ABANA

ARAB BANKERS ASSOCIATION *of* NORTH AMERICA

Hutham S. Olayan Remarks

Accepting the 2013 Achievement Award from ABANA
8 October 2013, Plaza Hotel, New York

Following Introduction by James Gorman, Chairman & CEO, Morgan Stanley

Ladies and gentlemen:

I am very happy and deeply honored to be here this evening. There are so many good friends and colleagues in the room. Thank you for coming and for supporting ABANA in its 30th Anniversary year.

Some of you know The Olayan Group as a banking customer or counterparty, as a shareholder or limited partner, as a client, benefactor or friend.

We are a community of shared interests. This celebration is as much yours as it is mine.

In that spirit, I would like to offer a few reflections on the financial sector from my own vantage point at The Olayan Group.

The central idea behind ABANA is to build a professional bridge in the financial sector between the Arab world and North America -- and to strengthen it with each passing season.

That mission is aligned with the The Olayan Group. We have been building commercial, financial and investment bridges between East and West for 66 years. These bridges cross both cultures and economies.

Central to our history and our worldview are 3 simple facts:

- First, the beating heart of any economy is human enterprise.
- Second, banking provides the lifeblood.
- Third, the skeleton that holds it all together is trust.

We came to this realization very early in our own history -- for strictly practical reasons. When my father, Suliman Olayan, began importing goods to Saudi Arabia from US producers, he needed letters of credit backed by US collateral. On the advice of one of his bankers, he purchased US equities for this purpose. That was 1961.

The Olayan Group has been investing in global equities ever since, including bank stocks. Over the years, we have held major positions at or above the 5% threshold in a number of publicly traded companies, including financial institutions.

We have deep domain expertise in this sector.

We continue to invest in banks. We have also branched out into insurance companies, payment processors, and new financial technology firms.

Suliman Olayan himself became a valuable banking asset. He was the founding Chairman of Saudi British Bank. He was a director of Riyad Bank and Credit Suisse First Boston. He also served for many years on the International Council of JP Morgan.

Part of his legacy includes the Suliman Olayan School of Business at the American University of Beirut. The school is training future generations of bankers in the Middle East. I am a proud alumna of AUB and privileged to co-chair the Board.

AUB remains a beacon of open inquiry, tolerance, and excellence. AUB is precious, and she is well-represented here tonight.

Our banking experience extends to other members of the family.

My brother Khaled is the chairman of SABB, the successor of Saudi British Bank.

My sister Lubna is on the board of Saudi Hollandi Bank. This also makes her the first woman ever elected to the board of a Saudi public company.

I am delighted that Khaled and Lubna are here to share this evening with me.

The Olayan banking tradition continues into our third generation -- 12 young men and women. Five of the 12, including two of my own children, have already worked in banking.

My point in telling you all this is simply to stress that we are not only long banking. We are REALLY LONG banking.

I myself started out as a commercial banker in London with Saudi International Bank. Later I moved to their New York office.

It was then, in the early 1980s, that a small group of Arab bankers cooked up ABANA. They were known as the “kitchen cabinet.” I was one of the cooks.

My formal career in banking lasted just 5 years. But the experience was priceless for my future as an investor in this sector.

I was thrust back into banking in late 2006. That's when I joined the Board of Morgan Stanley.

At the time, I did not know that I was being ushered to a front-row seat at the worst financial crisis since the Great Depression…

In case you're wondering, that did not exactly turn out to be the hottest ticket in town.

The crisis was tectonic. The financial system was truly on the brink. We should not understate the damage. Millions of households and businesses suffered. In the US alone, more than 1,500 banks failed or merged. Reputations were ruined. Trusted brands vanished.

The crisis dealt a body blow to economies in all 3 critical areas: human enterprise, banking, and trust.

The good news is that things are on the mend. The aftermath of the crisis has seen a massive recalibration of risk and controls within the financial sector. Every surviving financial institution is going through this.

A major element of renewed health is more responsible balance sheet structure. This is happening at multiple levels. Both household and financial sector leverage have declined dramatically since the crisis.

US household debt amounted to 85 percent of GDP at its peak. It is down to about 67 percent now. Bank leverage is now 50 percent lower than before the crisis.

Another element is the alignment of compensation to longer-term performance. There has been a rethinking of the bonus structure. It is shifting away from short-term cash payments to more closely match the product cycle and longer-term shareholder returns.

These are not just structural adjustments to the business model. They represent a cultural shift. All of us – both consumers and financiers – now think differently about debt.

I think this is positive. We are returning to a more sustainable path.

There is fierce debate about how far the pendulum should swing, particularly with regard to regulation. If it goes too far, it will stifle risk-taking. That, in turn, will hinder innovation and growth. Uneven regulation across geographic boundaries also is a problem.

The key is balance and harmonization.

In the Middle East, the banking sector has learned lessons from previous crises. It has largely avoided the systemic problems of the recent crisis. It has done so with solid capital structures, more realistic compensation practices, a stable but still evolving regulatory environment, and reduced product complexity.

Going forward, a major challenge for Middle East banks centers on funding long-term assets, especially for large infrastructure projects. The growth of the bond market, including *sukuk*, is one manifestation of this. This is a good example of financial adaptability.

The Middle East also has a role to play at the international level, where financial stabilization is now very high on the agenda. Saudi Arabia in particular is playing a constructive role -- as a member of the G-20, an important player at the IMF, and the largest economy in the Arab world.

Bit by bit, the world seems to be adapting to the so-called new normal. So must we all. And so must our respective corporate cultures.

The Olayan Group has a distinct corporate culture that has sustained it for nearly seven decades. It is by no means perfect. It is not for everyone, and it is still evolving. But it has served us well.

I would like to share 5 key features that have remained constant.

First, moderation:

We avoid excess, and we are pretty frugal.

Let me tell you a little story: My father's first office in London was in a historic old townhome. The stairs creaked. One day the caretaker came to see him. He said, "You know, Mr. Olayan, local lore has it that a ghost inhabits these premises."

My father thought for a moment, then replied: "Well, that's OK, as long as he's not on the payroll!"

Institutionally, avoidance of excess means:

- We are allergic to overhead.
- We subject our balance sheet to extreme scrutiny. We don't just give it a stress test. We apply shock therapy.
- We maintain substantial dry powder to capitalize on opportunities as they arise.
- We have disciplined shareholders who reinvest in the business.
- We have low tolerance for oversized egos and high appreciation for team players.

- Normally we don't seek the limelight …. especially anything splashy … involving hundreds of VIPs … in the Grand Ballroom of the Plaza Hotel! We just don't do that!

Second, discipline and simplicity:

We focus on fundamentals and value.

We avoid fads.

We are not dazzled by complexity.

It turns out that the very first electronic spreadsheet, Lotus 1-2-3, was introduced in 1983 – the very year ABANA was formed. This has lead to a generation of bankers performing infinite "what-if" scenarios. We think a good investment can usually be explained on 1 or 2 pages.

We don't succumb to paralysis by analysis.

Third, patience:

We take a long-term view on both the commercial and investment sides of our business.

As a private group that acts strictly for its own account, we can give the investments in which we have high conviction a reasonable amount of time to succeed.

Patient conviction has served us well.

Fourth, entrepreneurship:

Our roots are entrepreneurial, even pioneering.

This heritage keeps us open to new ideas. We have a management structure that makes us agile enough to act on them.

Our organization is relatively flat, without much hierarchy. We are not big on titles. Our decision-making lines are short.

Like most entrepreneurs, we are optimistic. We look for opportunities, even in adversity. We see silver linings.

Fifth and finally, partnership:

There is an expression: When the lion sleeps with the lamb, the lamb has a sleepless night. We like to sleep well.

This means doing business with like-minded partners. It means that neither party regards the relationship as strictly transactional.

This applies across the board -- to our financial, investment, and commercial partners.

We value partnership for a very practical reason: We know that we have no monopoly on intelligence or good ideas. Through our relationships, we have access to the best and brightest, and we value the privilege.

If the heart of any economy is human enterprise, the heart of The Olayan Group is its people. They are partners too. We do not hire and fire based on business or financial cycles. Many of our professionals have been with the Group for decades.

They are here in force tonight. Thank you for making this ride so rewarding and fun!

I also wish to acknowledge the single most important partner in my own life -- my husband, Robert Raucci. Together we have somehow managed to survive the ultimate stress test – raising three energetic boys in New York City. I'm delighted that Bob and one of our sons are here as well.

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ABANA exhibits many of the qualities which we at The Olayan Group admire.

Take frugality, for example. Their offices are modest, and their auditor assures me there are no ghosts on the payroll!

We also admire ABANA's adaptability and staying power.

Most of the banking names from the original membership are long gone, due to waves of competition and consolidation in the industry. Nevertheless, ABANA's membership has grown significantly, especially in recent years. It now includes not just banks, but also diverse asset managers, law firms, consultants, and others. This properly reflects trends in the industry.

Finally, I am very gratified that the current membership has elected a board of directors that is 35% women. This puts ABANA way beyond the norm -- not only in the Middle East, but also in the US and internationally.

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Ladies and gentlemen:

As I said at the outset, we are a community of shared interests.

May we together find success as we navigate our way toward a more peaceful, prosperous, and sustainable future.

Thank you.