

U.S. Bankers Cultivate Investor Ties in Middle East

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By PAUL DAVIS

Bank executives are still beating a path to the Middle East looking for investors, in some cases in a last-ditch effort to prop up ailing companies, but a senior diplomat in the region said they may have to wait for sovereign investors to recover an appetite for risk.

A time will come when individuals and sovereign wealth funds in the region will enthusiastically invest in U.S. banking companies again, said Ford M. Fraker, the U.S. ambassador to Saudi Arabia, but for now caution reigns.

"They still look at the West as the leader, but when the leader stumbles and falls, it causes everyone to hesitate, act conservative, and question a lot of the fundamentals," he said in an interview Sunday.

Mr. Fraker said executives from Citigroup Inc. were recently in the region. John Thain, the chief executive of Merrill Lynch & Co. and soon to be an executive at Bank of America Corp., also recently paid a visit. Mr. Thain, who secured a \$6.6 billion investment in Merrill that included funds by the Kuwait Investment Authority in January, was forced to agree in September to sell his brokerage company to B of A because of the enduring credit crisis. The Kuwait fund's investment has shed half its value, and this time Mr. Thain was in the region to discuss the company's sale.

James Dimon, the chairman and chief executive of JPMorgan Chase & Co., just returned from a three-day trip to the Middle East, where he attended the opening of his \$2.25 trillion-asset company's Bahrain office as well as client meetings, according to a source familiar with the visit. Though Mr. Dimon did not seek capital, the source said, "Now, more than ever, it's good to be close to investors."

A JPMorgan Chase spokesman would not comment. A B of A spokesman referred questions to Merrill. Calls to Merrill and Citi were not immediately returned.

"While there is enormous liquidity, it is cautious liquidity," Mr. Fraker said. "Intellectually, they are open to investing, but emotionally, they're not there yet. Everyone worldwide is suffering the financial shock and awe. From an investment standpoint, this part of the world is still trying to evaluate the damage already done to their investments."

A November 2007 investment in Citigroup by the Abu Dhabi Investment Authority has lost more than three-quarters of its original \$7.5 billion value during the subsequent year despite Citi's rebound Monday on news of a government bailout. (See related story.)

Citi's biggest individual shareholder, meanwhile, remains Prince Alwaleed bin Talal, a member of the Saudi Arabian royal family who was vocal last week in his support for the company's management even as its shares and his investment sank in value.

State-owned funds in the region have also invested in Barclays PLC, HSBC Holdings PLC, Standard Chartered Bank, and UBS AG only to see their stakes' values shrivel as losses and uncertainty mounted.

"My sense is that the sovereign wealth funds will be very quiet for the next quarter or so as they absorb the ... [hits on] investments they made a bit too early," Mr. Fraker said.

Explaining the continued traffic between the United States and the Middle East, Mr. Fraker said that sovereign investors remain interested in maintaining ties with executives at the biggest financial companies.

But in an effort to put their money to work, they are looking elsewhere now. "Some are buying distressed loans right now because they see a greater opportunity there," said Wa'el N. Chehab, the president-elect of the Arab Bankers Association of North America and the president and chief executive of Cedar Capital Management. "They don't want to use their

money simply for a bailout unless it makes financial sense to do it."

The U.S. government's \$250 billion capital purchase program is also seen as a short-term deterrent, in that it may also keep U.S. banks from having to make sizable near-term concessions to lure investment from foreign entities, observers said.

But Rod Taylor, an executive recruiter who recently took representatives from the investment boutique Sterne Agee & Leach Inc. to the region, said the federal funding may also entice investment over the long term. "The fact that the U.S. government is showing such a commitment should increase the confidence among the sovereign wealth funds and institutional investors in the Middle East," he said.