

# Sharp strategic focus and long-term performance: Arab Bank keeps its eyes on the future

Arab Bank is much more than a bank. Since its foundation nearly 90 years ago, it has been trusted in the region as a safe haven during times of trouble, and it has never betrayed that trust. In its home market, Arab Bank is a symbol of strength and continuity, while further afield, it has been building bridges between Arab economies.

But for all that, Arab Bank is still a bank – one of the largest in the Middle East – and banks are judged on their capital ratios, their liquidity and the profits that they earn through serving their customers.

*Arab Banker* spoke to Arab Bank's CEO, Neme Sabbagh, about the bank's strategy for the future, how it judges its performance, and how it is able to combine its responsibilities to customers, staff and shareholders with its wider sense of responsibility to Jordan and the Arab world.

**N**eme Sabbagh is clear about Arab Bank's strategy. "We are a commercial bank. We fund ourselves primarily through customers' deposits, and we provide credit to major companies and finance the personal needs of consumers."

Arab Bank has one of the biggest international networks of any Middle Eastern bank and exploiting the linkages in that network is the key to the bank's international strategy.

"We are very good at trade finance and cross-border lending," says Sabbagh. "It is what our customers need, and it is something that produces consistent revenues for us. We do investment banking principally in our home markets in the Levant."

Arab Bank has significant asset management operations, led by its subsidiary in Switzerland which has nearly \$3.5 bn under management. Islamic finance is led by its local subsidiary in Jordan, Islamic International Arab Bank, which is wholly shariah-compliant.

During 2017, half of the bank's operating income was generated in the six GCC states, another 13% in North Africa and 9% in other Middle Eastern countries. About a quarter was generated in the bank's home market of Jordan, leaving Europe and the Far East accounting for about 4% of operating income.

These figures do not always reflect the volume of business that the bank does in each region: some regions are more profitable than others. For example, the GCC accounts for only about a quarter of loans and deposits, but this is profitable business, in part due to Arab Bank's entrenched position, which includes a 40% stake in Arab National Bank in Saudi Arabia, but also as a result of the low tax environment. In contrast, Europe accounts for about 10% of loans and deposits, but strong competition and higher taxes reduce the share of income that Europe can produce.

Sabbagh says that Arab Bank is currently in nearly every

country that it wants to be in. It is doing a lot of business in the Middle East with Chinese contracting companies and so hopes to strengthen its presence in China in the near future – the bank currently has a representative office in Shanghai.

The bank does not have a presence in Kuwait, but Sabbagh sees Kuwait as a well-served market which offers few opportunities to newcomers. As for Iraq, the only other Arab country where Arab Bank is not represented, Sabbagh is set on a cautious approach.

He is similarly cautious when it comes to acquisitions. "We certainly want to grow our businesses and will look at acquisition opportunities," he says, "but organic growth has been serving us well for decades, and I see no reason to change that now."

This is a significant point, and one that is sometimes lost on those new to the region and its financial markets. There has been a lot of merger and acquisition activity in the Middle East recently, particularly in Egypt, where the Egyptian government has been selling the stakes that it held

As of 31 December 2017	% Loans	% Deposits	% Revenue	% Net operating income
Jordan	30	35	29	24
GCC	28	24	37	50
North Africa	17	16	15	13
Other Middle East	10	13	11	9
Europe	10	10	6	3
Far East and other	5	2	2	1

Source: Arab Bank

in local banks, but also in Tunisia, and even in the GCC, where regulators have become more willing to approve cross-border acquisitions. This has enabled several of the larger Arab banks to expand their footprints through acquiring and then growing small local firms. Yet Arab Bank has always grown organically, expanding its existing branch networks, some of which were first created in the 1940s, '50s or '60s.

The impending British withdrawal from the European Union ('Brexit') is forcing Arab Bank to change the structure of its operations in Europe. At the moment, European business is centred in London, with operations in France, Germany and Italy being branches of the London subsidiary. As a result of Brexit, the bank is creating a subsidiary in France, and Germany and Italy will be branches of the new French subsidiary.

### Domestic responsibility

The significance of Arab Bank's international operations should not mask the role that it plays in Jordan, its domestic market. Arab Bank accounts for more than 30% of all lending and deposits in Jordan and has a balance sheet and equity several times larger than the next biggest bank. Its market capital accounts for almost 25% of the total market capital of the Jordan stock exchange.

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"This places great responsibility on us," says Sabbagh. "A lot of Jordanians are relying on us to safeguard their savings and to help them fulfil their financial needs. They trust us, because they know that we have never let them down, ever, since the day we were founded in 1930, and despite all the turmoil that the region has seen – and particularly this part of the region has seen – in the years since then. We never underestimate the responsibility that we have to these customers."

Arab Bank's history is indeed a history like no other. It was founded in Jerusalem by Abdul Hameed Shoman and six other investors. In 1930, Jerusalem was part of the British Mandate of Palestine. When war broke out following the creation of the State of Israel in 1948, the bank lost its branches in Haifa and Jaffa and had to transfer its head office to Amman. But when customers who had been forced to flee Haifa and Jaffa came to Arab Bank to redeem their deposits, they were paid out in full.

Arab Bank expanded during the turbulent decades of the '50s and '60s, always meeting its obligations even though its operations in several Middle Eastern countries were nationalised. War in 1967 led to the loss of branches in the West Bank and Gaza, but again, when customers of the occupied branches claimed their deposits, they were paid out in full.

Sabbagh is philosophical about the challenges that Arab Bank has faced and continues to face in the Middle East. "We live and work in a turbulent region, but we always have done, and we know how to keep our balance and keep



doing business even during times of great uncertainty and upheaval."

This sense of social responsibility extends into the bank's community investment work towards sustainable development. In 1978 it created the Abdul Hameed Shoman Foundation to fund scientific research, education and cultural activities. The Foundation's works are ubiquitous in Jordan and have a major impact on the nation's social and cultural environment. Arab Bank also dedicates some of its profits to corporate social responsibility programmes outside the orbit of the Shoman Foundation.

### The road ahead

So what do the next five years hold for Arab Bank?

Sabbagh is enthusiastic about the opportunities presented by new financial technology. Arab Bank has recently set up an 'Innovation Hub' with a mission to use 'fintech' to find solutions to current banking problems, and to find a way of performing existing transactions and processes more efficiently and cheaply.

The focus on corporate business will continue, but retail operations will be strengthened in a few territories where they appear underweight. At the end of 2017, 60% of the bank's credit facilities were extended to large corporates, about 12% to small- and medium-sized enterprises, and about 23% to consumers. Those proportions are unlikely to change much in the years ahead.

"Our objective is to achieve sustainable profits and a healthy return on equity," Sabbagh says, adding, "When

	End-2017	End-2016	End-2015	End-2014	End-2013
<b>Key financial figures</b>					
Total Assets	48,163.7	47,460.4	49,044.6	48,812.6	46,399.6
Loans	23,488.6	21,898.1	22,181.0	22,002.0	20,971.4
Customers' deposits	31,080.5	31,082.2	32,799.2	32,065.3	30,722.8
Shareholders' equity	8,409.3	8,164.5	8,015.6	7,888.7	7,767.7
Net profit	533.0	532.7	442.1	577.2	501.9
<b>Key performance ratios</b>					
Total capital adequacy	14.1	14.4	14.2	14.8	15.2
Cost/income	39.7	41.9	42.3	42.3	42.0
Loan/deposit	74.4	70.4	67.6	67.7	67.1
Return on assets	1.1	1.1	0.9	1.2	1.1
Return on equity	6.3	6.5	5.5	7.3	6.5

Source: Arab Bank

we talk about profits, the key is that they are sustainable. We will continue to focus on our areas of strength and to continuously work to improve the efficiency of what we do.”

Sabbagh says the bank is focused on clear and measurable Key Performance Indicators (KPIs), such as the cost-to-income ratio (which is currently around 40% across the consolidated group) and return on equity (which has been running at around 6% and which has been impacted by the cost of litigation for the New York legal cases which were finalised in early 2018). Maintaining a clean balance sheet through low non-performing loan ratios is another KPI.

“When we talk about profits, the key is that they are sustainable.”

As Sabbagh looks back over nearly nine years at the helm of Arab Bank, he picks out two events that he is particularly proud of. “I think this bank did a good job of navigating the Arab Spring. We kept lending where we could, we pulled back where we had to, and we came through those years with one of the cleanest balance sheets of any commercial bank in the Middle East. I’m proud of the dedication that our staff showed during those difficult times and I’m pleased that the effects of that dedication can be seen by all in the financial results of the bank over those years.”

He also picks out Arab Bank’s success in concluding the law suits opened against it in the United States (see separate box, on page 15). “Those cases had been going on for 14 years and we had to work extremely hard to overcome them. Don’t underestimate how important the final judgements – which were in our favour – were, not only for us, and not only for Jordan, but also for the Arab banking community.”

As Arab economies expand, as their financial markets deepen, and as Arab companies spread their wings overseas, there will be plenty more work for Arab Bank to do in the years ahead. Sabbagh is confident that the bank will continue to meet the needs and the ambitions of its customers, both new and old: “We know who we are and what we are good at, and we know from our own experience that long-term focus on sustainable profits and meeting customers’ changing needs is the best way to achieve lasting success.” ■

Distribution of credit facilities by sector*		
	\$mn	%
Consumer banking	4,955	22.6
Corporates, small and medium	2,592	11.8
Corporates, large	13,038	59.5
Government and public sector	1,205	5.5
Banks and financial institutions	107	0.5
Distribution of customers' deposits by sector		
	\$mn	%
Consumer banking	19,264	62.0
Corporates, small and medium	3,183	10.2
Corporates, large	6,092	19.6
Government and public sector	2,541	8.2

\*Net direct credit facilities at amortised cost. Source: Arab Bank

### Arab Bank's legal victories have wide and positive implications for banks and businesses

After fourteen years of contested litigation, Arab Bank plc recently secured two decisive victories in the US Supreme Court and Second Circuit Court of Appeals. The court rulings issued in favour of Arab Bank have been described as "landmark rulings" because of their far-reaching implications for the banking sector, in particular, and all businesses incorporated outside the United States (US), more generally.

The first complaint was filed against Arab Bank in 2004, and additional suits soon followed against other international banks. While the facts sometimes varied, the cases presented common theories of distress they incurred as a result of a terrorist attack.

The American plaintiffs' case came to trial in 2014 during which a district court precluded the Bank from presenting its defense, thus, the trial resulted in a verdict adverse to the Bank. The Bank, however, remained confident that the appellate courts would decide the issues in its favour. On 9 February 2018, the Second Circuit Court of Appeals issued its opinion in *Linde v. Arab Bank*, vacating the adverse verdict entered against the Bank after concluding that the district court committed prejudicial error by improperly instructing the jury. In its decision, the Court of Appeals made it clear that defendants may only be found

to have committed a primary violation of the statute if their conduct was itself "dangerous to human life" and done with an appearance of intending to "intimidate or coerce a civilian population". Obviously, plaintiffs could not satisfy these elements against Arab Bank, or any other bank.

The non-US plaintiffs brought their claims under the US Alien Tort Statute, which dates back to 1789, and is one of the oldest and most controversial US laws. It permits non-US citizens to assert civil claims for violations of "the law of nations or a treaty of the United States".

On 24 April 2018, the US Supreme Court issued its opinion in *Jesner v. Arab Bank*, affirming an earlier ruling dismissing all claims brought by the non-US plaintiffs under the Alien Tort Statute. The Supreme Court held that foreign corporations cannot be sued under the Alien Tort Statute.

The *Linde* and *Jesner* decisions were sweeping victories for Arab Bank, but they should also be viewed positively by all banks and businesses because they impose limits on and supply much-needed clarity on the application of the Anti-Terrorism Act and the Alien Tort Statute.

