the shoreline of the city. The office towers and busy boulevards of Bahrain's financial business centre contrast with another more tranquil scene, a dhow (boat) carefully manoeuvring through the shallow turquoise waters of the Gulf.

Inside the eleven storey building, the elegant and relaxed Italian-designed interior is a reminder that ABC, in keeping with the varied outlook from its executive floors, is a bank that has chosen to develop in many outward directions since its inception in 1980.

It is a diversification philosophy that has served the bank well in contrast to some other banks which arrived in Bahrain in the early part of the decade, with the single aim of pursuing the deposits of the Gulf's Arab oil producers, whose economies then were seen to be in ever-increasing surplus.

Formed by Kuwait's Ministry of Finance, the Abu Dhabi Investment Authority and Libya's Secretariat of the Treasury (the third shareholder has now become Libya's Central Bank), each has subscribed equally to ABC's fully paid-up capitalisation of \$750 million. Nevertheless ABC,

an offshore bank without an obvious local customer deposit base, has followed a consistent strategy of developing its own long-term sources of finance from the Eurobond market and by international expansion to give ABC a retail deposit foundation outside the region. At the end of 1989 authorized share capital was increased to US\$1,500 million in anticipation of 1990's planned public flotation.

THE GROWING YEARS

The establishment of ABC in 1980 coincided with a period of surging international liquidity attributable to the major oil price increases of the 1970s and the resulting large current account surpluses of Opec and especially Arab Opec members. ABC's initial activities were geared deliberately towards contributing to the deployment of this liquidity through the medium of syndicated international lending. Starting with a capital base that far exceeded that of any other Arab Bank, ABC was well placed to lead the Arab world in its bid to capture a position in the international financial community that reflected the growing importance of Arab economies in the global economic structure. ABC quickly forged its mark as a lead manager and arranger of major international loans, and through both its own underwriting power and support from some of its Arab banking associates managed to make up for lost opportunities in the 1970s when Arab banks had not been able to handle an appropriate share of the greater and more diverse volume of trade and other

business flows between the Arab states and the rest of the world.

After establishing its name in the syndication markets, ABC settled into a consolidation phase, which would have been necessary even if the market for sovereign lending had not contracted. This period was a 'growth consolidation', during which the Bank demonstrated its commitment to developing an international presence and close contact with central banking authorities, correspondent banks and clients worldwide by establishing an extensive network of branches and representative offices in major financial centres. ABC also began to develop a range of fee-earning services, and placed great emphasis on exploring new avenues of lending such a co-financing in collaboration with the World Bank or project financing. Simultaneously, ABC sought to enhance management, systems and control back-up so as to increase the efficiency and competitiveness of operations and in order to assure clients and correspondents that ABC was a responsible, reliable and credible business partner.

ORGANIZATION OF THE BANK AND BRANCH NETWORK

ABC's international outlook was reflected in its early ambition to establish a wide-ranging branch network throughout the world's major financial markets. Setting up a branch network to penetrate Europe as a whole, ABC pinpointed London as a logical springboard and early in 1981 created in the British capital a Representative

Office for the UK and Ireland which was eventually absorbed into the London Branch. Later in 1981 a Representative Office for Continental Europe was opened in London. The first fully operational overseas branch was established there in May 1982 and in 1985 moved into ABC's new premises just next to the Bank of England. Operating as a wholesale commercial bank, London Branch has maintained a consistently high profile in traditional areas of treasury activities, corporate lending and trade finance. New York branch opened its doors later in 1982 and has gradually expanded its range of banking activities to include not only financing Arab world trade and short-term finance to Latin American countries, but also many aspects of corporate finance. The third branch to open in 1982 was the Singapore Branch which has expanded into a multi-product corporate banking unit with its activities including a variety of treasury and capital market products, as well as the more conventional direct and syndicated loans and trade finance activities appropriate for the fast growing region.

Set up in 1983, the Milan Branch has succeeded in tapping lucrative business from the Arab World. In 1987, for the first time since inception, the total volume of documentary credits generated by Milan branch topped the US\$1 billion mark. Paris branch was created in 1986 with the upgrading of ABC's already established representative office. It is particularly active in trade-related

financing between France and the North African Arab countries. Bahrain main branch was constituted in 1986, largely with a view to facilitating the evaluation of Bahrain operations as a profit centre, and to separate Head Office functions which provide overall coordination and supervision over the Bank's global network.

In addition to the branch network, ABC Group's worldwide activities and client relations are strengthened by the establishment of representative offices in Hong Kong, Houston, Rome, Tokyo, Tripoli and Tunis. It may be noted that the Representative Office for Continental Europe was closed in 1987 as it was supplanted by ABC's planned branch penetration in Europe.

ACQUISITION STRATEGY

ABC's large capital base has always provided the Bank with the added option of strategic acquisitions to further business development and balance sheet growth, and in 1982 ABC gained access to the West German merchant banking market by purchasing a 90 per cent-plus stake in the private merchant bank Richard Daus & Co. Bankiers (subsequently reorganised and renamed Arab Banking Corporation - Daus & Co. GmbH). In early 1984 ABC acquired a majority stake in the large Spanish bank, Banco Atlantico, upon its resale to the private sector by the Spanish government, and in early 1985 purchased control of the Hong-Kong based Sun Hung Kai Bank which in 1986 was renamed International Bank of Asia Ltd. These investments

are all yielding very good results for ABC, providing ready product and client diversification, and an entry into regional markets that have gained in importance as international lending remains held back by the debt crisis.

In 1985, in order to establish a separate investment banking entity, ABC incorporated a Bahrain-registered 100 percent-owned subsidiary, ABC Investment & Services Co. (E.C.), as the investment banking flagship of the ABC Group with ABC International Ltd., incorporated in 1984 specialising in corporate and market services from its London base. In 1988, through ABC-EC, the bank acquired a 50 per cent stake in the renamed Banco ABC-Roma de Investimentos S.A. in Brazil, providing an entry to the rapidly developing investment banking industry in that country. It also provided assistance in the acquisition of a joint-venture commercial bank in Jordan, which was established in 1990.

INDUSTRY SITUATION AND FINANCIAL PERFORMANCE

Thus in a relatively short space of twelve years, a major banking group, Arab in character and international in scope, has grown out from Arab Banking Corporation's headquarters in Bahrain. The ABC Group now retains close to 5,000 employees worldwide, with six operational branches, six representative offices, seven major subsidiaries and five affiliates spread across the international financial community.

In order to appreciate fully ABC's performance over the past decade, it needs to be seen in the context of the evolving international and economic environment, which at times was far from hospitable to banking and financial activities. The 1980s began with a surge in international inflation and interest rates, which caused recession in most of the world's economies. The year 1982 was a benchmark of undeniable crisis for sovereign lending by international banks, the ripple effects of which were to be felt throughout the rest of the decade. Debt rescheduling, securitisation of existing debt and various products and technological innovations in financial markets became a fact of daily life for the banking community. Financial markets also had to adjust to the stock market crash of 1987 and enormous volatility in foreign exchange and interest rate movements.

Against this background of financial and economic instability and crisis, ABC has recorded a remarkable pattern of growth whose momentum has not been lost in the difficult climate of the 1980s. ABC's total assets have grown from US\$4.8 billion in 1981 to \$13.1 billion in 1985 and \$19.5 billion by end-1992. The loan portfolio has grown from US\$1.2 billion in 1981 to US\$5.1 billion in 1985 and reached US\$10.5 billion by end-1992. Total deposits grew from US\$3.8 billion in 1981 to US\$ 15.2 billion in 1992. The bank's reserves have been built up from US\$114 million in 1981 to US\$412 million in 1985,

when total shareholder's funds stood at US\$1.188 billion. By the end of 1992 shareholders' funds reached US\$1.4 billion (ABC Annual Reports 1982-1993).

As shown from the figures above, the rise in assets over the past 12 years has shown meteoric growth, almost tripling in the first five years and then almost doubling again. In the first half of the decade, syndicated lending was in full swing but as the depth of the debt crisis became apparent ABC, like other international banks, turned increasingly to fee oriented business in order to supplement the interest margin income. Another notable feature of ABC's growth path over the past twelve years has been the sizable expansion of the customer deposit base. A concerted effort to attract this business, as well as the additions of the retails banks Banco Atlantico and International Bank of Asia, have led to a rise in customer deposits from \$723 million in 1982 to \$8.5 billion in 1992.

Pre-tax profits have been maintained, with the exception of 1987 and 1989 when, in accordance with developments in international markets, the Board of Directors decided to allocate all profits after minority interests to loan loss provisions. Exhibits 2-4 show detail Income Statement, Balance Sheet and Sources and Uses of Funds.

INTERNATIONALIZATION PROCESS CONTINUES

The internationalization of the ABC Group network continued in the 1990s as the Bank's new European

subsidiary, ABC International Bank plc. opened in London and acquired the business of ABC's Paris Branch. The Jordanian subsidiary, Arab Banking Corporation (ABC)-Jordan, in Amman and ABC's Loan Production Office in Los Angeles also attained full operational status. ABC established its own stockbroking arm in Bahrain with a seat on the local exchange while Banco Atlantico opened a subsidiary bank in Gibraltar. These new units all comply with the Group's basic strategy of acting decisively and appropriately both to secure existing market shares and to minimize overall exposure risk through the further pursuit of viable geographical and product diversification.

ABC International Bank's goals seek to ensure that ABC can continue to locate a high percentage of its earning assets in Europe, regardless of any moves to protect entry to the European Community after 1992. It will also encourage the development of full banking relationships with corporations operating in a mature market; it should provide an introduction to opportunities arising from the opening up of Eastern Europe to foreign capital investment; and it will assist the Bank to consolidate the substantial share of European-Arab trade financing activity that is already successfully handled through ABC's other European units and particularly the Bank's units in Italy and Germany.

The establishment of direct presence in certain Arab countries is also designed to improve the

comprehensiveness of ABC's trade financing service and to capture more business in a wider range of markets.

During 1992 Banco Atlantico was able to benefit from the modest recovery of many Latin American economies. It also strengthened the presence of its subsidiary Banco Iberoamerica (Panama) in Nassau (Bahamas) with a view to offering trust services and other tax efficient products to private individuals and companies. A representative office was opened in Portugal to assess the commercial opportunities deriving from the closer linkage of the Iberian peninsula's two economies. And the Bank's representative office in Beirut was re-established following improvements in the security situation in Lebanon.

GEOGRAPHICAL DISTRIBUTION OF ASSETS

The ABC Group's diversified access to banking opportunities worldwide is reflected in the broad geographical spread of the Bank's earning assets. At the end of 1992, 52 per cent of ABC's consolidated earnings assets were distributed within Western Europe (55.3 per cent - 1990 figure), 16.1 per cent in the Arab world (16.7 per cent), 11.4 per cent in Asian markets (10.2 per cent), 11.3 per cent in North America and the remaining 8.8 per cent across Latin America, Africa and East Europe (9.0 per cent) (See Exhibit 5).

Furthermore, during 1992 ABC moved to increase its activity within the Arab world by applying to open a

representative office in Cairo and to upgrade its Tunisian representative office to offshore banking unit status. ABC also established a representative office in Tehran during the year.

The broad geographical diversification of ABC assets has been developed as a basic strategic objective. A high level of diversification provides banks with the only adequate protection against those dramatic and often largely unpredictable fluctuations in particular markets and regions that can have such an impact on balance sheet performance. In ABC's case, it is clear that the wide distribution of its assets within countries with stable political and economic situations has sheltered the Group from the worst effects of the combined problems of the Gulf crisis and business recession afflicting certain main markets.

PRODUCT RANGE AND BUSINESS ACTIVITIES

ABC offers a full range of commercial banking, treasury and investment banking services through its global network, supported by the continuous upgrading of advanced technology.

Commercial Banking

ABC's initial business thrust was directed primarily towards the traditional areas of international banking - syndication's and underwriting, trade finance and correspondent banking. Syndicated lending in fact provided the ideal medium for the Bank to establish its

name in the market: the market itself was booming and ABC was very strongly capitalized from the beginning. By the time that the syndicated loan market began slipping, ABC was solidly established. While the syndication of loans and loan substitutes continues to be a major activity, project finance has gained in importance. In 1988 an energy group was established, based in Houston and London, giving new impetus to energy related lending. While maintaining its strong position in trade finance activity relating to two-way trade between the industrialized countries and the Arab world, ABC has made significant progress in financing trade between other areas. It has also expanded the range of trade finance products offered to include, for example, a forfeit, counter trade clearing, co-managing of credit lines under official trade protocols and Islamic pre-export financing.

ABC has made progress in using certain subsidiaries' and affiliates' experience in private banking to begin to develop a wider Group profile in this growth sector. Fee generating clearing, cash management and other correspondent banking services are other profitable areas to which the Bank has shown its clear commitment through heavy investment in the most up-to-date technology in this field.

On the retail banking side, ABC subsidiaries Banco Atlantico and International Bank of Asia have developed a range of new products, also taking advantage of latest

financial innovations and technological development. Banco Atlantico uses the Visa network for its traveller cheque issue, as does the Group's Bahrain-based affiliate, the Arab Financial Services Company.

Treasury Operations

Over the past twelve years, against a backdrop of unstable and sometimes turbulent markets, ABC has developed its treasury capabilities to service the needs of the expanding Group and its clients. A range of diversified products in a variety of currencies has been developed which are made available through a coordinated and increasingly integrated international network.

From the outset, ABC's establishment in an offshore financial centre such as Bahrain and its rapid acquisition of a loan and marketable security portfolio, required the establishment of a full-service dealing room. Since 14 April 1980, when the first deposit was accepted, the Bank's money market operations have provided an important part of its deposit base. The long-term strategy of generating more stable customer liabilities is reflected in the rapid growth of customer deposits, now accounting for close to half of total deposits. While a major factor in this phenomenal growth was the addition of Bank of Asia to the ABC Group, the recruitment of specialist customer traders in several units is now bearing fruit. The investment grade rating from Standard & Poor's will enable the Bank to widen even further its investor base, but at

the same time the Group remains committed to full reciprocity in supporting the various money markets in which it participates. The aim of lengthening the tenor of its liability base has also been achieved through the issue of Floating Rate Notes (FRNs), bearer bonds and term loans denominated in US\$, HK\$, DM, Yen and Spanish pesetas.

From the beginning, one key objective of ABC has been to establish dealing rooms capable of providing competitive services and quotations to its customers and correspondents worldwide. Foreign exchange operations have evolved over the last decade from trading on own account to providing a full range of services to corporate clients and high net worth individuals. By the end of the decade ABC's professional and competitive treasury capabilities were evidenced by product diversification encompassing major and regional currencies.

Investment Banking

From modest beginnings, ABC's merchant and investment banking activities have expanded to include securities trading, portfolio management, advisory functions, bridge finance, mergers and acquisitions and Islamic banking. ABC Investment and Services Co. (E.C.) is the investment banking arm of the ABC Group and forms the principal member of the ABC Capital Markets Group which also includes ABC International in London, ABC-Daus in Frankfurt and ABC Capital Markets in Singapore.

In 1986 ABC was instrumental in arranging the largest ever international equity underwriting group for the disposal of existing shares in the Italian company Fiat S.P.A. The London-based ABC International Ltd., played an active role in the purchase of Banco Atlantico and International Bank of Asia and participated in the highly successful public floatation of Banco Atlantico shares in 1987. ABC-EC assisted in 1988 in the arrangement of another acquisition for ABC via a debt/equity conversion of the renamed Banco ABC-Roma de Investimentos S.A. in Brazil. It also assisted in the acquisition of a joint-venture commercial bank in Jordan, which was established in early 1990. ABC-EC is currently looking at a number of other potential investments, some of them in the Arab world. Besides its own substantial bond portfolio, ABC is an active discretionary fund manager for an increasing number of investors. Clients can also rely on an extensive capability in the financial futures and options markets through ABC Futures & Bullion Pte. Ltd., which is a floor member of Simex in Singapore, and ABC-EC's Futures Fund. In addition, private banking clients of ABC enjoy access to the same quality service normally reserved only for major institutional investors. The Bank also specializes in managing funds on behalf of Islamic financial institutions and Moslem clients of the ABC Group.

THE SUBSIDIARIES

As already mentioned, over the past decade ABC has acquired several subsidiaries with the aim of broadening the geographical range of the ABC Group, expanding the scope of banking products and services offered and diversifying ABC's liabilities structure.

Arab Banking Corporation - Daus & Co. GmbH

ABC's first acquisition was a 90 per cent stake as a limited partner in Richard Daus & Co. Bankiers, which was originally founded in 1912 in Berlin but after the Second World War, was moved to Frankfurt. With its restructuring in 1984, the Bank's name was changed to Arab Banking Corporation - Daus & Co. GmbH. ABC increased its share to 99 per cent and raised additional capital in 1987, and again in 1989 ABC provided new capital injections. ABC's West German subsidiary contributes to the Group's overall business development through its role as a principal German correspondent for many Arab banks and by maintaining a very active involvement in the finance of German Arab world trade. The Bank is also active in securities dealings, new issues, arranging and placing syndicated loans and project and commodity finance. In 1985 ABC-Daus acquired its own premises in the heart of Frankfurt's banking district.

Despite the economic problems of reunification that continued to affect Germany in 1992, ABC Daus & Co. GmbH still managed to remain profitable for the year, earning a

net income of DM 0.8 million (\$0.5 million). ABC-Daus's strong correspondent links with banks in the Arab world enabled the Bank to capture a larger market share of the unified Germany's requirement for trade and contracting facilities related to their business in the region. In addition, the strength of the Deutschemmark currency in the midst of the turbulence experienced by other European currencies from September 1992 onwards led to increased counterparty use of ABC-Daus's foreign exchange brokerage services.

During 1992, ABC-Daus restructured its balance sheet in response to the prevailing recession and the twin 1993 challenges of the introduction of internationally recognized capital adequacy rules and the creation of a Single European Market. Total assets were reduced as a result to DM1,008 million (\$624 million) from DM1,108 million (\$730 million) and the loan book contracted from DM260 million (US\$142 million). The Bank became a shareholder of the newly-formed Frankfurt Stock Exchange holding company which was established as a first step towards unification of all Germany's stock exchanges and in response to pan-European challenges and opportunities; its competitive ability to complete German bond and equity trades for clients in the future has therefore been assured.

ABC-Daus intends to build on its excellent knowledge of Arab world markets in the pursuit of continued growth in

its core activities. It envisages widening its scope of customers through involvement with emerging private sector concerns in both the eastern part of Germany and other East European countries. The likely greater prominence of Frankfurt and the Deutschemark on the way to fuller European economic integration should increase the value of ABC-Daus's services to existing and potential Arab clients.

ABC Banque Internationale De Monaco S.A.M.

ABC Banque Internationale de Monaco was acquired as a subsidiary of ABC Daus in 1982 but was largely taken over by ABC in 1984, as the result of a capital increase. Expanding Arab trade and private banking business now complements the traditional commercial and retail activities of the company and particular successes have been registered in portfolio management. Another important activity is local real estate financing through mortgage and property development loans as the Principality's policies continue to make Monaco a preferred second home for many of the world's wealthy.

Monaco's economy in 1992 once again provided itself to be remarkably resilient and protected from the recessionary climate afflicting most of the rest of Europe. Local real estate activity and employment remained high while the banking sector continued to draw in increasing volumes of non-resident deposits, attracted by the Principality's

fiscal advantages and sound regulatory reputation. Exhibits 6 and 7 provide summary data of ABC subsidiaries. ABC Banque Internationale de Monaco enjoyed a successful year in 1992, with profits rising by 57 per cent to FFr5.2 million (US\$269 million). While the Bank has developed its own expertise in short-term secured real estate lending in the local market, it has also become more integrated into the ABC Group in terms of its international trade and deposit gathering activities.

ABC Monaco is playing an important role in the ABC Group initiative to develop an internationally competitive private banking service. It already offers multi-currency, interest-bearing checking accounts, and has the facility to act as broker and custodian for clients' international securities transactions. Products under consideration include property management and development for clients through a separately incorporated real estate subsidiary.

In general, ABC-Monaco can provide investment clients of the ABC Group network, wherever they are located, with a specialist introduction to the considerable advantage of incorporation, residency or account holding in Monaco.

Banco Atlantico

The largest of ABC's acquisition is Banco Atlantico, which was acquired from the Spanish government in 1984 following the collapse of the Rumasa Group. With a boost to the Bank's capital, the shareholders which also included Banco

Exterior de Espana and Banco Arabe Espanol, were intent on accentuating Banco Atlantico's subsidiary in Panama, Banco de Iberoamerica and representative offices in the region. In 1987 the ownership was widened with a highly successful new share capital issue which enabled a return to public ownership and a listing on the Madrid and Bracelona stock exchanges, a move which resulted in a 25 per cent boost to capital.

Since 1983 Banco Atlantico has been turned from a loss-maker into a highly profitable institution. Retail banking has emerged as the major growth area in the Spanish financial sector and Banco Atlantico's widening branch network, which now numbers 266, high public profile and innovative approach to new products has served it well. The general enhancement of information systems has facilitated the introduction of a number of new and very popular products including the 'Deposito Azul' (Blue Account), which offers Treasury-type yields to time depositors. The Bank's foreign currency accounts and cash management services have become much more efficient, competitive and widely used. Mortgage loans, credit cards and other forms of consumer finance have also altered the structure of Banco Atlantico's assets, although the company has by no means neglected the buoyant corporate sector in Spain. Internationally, the Bank remains active in trade finance and cooperates with ABC's New York Branch to develop the lucrative trade and private banking

business in Latin America. In advance of 1992, Banco Atlantico has positioned itself for the Single European Market by forging links with other European financial institutions.

Spanish economic problems increased in 1992 and presented Banco Atlantico with a very discouraging domestic banking environment. The strains of trying to adjust Spanish economic performance to that of mainstream Europe prior to the creation of the Single European Market in 1993 were very much in evidence. And the devaluation of the Spanish peseta within the European Exchange Rate Mechanism (ERM) in September and November 1992 were not unexpected. Spanish economic growth and capital investment fell in 1992, while unemployment and the balance of payments deficit rose. Of particular concern to the banking community was the deterioration in the credit worthiness of many small to medium-sized companies, faced with high borrowing rates, low final demand and increased competition from within Europe.

Over 80 per cent of Banco Atlantico's total deposits are raised as customer deposits through the extensive domestic branch network (which was expanded by four in 1992), and an increasing share of these deposits is being channeled into high-yielding deposit products including the Bank's popular range of investment funds.

In contrast to the rise in deposits, Banco Atlantico's loan portfolio was deliberately maintained at previous

years' levels. The Bank responded to the weakening of Spanish corporate credit by establishing a special loan recovery department and appointing outside management consultants to review risk control procedures within Banco Atlantico and its subsidiaries.

International Bank of Asia Ltd. (IBA)

When ABC wanted to expand into the Far East, it decided the best approach would be to acquire an existing operation, preferably in Hong Kong, which seemed the obvious springboard for a regional push.

IBA was originally acquired by ABC in 1985 as the Sun Hung Kai Bank and renamed in 1986 when ABC increased its holding. ABC has wholly owned the bank since 1990 when it bought out the remaining 25 per cent stake of a local businessman. IBA registered a 78 per cent rise in documentary credit volumes in 1992, as the bank's total assets grew by 31 per cent to \$1,000 million.

In 1992, ABC bought IBA's headquarters building and the bank's 18 domestic branches in Hong Kong. ABC said at the time that this confirmed its commitment to the area. ABC has representative offices in Hong Kong and Tokyo, a branch in Singapore, and an affiliate in Bangkok, OHI (Thailand). Both Hong Kong operations are headed by ABC's chief operating officer and Asia division head, Mike M Murad.

In addition to taking advantage of business opportunities presented by the booming economy of Hong Kong and trade

between neighboring countries and with the Arab world, IBA introduced to the market several innovative products, the most notable of which were the 'My Card', a credit card designed for use by females only, including department store credit cards and affinity cards for members of prestigious clubs in the colony. "The intention was to expand and complement ABC's presence worldwide", said Mike Murad (Asian Business: June 1993).

It was this type of activity that earned IBA a Golden Coin Award from the American Banking Association for outstanding achievement in the field of retail banking. "We have a full time unit dedicated strictly to product development" said Murad. The bank introduced four new products in 1992. "That's very unusual for a bank of our size" (Asian Business: June 1993).

The Bank has also become a leading arranger of hire purchase finance and engages in mortgage lending, a further asset-based and collateralised product. Through its own sharebroking subsidiary, IBA Securities Ltd., established in 1988, another dimension has been added to its involvement in Hang Seng-related business.

Hong Kong's business environment was particularly favourable during the first half of 1992, but optimism was tempered in the final few months of the year as differences over the course of political reform in Hong Kong emerged between China and Great Britain.

IBA took advantage of the favourable conditions for balance sheet growth to boost total assets by 31 per cent to HK\$7.7 billion (US\$1,000 million) in 1992. The Bank's funding base saw a 42 percent increase in customer deposits as IBA launched new savings products and improved branch locations and access to attract more clients. IBA also raised a further \$85 million through two FRCD issues, the second representing the Bank's first offshore FRCD fund raising exercise.

The loan portfolio grew by 25 per cent during the year to reach HK\$5.3 billion (\$687 million) and documentary credit volumes also rose dramatically with year-end commitments 78 per cent higher than twelve months earlier. A feature of IBA's credit expansion has been above industry average record of risk control in all areas - corporate banking, hire purchase and leasing, and consumer credit cards. In recognition of this achievement, IBA was named to Visa International's Asia-Pacific Risk Advisory Committee. Buoyant stock market conditions during 1992 provided excellent opportunities for IBA to promote its securities and private banking products using its IBA Securities Ltd. subsidiary.

The strong commitment of IBA and of its parent bank ABC to Hong Kong was evident in 1992, with the decision to acquire the Bank's headquarters building and other branch locations. The purchases will also help control operating costs in coming years, and together with rapidly improving

staff productivity, should ensure further profitability gains. IBA believes that economic expansion in the region will continue to support strategically planned and managed growth focused on retail banking and the servicing of consumer and small and medium company requirements.

ABC is planning to expand its operation in Asia and the Arab Magrebe (North African Countries), focusing in particular on trade finance opportunities. ABC was drawing up plans to float shares in its Hong Kong subsidiary, IBA, on the local stock exchange. "Our strategy is to direct our focus on Hong Kong, and in the future we may expand to China", said Saudi. ABC is positioning itself to take advantage of new trade finance opportunities between China and the Middle East. It already does some business in China, largely through its Hong Kong and Singapore branches, but now the bank feels there is potential for more business there. "Europe is a mature market, and the opportunities for expansion there are very limited in relation to those we see now in the Far East, specially trade related", said Saudi (MEED: 8 October 1993). Towards the end of 1993, the bank was considering forming a joint venture in China and even the possibilities of a full branch if the right partner cannot be found.

Financial Highlights of IBA

International bank of Asia achieved record profit of HK\$142 million in 1992, an increase of 103% over 1991.

The annualized return on assets rose to 2.49% and return on equity reached 22.53%, continuing an uninterrupted trend of strong earnings growth since 1988. During the year total deposits rose by 45% to HK\$6.5 billion. Total assets increased by 31% to HK\$ 7.8 billion. A record US\$85 million (equivalent HK\$663 million) was raised through two issues of FRCDs, demonstrating the market's confidence in IBA's financial progress, and it's access to a wide range of funding sources. The Bank has total capital resources of HK\$ 1.1 billion, and a capital funds to assets of ratio over 14%.

FINANCIAL HIGHLIGHTS OF IBA

1992 1991 1990 1989 1988

PROFIT AND LOSS ACCOUNT

Operating Profit after tax	(HK\$ million)	130	100	77	56	39
Preference share dividend	(HK\$ million)	7	20	30	30	30
Cash Bonus	(HK\$ million)	-	-	-	-	13
Net Profit after appropriation	(HK\$ million)	142	70	47	26	13

1992 1991 1990 1989 1988

CONSOLIDATED BALANCE SHEET

Capital Funds	(HK\$ million)	1,090	941	788	740	714
Total Assets	(HK\$ million)	7,745	5,921	5,268	5,186	4,403
Advances to customers						
less provision	(HK\$ million)	5,320	4,260	3,643	2,800	2,247
Current, deposit and						
other accounts	(HK\$ million)	6,418	4,430	4,385	4,214	3,688

Source: Company Annual Reports

		1992	1991	1990	1989	1988
SHARE STATISTICS						
Earnings per share	(HK\$)	0.30	0.27	0.18	0.10	0.13
Total assets value per						
share at book value	(HK\$)	29.34	22.43	19.96	19.65	16.68

		1992	1991	1990	1989	1988
SECURED RETURNS AND RATE (After tax equalization)						
Return on average equity	(%)	22.53	14.25	12.00	7.30	2.80
Return on average total assets	(%)	2.49	1.79	1.50	1.40	1.10
Capital funds and						
reserves to total assets	(%)	14.54	17.79	14.90	14.30	16.20

Source: Company Annual Reports

ABC International Bank

ABC International Bank plc (ABCIB) commenced operations as a UK incorporated independent subsidiary at the beginning of April 1991, when it acquired a significant share of the business of the existing London Branch of Arab banking Corporation. At the beginning of July 1991, the Paris Branch of the parent bank became a branch of ABCIB.

The new bank's authorized capital was established at UK Pound 300 million with UK Pound 150 million being paid in on opening. At the end of 1991 ABCIB's capital adequacy ratio according to Bank for International Settlements (BIS) definitions was 20.6 per cent, a fair indication of the new Bank's scope to generate extra business over the coming years. ABCIB was established with the intention that it become a premier Arab bank in both the UK and the rest of Europe with a particular expertise in the financing of two-way trade and investment between the Arab world and Europe. ABCIB hopes to expand existing sterling and French Franc correspondent and clearing business taken over from ABC's London and Paris branches and enhance the services it can offer through its new organization.

By establishing ABCIB as a subsidiary based in the European Community, ABC has been able to guarantee itself a competitive business presence within both the Community and the emerging wider European Economic Area (EEA). The new Bank will be better placed, for instance, to co-

operate with the European export credit agencies which assist in the financing of much European capital equipment export abroad. As it becomes more established ABCIB might also be expected to be able to tap European capital markets in its own right.

The formation of ABC International Bank is an important step forward for the group's strategic global expansion.

"The London operation should, in particular, demonstrate ABC's commitment to the new Europe emerging as a result of EC's single market initiative and changes in EFTA (European Free Trade Association) concern countries", says Abdullah Saudi, the president and CEO of the ABC. "The new bank will be able to concentrate efforts on developing business in this area and in forging links between the new Europe and a resurgent Arab World".

Marvin Hay, Managing Director, ABC International Bank plc. says " In 1990, 50% of our business was in Europe and I think that it is important to protect that market share and indeed to try and win a greater share. In 1989, there was \$70 billion worth of letter of credit trade between Europe and Middle East, and we would like to enhance our share of that".

1992 represented the first full year of operations for ABC International Bank plc (ABCIB), the European Community-based ABC subsidiary established in April 1991 in advance of the introduction of a single European banking 'passport' at the beginning of 1993. Despite sluggish

economic conditions in Europe during September 1992 and the currency and interest rate instability that followed the September withdrawal of the UK and Italy from the European Exchange Rate Mechanism (ERM), ABCIB made progress in developing its balance sheet. A cautious build-up of the bank's short-term lending activities increased total assets in both UK sterling and US dollar terms to Sterling 1,355 million or US\$2,025 million. Successful marketing of ABCIB to other banks and financial institutions resulted in the establishment of a wider funding base of inter-bank deposits, and the new bank was able to launch a successful certificates of deposit programme.

On 26 October 1992 ABCIB established a Private Banking Unit in a newly opened branch in the West End of London. This branch is staffed by a specialist team selected to provide a full range of private banking services to high net worth individuals. It co-ordinates with other private banking units within the ABC Group to provide comprehensive world coverage.

ABCIB's net profit for its full year of operations was sterling 5.1 million (US\$9.0 million), which has been retained within the Bank to boost shareholders' equity to sterling 158.3 million (US\$240.2 million). ABCIB's capital adequacy ratio at end 1992 on a risk adjusted basis using the Bank of England rules was in excess of 18 per cent. The Bank therefore retains some capacity for

more growth once the European economy begins to recover from its current low point.

Arab Banking Corporation (ABC) - JORDAN

Although Arab Banking Corporation (ABC) Jordan was licensed as a full-fledged commercial bank on 21 January 1990, the year 1991 can be seen as the first year in which the new Bank was fully operational. Despite difficult economic and political conditions affecting the Jordanian market place through 1991, ABC-Jordan made considerable strides in establishing itself in a very competitive environment. ABC-Jordan represents ABC's first onshore full banking presence in the Arab world, and its success is important to the ABC Group's intensified effort to generate a stable business base across the whole Arab world.

ABC has a controlling 60 per cent interest in ABC-Jordan which was established following a restructuring of the former Jordan Securities Company. Jordan's Housing bank holds a 25.46% per cent stake in the Bank, and the remaining shares are held by individuals and institutions from inside and outside the country. ABC-Jordan also has a 70 per cent participation in the Arab Co-operation for Financial Investments Company (ACFICO), which has a seat on the Amman Stock Exchange and offers brokerage and investment management services. ABC-Jordan was instrumental in 1991 in establishing an independent company with four other local banks to offer Visa card

services; this venture was expected to become operational in 1992.

Arab Banking Corporation (ABC)-Jordan benefited from buoyant conditions in its home economy to record substantial balance sheet and profitability growth in its second full year of operations. Total assets at the end of 1992 stood at JD (Jordanian Dinar) 128 million (US\$185 million), an increase of 53 per cent over 1991. Expansion has been driven by the bank's success in gathering customer deposits from its widening network of branches. Net profits for the year were JD1.80 million (US\$2.6 million), representing a growth rate of 73 per cent over 1991. In 1992 ABC-Jordan opened three new branches, doubling its number of outlets.

With the backing and international experience of its majority shareholder ABC, the Group's Jordanian subsidiary has introduced a more automated, innovative and universal approach to banking in the country. Apart from traditional commercial banking activities, ABC-Jordan has also managed to develop investment and merchant banking services through the establishment of its own corporate finance department and through effective stewardship of its 70 per cent owned Arab Co-operation for Financial Investments Company (ACFICO). In a year in which the Jordanian stock exchange and capital markets performed strongly, the Bank boosted income significantly through

brokerage, underwriting, fund management and new issue activity.

SITUATION in 1994 and THE FUTURE

AFS is the biggest issuer of Visa Card in the Middle East. As already mentioned, it had to suspend all credit card and traveller cheque transaction after U.S. froze the bank's dollar assets on December 20, 1993.

AFS is owned by 58 Arab Financial Institutions. According to its 1992 Annual Report, ABC holds 36.1 per cent of the company's shares followed by Saudi Arabia's National Commercial Bank which owns 12.5 per cent.

Bahraini authorities have defended the firm and criticized the U.S. for freezing its assets on the basis that AFS was owned and controlled by Libyans.

"The apparent justification for such an action is that AFS is owned/controlled by Libyan persons", Bahrain Monetary Agency (BMA) said in a statement. "In the opinion of the Bahraini authorities, this explanation is not factually correct since AFS is only 11.26 per cent owned by the Libyan Government", said BMA. (Gulf News: 30 December 1993). "Furthermore, although there are some persons of Libyan nationality on the Board of Directors and Executive Committee of AFS, they neither constitute a majority nor do they have executive control in either case".

A banking source close to AFS told Reuters that the firm was making arrangements to pay AFS cheques abroad, which

included opening a private bank account to help travellers cash all or part of their cheques.

Apart from the above events, ABC, in facing the challenges of 1994, is cautiously optimistic. Although international interest rate developments are unlikely to be as conducive to high bank earnings as they have been 1993, credit conditions and volumes might be expected to improve as several European economies build a successful GATT negotiations. However, potential stumbling blocks are plentiful. On the economic front these include the enduring problems in major European countries' state finances, the lack of coherence in international approaches to revitalizing business in Eastern Europe and the unresolved status of the former Soviet Union's foreign debt situation.

It is anticipated that Far East markets will continue to perform well and ABC plans to expand its activities and presence in the area. In the Arab world the offices and branches established in 1993 will be expected to generate new business, and ABC will be reviewing the reconstruction effort in Lebanon and the banking implications of any successful peace initiatives. The prospects for business with the Arab oil economies remain mixed. Weak oil prices, government expenditure constraints and other factors may serve to lessen these countries' general import requirements and their related demand for trade finance facilities. "Overall, ABC hopes that by virtue of

having diversified its product profile, geographical spread and ownership structure so deliberately over the last few years, a measure of protection has been developed against both particular difficulties that are presently foreseen but cannot be avoided, and against other problems that may emerge during 1994" (Annual Report 1993).

SUMMARY AND CONCLUDING COMMENT

i. Brief Case Analysis

During the last 12 years of its existence ABC has emerged as the largest internationally oriented Arab bank. From the outset the bank has pursued internationalization and has adopted both internal and external growth strategies. While ABC has established some of the subsidiaries on its own (i.e AFC - Bahrain, ABC International, London), the process of its internationalization has been expedited through its joint venture activities and acquisition of foreign firms such as Banco Atlantico, International Bank of Asia, ABC - Jordan and other subsidiaries.

Apparently, it was top management's vision, commitment and support that have provided essential direction for the growth and prosperity of ABC. Senior executives under the leadership of Abdulla Saudi have been able to transform this Bahrain-based bank into a major international financial institution in a relatively shorter period of time.

ABC offers a diverse product-mix e.g., commercial banking, treasury operations and investment banking. Its

subsidiaries are located in different parts of the world including the UK, Germany, Switzerland, Spain, Hong Kong, Panama, Manaco, Jordan and Bahrain.

ii. Lessons

ABC case provides a success story of a company owned and managed by Arabs. Its successful presence and operations in the world's major financial centers suggest the bank has been able to achieve the managerial competence needed to operate internationally. The way ABC went international is also interesting. The bank expanded its international operations in stages and followed a gradualist approach (Buckley, 1985). In some cases, ABC established its subsidiaries on its own, for example, AFS - Bahrain and ABC International Bank in London. On the other hand, the bank also expedited its internationalization through joint venture activities or acquisition of foreign firms. These moves by ABC reflect prudent managerial decisions and their implementation which resulted in consistent growth during its 12 years of existence. So the important lesson we get from the ABC experience is that if the top management has a clear vision and mission, is committed to provide needed direction, support and resources coupled with the formulation and implementation of strategies, a company can be successful. The origin and nationality of owners and managers are not that important.

iii. Update/Epilogue

Abdulla Saudi announced in early 1994 that he would relinquish his position as the CEO of ABC as of May 1, 1994. Saudi said," sensing the mounting pressure and the changing environment," the decision to quit was taken. The bank has been shaken by US political pressure which forced the ousting of Abdulla Saudi, a Libyan by nationality (The Banker, 4/94, p4.).

On October 31, 1994 ABC formally announced the appointment of Ahmed Abdullatif as its new president and chief executive. Abdullatif is currently the managing director of Riyadh Bank and is expected to join ABC in 1995. He was formerly deputy governor of SAMBA (Saudi Arabian Monetary Agency - Central Bank) and moved to Riyadh Bank in 1983.

Mr. Khalid al-Turki, a Saudi National, has been elected chairman of the ABC International bank in London. He replaced Mr. Saudi who resigned from that position on October 15, 1994.

Having severed all his ties with the ABC group, Abdulla Saudi has again emerged as an entrepreneur and formed Abdulla Saudi Associates (ASA) in Manama, Bahrain. He reckons that his one-man ASA Consultants will fulfill the need in the Middle East and North Africa on three counts: (I) by acting as a kind of manager of managers for wealthy individual investors; (ii) by identifying investment opportunities in Europe for ASA's clients; (iii) and by advising sovereign and corporate clients on debt restructuring. "No Arab houses can offer this," he

claimed. "It's a niche" (Institutional Investor, November 10, 1994).

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TOP 100 ARABS

Strength						Size			Strength						Size		
Capital						Assets			Capital						Assets		
\$m %ch.						\$m rank %ch.			\$m %ch.						\$m rank %ch.		
1	Riyad Bank		1,717	49.2	13,544	5	4.4	51	Commercial Internat. Bank (Egypt)		133	17.8	1,545	52	16.8		
2	Arab Banking Corporation		1,419	0.6	19,490	2	-4.7	52	UBAF Bank		132	41.9	1,266	60	29.9		
3	National Bank of Kuwait		1,004	6.4	9,931	8	2.6	53	Faisal Islamic Bank of Egypt		132	21.6	1,869	48	-4.1		
4	Arab Bank		993	4.2	14,374	3	-1.5	54	Bank of Credit & Comm. (Emirates)		122	1.3	1,568	51	-7.5		
5	National Bank of Dubai		956	-0.2	6,912	14	3.0	55	National Bank of Shanghai		110	6.1	735	74	5.2		
6	Al Rayh Banking & Investment Corp.		943	5.8	7,083	13	14.3	56	Banque Nationale d'Algérie		109	-82.1	6,382	16	36.0		
7	National Commercial Bank		854	0.0	23,132	1	9.5	57	Banque Intercontinentale Arabe		104	0.1	741	73	-8.0		
8	Libyan Arab Foreign Bank		798	17.8	4,717	23	25.7	58	Arab African International Bank		102	-1.8	1,091	64	-18.8		
9	Saudi American Bank		701	9.5	8,886	9	-8.6	59	Banque Nationale Agricole		96	2.7	2,952	37	14.2		
10	Al Bank Al Saudi Al Fransi		622	98.3	6,131	18	11.3	60	Trans-Arabian Investment Bank		93	1.1	328	89	32.9		
11	Arab National Bank		600	6.4	7,650	12	35.5	61	Commercial Bank of Syria		93	na	13,654	4	na		
12	Sahara Bank		597	18.4	3,109	35	10.2	62	Commercial Bank of Dubai		91	6.7	613	78	5.0		
13	Qatar National Bank		517	14.6	4,073	27	9.4	63	Watabank		89	17.9	1,521	53	23.8		
14	National Bank of Abu Dhabi		486	0.8	6,614	15	-4.6	64	Société Tunisienne de Banque		89	10.0	1,896	47	-4.7		
15	Gulf International Bank		485	4.0	6,340	17	8.6	65	National Bank of Umm Al-Qaiwain		85	2.8	243	96	22.9		
16	National Bank of Egypt		467	20.1	13,343	6	32.0	66	Bank Muscat Al Ahli Al Omani		84	na	607	79	na		
17	Abu Dhabi Commercial Bank		458	7.7	2,891	40	3.6	67	Bahrain Middle East Bank		83	-18.7	603	80	5.0		
18	Gulf Bank		456	13.2	3,850	29	4.0	68	Saudi Investment Bank		80	15.6	1,404	56	8.3		
19	Burgan Bank		451	9.4	2,937	38	-0.5	69	Arabank International		79	41.0	978	65	-25.7		
20	Saudi Cairo Bank		401	na	3,590	32	10.5	70	Faysal Islamic Bank of Bahrain		72	16.4	197	99	4.6		
21	Banque Misr		385	14.9	10,219	7	15.7	71	Dubai Islamic Bank		71	6.4	1,329	59	20.6		
22	Saudi British Bank		340	26.8	5,528	19	27.4	72	Misr International Bank		70	16.0	2,172	45	17.1		
23	Alahli Bank of Kuwait		336	na	5,153	21	na	73	Banque Française de L'Orient		65	0.1	842	68	-11.8		
24	Union Banques Arabes Françaises		331	5.9	5,213	20	-9.6	74	Abu Dhabi Investment Company		64	2.4	909	66	-13.2		
25	Investcorp		323	16.2	1,140	62	14.7	75	UBAE Arab Italian Bank		64	5.9	464	83	72.0		
26	Emirates Bank International		321	15.0	3,093	36	2.2	76	Gulf Riyad Bank		61	8.2	269	94	-12.0		
27	Crédit Populaire d'Algérie		309	15.9	8,796	10	29.7	77	First Gulf Bank		60	4.9	165	100	16.2		
28	Crédit Populaire du Maroc		293	10.5	4,655	24	8.0	78	Bahraini Saudi Bank		59	1.7	292	92	11.0		
29	Mashreqbank (Bank of Oman)		271	11.0	2,776	42	4.2	79	Qatar Islamic Bank		59	10.6	638	76	13.4		
30	Saudi Hollandi Bank		266	14.7	3,579	33	19.6	80	Egyptian American Bank		58	12.1	890	67	8.5		
31	Arab International Bank		259	2.2	2,507	43	1.0	81	Banque Internat. Arabe de Tunisie		57	35.8	1,378	57	12.2		
32	Commercial Bank of Kuwait		257	na	4,762	22	na	82	Doha Bank		55	16.4	751	72	3.4		
33	Banque du Caire		242	1.6	4,228	25	16.7	83	United Arab Bank		55	14.8	326	90	13.7		
34	Bank of Alexandria		227	13.7	3,705	31	24.6	84	Albaraka Islamic Investment Bank		53	-2.6	281	93	27.2		
35	Bank of Kuwait & the Middle East		224	2.3	2,847	41	2.7	85	Housing Bank		52	9.3	1,430	55	19.9		
36	Saudi International Bank		223	5.2	4,121	26	12.9	86	Banco Saudi Español		52	0.4	362	85	-44.6		
37	United Saudi Commercial Bank		219	34.2	2,437	44	13.7	87	National Bank of Ras Al-Khaimah		52	16.8	268	95	12.6		
38	National Bank of Bahrain		212	6.5	1,724	49	-5.5	88	National Bank of Fujairah		48	3.3	216	97	10.8		
39	United Gulf Bank		206	7.1	297	91	32.0	89	Al-Ahli Commercial Bank		46	10.0	338	87	-14.5		
40	United Bank of Kuwait		194	6.2	2,908	39	11.6	90	Suez Canal Bank		46	12.1	1,095	63	14.3		
41	Bahrain International Bank		191	-0.8	336	88	10.9	91	Commercial Bank of Qatar		45	8.5	473	82	16.6		
42	Banque Commerciale du Maroc		182	41.5	2,152	46	25.9	92	Banque du Sud		44	40.0	802	69	18.6		
43	Bank of Bahrain & Kuwait		180	97.0	1,713	50	6.8	93	National Bank of Oman		44	na	633	77	na		
44	Kuwait Finance House		175	8.5	3,877	28	-3.5	94	Investbank		44	na	366	84	-24.0		
45	National Commercial Bank		172	13.8	3,725	30	3.5	95	Oman International Bank		42	16.0	667	75	2.7		
46	Banque Marocaine du Comm. Exter.		170	8.2	3,451	34	23.3	96	Bank of Sharjah		40	8.2	213	98	9.7		
47	Banco Arabe Español		167	5.6	1,161	61	-14.7	97	UBAE Arab German Bank		37	-29.5	800	70	-31.8		
48	Bank Al-Jazira		158	na	1,512	54	34.4	98	UBAF Arab American Bank		36	8.1	603	81	-13.9		
49	Banque Extérieure d'Algérie		157	-2.1	8,442	11	5.8	99	Banque de Tunisie		35	9.2	777	71	2.9		
50	Arab Bank for Invest. & For. Trade		149	19.3	1,367	58	11.0	100	Nile Bank		35	0.7	340	86	9.7		

					EXHIBIT 2															
			SELECTED CONSOLIDATED FINANCIAL DATA, 1981-1992																	
			1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992							
		1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992							
Total Assets		4,788	7,892	8,762	11,055	13,066	14,582	17,548	19,127	21,730	20,549	20,451	19,490							
Loan and Advances		1,228	2,558	3,358	4,649	5,095	5,999	7,333	8,211	10,000	11,028	11,038	10,526							
Marketable Securities		298	356	420	544	863	1,056	1,268	1,177	1,018	1,060	1,459	1,836							
Deposits		3,769	6,706	7,440	8,780	10,281	11,629	14,322	15,881	18,088	16,616	16,846	15,200							
Shareholders' Funds		889	966	1,028	1,114	1,188	1,261	1,058	1,144	1,150	1,386	1,411	1,419							
Operating Profit			118	127	163	182	175	188	239	184	153	213	244							
Return on Average Earning Assets (%)		2	1.8	1.4	1.1	0.9	0.9	0	0	0	0	0	0							
Return on Shareholders' Capital (%)		12.4	115.3	14.3	14.7	14.5	0	0	0	0	0	0	0							
Source: ABC Annual Reports, 1983, 1985, 1988 and 1992																				

	EXHIBIT 3				
	CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS				
	Year Ended 31 December		(US\$ Million)		
	1993	1992	1991	1990	1989
INTEREST FROM OPERATIONS					
Interest Income	1,404	1,724	1,771	2,108	1,906
Interest Expense	1,003	1,296	1,393	1,739	1,579
Net Interest Income	404	429	378	369	327
Other Operating Income	251	242	220	168	179
Profit on sale of subsidiary	51	0	24	18	0
Total Income	703	671	622	555	506
Operating Expenses					
Staff	228	252	235	232	186
Premises and Equipment	50	59	56	55	43
Other	109	116	118	115	93
Total Expenses	387	427	409	402	322
Operating Profit for Loan Loss Provisions	316	244	213	153	184
Loan Loss Provisions	-145	-128	-102	-179	-132
Profit before Taxation and Minority Interests	171	116	111	-26	-52
Taxation on foreign operations	-33	-23	-45	-44	-35
Minority interests in subsidiaries	-3	-14	-21	-21	-17
Net Profit for the year	135	79	45	-91	0
Retained earnings at beginning of the year	36	30	40	21	21
Available for appropriation	171		109	85	-70
Transfer to Statutory reserve	-13	-8	-5	0	0
Transfer to general reserve	-25	-15	0	0	0
Interim dividend paid	-25	-25	-25	0	0
Proposed final dividend	-35	-25	-25	0	0
Transfer from general reserve	0	0	0	60	0
Transfer from Extraordinary financial resources	0	0	0	50	0
Retained Earnings at end of the Year	73	36	30	40	21
Source: ABC Annual Report: 1985 - 1993					

		EXHIBIT 4					
		CONSOLIDATED BALANCE SHEET					
		Year Ended 31 December					
				(US\$ million)			
		1993	1992	1991	1990	1989	
Assets							
Liquid Funds		232	222	482	453	716	
Marketable securities		1,683	1,836	1,459	1,060	1,108	
Placements with banks and other							
financial institutions		5,621	5,807	6,377	6,754	8,830	
Loans and advances		9,779	10,526	11,038	11,028	10,000	
Interest receivable		238	240	210	390		
Investments in associates		64	63	39	0	0	
Other investments		189	193	132	0	0	
Other assets		215	222	299	488	394	
Premises and equipment		412	381	415	376	356	
		18,433	19,490	20,451	20,549	21,730	
Liabilities							
Deposits from customers		7,205	8,540	10,525	10,876	9,016	
Deposits from banks and other							
financial institutions		7,134	6,660	6,321	5,742	9,072	
Certificates of deposit		1,083	1,501	492	652	545	
Interest payable		193	248	253	439	435	
Other Liabilities		401	443	535	536	518	
Minority Interests		215	162	201	205	192	
		16,231	17,554	18,327	18,450	19,778	
Term Notes, Bonds and Other							
Term Financing		769	517	713	713	702	
Shareholders' Funds							
Share Capital		1,000	1,000	1,000	1,000	750	
Reserves		360	383	381	346	379	
Retained earnings		73	36	30	40	21	
		1,433	1,419	1,411	1,386	1,150	
Shareholders' Subordinated Loans		0	0	0	0	100	
		18,433	19,490	20,451	20,549	21,730	
Source: ABC Annual Reports: 1988 - 1993							

Exhibit: 5 Geographic Distribution of Assets
and Liabilities

Geographical distribution of assets and liabilities is as follows:

	1992		1991	
	Assets (US\$ million)	Liabilities (US\$ million)	Assets (US\$ million)	Liabilities (US\$ million)
West Europe	10,131	9,400	11,528	9,825
Arab World	3,145	7,091	3,047	7,951
Asia	2,225	1,393	2,375	1,066
North America	2,209	428	2,035	683
Latin America	1,103	832	913	742
Other	677	346	553	184
	<u>19,490</u>	<u>19,490</u>	<u>20,451</u>	<u>20,451</u>

Source: ABC Annual Report 1992.

Exhibit 6

Hihlights of ABC Subsidiaries

US\$ Million (1993)

	Total Assets	Total Loans	Total Deposits	Shareholders Funds	No. of Branches
ABC-Daus & Co. GmbH	551	97	472	72	-
ABC Banque Int'l De Monaco	240	114	217	17	-
Banco Atlantico	6,938	3,226	6,153	368	272
Int'l Bank of Asia	1,489	890	1,193	154	21
ABC Int'l Bank	1,999	914	1,049	247	2
ABC Jordan	197	85	161	19	7

Source: ABC Annual Report, 1993

Exhibit: 7 Investments in Subsidiaries

Investments in Subsidiaries

The principal subsidiaries at 31 December 1992, all of which have 31 December as their year end, are as follows:-

	Country of incorporation	Interest of Arab Banking Corporation (B.S.C.)
Banco Atlántico S. A. group companies	Spain	61%
▶ BanAtlántico Zurich, A.G.	Switzerland	59%
▶ Banco de Iberoamérica	Panama	61%
International Bank of Asia Ltd.	Hong Kong	100%
ABC International Bank plc	United Kingdom	100%
Arab Banking Corporation-Daus & Co. GmbH	Germany	99%
ABC Banque Internationale de Monaco S.A.M.	Monaco	99%
ABC Investment and Services Co. (E.C.)	Bahrain	100%
Arab Banking Corporation (ABC)-Jordan	Jordan	60%

Source: ABC Annual Report 1992

CASE 3

INTERNATIONAL TURNKEY SYSTEMS

CONTENTS

International Turnkey Systems

Introduction	Page 1
Company Background	2
Organization and Management	4
Organization Structure	7
Employee Relation	10
Computer Market in the Gulf	11
Marketing Management	13
Marketing Strategy	13
Target Customers and Services Provided	13
Customers	15
Product Portfolio	16
Competition	17
Performance	19
Current Situation	20
Future Outlook	21
Concluding Comments	22

Appendices:

Exhibit 1	ITS Senior Management
Exhibit 2	Senior Manager's Background
Exhibit 3	ITS Offices
Exhibit 4	List of Computer Suppliers in the Gulf
Exhibit 5	Income Statement
Exhibit 5	Consolidated Balance Sheet

INTERNATIONAL TURNKEY SYSTEMS

INTRODUCTION

In late fall 1987, the senior managers of International Turnkey Systems (ITS), headed by Mr. Saad Al-Barrak, the General Manager, gathered at Holiday Inn Crown Plaza in Kuwait City to discuss ITS's position. This initiative was taken to review the challenges and opportunities in the fast changing computer market environment in the Arabian Gulf. Their objective was to help shape a marketing strategy for the company to improve its performance and to position the firm as one of the leading suppliers of information technology (IT) in the Gulf Cooperation Council (GCC) countries. GCC countries include Bahrain, Kuwait, Qatar, Oman, Saudi Arabia and the United Arab Emirates. A brainstorming session on product offerings, market coverage and human resources was also held. Following that historic meeting, Al Barrak and his senior managers developed a 5 year plan for ITS. ITS markets sophisticated mainframe computers, such as Tandem & Sequent and provides software and other services to many corporate clients in the region. The company, today, is one of the leading suppliers of computer hardware, software and consultancy services in the GCC, with a 1993 total revenue of Kuwaiti Dinar 8.7 million (over US\$27 million).

ITS is basically in the integrated information technology business and it operates in a very competitive and fast changing business environment.

Al Barrak said in the meeting "the company faces many challenges in many markets, and how these challenges are dealt with, will determine the firm's future growth and profitability."

COMPANY BACKGROUND

ITS was formed in 1981. Since then, ITS has grown from a small company based in the city of Kuwait to a leading information technology supplier to major institutions around the GCC. In the beginning, the company was established by the Kuwait Finance House (KFH) and a British computer company called Computer & Technology Inc. (CTI) as a joint venture. KFH as a financial institution, specialized in Islamic economy, had invested sixty percent and CTI which was involved in computer services, with some exposure and representation for Tandem Computers Inc. of USA, invested the remaining forty percent in the venture.

During the early 1980s, KFH attempted to invest in certain selected fields, and information technology appeared to be a very promising area, because it was growing at a phenomenal rate at that time. The objective was to go for the opportunity in the Kuwait market and then to expand the business to other Gulf markets.

The company intended to service major corporate clients as a 'niche' strategy. At the beginning ITS represented Tandem Computers mainly because Tandem was the company's core product. Moreover, two leading financial institutions in Kuwait, at that time, had acquired Tandem technology. Therefore, the need for IT support was part of the idea to establish the company. The company had the opportunity to market the technology to more vertical markets in the region.

In 1982 the company opened offices in Bahrain and the United Arab Emirates (UAE). This was the beginning for ITS's move to enter foreign market. This move reflected the company's decision to enter into regional markets and capitalizing on the firm's existing business references. As the business started to grow in Kuwait and other Gulf countries, the Board of Directors had decided to increase the capital in 1983 to US\$ 3.5 million to meet the business commitment. In 1985, the KFH acquired the other 40% of share from the CTI and then appointed a new Executive Management.

ITS, as a wholly owned company by the KFH, adopted an aggressive plan by establishing marketing offices instead of support offices in Bahrain and in the UAE. The bulk of the recruitment at that time was from the western world, mainly from Europe and USA.

As part of ITS's aggressive plan, the company had focused on large businesses that fitted the company's products

and services offerings. After three years' of continued hard work, since 1988 ITS began to close major deals in the GCC. The results were very encouraging and rewarding. The management began a promotion campaign using daily newspapers and other popular regional publications to advertise such major deals.

ORGANIZATION AND MANAGEMENT

Management Environment

The leadership philosophy in the company reflected a belief that a leader has to be a living example, has to inspire the organization, and has to be part of the team while still being a manager. In Al Barrak's view, "a leader should be supportive and when there is a need for change, he should generously communicate the need for it". He regularly visits different ITS offices to talk to the managers and other staff individually to get a feel from the field.

Al Barrak has become a respected, hardworking and enthusiastic leader who in turn expected and rewarded the hard work of subordinates and employees. He is well liked by his staff despite the demand he places on them. He was often described by his associates as being a very involved manager who wants to know the important things going on in each of his offices.

In an attempt to improve performance and operations, ITS had restructured the organization in 1987. This resulted in three autonomous regions: Bahrain, Kuwait and Saudi Arabia and these were created so that ITS could respond quickly to the market needs. Each region was headed by a Assistant General Manager reporting directly to Saad Al Barrak, General Manager & Managing Director of the company. These regions were given the responsibility for strategic market planning and operations. Previously, however, the company operated through a central management system.

Saad Al Barrak, an MBA from the Harvard Business School with masters degree in Computer Science from the University of Ohio, had gained experience with ITS in various divisions prior to taking over his current position in 1986. In the past, he worked in marketing, system development, and financial divisions in the capacity of a Deputy General Manager.

The three Assistant General managers, who also function as the Regional Managers are responsible for planning of the regional budgets and for making specific decisions and implementing the marketing programs of ITS in their respective region. All of the three Regional Managers have at least 10 years' experience in computer industry management and marketing. Moreover, they are graduates in computer science and management with background from leading multinational computer manufacturers.

ITS has established a reputation in the industry throughout the Gulf for being a well positioned company. According to an industry analyst RAC, a Middle East consultancy company based in Egypt, "ITS has shown more than an ordinary business success, it is a brilliantly managed company." During a recent meeting, Saad Al Barrak said "we run the organization with great respect to people, and we feel this is one of the reasons why we get our marketing decisions implemented so quickly. We also do very little paperwork". Al Barrak added, "I write fewer memos. I feel that I can trust the people who work for me, and they do their job and follow through it." "We encourage that always marketing and business plans for all our divisions and regions are discussed through meetings. This type of management may seem different but it works for us", he maintained.

ITS management stresses the importance of open discussions at different levels of meetings in the organization and invites all staff to participate in the company decision making process. Al Barrak claimed "we feel strongly that people will work harder and more productively if they are allowed to air their ideas and involved. We all work together to make our progress a success".

Organisation Structure

The formal organisation structure (see Exhibit 1) of ITS was like any other normal organisation. There are sub divisional managers who report to an AGM in each region, and customer service department divisional managers report to an AGM at the Head Office in Kuwait. The company's corporate marketing consultant, human resource senior staff, and finance staff, report respectively to their managers. Managers are fully responsible within their scope of responsibility to make business decisions. One divisional manager quoted "at ITS the authority and responsibility are clearly defined and delegated that the managers behave like entrepreneurs". He continued to say that "managers at ITS work hand in hand with all company senior managers, including corporate staff on significant issues to create wealth and prosperity for ITS".

At the regional and branch offices, the company was set up much as expected with managers, assistant managers and divisional managers.

The organisational environment is very relaxed and casual that everyone can fit himself and work across functionally, according to a private senior management consultant.

EXHIBIT 1

ITS Senior Management

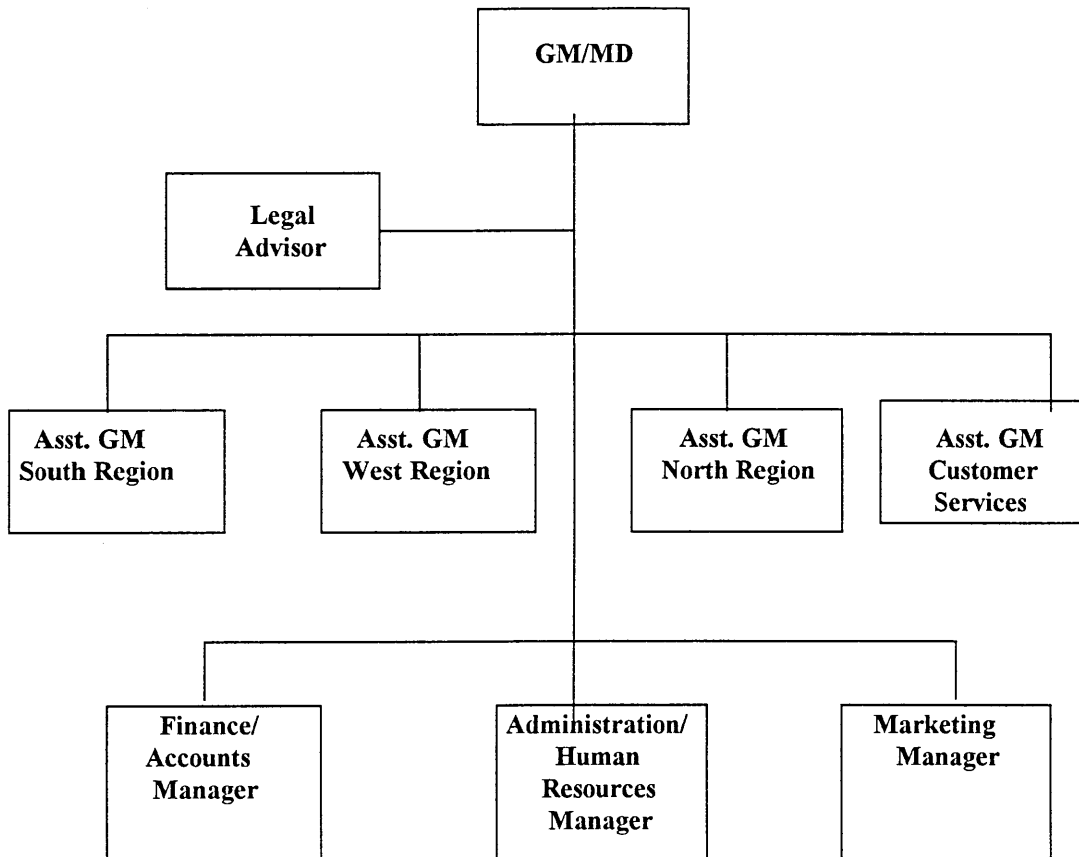


Exhibit 1 shows that in addition to the four Assistant General Managers (AGMs), three managers in Finance and Accounts, Administration and Human Resources, and Marketing report directly to the Managing Director.

EXHIBIT 2

BRIEF BACKGROUND OF SENIOR MANAGERS

Saad Al-Barrak - General Manager & Managing Director

M.S. in Computer Science, Ohio University (1980), MBA from Harvard Business School (1987). Joined ITS in 1982, became General Manager in 1986.

Khalifa Al Soulah - Assistant General Manager for Sales in North Region (Kuwait).

B.Sc. in Computer Science, University of Florida. Joined ITS in 1981 assumed duties in Customer Engineering department, became Asst. General Manager in 1992.

Khalid Faraj Al-Saied - Asst. General Manager, Customer Service Department.

B.Sc. in Computer Science, University of New York in 1980. Joined ITS in 1982. Assumed duties as Customer Service Engineer in 1983 became Asst. Manager for Customer Engineering Department followed appointed as Manager Customer Engineering. and in 1993 became Asst. General Manager for Corporate Customer Service Department.

Mustafa Shehata - Asst. General Manager, Western Region

B.Sc. in process control from University of Cairo in 19876. Joined in 1981 after a career with NCR. Worked as a Customer Engineer, then become Branch Manager in Bahrain and UAE and he assumed duties of Assistant General Manager for Western Region (Kingdom of Saudi Arabia) in 1988.

Ebrahim Ali - Assistant General Manager, South Region

MBA from University of Bahrain, begin his career with NCR as Customer Engineer, joined ITS in 1987 as a Senior Customer Engineer, then became Country Manager for Bahrain and he assumed the duty of Assistant General Manager for South Region.

Fahad Al-Juwaied - Finance Manager

CPA, and a graduate of Law currently the Finance Manager, joined ITS in 1989 after a career with Kuwait Government Audit Bureau. He is CPA graduate with degree in Law.

Mohammed Al-Ghaith

A graduate with degree in Electrical Engineering from University of Texas. Joined ITS in 1990 as Administration Manager with background in production management. He assumed the duty of Administration and Human Resource Department Manager in 1994.

Khalid Al Farkh

Marketing Manager, with career in major computers DEC. Joined ITS in 1985 as a System Engineer, then became Manager System Support Department. Recently he assumed the duty of Marketing Department Manager.

Farouk Al Hafnawy

He is a graduate in Law from Cairo University. Joined ITS in 1993. Currently the Corporate Legal Advisor. He has experience with Government Institutions in Kuwait and Egypt.

Employee Relation

ITS has a reputation for being an exceptionally good employer to work with. The company treats their staff equally and fairly and the staff morale at all level is very high. The level of employee commitment at ITS was partly an outgrowth of management practice. Good team spirit and the culture created within the company are attributable to ITS human resource strategy. The company has a team of qualified and experienced managers (Exhibit 2) and offers them salary and other benefits which is higher than the industry average.

From its earliest days, the company has worked toward providing job security, and it has promoted from within the company to allow employees to explore job opportunities and career advancements.

COMPUTER MARKET IN THE GULF

The evolving computer market in the Gulf is closely linked with the development of the economic prosperity of each of the countries. The Gulf economics are heavily dependent on the rich oil industry. There has been a growing demand for computers by institutions in the Gulf to cope with and meet the technology challenge. Businesses are becoming more sophisticated and complex. This trend for the computer market suggests that the market will remain lucrative for computer suppliers with long term commitment to the GCC market in providing unique solutions.

The GCC countries will continue to attract information technology, because of the economic development and expansion of their existing industry base. As a result of this expansion, other industries will also emerge and the computer requirement will become an ever increasing necessity to sustain the businesses.

ITS management is aware that there is no room for complacency for them. In order to sustain their leadership position in their chosen segments, they must

continually monitor customer needs, new product developments and competition and act accordingly.

Important characteristics of the computer market include (i) rapid growth (ii) rapid technological development and (iii) the customer loyalty to vendors.

Most industry sources mark the emergence of computers with silicon technology as a significant factor in the data processing market with IBM, Digital, NCR and other brand names being the market leaders in the early 1950's. Competitors soon followed their lucrative market. Today there are many computer companies (See Exhibit 4 for computer suppliers in the Gulf market) operating in the region.

During the 1960s, manufacturers were able to make computers for single application, thus computers were general purpose devices only.

During the 1970s that has somewhat changed and the computer market grew with the demand for new applications that solved more complex business solutions. By 1980, the computer business grew by about 60%. This technological advance in computers has resulted in different customer groups: large, medium, business and individuals.

MARKETING MANAGEMENT

Marketing Strategy

Timing was important for ITS to penetrate the Gulf market. The company began its effort of offering its product in vertical market like Banking & Telecommunication. The offering to the financial sector for ATM (Automated Teller Machine) and POS (Point-Of-Sale) were available before any of the competitors came.

Furthermore, in order to provide software in local language (Arabic), ITS formed alliance with leading computer companies locally and internationally.

As a result of its early entry into the market and strong alliances, ITS emerged as a market leader in those niche market. However, the leadership position was being challenged by IBM, NCR and DIGITAL and together they have a significant share (60%) of the market. ITS is well aware of this market situation and the company has designed a strategy to sustain the leadership in the market.

Target Customers and Services Provided

In the early years, ITS was a computer hardware oriented company. During the last few years, the shareholders injected more capital into the company to expand the business and offer more services. It was decided by the

management in 1987 to focus on providing integrated solution instead. This meant that many big organizations such as banks, airlines, telephone companies and government directorates could become ITS's major targets. As a result of this shift in business strategy, the company started to achieve more sales and profit. Because of ITS commitment as a solution provider, the company became a hallmark in the industry, in contrast with many of its competitors. ITS has never experimented with diversification. The company executives, however, concentrated solely on understanding the business solutions to specific customer requirement. Saad Al Barrak once stated "we are striving to provide the right solution to the right customer".

ITS has consistently sought a competitive advantage based on superior service. The company emphasizes element of quality and service in information technology. This includes renowned products, project implementation and management along with after sales support with a strong commitment to the market. ITS has been quoted by many business consultants as one of the premier vendors in the GCC which has virtually no customer complaints. For the past several years, the company slogan has been ***Your True Associates.***

Customers

ITS provides services to a large customer base in the Gulf area in a variety of industries, focusing on specific application niches within each customer market. In 1984, the company target markets were banking and finance, which is a large and mature business base followed by the telecommunications and Government segments which were new and rapidly growing businesses. Other important markets were the oil industry, airlines and retail outlets.

The three broad applications targeted by ITS are (1) Automated Teller Machine (ATM), (2) Point-Of-Sale (3) Branch Automation in Banking and (4) Directory Assistance and Billing and Customer Services in Telecommunications. Virtually, all ITS sales are made directly to the end users by divisions and regional sales force.

Product Portfolios

ITS as a Gulf wide organization, offers and delivers a complete range of integrated information systems to the GCC market and beyond. Its objective is to be a world class leader in providing products and services to the Gulf market through design, development and maintenance support for Government and business organizations. ITS has chosen to provide comprehensive solutions to

contribute toward the economic development of the region in the area of high technology.

ITS product portfolio covers a selection of high quality products from well known suppliers. The products offered are from Tandem Computers, Inc., Sequent Computer Systems, Inc., Recognition, ISC Bunker Ramo and David Systems Inc. Each of these companies provides a unique product which complement each other by integrating those products to a total solution which is offered to the market.

Tandem Computers Inc.

Tandem Computers Inc. is based in San Francisco, USA. It designs and manufactures the top quality fault tolerant computer systems. Tandem is a multinational organization having offices throughout the world with manufacturing facilities in US, UK and the Far East. TANDEM products were the main ITS product line during the early 1980s.

Sequent Computer Systems, Inc.

Sequent Computer Systems, Inc. is based in the west cost of America in the city of Portland, State of Oregon. The company designs and manufactures very powerful Symmetrical Parallel Open Computer Systems.

Plexus Software Inc.

Plexus Software Inc. is a leading supplier of workflow and management document system based in Dallas, Texas, USA. The company is a subsidiary of Recognition UK ltd.

David Systems Inc.

David Systems Inc. (DSI) is California based company. DSI is a leading supplier of Local Area Network and management system product.

ISC Bunker Ramo

ISC Bunker Ramo is a US based company and specializes in designing solutions for Bank Branch Automation. The Company offices are located in Washington State. Those product offerings, along with ITS's local skills and professional support services, make the company unique among the information technology providers in the Gulf.

COMPETITION

During the 1990's more international computer companies have entered Gulf market to meet the increased demand for computers.

Although faced with intense competition from aggressive computer suppliers, the unique features and support devices remain the keys for computer company's existence and growth. IBM, NCR, and Digital Equipment Corp. had

dominated the Gulf market and installed their mainframes and mini computers. IBM had the majority of Government segment with NCR in the banking and Digital in Telecommunication and Oil Industries.

In the early 1980s, ITS entered the Gulf market with Tandem Computers trying to sell a system that created a technological gap, very advanced features of fault tolerant which none of the traditional existing systems had. At first, this was a tough challenge for ITS because the company was a new entrant in the Gulf market.

ITS started with a policy of developing the market in stages, region by region beginning with Kuwait, next Bahrain (1982), and Dubai (UAE) (1983) followed by the Kingdom of Saudi Arabia (1986) and Sultanate of Oman (1994). As a part of the market development plan, ITS lined up with the suppliers of specific products that the market was looking for. The company spent 30% of its revenue, twice the industry average, in training, sales, marketing and support staff along with the recruitment of skilled and experienced staff from the computer industry coupled with a heavy advertising campaign.

ITS strategy was phenomenally successful. Its sales increased and it has captured more than 50% market share in specified banking and telecommunication applications in the GCC and ITS now dominate those applications and segments.

The expansion of business applications in banking, and telecommunications made ITS well positioned in the region. However, other major suppliers have begun to address those applications competitively and aggressively with new companies emerging, while some seem to be leaving the market such as Wang, NCR, Pyramid, Univac, etc.

PERFORMANCE

ITS has achieved over 100% sales growth in 1993, which is an outstanding performance in the IT industry in the region. Moreover, the manpower has also been increased in a similar magnitude to meet the business demand. "Despite this growth, we at ITS were able to handle all the ensuing challenges during the year without disturbing the level of our services and deliveries to our customers" said Saad Al Barrak in a speech during the company Annual General Meeting in the end of 1993. During the same period, ITS has gained a prestigious large corporate customer base all over the GCC and the company has added new offerings of products and services with creative and aggressive solutions, working closely with international suppliers. Exhibits 5 and 6 provide recent financial data of ITS.

The Company Finance Manager said, "ITS's success is the result of dynamic leadership coupled with clear strategic

goals and objectives". He added, "we have regular meetings in every three months to discuss business plans and market trends. These discussions focus on company achievements and future directions".

At ITS, everyone is motivated to achieve success with a common desire, and such a behavioral commitment by group or individuals is attributed to the organizational structure and work environments, and attractive rewards.

A recently conducted survey by a major international company, reported that the company success factors at ITS were many such as, market focus, employee relations, customer services and such elements could be a model for other organizations.

"Our principle and philosophy in conducting successful business is very simple and basic without complexity, and this is the way we choose to do business", stated Saad Al Barrak in a recent meeting.

CURRENT SITUATION

Competition in the computer industry is now intensified with new product offerings and heavy advertising from all major computer suppliers to regain their market shares. Much of the focus is now centered on offering open systems with discounting heavily on the price which at times means either break even or a loss. Some companies

even provide other supporting services at no cost for an extended period of time.

Many major companies such as IBM, DIGITAL, UNISYS, COMPAQ have established their regional offices in the Gulf region in order to be close to the market and react to any business opportunities, and to broaden their customer base.

All major companies are, however, faced with the changing technological environment as well as management and marketing issues required to develop viable long range strategies addressing the current issues. Otherwise, companies who ignore the situation will face tougher challenges.

FUTURE OUTLOOK

ITS current strategy is to continue disciplined expansion in each market it serves. The company continues to establish itself in new markets through direct representation or joint venture operations. (See Exhibit 3 for existing and new offices). The company is seriously considering the new markets such as, Pakistan, Jordan, and possibly other regional

The company is seriously considering entering new markets such as Pakistan, Jordan, and Egypt and other regional markets in future. ITS management are planning for 20 percent annual growth in capacity through the coming 10

years. To achieve this growth, the company is willing to make investment to acquire new businesses. Total employment is expected to grow by 5 to 10 percent, currently ITS employ 250 people.

Overall growth is expected to occur along with the business focus. First the company is very well positioned to address the market with solutions through the strategic alliance partners. Secondly, the financial position of the company is very strong and lastly ITS has simple agreement to complex operation with goals to share mutual success with its partners.

CONCLUDING COMMENTS

We would like to offer our comments to the issues addressed in ITS case, and obviously the lessons learned. Further we seek the future outlook of the company through our brief analysis along with ongoing update.

Analysis

ITS has had many challenges since its inception. Firstly, the information technology market itself is complex. It requires heavy investment with skilled resources. Secondly, the major suppliers of information technology such as IBM, DEC and NCR had total market monopoly. As a business solution provider, the market was well covered by these information technology suppliers. Finally, institutions using computers for their data

processing are satisfied in terms of what they have and the support they receive.

The offerings of ITS had to be different in order to capture the market attention. The company decided to associate itself with a superior product and a renowned company (Tandem Computers Inc.) along with highly experienced sales and technical support team from different parts of the world. The strategy focused to introduce the fault tolerant computer system in the Gulf market with application software for the Automated Teller Machine (ATM). By launching such products, ITS began to capture the market and become a leader in the market. The company continued to capitalize on their competitive edge by expanding the business network throughout the GCC market.

After 5 years of continuous success, ITS realized that the scope of opportunities for computer systems in the GCC market requires different package than what is offered currently by the competitors i.e. product mix, pricing, long term commitment, being flexibility and local presence of technical support. ITS captured this window of opportunity and then designed a market strategy to address those issues. The company was able to address the market with business solutions and exceeded the market expectations, which placed ITS among the leading suppliers and gained excellent credibility.

ITS was able to build a strong market image by offering a superior product portfolios through associating themselves with reliable suppliers and sustaining their competitive advantage and human resources along with management commitment

Lessons

ITS offers a classic success story of a Middle Eastern entrepreneur owned and managed company. To operate in a cross cultural environment, the firm has adopted an appropriate attitude and design methodology that is flexible and more workable.

Furthermore, the company started dealing with a limited industry sector i.e. Banking and Finance and then the business was expanded into other industries such as Telecommunication, Oil and Government.

The product portfolio selections along with choosing reliable suppliers has been one of the most key success element, plus attracting the right skilled people from within the industry was a major contribution coupled with the top management style.

The owners and senior management at ITS have always had a clear vision about the company's mission and every effort has been made to prove their belief to themselves and the market. During the past 12 years, the company went through some major organization restructuring, product

introductions and careful investments into new territories.

The commitment of senior managers and their support has been an influential factor of the success ITS has achieved. They have continuously monitored the business environment and taken appropriate measures through first hand knowledge by visiting the company offices and customers regularly.

Update / Epilogue

ITS strategy is to continue its disciplined expansion, especially into the international market to minimize the risk. The company has plans for the next five years to set up 3 additional business unit in different countries in the Middle East region. ITS senior managers believe that the future outlook, as a result of political stability and the peace process in the region, should enable ITS to focus more aggressively on business opportunities capitalizing on their competitive advantages.

The company is expected to spend a reasonable fund towards market development to include market research and promotional campaign to identify strategic business associates and customer base which meets ITS mission and objective.

The short term growth may not be substantial in these new territories, but for the long term, the business potential is expected to be quite large. This belief is based on a market survey conducted by ITS Senior Managers during their recent visits to some of those countries.

As of late 1994, ITS had established a joint venture operation in Egypt and made sub-distributor agreement in Lebanon.

EXHIBIT 3

LIST OF OFFICES

ITS Kuwait	Direct Representation	(Existing)
ITS Bahrain	Direct Representation	(Existing)
ITS Saudi Arabia	Direct Representation	(Existing)
ITS UAE	Direct Representation	(Existing)
ITS Oman	Direct Representation	(Existing)
ITS Egypt	Joint Venture	(Newly opened)
ITS Lebanon	Sub-Distributor Agreement	"
ITS Pakistan	Market Study Underway	
ITS Jordan	Market Study Underway	

EXHIBIT 4

LIST OF COMPUTER SUPPLIERS IN THE GULF REGION

- * AMDHAL CORP.
- * DATA GENERAL CORP.
- * DIGITAL EQUIPMENT CORP.
- * HEWLETT PACKARD CO.
- * IBM
- * NCR/AT&T
- * SEQUENT COMPUTER SYSTEMS
- * SUN MICRO SYSTEMS
- * STRATUS COMPUTER INC.
- * TANDEM COMPUTERS INC.
- * UNISYS CORP.

EXHIBIT - 5

INTERNATIONAL TURNKEY SYSTEMS

Consolidated Statements of Income and Retained Earnings

For the Year ended 31 December 1993

(Amount in Kuwaiti Dinars)

	1993	1992	1991
STATEMENT OF INCOME			
REVENUES			
Contracts and sales			
Current Year	7,129,724	4,526,032	4,671,761
Prior year	<u>1,216,335</u>	<u>0</u>	<u>0</u>
	8,346,059	4,526,032	4,671,761
Other Income	<u>404,007</u>	<u>216,050</u>	<u>118,059</u>
	8,750,066	4,742,082	4,790,270
COSTS AND EXPENSES			
Cost of contracts and equipments sold:			
Current year	4,012,537	2,481,183	2,039,014
Prior year	<u>920,031</u>	<u>0</u>	<u>0</u>
	4,932,568	2,481,183	2,039,014
Selling and distribution	765,989	427,715	246,180
General and administration	1,848,494	1,138,741	1,349,083
Depreciation	298,066	142,702	78,368
Exchange loss	26,112	0	0
Provision for obsolete and slow moving inventories	55,023	37,034	218,817
Provision for anticipated losses on contracts in progress	<u>80,000</u>	<u>15,000</u>	<u>0</u>
	<u>8,008,252</u>	<u>4,242,375</u>	<u>3,940,782</u>
PROFIT FOR THE YEAR	743,814	499,707	785,209
	=====	=====	=====
STATEMENT OF RETAINED EARNINGS			
Balance at beginning of the year	322	15,044	222,211
Profit for the year	<u>743,814</u>	<u>499,707</u>	<u>785,209</u>
	744,136	514,751	1,007,420
Transfer to statutory reserve	(74,381)	(49,971)	(78,571)
Transfer to general reserve	(62,283)	(49,971)	(78,521)
Contribution to Kuwait Foundation for Advancement of Sciences	(33,472)	(22,487)	(35,334)
Proposed bonus issue	(320,000)	(380,000)	0
Proposed dividends	(240,000)	0	800,000
Directors' fees	<u>(14,000)</u>	<u>(12,000)</u>	<u>0</u>
Balance at the end of year	0	322	15,044
	=====	=====	=====

Source: Company Annual Reports

INTERNATIONAL TURNKEY SYSTEMS**Consolidated Balance Sheet as of 31st December 1994***(Amount in Kuwaiti Dinars)*

	1993	1992	1991
ASSETS EMPLOYED			
Furniture & Equipments	573,058	437,071	111,135
CURRENT ASSETS			
Inventories	803,601	562,532	370,546
Contract Work in Progress	0	0	57,862
Accounts receivables & prepayables	2,664,276	1,485,203	934,486
Amount due from parent company	337,568	0	167,862
Bank balances and cash	622,874	1,781,124	1,303,558
	<u>4,428,319</u>	<u>3,828,859</u>	<u>2,834,314</u>
CURRENT LIABILITIES			
Accounts payable and accruals	2,488,170	2,128,604	873,976
Amount due to parent company	0	356,892	0
Proposed dividends	240,000	0	800,000
	<u>2,728,170</u>	<u>2,485,496</u>	<u>1,673,976</u>
NET CURRENT ASSETS	<u>1,700,149</u>	<u>1,343,363</u>	<u>1,160,338</u>
	<u>2,273,207</u>	<u>1,780,434</u>	<u>1,271,473</u>
	=====	=====	=====
FUNDS EMPLOYED			
SHAREHOLDERS' FUNDS			
Share capital			
Authorised, issued and fully paid			
Shares of KD. 1 each	1,380,000	1,000,000	1,000,000
Proposed bonus issue	320,000	380,000	0
Statutory reserve	231,050	156,669	106,698
General reserve	218,952	156,669	106,698
Retained earnings	0	322	15,044
	<u>2,150,002</u>	<u>1,693,660</u>	<u>1,228,440</u>
NON CURRENT LIABILITIES	<u>123,205</u>	<u>86,774</u>	<u>43,033</u>
	<u>2,273,207</u>	<u>1,780,434</u>	<u>1,271,473</u>
	=====	=====	=====

Source: Company Annual Reports

CASE 4

INVESTCORP - Bahrain

CONTENTS

Investcorp

Introduction	Page 1
Company Profile	1
Company History and Background	3
The Founder and the Initial Management Team	4
Investcorp's Business Concept	6
Business Units and Transaction Strategy	7
Ownership Structure	9
Company Culture	9
Acquisition of Firms: Selection Procedure	11
Prize of Partnership	12
Performance	13
Geographic and Industry Concentration of Assets and Liabilities	14
Performance Review	16
Competition	18
Investcorp's Acquisition of Saks' Fifth Avenue	19
Investcorp's Acquisition of Circle K	21
Battle for the Control of Gucci	22
Some Doubtful Deals	24
The Future	25
Summary and Concluding Comment	26
Reference	27

Appendices:

- Exhibit 1 Board of Directors
- Exhibit 2 Management Committee
- Exhibit 3 Income Statement
- Exhibit 4 Consolidated Balance Sheet
- Exhibit 5 Sources and Application of Funds
- Exhibit 6 Geography and Industry Concentration of
Assets and Liabilities
- Exhibit 7 Ten Years at a Glance

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INVESTCORP : Bahrain

INTRODUCTION

In January 1994, the annual winter meeting of the Management Committee of Investcorp took place in Bahrain. This Bahrain based investment banking company, one of the most successful firms in the industry, reported a record net profit of \$67 million in 1993. While pleased with the bank's recent results, the senior managers still faced the issue of how to ensure the continued prosperity of the firm. Investcorp has traditionally been known as a firm without any managerial hierarchy. However, in 1993 the company designated and appointed two Co-chief operating officers, thereby marking the beginning of a move toward a formally structured bank. So, a second issue the management need to address is when and how to initiate and implement company-wide re-structuring and re-organization. In addition, the continued disappointing performance of the proprietary division also warrant management attention.

COMPANY PROFILE

Investcorp is an investment company which specializes in buying out western companies and eventually selling them after trying to improve their financial performance. It has arranged the acquisition of top names such as Tiffany, Saks Fifth Avenue and Gucci.

Despite the cliched, less-than-savory image of some Middle Eastern businessmen, Investcorp celebrated its 10th

anniversary early in 1993 with a gold plated reputation among New York bankers. "Investcorp, with its chest full of Gulf oil money and its offices full of seasoned MBAs, has made a name for itself by turning around many luxury brand names" reported the Herald Tribune. This relatively new group is unknown to the public at large but watched with a tinge of jealousy by many international merchant banks. This is based on of its trading results, - an average rate of return of 26 per cent, along with a regular 15 per cent dividend per annum, plus capital growth over the last 10 years. Also admired is the prestigious composition of its investment portfolio: Tiffany, Gucci, Saks Fifth Avenue, Color Tile, Carvel, Circle K, Thorn Lighting to name but a few.

Investcorp was founded by Nemir A. Kirdar, now 56, scion of an Ottoman Empire political family from Kirkuk, Iraq. "The company acts both as a principal and as a subsidiary in international investment transactions; it forms a bridge between those who seek and those who provide investment opportunities in North America and Europe". Investcorp, or its subsidiaries, operate from Bahrain, London and New York. Investcorp S.A., the group's primary global asset holding company, is located in Luxembourg. The company specializes in corporate investment, real estate investment, and proprietary trading (which are described later).

Today the group employs 170 people throughout the world; 65 of them are professional high fliers, known for their

speed of action, and specializing in the firm's major fields of activity.

COMPANY HISTORY AND BACKGROUND

Investcorp was founded in August 1981 by a group of investors who were motivated by a business concept formulated and presented by Nemir A. Kirdar, the founding President and Chief Executive Officer of the Company.

The founders, mostly prominent business people in the Arabian Gulf region, realized a need for a new kind of investment institution - one that would gear its products and services to the particular requirements of regional investors; locate, structure and place high quality international investments to suit the needs of its clients; enable local investors to participate fully in the type of prestigious investments available elsewhere in the world.

The Company's founding investors were from the six Gulf Cooperation Countries (GCC) i.e. Saudi Arabia, Kuwait, Qatar, Bahrain, Oman and the United Arab Emirates. More than 300 investors including representatives of prominent families, leading businesses, and institutions in the area, became founding shareholders. No member of the founding group holds more than one half of one per cent of the Bank's equity. So Investcorp, from the very beginning, reflected a true cross-section of local business and financial interests.

With its unique concept and structure and an initial paid-in capital of US \$50 million, Investcorp started operations in 1982. The chairmanship of the company was

assumed by the former Kuwaiti Minister of Finance, Abdul-Rahman Salim Al-Ateqi.

Since then, the shareholders have multiplied to around 11,000 today, following an introduction of the company to the Bahrain Stock Exchange in 1983 and an increase in capital in 1986. At present, 47.5% of the capital is held by the public, the founding group of 20 holds 15% and the management holds 37.5%. Exhibit 1 shows the present Board of Directors, all of whom are founding members.

INSERT EXHIBIT 1 ABOUT HERE

The firm has also expanded from four management partners to sixteen, and from one office to three in its eleven years of existence. Exhibit 2 presents the brief biographies of the partners on the Management Committee. Although the firm was incorporated as the Arabian Investment Banking Corporation (Investcorp), later it became 'Investcorp' because their clients frequently referred to them as "Investcorp".

INSERT EXHIBIT 2 ABOUT HERE

In 1986, shareholders provided an additional \$50 million in equity. Through net earnings generated since its establishment, this \$100 million shareholder's investment has grown to \$443 million, of which \$120 million has been paid back to shareholders as cash dividends and \$323 million remains as total Shareholder's funds as of 31st December 1992.

THE FOUNDER AND THE INITIAL MANAGEMENT TEAM

Investcorp is the brainchild of Nemir Kirdar whose personal objective has been to build an organization that

will last, not just to make money. While working with the Allied Bank International in New York, Kirdar had attended evening classes at Fordham University to earn his MBA. Later, after a brief and unhappy stint at the National Bank of North America, he moved to Chase Manhattan.

"Chase was very ambitious about expanding in the Middle East", Kirdar says. "It was 1974, just after the oil price escalation, and money was pouring into the Gulf. My first job was to head a task force to put together a long-term business plan for the region". Impressed by the team's recommendations, an executive committee headed by David Rockefeller endorsed the plan. Kirdar was offered his choice among the bank's five Middle East divisions and he moved to Abu Dhabi.

By 1977, he had moved to Bahrain where his team at Chase included Michael Merritt, Elias Hallack, Oliver Richardson, Robert Glaser, Savio Tung and his boss, Bill Flanz. One of the group's closest friends was Cem Cesmig, a country manager at Bankers Trust Company. All would join Kirdar at Investcorp which was launched on July 8, 1982. Merritt fondly remembers the earlier period with Chase in Bahrain as an era when they were all young and full of optimism, with a collegial sense of taking on the world and winning.

"Nemir, more than anyone I know, understood the macro economics of the region and how the machine worked", say Cesmig, who looks after corporate acquisitions at Investcorp in London. "He simply saw a gap in the product range and a niche that was there for someone to fill".

Investcorp played a classic intermediary's role. So much oil wealth was flowing through the region in the early 1980s that much of it had to be channeled abroad. This was because most banks in the Gulf were still trying to cater to the new Arab riches with inappropriate products - credit facilities, when the last thing these customers needed was more liquidity. What they really needed was investment banking products, and above all, good deals.

INVESTCORP'S BUSINESS CONCEPT

Investcorp was established to form a bridge between prime investment opportunities in the industrial world and the liquid wealth of the Middle East. The firm has adopted an uncommon approach to fulfilling that role by acting as a principal, rather than as an agent or advisor, and arranging the acquisition of significant corporate and real estate interests.

The company initiates and structures transactions, provides capital to consummate acquisition, arranges institutional financing, and thereafter furnishes the necessary strategic, financial, tax, and legal input to enable other investors to participate on a passive basis. After performing its initial role, Investcorp privately places the equity and debt participation with its own regional and international clients. The firm continues to act as the intermediary between the management of the acquired company and the investment group, and generally maintains a significant equity participation of its own throughout the life of the investment. Thus, Investcorp essentially operates in partnership with its clients by

retaining a small interest in most transactions it offers. In this way, clients are assured that all investments offered have been considered and structured with extra care and that Investcorp, as an institution, has confidence in them and is willing to share the same risks.

BUSINESS UNITS AND TRANSACTION STRATEGY

Investcorp has five distinct business units, as briefly described below, which operate very closely with one another.

Corporate Investment

Investcorp concentrates on arranging acquisitions and enhancing the value of well established companies in North America and Europe. Typically, these companies are selected for their management team of proven ability, a healthy cash flow, a substantial market share, and strong asset backing.

Real Estate Investment

Investcorp targets commercial and residential properties with good potential for value improvement in the leading urban markets of North America and Europe. Close attention is also given to the real estate opportunities presented by each corporate investment opportunity.

Corporate Management

Investcorp's corporate management team is responsible for investment evaluation, risk management, finance, administration, and legal matters. The team coordinates

the firm's relationships with the world's leading financial institutions.

Proprietary Trading

Investcorp invests and trades in marketable securities and financial instruments. It takes positions in the major money, currency and bond markets as well as in derivative instruments such as equity warrants, swaps, options and futures.

Products for Placement

Investcorp offers its clients two means of investment. They can either invest directly in the equity or subordinated debt of specific transactions, or through a series of managed funds, they can participate in a range of Investcorp's investments, as well as in its trading products.

As regards the Transaction Strategy, the bank follows the following four stage approach:

i. Acquisition

Investments arranged by Investcorp draw on global capital markets for debt financing and on company clients for equity and subordinated debt.

ii. Placement

Investcorp offers investment opportunities to its clients either through private placements in specific transactions or through its managed funds.

iii. Management

During the holding period, Investcorp monitors each investment and contributes to the enhancement of its value through financial and strategic assistance.

iv. Value Realization

Investcorp selects the best opportunity to realize the value in each investment either through a private sale, public offering or recapitalization.

OWNERSHIP STRUCTURE

The "Investcorp Group" refers to Investment Bank E.C. On November 1, 1990, the Investcorp Group completed a corporate reorganization which made Investcorp S.A., a Luxembourg company, the principal financial holding company in the Group. The purpose of this corporate reorganization was to shift the risk of the Investcorp Group from Bahrain to Luxembourg. This was apparently a move in response to the Kuwait crisis, triggered by the Iraqi occupation in 1990 that led to the Gulf War of 1991. As a result of the reorganization, substantially all of the assets and income generating capabilities formerly owned by Investcorp Bank E.C. (exempt company) and its subsidiaries were transferred to the control of Investcorp S.A. Concurrently, Investcorp S.A. assumed substantially all of the outstanding liabilities of Investcorp Bank E.C.

COMPANY CULTURE

In Kirdar's office there is a metal mobile of men pushing wheels which cause the assembly to turn tirelessly. "It is the symbol of our work: if it stops, the entire machine stops", he explains. "In fact the Chase years were very crucial to forging the culture that now permeates Investcorp, because they allowed us to create our own culture, founded on the bedrock of the knowledge and understanding we had of each other", says the President

and CEO. At a long evening of dinner, drinks and planning prior to Investcorp's launch, Kirdar, Merritt, Hallack and Cesmig, the quartet co-founders of Investcorp, swore they would never allow bureaucracy - "Corporate Cancer", as they called it - to come into the bank.

Investcorp's planning and decision-making depends on consensus and team play. Practically every decision and every deal is a group effort. In their determination to resist bureaucratization, the four founding partners agreed not to give themselves titles and to adopt an almost entirely horizontal management structure. The fewer the layers, they reasoned, the less divisive the internal competition might be. "We write the script together and then get our kicks from playing the roles we have been allocated," says Cesmig.

Kirdar's vision is to create an Anglo-Arabian investment bank that will one day compare with a J. P. Morgan or a Goldman Sachs in profitability, consistency, and corporate identity. Like Kirdar, other partners seem to have devoted themselves with an almost religious intensity to building an institution that will endure long after they have left for their well-compensated retirement. "Every team needs a cause, and for us that cause is Investcorp", says Hallack. "We are building a whole culture, an institution. Others can believe it or not - that is their business - but we think we are building the Rolls Royce of the industry. The money will come, if you are doing it right".

ACQUISITION OF FIRMS: SELECTION PROCEDURE

The corporate investment teams based in New York and London are primarily responsible for acquisition. The members of the corporate investment group constantly search for new companies to acquire. In addition to relevant information sources, such as potential sellers and agents, the team members use their own contacts and relationships within the industry to identify new companies for acquisition.

Once the firms are identified, names of the most promising ones are submitted to the senior members of the division for further screening and consideration. At this stage, the placement people are also kept informed so that they can assess the possibility of "placement". At this stage, the senior executives and other divisions also become informed and involved so that a complete plan can be put in place by the time an acquisition decision is made.

Thus, when the review by senior corporate investment members and placement people has been completed and a recommendation has been made for acquisition, the final decision is then taken by a committee. At this stage, an even more detailed analysis is made and implications are assessed by different support people, such as project management, financial management, lawyers, and tax people in London, New York and Bahrain. Accordingly, when the company decides to buy a company, the restructuring plan, tax plan, placement plan, and funding plan are all in place.

PRIZE OF PARTNERSHIP

Rituals are used to reinforce the company's team culture. Each January the firm all but shuts down so that the partners can convene in Bahrain to conduct a month-long "postmortem" on the year just past and prepare a broad strategic forecast for the one under way. Each group within the bank - corporate acquisition, placement, real estate, proprietary trading and fund management - presents its scenario for the coming year. Ordinarily, the partners huddle again for four days at an English country hotel in May and then in September for updates. In December, each partner fills out appraisal memos on the other partners. "You start with yourself and write one on each of the other partners- Kirdar included", explains Cesmig, ".....appraisals of individuals, of the firm's overall performance, what went wrong, what you did right, how to do it better".

For those who can stand the hours and acculturational activities, the prize of partnership offers a steadily increasing stake in the firm. Partners began in 1982 with 7.5 per cent equity and their share had risen to 37.5 per cent by 1993. They receive performance-based compensation on top of the basic salary and a program whereby partners themselves can take stakes of up to 20% in Investcorp deals. Investcorp is known as a "hands-off" financial banker that relies on existing management of acquired companies to shape their own corporate strategy.

PERFORMANCE

Exhibits 3, 4 and 5 provide the Income Statement, Balance Sheet and Sources and Applications of Funds of Investcorp.

INSERT EXHIBITS 3, 4 AND 5 ABOUT HERE

In 1993 Investcorp achieved record earning of \$67.3 million, an increase of 7.3% over 1992. Return on average assets was 5.4% and return on average equity was 19.3%. "Despite the generally depressed economic conditions and the declining interest rates, 1993 was a good year for Investcorp. Activities were diverse and 'more than normal', with a total of six acquisitions completed during the year," said Elias Hallack, Co-Chief Operating Officer.

The acquisition of Thorn Lighting, one of the world's largest manufacturers of light fixtures, was valued at about 180 million pounds sterling. "We also had a large deal in the US. The Camelot Music acquisition was worth about \$400 million," said Mr. Hallack. Other acquisitions in the US were Circle K, the country's fourth largest chain of convenience stores, and American Blinds and Wallpaper Factory. New acquisitions in Europe included completion of the take-over of Gucci in Italy and Mondi group in Germany.

"The firm's performance in 1993 is an excellent start to its second decade," said president and chief executive officer Nemir Kirdar. "Our mission is to continue to build a reliable and profitable institution with a well-defined market niche".

Total assets grew to \$1.3 billion in 1993, while shareholders' funds moved up to \$372.7 million from \$323.1 million in 1992. However, for the proprietary trading unit, the year's financial results were disappointing and the bank is now devoting more time and resources to the further development of this line of business.

GEOGRAPHIC AND INDUSTRY CONCENTRATION OF ASSETS AND LIABILITIES

Exhibit 6 provides details about the geographic and industry spread of the firm's assets for both 1991 and 1992.

(I) Geographic Concentration:

Assets

At December 31, 1992, 56.6% of total assets were in North America, 32.2% were in Europe, 9.1% were in the Middle East and 2.1% were classified as "Other", primarily Asia. In the previous year, (December 31) 1991, 61.3% of total assets were in North America, 28.6% were in Europe, 8.2% were in the Middle East and 1.9% were classified as "Other." The \$83 million, or 29.2%, increase in European assets from 1991 to 1992 was primarily attributable to increased inter-bank deposits and corporate acquisition activity. The \$21.9 million, or 26.8%, increase in Middle Eastern assets was primarily attributable to increased inter-bank deposits.

Approximately 90% of the firm's assets are concentrated in North America and Europe. All of the firm's corporate and real estate investment activities occur in these regions,

as well as a substantial portion of its bank deposits and marketable securities activities. The majority of Investcorp's Middle East assets concern interbank deposits and an office building in Bahrain.

Liabilities

At December 31, 1992, 4.2% of total liabilities were reported in North America, 70.3% in Europe, 25.4% in the Middle East and a nominal amount was classified as "Other." At December 31, 1991, 17.1% were reported in North America, 67% in Europe and 15.9% in the Middle East.

(ii) Industry Concentration

Assets

At December 31, 1992, 43.3% of total assets were in banking and finance, 19.2% were in retail, 13.2% were in luxury merchandise, 6.8% were in real estate, 3.5% in food processing, and 14% were in other categories. In the previous year (December 31, 1991), 44.7% of total assets were in banking and finance, 21.2% were in luxury merchandise, 7.3% were in real estate, 3.2% were in food processing, and 9.4% were in other categories. The high proportion of assets concentrated in both years in the banking and finance sector was a result of the high level of liquidity of Investcorp, with a significant portion of total assets being invested in deposits with other banks. The retail, luxury merchandise, real estate, and food processing investments reflect Investcorp's' investment activities. There was no material shift in assets according to industrial concentration between 1991 and 1992.

Liabilities

At December 31, 1992, 86.1% of total liabilities were due to the banking and finance industry. This sector was responsible for 92.4% of liabilities at December 31, 1991. Concentration of liabilities in this sector results from the fact that most of the Investcorp's liabilities are to banks, either through receiving deposits from banks or through borrowing under committed Euroloan facilities.

At December 31, 1992, 13.9% of total liabilities were due to other sources; this had been 7.6% at December 31, 1991. Other liabilities relate to dividends payable, accrued interest and other payables, and a residual of other deposits.

PERFORMANCE REVIEW

The performance of Investcorp during the decade of its existence, has been outstanding. Investcorp's four-stages process (buying an asset, placing it with clients and restructuring it, managing it efficiently to increase its value, and finally selling it at a substantial profit) has worked well up to now. However, the Gulf War in 1991 caused a short-lived fall off in performance. "In the 1980s, the return on investment was 60%-70%. In the 1990s, it will be more modest, around 15%", says Cesmig. In the 10 years of its existence, Investcorp has completed over 45 transactions, for a total value of about \$9 billion.

Investcorp's keys to success are many including high quality real estate operations in London, Boston, San Francisco, and Washington. With regard to corporate

acquisitions, a policy of partnership is pursued with existing management who are generally offered the possibility of participating in the equity. Investcorp always reserves at least 10% of their company's equity for itself. It therefore receives fees for placement management and collects the profit on the sale of its own holdings. In addition, the non-partner employees share in a company-wide business pool or bonus system based on earnings above those needed to provide a 10% return on paid-in capital to shareholders. "It makes everyone feel a part of the firm", says the CEO.

Investcorp functions in accordance with strict guidelines: all investment proposals are submitted to a Management Committee, and certain fields are resolutely avoided - agriculture, oil, raw materials, defence, gambling and services. This leaves open broad fields of activity in the food industry (such as Investcorp's Carvel and Main Street Dairy), distribution (Color Tiles, Sports Unlimited shops, Fox Photo, Catherine's and Peebles) and even boats (Bertram and Riva). The major transactions of Investcorp appear in Exhibit-7.

INSERT EXHIBIT 7 ABOUT HERE

Each year about 300 acquisition proposals land on Kirdar's desk. However, the bank would prefer to complete only 3 or 4 transactions per year of top quality. Investcorp chooses with care. In real estate, it buys only prestige buildings in THE best locations. The first purchase was of Manulife Plaza in Los Angeles. Its acquisitions usually have impeccable brand names that amount to

consumer franchises, such as Bertram boats and Peebles department stores; Carvel ice cream stores are a perfect fit with Investor's Deltoid Foods dairy company. Color Tile, Inc. is the largest floor covering chain in the United States. France's Chalet Jewelry includes the well-known Brevet watches. One of the earliest glamour deals taken on by Investcorp was the Tiffany's acquisition in 1984, in which the firm reaped a 1200 percent return on its equity stake that it sold some five years later.

COMPETITION

There are many competitors in today's investment banking industry. Although Investcorp is based in Bahrain, their businesses are in Europe and North America. There is direct or indirect competition from leading international investment companies. These include Merrill Lynch, Goldman Sachs, Nikko Investment Banking, Solomon Bros., Jardine Flemings, Morgan Security, Chase Manhattan, ABN-AMRO, and Citibank. Most banks also have branches or representative offices in Bahrain and other Middle Eastern business centers. In order to raise funds or to place an investment, some investment firms may approach the same investors or clients. This means that Investcorp shareholders or clients may well be approached by their competitors for business.

In addition to international competitors, there are a number of Arab banks which may become Investcorp's competitors. Exhibit 8 shows that there are over two dozen banks, larger than Investcorp in size, operating from bases in the Middle East.

INSERT EXHIBIT 8 ABOUT HERE

INVESTCORP'S ACQUISITION OF SAKS FIFTH AVENUE

The deal that put Investcorp on the map was its purchase of Saks Fifth Avenue in April 1990, when Britain's BAT Industries PLC sold off the New York based chain to fight off a take over by Sir James Goldsmith.

In order to attempt a management buyout, Saks Chairman, Melvin Jacobs, had approached Tobu Stores Co. of Japan for capital, spurring a bid by Investcorp. Investcorp won with a bid of \$1.3 billion, \$600 million of it being equity from Arab investors. Saks' management team was asked to stay on. Other bidders included such heavyweights as Neiman-Marcus, General Cinema Corporation, and the retail competitor Dillard Department Stores, Inc. "I went back to Mr. Jacobs", Kirdar recalled, "and said, Let's turn the page; we still need you now. We have to get going. We have to have present management determine future management and attract the right talent to provide continuity and fulfill the objectives."

Since the takeover, many months ago, Saks management, buoyed by an equity share in the company and freed of the BAT bureaucracy, have divested marginal departments, such as credit cards and children's wear, cut costs and according to Kirdar, "did exactly what they said they would do". Unfortunately the American economy was entering a recession, like many other western economies, so Saks fell short of its sales targets.

Instead of blaming his managers, Kirdar called them in and asked what Saks' nationwide chain of 48 stores could do to

capitalize on Investcorp's financial strength in order to fight back against retail competitors. The Jacobs' team proposed a low-risk strategy of renting about 100 "boutique" selling points in high visibility locations. These could be expanded if successful or closed down quickly if not. The capital cost was to be \$150 million. Investcorp raised that amount from its clients and then doubled it to reduce debt that was weighing down Saks' balance sheet at 13 percent a year.

"We have made the company so solid that even if the recession were to last a few years longer, we would not have that debt burden and we would gain market share over our competitors", said CEO Kirdar. "Even when we bought it, Saks was profitable. If a company has no potential to increase earnings, if it is just a cash cow, it does not fit us". As far as Saks is concerned, the U.S recession caused turnover to fall by 8% in 1991. A program of debt reduction and transformation of all shops was undertaken and shareholders were called on to provide \$300 million in February 1992. "The luxury industry has been traumatized. However, we shall benefit from the difficult conditions of this market, because our clients have the ability to wait!" said Cesmig. "Although the original maturity of the subordinated debt was ten years, Saks was able to prepay the entire amount in only three years. This move reflects good performance and the financial standing of Saks and its ability to take advantage of the current low interest rate environment to refinance its high yield subordinated debt with a lower rate bank rate,"

said Salman Abbasi, a member of the Management Committee. "Saks had been paying 13 percent interest on subordinated debt and was able to refinance part of it with bank debt at a rate of 5.5 to 6 percent."

Richard Hylton of the New York Times commented on the Saks acquisition:

"Much of the success of the Saks' deal can be attributed to the high quality of the properties, Investcorp's high reputation among institutional investors, and the conservative structure of the deal. The value of the underlying properties was appraised at about \$800 million while only \$500 million in notes were issued, and significantly, the properties were appraised after the real estate markets fell. Investcorp, which retained Jones Lang Wotton as real estate adviser from the pre-bidding process for Saks, has essentially used the real estate of the Saks chain to lower financing costs for the acquisition. The first stage was getting bridge loans. Then the collateralized mortgage securities replaced the bridge financing sale-leaseback deals for the various properties that will further lower the cost of capital replacing the mortgage notes." (Source: The New York Times, May 9, 1991.)

INVESTCORP'S ACQUISITION OF CIRCLE K

Investcorp Bank E.C. completed the acquisition of the fourth largest U.S. convenience store chain, Circle K Corp. in July 1993. The \$399.5 million buyout of the bankrupt chain was completed on its own behalf and on behalf of a group of international investors along with Circle K's operating management. Investcorp viewed Circle K as being overburdened with debt in the late 1980s, as it expanded rapidly. Circle K filed for bankruptcy in May 1990 and Investcorp applied to buy it in February 1992.

An Investcorp official said the U.S. federal bankruptcy court decided its bid was the most favorable.

With the acquisition, Circle K emerged from bankruptcy and became a privately held company with 2,500 stores, some 1,500 fewer than at its peak. Under bankruptcy the Court had put in new management, which Investcorp is confident will act more prudently. In any case it now has far less debt burden, the company's senior creditors having received partial payment, whereas those holding subordinated debt received nothing. "There are already signs of improvement for Circle K", said Savio Tung, a member of Investcorp's management committee. Circle K's Board Chairman, Bart A. Brown Jr. said: "We are glad to have the chance to compete again without the constraints and inefficiencies of the bankruptcy process".

BATTLE FOR THE CONTROL OF Gucci

A fierce battle for control of luxury goods maker Gucci was launched in the US courts and threatened to be as passionate as the family rivalries which rocked the Italian fashion house for more than a decade.

Investcorp owned 50 percent of Gucci and was seeking to unseat the chairman and grandson of the founder, in order to win control of his 50 percent stake, through two court actions begun in New York in July 1993. Investcorp alleged that several operating subsidiaries of what was once one of Italy's greatest fashion house were "in or near insolvency," due to the conduct of Maurizio Gucci.

Maurizio was the last remaining Gucci on the board, and was the apparent victor in a fight for control of the 70

year old company which set fathers, sons, brothers, and cousins against one another in the 1980s.

Investcorp claimed that attempts to inject capital of between \$50 million and \$100 million, in return for a controlling stake in Gucci, were rejected by Maurizio Gucci. Investcorp sought to remove Gucci through an arbitration procedure, alleging several violations of the shareholder agreement drawn up in 1991, when Investcorp increased its 47.8 percent stake to 50 percent. Gucci allegedly had pledged shares to secure debts and borrowed \$800,000 from Gucci America without Investcorp's knowledge. Investcorp won a temporary order freezing Maurizio Gucci's 50 per cent stake for 10 days. The action was taken following Investcorp's claim that he was seeking to put his holding out of the reach of the bank, which has the right of first refusal over Maurizio Gucci's 50 percent share.

Investcorp alleged that in 1991 Gucci planned to auction 90 percent of his stake to pay off a judgment against him. Questioned on how he managed to repay the debt at the eleventh hour, without selling his shares, Gucci allegedly said he had found the money under the floorboards of his house after "being visited in a dream by the ghost of his father," according to sources at Investcorp.

A spokesman for Investcorp said the decision to resolve the dispute in court followed two years of discussions with Gucci over managing the company. It was believed that Invescorp offered Gucci the titular chairmanship as long as it retained control of the day-to-day running of

the company. It was rumored that Investcorp had identified a number of possible replacements for Gucci. A spokesperson for Gucci in Milan dismissed the initiative. It was stated that arbitration procedure "can have no influence on the Gucci group shares, which are and will remain Maurizio Gucci's". "The company would continue to be run normally" it was claimed.

Gucci had tried to rationalize the group's products and geographical expansion, both of which had grown out of hand in the 1980s. The aim had been to return the group to its roots as a producer of up-market accessories (notably shoes and bags) and clothing, rather than to attach its name to just any articles that might sell. The number of authorized sales outlets was pared, with a sharp reduction in stores which were not deemed sufficiently up-market or suitably located to reflect the Gucci name. In addition, the product range was purged. However, the corporate and financial restructuring coincided with a severe recession in the luxury goods market. Italian newspaper readers were astonished in the summer of 1993 to see discreet advertisements for an-end-of a season sale at Gucci's flagship stores in Milan's Via Montenapoleone.

SOME DOUBTFUL DEALS

Not all of Investcorp's deals have been dazzling. A few fizzled. For example, in 1988 Investcorp bought Burnham Service Corp., a U.S. trucking distribution company that proceeded to lose several key accounts and stumble badly. Then in 1991, the International Leisure Group in the U.K., in which Investcorp was a equity partner, went bankrupt.

The latter was one of a few cases where Investcorp had agreed to come in on another company's transactions, in this case Banker's Trust. Although Investcorp somewhat embarrassingly chose to feature the International Leisure Group deal in its 1989 annual report, it had actually cashed out all but \$500,000 of its original \$35 million equity-and-debt stake by the end of 1990, well before Harry Good and his leisure empire crashed.

Contrary to its accepted business principle of getting out of any deal at the end of three or four years, Investcorp was not able to turn round or resell Chaumet, which lost 17 million French francs in 1991 (approximately 10% of its turnover). It was necessary for Investcorp to inject French francs 200 million more into Chaumet at the end of 1991, after having changed the management team. Nevertheless, Kirdar expected to bring synergy into play: Chaumet boutiques were to be opened in Saks Stores in the U.S., and the jewelry company was to be repositioned upward in the market for high-quality watches and expensive jewelry.

THE FUTURE

Top management believes that Investcorp can withstand all the hazards of the difficult economic situation of the early 1990s: "We have the name, we have the clients, and we know how to generate cash. If the cake is smaller, what does it matter? Our share is growing at the expense of others", says Kirdar. What seems to concern the partners the most is how to ensure that Investcorp can grow beyond the present generation of managers, while

retaining its singular culture. Kirdar, for one, has arranged for his shares to be passed on to his successor, rather than automatically to a family member. "We have no appetite to get much bigger than we are", says Merrit. "But the challenge is to get to the second or third generation through the sixty professionals now on board".

SUMMARY AND CONCLUDING COMMENT

Investcorp has emerged as a classic success story of an Arab owned financial institution operating in the hearts of Europe and America. Although the bank is relative smaller compared to the multinational investment banks, its performance record has been outstanding during the last 12 years of its existence. One of the major strengths of Investcorp has been its competence. The senior executives have been able to build a management team which is the real asset of Investcorp. Because of its small size, the bank has flexibility and they can make quick moves. Their business portfolio (product-mix) and geographical diversification have, however, remained the same for a long time. There may be business opportunities in the rapidly developing southeast Asian countries.

Lessons

The important lessons we derive from Investcorp are the following:

- i. Building a competent management team is a key to success.

ii. Top management's vision, guidance and leadership have provided the needed impetus for its success.

iii. Despite its decentralized structure, frequent and close contacts among different divisions have also helped the bank to operate speedily.

iv. The bank's access to the region's rich people and business families has also enabled its management to move ahead with business opportunities without the much worries about their short-term profits.

Epilogue/Postscript

In 1994 Investcorp reached an agreement to purchase Star Market, headquartered in Cambridge, Massachusetts, from American Stores Co. and announced the appointment of Henry Nasella as chairman and chief executive.

Star Market was founded in 1915 and is today one of the largest supermarket retailers in the greater Boston area. The company owns 33 stores, of which 25 are supermarkets of between 15,000-35,000 square feet each, and eight are superstores of 40,000-60,000 square feet each.

In late 1994 Investcorp sold Thorn Lighting in the UK which they acquired two years ago.

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Exhibit: 1 Board of Directors

H.E. Abdul-Rahman Salim Al-Ateeqi

Chairman of the Board

Chairman: Bahrain Middle East Bank; Islamic Finance House Universal Holdings, Luxembourg.

State of Kuwait Public Service: Currently, Advisor to H.H. The Amir of the State of Kuwait. Previously, Minister of Finance; Minister of Finance & Oil; Under Secretary at the Ministry of Foreign Affairs; Ambassador to USA; Permanent Representative to the United Nations; Director General of Kuwait Health and Medical Services; Secretary General for the Police; Representative at the IMF/World Bank; Islamic Development Bank; Gulf Organization for Development of Egypt.

Ahmed Ali Kanoo

Vice Chairman

Member of the Executive Committee for Administrative Policy

Member of the Executive Committee for Investment Policy

Group Chairman: Yusuf Bin Ahmed Kanoo Group of Companies which was established in 1890, and is one of the largest and most successful commercial groups throughout the Arabian Gulf.

Chairman: National Bank of Bahrain BSC; Bahrain Ship Repairing and Engineering Company; Bahrain Hotels Company.

Nemir Amin Kirdar

President and Chief Executive Officer

Founded and Established the INVESTCORP Group

Director: INVESTCORP and its affiliated companies.

Public Service: Chairman of the Advisory Council, Center for Contemporary Arab Studies, Georgetown University, Washington, DC; Member of the Overseers' Committee on University Resources, Harvard University, Cambridge, Massachusetts; Board of Trustees, Heart Research Foundation, New York; Member of the Advisory Board, School of International and Public Affairs, Columbia University in the City of New York, New York; Member of the Board of International Councillors, Member of the Advisory Board of Governors - Global Forum: Leadership 2000, Center for Strategic and International Studies, Washington, DC; Member of the Visiting Committee, Fordham University, New York; Member of the Visiting Committee, John F. Kennedy School of Government, Harvard University, Cambridge, Massachusetts; Member of the Board of Visitors, Edmund A. Walsh School of Foreign Service, Georgetown University, Washington, DC; Member of the Board of Trustees of The London Philharmonic Trust, London.

Omar A. Aggad

Chairman, President or Managing Director: Aggad Investment Co.; Aggad Medical Services & Supplies; Almultaka Trading Est.; Aluminium Manufacturing Co.; Arabian Elevator & Escalator Co.; Arabian Plastic Compounds; Arabian Plastic Manufacturing Co.; Arabian Tile Co.; Gulf Motor Company;

Hygienic Paper Co.; Integrated Systems Co.; National Advanced Systems Co.; National Marketing Co.; National Packing Products Co.; National Pigment Manufacturing Co.; Rana Confectionary Products; Rana Investment Co.; Refreshments Manufacturing Co.; Sappco-Texaco Insulation Products Co.; Saudi Coating Co.; Saudi Plastic Products Co.; Saudi Continental Insurance Co.; Saudi Industries for Desalination Membranes & Systems; United Arab Motors.
Founding Director: Saudi British Bank.

Abdullah Taha Bakhsh

Member of the Executive Committee for Investment Policy

Chairman: TRACO Trading Engineering & Contracting Corporation; Saudi Maritime Holding Co.; Bakhsh Kellogg Saudi Arabia Ltd.; Medscan Terminal Company.

Director: National Pipe Co.; SA Zachary Contracting Co.; Arabian International Maritime Co.; Saudi Company for Hardware (SACO); Beirut-Riyadh Bank, London; Arabian Gulf Investment Far East Ltd., Hong Kong.

Kingdom of Saudi Arabia Public Service: Director (Ret): Department of Zakat & Income Tax, Ministry of Finance.

Mustafa Jassim Boodai

Member of the Executive Committee for Administrative Policy

Chairman: Boodai Corporation comprising: Boodai Trading Co. Ltd. WLL; Hilal Bulk Company KSCC; Jassim Transport and Stevedoring Co. WLL; Gulf Engineering Company WLL; Boodai Aviation WLL; Boodai Construction WLL.

Board Member: Kuwait Insurance Company KSC.

Hussain Ibrahim Al-Fardan

Chairman of the Executive Committee for Administrative Policy

Chairman: Alfardan Group of Companies (Holdings) WLL, comprising: Alfardan Jewellery Est.; Ghadah Jewellery Co. WLL; Al-Manara Trading Co. WLL; Alfardan Exchange & Finance Co. WLL.

Vice Chairman: Gulf Publishing and Printing Organization WLL.

Managing Director: The Commercial Bank of Qatar Ltd. QSC.

Director: Qatar Insurance Company SAQ; Trading & Agency Services WLL.

Faraj Ali Bin Hamoodah

Member of the Executive Committee for Investment Policy

President: Bin Hamoodah Group of Companies which is active in the following areas: general trading and services; automotive; contracting; manufacturing; dairy; polypropylene; plastic; agricultural services; investment and management; oilfield services.

Chairman: Abu Dhabi National Co. for Building Materials.

Director: National Bank of Abu Dhabi; Abu Dhabi Chamber

Exhibit 1 contd.

of Commerce; Al Itihad Publishing Est.; Al Dhafra Insurance Company.

United Arab Emirates Public Service: Member of the UAE Federal National Council.

Mohammed Yousef Jalal

Chairman of the Executive Committee for Investment Policy

Chairman: Mohammed Y. Jalal Group of Companies, a trading and contracting group with worldwide interests; Bahrain Tourism Company; Al-Ahli Commercial Bank.

Director: Government Import and Export Company; Bahrain Airport Services.

Abdul Aziz Kanoo

Member of the Executive Committee for Administrative Policy

Deputy Chairman and Deputy CEO: Yusuf Bin Ahmed Kanoo, Saudi Arabia.

Chairman: Saudi Arabian Industrial & Trading Est., Dammam; Baroid Saudi Arabia Ltd., Dammam; Saudi Arabian Lube Additives Co. Ltd., Yenbu.

Vice Chairman: Gulf Vegetable Oil Company Ltd., Dammam.

Director: Yusuf Bin Ahmed Kanoo WLL, Bahrain; Norwich Union Insurance (SA) EC, Dammam; Kanoo Terminal Services Ltd., Dammam; United Arab Shipping Agencies Co. (SA), Dammam; Saudi Formaldehyde Chemical Co. Ltd., Jubail; Tourism Enterprises Co. (SHAMS), Dammam; Gulf Union Insurance Co., Saudi Arabia, Dammam; Dhahran International Exhibitions (Dhahran Expo).

Board Member: Chamber of Commerce & Industry, Eastern Province; Saudi Public Transport Co., Riyadh.

Juma Al-Majid

Chairman: Juma Al Majid Group of Companies, a major trading, contracting and manufacturing group in the UAE.

Vice Chairman: Emirates Bank International Ltd., Dubai.

Director: Dubai Chamber of Commerce & Industry, Dubai.

Ahmed Abdullah Al Mannai

Member of the Executive Committee for Investment Policy

Chairman: Mannai Corporation Ltd., Doha, which includes: Mannai Trading Co. Ltd.; Mideast Constructors Ltd.; Mansal Offshore Ltd.; Mannai Marine Co. Ltd.; Manweir Ltd.; Technical Services Ltd.; Mannai Investment Co., London; Mannai Auto & Trading Co., Riyadh; International Motors and Trucks Trading Co. Ltd., Jeddah; Mannai Engineering Co. Ltd., Bahrain; Mannai Trading Co. Ltd., Cairo; Mannai Moscow Enterprise, Moscow.

Director: Qatar Insurance Company; Gulf Publishing & Printing Organization.

Dr. Nasser Ibrahim Al-Rashid

Chairman: Rashid Engineering, Engineering Consultant to the Custodian of the Two Holy Mosques, King Fahad Bin Abdul Aziz.

Abdul Rahman Ali Al-Turki

Member of the Executive Committee for Administrative Policy

Chairman and CEO: A.A. Turki Group of Companies, Saudi Arabia, which has business interests in construction, marine, oil and gas, chemical and petrochemical industries, industrial services and commercial activities. ATCO Development Inc., Houston; ATCO Development Ltd., London; East & West Group, services, manufacturing and trading; Saudi Danish Construction; Redland Industrial Services; Arabian Business Forms; Saudi Company for Chemical Products (TURKI CHEMICALS); Auto Marketing Company; Honeywell Turki Arabia Ltd.; Marine and Transportation Services (SAUDIA) (MATSS); Keller Turki Company Ltd.

Director: National Committee of International Chamber of Commerce; Dhahran International Exhibitions; Glass Fiber Technological Industries Co. Ltd. (FIBERTECH); various international companies.

Kindom of Saudi Arabia Public Service: Ministry of Communication; Saudi Government Rail Road; King Abdulaziz Port; Chamber of Commerce in the Eastern Province.

Mohammed Abdullah Al-Zamil

Member of the Executive Committee for Investment Policy

Chairman and CEO: A.H. Al-Zamil Group of Companies which engages in: steel and aluminium fabrication, air-conditioning, nails, screws and food manufacturing, plastics, glass production, marble design and installation, furniture and stained glass window production, industrial powder coatings, operations and maintenance, general trading and agency representation.

Chairman: Grindlays Bahrain Bank BSC(c); Savola Bahrain Company.

Director: Bahrain Islamic Bank BSC(c); Bahrain Tourism Co.; Saudi Cement Co.; Gulf Union Insurance Co.; Al-Boustan Commercial Center Co., Cairo; Ifabanque SA, Paris.

Khalid Rashid Al Zayani

Member of the Executive Committee for Administrative Policy

Group Chairman: AlZayani Investments Group of Companies which has interests in banking, insurance, property, hotels, industry, joint ventures, services and trading.

Chairman: AlZayani Investments WLL; AlZayani Hotels Corporation; AlZayani Commercial Services WLL; Bahrain Commercial Services WLL (AVIS); Midal Cables Ltd.; Alutec; Aluwheel WLL (Joint Venture with BBS, Germany); Gulf Closures WLL (Joint Venture with Alcoa, USA); Gulf Telespazio (EC).

First Deputy Chairman & Chairman Of Executive Committee: Bahrain Islamic Bank.

Board Member-Member of Executive Committee: Bahrain Islamic Investments; National Motors Co.

Board Member: Bahrain Kuwait Insurance Co.; Bahrain Commercial Facilities Co.

Exhibit: 2 Management Committee



ELIAS N. HALLACK
Co-Chief Operating Officer
A founding executive of INVESTCORP.
35 years commercial and investment
banking experience. Previously with
Chase Manhattan Bank. ISM Program,
Harvard University.



MICHAEL L. MERRITT
Co-Chief Operating Officer
Founding and first executive to join
INVESTCORP. 25 years commercial and
investment banking experience.
Previously with Chase Manhattan
Bank. MBA, New York University;
BS Management, New York University;
ISM Program, Harvard University.



SALMAN A. ABBASI
Investment Placement
31 years commercial and
investment banking experi-
ence. Previously with
Chase Manhattan Bank.
BBA Marketing, City
University of New York.



YUSEF ABU KHADRA
Investment Placement
23 years commercial and
investment banking experi-
ence. Previously with
Morgan Stanley, Citibank
and Baring Bros. MBA,
Michigan State University;
BBA Finance, American
University of Beirut.



PHILIP BUSCOMBE
Corporate Investment
18 years investment bank-
ing experience. Previously
with Lehman Brothers,
Kleinwort Benson and
Price Waterhouse. MA
Economics, Cambridge
University; Fellow of Inst.
of Chartered Accountants.



LINDA A. CATES
Funds Management
18 years commercial and
investment banking experi-
ence. Previously with
Citibank Private Banking
and Chase Manhattan Bank.
MBA, NYU; BS American
Studies, Willamette
University, Oregon.



CEM N. CESMIG
Corporate Investment
A founding executive of
INVESTCORP. 21 years bank-
ing experience. Previously
with Bankers Trust Com-
pany. MBA, University of
Chicago; BA Econ.,
Universite de Neuchatel;
SMP, Harvard University.



WILLIAM W. FLANZ
Corporate Investment
26 years commercial and
investment banking
experience. Founded
Prudential Asia. Previously
with Chase Manhattan
Bank. MBA, University of
Michigan; BA Economics,
New York University.



ROBERT V. GLASER
Corporate Investment
20 years commercial and
investment banking
experience. Previously with
Chase Manhattan Bank.
MBA, New York
University; BA, State
University of New York at
Buffalo.



ABDUL K. JALLAD
Investment Placement
24 years commercial and
investment banking experi-
ence. Previously with First
National Bank of Chicago.
MBA, American University
of Washington, D.C.;
BBA Business, American
University of Beirut.



LAWRENCE B. KESSLER
Corporate Management
20 years legal experience.
Previously with The News
Corporation, Beker
Industries, Westinghouse
and Dewey Ballantine.
MBA, Columbia; JD,
Harvard Law School; BA,
University of Michigan.



PAUL W. SOLDATOS
Corporate Investment
18 years commercial and
investment banking experi-
ence. Previously with Man-
ufacturers Hanover Trust
Co. and Chase Manhattan
Bank. MBA, The Wharton
School; BA Econ.,
University of Wisconsin.



DR. LEE R. THOMAS, III
Proprietary Trading
11 years experience in risk
management and macroeco-
nomic analysis. Previously
with Goldman Sachs, Chase
Manhattan Bank and
Citibank. PhD and
BA Economics, Tulane
University.



JOHN A. THOMPSON
Real Estate Investment
24 years real estate
experience. Previously with
the Abu Dhabi Investment
Authority and Richard
Ellis. BSc Estate
Management, London
University. Fellow of The
Royal Institution of
Chartered Surveyors.



SAVIO W. TUNG
Corporate Investment
20 years commercial and
investment banking
experience. Previously with
Chase Manhattan Bank.
BS Chemical Engineering,
Columbia University.



PROFESSOR G. MAYNARD
Economic Consultant
Visiting Professor at Univ.
of Reading. Previously
with Chase Manhattan
Bank; Economic Advisor,
U.K. Treasury; Consultant
to U.K. Foreign Office and
World Bank. PhD and BSc
Economics, London School
of Economics.

EXHIBIT - 3
Consolidated Statements of Income and Retained Earnings

For the year ended December 31, 1993

<i>(\$ in thousands)</i>	1993	1992	1991	1990	1989
STATEMENT OF INCOME					
Interest Income	71,489	71,635	91,967	113,965	73,117
Interest Expense	(44,458)	(49,243)	(62,813)	(80,602)	(55,283)
Net Interest Income	27,031	22,392	29,154	33,363	17,834
Net Other Income	80,148	73,189	51,598	65,887	59,929
Operating Income	107,179	95,581	80,752	99,250	77,763
General & Administration Expenses	(39,893)	(32,846)	(28,562)	(32,942)	(25,981)
NET INCOME FOR THE YEAR	67,286	62,735	52,190	66,308	51,782
STATEMENT OF RETAINED EARNINGS					
Balance at beginning of the year	157,548	118,703	89,138	55,480	31,582
Net Income for the Year	67,286	62,735	52,190	66,308	51,178
	224,834	181,438	141,328	121,788	83,164
Transfer to General Reserve	6,729	6,273	5,129	7,481	5,178
Transfer to Statutory Reserve	-	-	-	7,481	5,178
Proposed Dividend	15,000	15,000	15,000	15,000	15,000
Directors' remuneration	1,362	1,362	1,362	1,362	1,493
Charitable Contributions	1,346	1,255	1,044	1,326	1,035
	24,437	23,890	22,625	32,650	27,884
BALANCE AT END OF THE YEAR	200,397	157,548	118,703	89,138	55,480

Source: Company Annual Reports

EXHIBIT - 4
Consolidated Balance Sheet

INVESTCORP BANK E.C.

As at December 31, 1993

(\$ in thousands)	1993	1992	1991	1990	1989
ASSETS					
Cash and Short-term funds	10,157	6,164	5,802	7,492	1,701
Deposits with banks	298,771	302,114	311,674	327,907	353,995
Marketable Securities	101,013	83,461	31,788	17,535	40,337
Accounts receivable	189,282	168,236	55,803	58,603	49,333
Investment Trading Account	284,281	186,663	305,806	240,235	179,711
Accrued interest and other assets	30,750	44,864	28,279	31,570	15,944
Investments	366,259	312,827	222,880	229,051	140,253
Fixed assets	57,997	35,405	31,809	31,552	32,616
TOTAL ASSETS	1,338,510	1,139,734	993,841	943,945	813,93
LIABILITES					
Deposits from banks	123,892	106,292	94,012	119,905	225,489
Other deposits	167,222	160,021	162,563	131,279	89,391
Proposed dividend	15,000	15,000	15,000	15,000	15,000
Accrued interest and other payables	79,669	47,302	51,465	66,990	69,461
Medium-term facilities	580,000	488,000	392,800	367,554	220,000
TOTAL LIABILITIES	965,813	816,615	715,840	700,728	619,341
SHAREHOLDERS' FUNDS					
Share Capital	100,000	100,000	100,000	100,000	100,000
Share Premium	4,079	4,079	4,079	4,079	4,079
Statutory Reserve	25,000	25,000	25,000	25,000	17,519
General Reserve	43,221	36,492	30,219	25,000	17,519
Retained Earnings	200,397	157,548	118,703	89,138	55,480
TOTAL SHAREHOLDERS' FUNDS	372,697	323,119	278,001	243,217	194,597
Total Liabilities & Shareholders' Funds	1,338,510	1,139,734	993,841	943,945	813,938

Source: Company Annual Reports

Exhibit: 5 Sources and Applications of Funds

Consolidated Statement of Source and Application of Funds

INVESTCORP BANK E.C.

For the year ended December 31, 1993

(\$ in thousands)	1993	1992
Source of Funds		
From operations:		
Net income for the year	67,286	62,735
Charges not requiring current outlay of funds:		
Depreciation	4,070	3,638
Total generated from operations	71,356	66,373
Other sources:		
Deposits with banks	3,343	9,560
Investment trading account	-	119,143
Accrued interest and other assets	14,114	-
Disposal of fixed assets	159	478
Deposits from banks and other deposits	24,801	9,738
Accrued interest and other payables	29,689	-
Medium-term facilities	92,000	95,200
Total sources	235,462	300,492
Application of Funds		
Cash and short-term funds	3,993	362
Marketable securities	17,552	51,673
Accounts receivable	21,046	112,433
Investment trading account	97,618	-
Accrued interest and other assets	-	16,585
Investments	53,432	89,947
Purchase of fixed assets	26,821	7,712
Dividends paid	15,000	15,000
Accrued interest and other payables	-	6,780
Total applications	235,462	300,492

Source: Company Annual Report 1993

Exhibit: 7 Ten Years at a Glance

1983

- ◆ INVESTCORP's first fiscal year lasted 18 months, beginning with incorporation in July 1982 as a public company in Bahrain.
- ◆ 335 Founding Shareholders, drawn from all six countries of the Arabian Gulf, provided 79.5% of the formation capital in units no larger than half a percent each. An allocation of 7.5% was reserved for purchase by the Firm's management. The public offering was 1,400 times oversubscribed.
- ◆ A 17-member Board of Directors was elected, all prominent businessmen in the Gulf.
- ◆ The Firm's first transaction was to arrange the purchase of half of Manulife Plaza, a prime office building in Los Angeles, sold three years later to a Japanese investor.
- ◆ A&W Brands, a soft drink company in the U.S., was the first corporate investment.

1984

- ◆ INVESTCORP's new office building in Manama was formally opened in May by His Excellency Shaikh Khalifa bin Salman Al Khalifa, The Prime Minister of the State of Bahrain.
- ◆ A second office was opened at 65 Brook Street in Mayfair, London.
- ◆ The acquisition of Tiffany & Co., New York, was arranged. Equity and subordinated debt were later placed with INVESTCORP's clients in the Gulf. The Tiffany Building was sold to a U.S. investor.

1985

- ◆ INVESTCORP arranged the purchase of Bertram and Trojan, the luxury U.S. boat companies, together with Riva, a similar company in Italy.
- ◆ An interest in U.K. timber group Mallinson-Denny was acquired.
- ◆ The Trading line of business was initiated.
- ◆ INVESTCORP launched its first two proprietary investment funds.

1986

- ◆ Mueller Co., a manufacturer of pumps and hydrants, was the largest acquisition to date. Other acquisitions arranged in the U.S. included Peebles department stores and Club Car, a manufacturer of golf carts.
- ◆ A&W Brands was sold to a private group.
- ◆ The Firm's paid-in capital was doubled, from \$50 million to \$100 million.
- ◆ A group of leading international banks participated in a Eurodollar credit facility of \$50 million, the first to be arranged on behalf of INVESTCORP.

1987

- ◆ The initial public offering of Tiffany on the New York Stock Exchange was completed. A high return to investors was achieved.
- ◆ Real estate projects commenced in Boston, San Francisco and Washington D.C.
- ◆ Catherine's, a women's wear retailer, and Fox Photo, a photofinishing company, were acquired in the U.S.
- ◆ Breguet, the Swiss watchmaker, Chaumet, the French jeweler, and Thecla, an aluminium extrusion company, were acquired in Europe.

Source: Company Annual Report 1992

Exhibit 7 contd.

1988

- ◆ Four investments were sold: Club Car, Mueller, Bertram-Trojan and Riva.
- ◆ The year's acquisitions arranged by INVESTCORP were Burnham Service Corporation, Main Street Dairy and New York Department Stores, Puerto Rico.
- ◆ Beverly House, a residential development overlooking Regent's Park, London, was completed and sold. A building on Bond Street was acquired and sold two years later.
- ◆ INVESTCORP established an office at 280 Park Avenue, New York.

1989

- ◆ INVESTCORP arranged the acquisition of 50% of Guccio Gucci, Italy's best-known name in luxury goods.
- ◆ The purchase of an equity interest in Computacenter, the largest systems integrator in the U.K., was arranged.
- ◆ In the U.S., INVESTCORP arranged the acquisition of the Carvel ice-cream company, Sports & Recreation, a sporting goods retailer, and Color Tile, the leading domestic specialty retailer of floor coverings.
- ◆ Peebles department stores was sold.
- ◆ The Firm expanded its trading business using advanced computer-driven methods. Managed funds linked to trading products were introduced.

1990

- ◆ In April, INVESTCORP arranged the acquisition of Saks Fifth Avenue, its largest and most complex transaction to date. Within a few months, the majority of the equity and subordinated debt was placed with clients in the Gulf. An innovative real estate financing was completed by the year-end.
- ◆ As the number of professional staff continued to increase, the management's share of INVESTCORP's ownership was raised to 37.5%. This level was reached in three phased installments.

1991

- ◆ No new acquisitions were arranged. The emphasis was on strategic, financial and managerial support to all portfolio companies. Protecting the value of its clients' investments became the Firm's priority as the worldwide recession deepened.
- ◆ A three-year \$250 million Eurodollar term facility was arranged with 21 prime international banks, the fifth such syndicated financing arranged for INVESTCORP in six years.
- ◆ Fox Photo and Thecla Industries were sold.

1992

- ◆ INVESTCORP's tenth year was its second most profitable.
- ◆ Catherine's was sold in the United States. An initial public offering of Sports & Recreation was well received by the market.
- ◆ \$300 million new equity was raised for Saks.
- ◆ INVESTCORP arranged the acquisition of a substantial interest in Mondie, the fashion group, its first transaction in Germany.
- ◆ The Firm's staff rose to almost 200. Transactions over the ten-year period reached a total acquisition value of \$5.5 billion.

Exhibit: 8 30 Top Arab Banks

Top 30 Gulf bank results, 1993

(\$ million)

BANK	COUNTRY	ASSETS	% CHANGE ON 1992	EQUITY	CAPITAL/ASSETS RATIO	% CHANGE ON 1992	NET PROFITS	% CHANGE ON 1992
Arab Banking Corporation	Bahrain	18,433	-5.0	1,608	8.7	19.2	171.0	47
National Commercial Bank	Saudi Arabia	17,659	5.0	1,854	10.5	4.0	134.3	18
Riyad Bank	Saudi Arabia	13,980	5.0	1,847	13.2	4.8	199.2	88
National Bank of Kuwait	Kuwait	10,948	10.0	1,080	9.9	-2.0	175.0	25
Saudi American Bank	Saudi Arabia	10,541	4.0	866	8.2	18.8	253.4	4
Arab National Bank	Saudi Arabia	8,653	13.0	642	7.4	-5.1	132.2	29
Gulf Investment Corporation	Kuwait	8,555	13.0	913	10.7	4.5	128.5	59
Al Rajhi Banking & Investment Corp	Saudi Arabia	7,636	8.0	1,017	13.3	0.0	239.6	24
Gulf International Bank	Bahrain	7,172	13.1	528	7.4	-2.6	88.2	39
National Bank of Dubai	UAE	6,314	-8.7	964	15.3	10.9	78.5	-15
National Bank of Abu Dhabi	UAE	6,270	-5.2	500	8.0	14.3	40.6	31
Al Bank Al Saudi Al Fransi	Saudi Arabia	6,151	0.3	650	10.6	5.0	90	70
Saudi British Bank	Saudi Arabia	6,080	10.0	668	11.0	77.4	107.6	50
Qatar National Bank	Qatar	4,195	3.0	576	13.7	7.9	74.0	12
Saudi Cairo Bank	Saudi Arabia	4,153	15.7	424	10.2	8.9	57.1	60
Gulf Bank	Kuwait	4,143	4.8	499	12.0	0.8	60.3	18
Saudi Hollandi Bank	Saudi Arabia	4,032	11.7	313	7.8	5.4	48.1	34
Kuwait Finance House	Kuwait	3,832	-4.6	195	5.1	37.8	129.6	332
Abu Dhabi Commercial Bank	UAE	3,542	22.8	381	10.8	-31.6	44.9	38
Emirates Bank International	UAE	3,245	4.9	377	11.6	11.5	67.3	11
Mashreq Bank	UAE	3,006	8.3	310	10.3	5.1	68.4	21
United Saudi Commercial Bank	Saudi Arabia	2,787	13.4	290	10.4	16.9	70.8	27
Bank of Kuwait & the Middle East	Kuwait	2,590	9.1	226	8.7	7.6	13.3	150
Burgan Bank	Kuwait	2,556	-13.3	470	18.4	19.5	18.1	-56
National Bank of Bahrain	Bahrain	1,953	12.9	231	11.8	-4.1	43.3	37
Bank of Bahrain & Kuwait	Bahrain	1,719	0.3	191	11.1	5.8	26.6	11
Saudi Investment Bank	Saudi Arabia	1,668	18.8	97	5.8	-1.8	16.0	46
Dubai Islamic Bank	UAE	1,527	14.9	73	4.7	-13.0	4.6	-8
Investcorp	Bahrain	1,339	17.4	373	27.9	-1.4	67.3	7
Apicorp	Saudi Arabia	1,266	8.1	559	44.2	-6.2	27.0	69

Source: MEED