



Update for Q3 2014

Sector: Banking

Country: Jordan

Date: November 10, 2014

Share Price (JOD): 7.15

Target Price (JOD): 7.72

Upside: 8.0%

Recommendation: HOLD

Risk: Medium

Issuing a HOLD rating on Arab Bank with a Target Price of JOD 7.72 per share on persistent risks from regional instabilities and terrorism financing case

We issue a HOLD rating on Arab Bank with a Target Price of JOD 7.72 per share as the ongoing fragile regional political situation on top of company specific risk from the terrorism financing case filed against Arab Bank may continue to pressure share performance in the short-term regardless of the bank's healthy financial results. However, we believe Arab Bank's share price has room to appreciate in the long-term and may become an attractive opportunity when regional uncertainty subsides, supported by a well-diversified geographic presence, good track record, healthy financial position, strong liquidity buffer and a declining trend of non-performing loans.

Iraq and Syria's political and security crises may delay Jordan's economic recovery, negatively impacting demand for credit in different large segments. However, solid deposits growth and decreasing risks to credit quality are likely to ensure overall stability in the Jordanian banking sector. Hence, we expect Arab bank to keep on showing strong signs of steadiness and immunity to the regional uprisings.

Arab Bank starts appeal against Hamas finance ruling

Arab bank started the preliminary actions to appeal a US jury ruling which found it liable for providing material support to Hamas and financing millions of dollars in payments to members of suicide bombers' families during the second intifada uprising of the early 2000s. Jurors announced that the Jordan-based bank must provide compensation to victims of nearly two dozen terrorist attacks that Hamas carried out in Israel and Palestine.

Although the case was closely watched as it was the first-ever terrorism financing civil case to go to trial in the US, the bank announced a high confidence and strength of its legal position in the appeal stage. Jordan's central bank fully backed Arab Bank, emphasizing the bank's strong ability to withstand the likely repercussions of this litigation. As well, the Jordanian government warned US officials several times about the impact of a negative ruling on Jordan's economy, given that Arab bank accounts for 25% of the \$26 billion Jordanian stock market.

Share Data

Bloomberg Symbol	ARBK.JR
Reuters Symbol	ARBK.AM
Market Cap (JODm)	4,073
Number of Shares (m)	569.6
Free Float	44%
Price-to-Earnings	5.28
Price-to-Book	0.46

Share Performance



1 Month Return	-3.4%
3 Month Return	-11.5%
6 Month Return	-19.7%
12 Month Return	1.6%
52 Week Range	7.03 – 9.56

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Performance and Forecasts

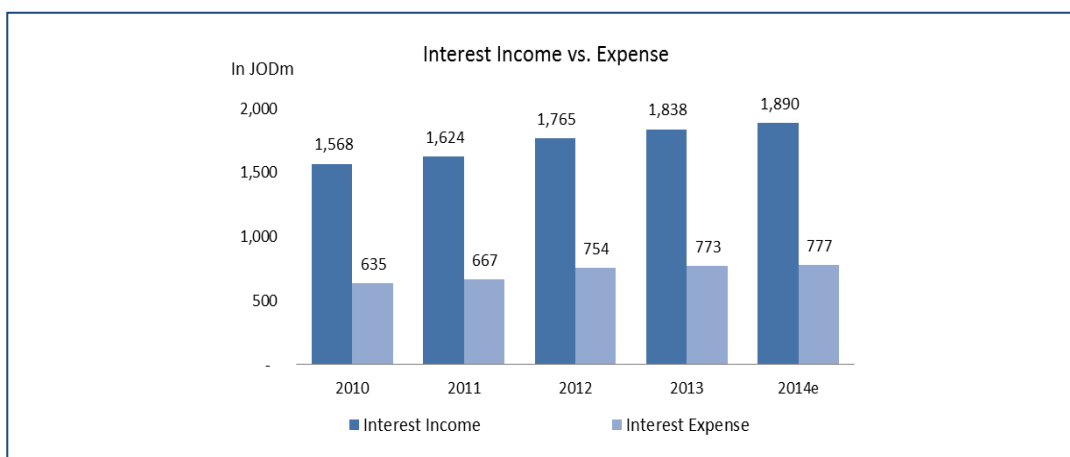
	2011	2012	2013	2014e
Net Interest Income (USDm)	957	1,011	1,064	1,113
Net Income (USDm)	292	344	497	771
EPS (USD)	0.55	0.64	0.93	1.35
BVPS (USD)	14.01	14.12	14.27	15.59
ROA (%)	0.7%	0.8%	1.1%	1.6%
ROE (%)	4.1%	4.7%	6.6%	8.7%

Source: Arab Bank, Blominvest

FINANCIAL HIGHLIGHTS

Interest revenues up on higher interest income from direct credit facilities

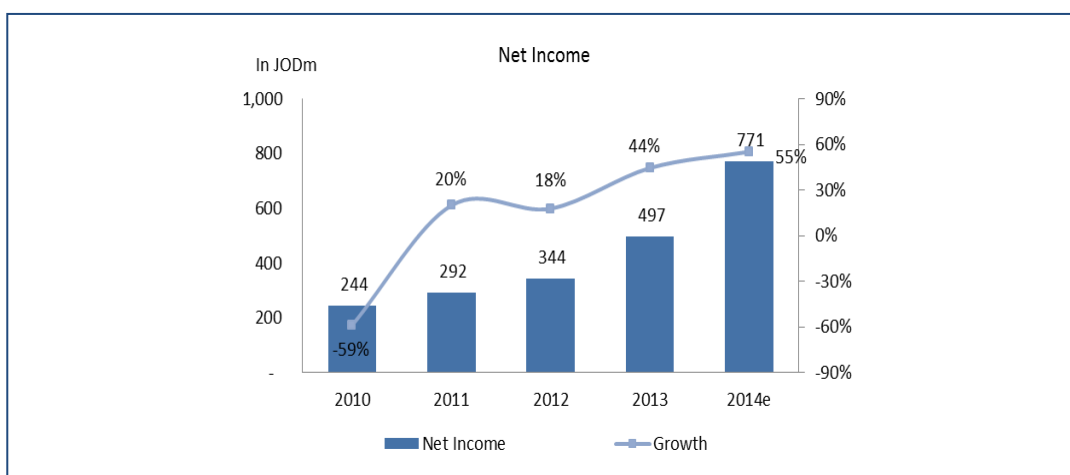
Arab Bank gross interest income, the main revenue driver, rose by 1.41% y-o-y to reach \$1.4 billion up to September. This was mainly attributable to a 4.5% increase in interest income from direct credit facilities to \$860.6 million as credit handed out continued to move upwards. Moreover, income derived from Treasury bonds edged up by 7.6% to reach \$423 million. As for interest expenses, they jumped by 1.5% to \$581.7 million, reflecting the 3.5% addition in customer deposits to \$31.1 billion. As a result, net interest income rose by 1.4% y-o-y to reach \$802.2 million. Going forward, we expect 2014 net interest income to remain on the rise, registering a 1.2% upswing to \$1.1 billion.



Source: Arab Bank, Blominvest

Growth in bottom-line led by interest income growth and lower provisions

Arab Bank Group recorded an impressive 10.5% y-o-y surge in net income for the first 9 months of 2014 to reach \$613.7 million following a diversified portfolio and strong growth in key markets. The bank's profitability is mainly attributed to an \$11.3 million growth in net interest income along with a decline in impairment provisions to \$37 million compared to \$70.5 million a year earlier. Moreover, the bank was able to benefit from a 12.3% rise in the group's share of profits from associates to \$273.1 million. Going forward, we forecast continued growth in net income to reach \$771 million in 2014, mirroring the expansion of the bank's loan portfolio and the continued decline and normalization of provisions taken.



Source: Arab Bank, Blominvest

PROJECTED INCOME STATEMENT

USDm	2011	2012	2013	2014e
Interest Income	1,624	1,765	1,838	1,890
Interest Expense	(667)	(754)	773.40	777
Net Interest Income	957	1,011	1,064	1,113
Commission Income	322	323	342	351
Commission Expense	(19)	(21)	(24)	(21)
Net Commission Income	303	302	318	330
Other Revenue (includes financial assets)	99	57	118	130
Net Revenue	1,359	1,370	1,501	1,572
Loan Impairment Loss/Provision	(435)	(348)	(286)	(54)
Net Revenue After Provisions	924	1,023	1,215	1,518
Non-Interest Expense	(723)	(755)	(784)	(770)
Operating Income	202	268	431	748
Profits from Associates	266	294	310	363
Pretax Income	468	563	741	1,111
Income Tax Expense	(162)	(211)	240	339
Net Income	306	352	502	772
Minority Interest	(14)	(8)	5	1
Net Income Att. to Shareholders	292	344	497	771

Source: Arab Bank, Blominvest

COMPANY OVERVIEW

Established in Palestine, in 1930, Arab Bank has grown and developed in to one of the largest financial institutions in the Middle East. It is based in Jordan and boasts a network of over 600 branches, spread out over 30 countries and spanning 5 continents. Internationally, Arab Bank is present in key financial markets and centers such as London, Dubai, Singapore, Geneva, Paris, Frankfurt, Sydney and Bahrain. Arab Bank provides a wide range of financial products and services for customers in the form of individuals, corporations, and various financial institutions. These products and services include consumer banking, corporate and institutional banking and treasury services.

Arab Bank is now the largest financial institution in Jordan and Palestine in terms of assets, equity, capital, and banking market share. In Jordan, it has market share of 24% of assets, 26% of deposits and 18% of loans. In Palestine, the respective market shares are 34%, 37% and 32%.

Arab Bank was the first public shareholding company listed on the Amman Stock Exchange in 1978, and currently has the largest market capitalization, representing 25% of the exchange. It has 569.6 million shares outstanding with a 44% float ratio.

Market Shares in major locations

Country	Total Assets %	Deposits %	Direct Credit Facilities %
Jordan	21.00%	21.50%	15.80%
Palestine	28.68%	33.02%	27.61%
Bahrain	2.82%	2.32%	3.15%
Egypt	1.94%	2.02%	2.47%
Lebanon	0.93%	0.93%	1.62%
Qatar	0.64%	0.88%	0.55%
UAE	0.73%	0.96%	0.81%
Yemen	10.45%	12.16%	6.31%

BALANCE SHEET

USDm	2011	2012	2013	Q3 2014
Assets				
Cash and Due from Central Bank	7,788	7,749	8,180	7,271
Due from Banks	4,261	4,943	3,492	3,676
Direct Credit Facilities	20,955	20,480	20,971	21,528
Total Investments	9,129	8,799	9,918	10,421
Investments in Subsidiaries/Associates	2,245	2,426	2,618	2,800
Other Assets	1,236	1,248	1,221	1,321
Total Assets	45,613	45,647	46,400	47,018
Due to Banks	4,323	3,836	3,029	3,657
Due to Customers	28,745	29,352	30,723	31,065
Cash margin	2,975	3,534	3,667	3,074
Borrowed funds	810	157	105	91
Other liabilities	1,103	1,068	1,108	1,091
Total Liabilities	37,956	37,947	38,632	38,977
Total Equity (att. to shareholders)	7,482	7,538	7,621	7,913
Minority Interest	174	161	146	129
Total Equity	7,657	7,699	7,768	8,042
Total Liabilities & Equity	45,613	45,647	46,400	47,018

Source: Arab Bank, Blominvest

Ownership

The shareholding structure is very stable and diverse with the four largest shareholders being committed long-term investors in the bank. These four are: the Hariri Family (19.8%), the Jordanian Social Security Corporation (15.5%), the government of Saudi Arabia (4.5%), and the Abdel Hameed Shoman Foundation (2.9%).

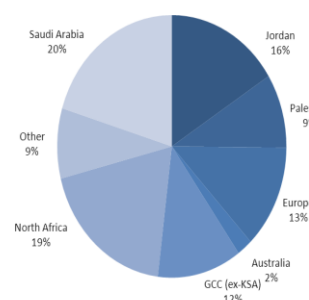
Geographic diversity shields against instability arising in the Arab world

Arab Bank's regional and international presence allowed it to shield itself from the market instability and insecurity caused by events in the Middle East. During the past years, Arab Bank built a strong position by improving its balance sheet, maintaining a good track record and utilizing an aggressive expansionary strategy to gain exposure to markets around the globe. These strengths, coupled with the growth of the bank's remittance business in the Gulf, the increasing quality of its credit portfolio and higher loans and deposits, allowed Arab bank to secure itself from existent problems, such as poor regional conditions in the banking sector, and future threats, such as a continued decline in oil prices and the slowdown of Jordan's real estate sector.

Affiliates

Name of Company	Principal Activity	Ownership %	Country
Turkland Bank	Banking	28%	Turkey
Oman Arab Bank	Banking	49%	Oman
Arab National Bank	Banking	40%	Saudi Arabia
Arabian Insurance Co.	Insurance	36.79%	Lebanon
Commercial Building Co.	Real Estate	35.24%	Lebanon

Geographic Distribution of Assets



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Equity Rating Key

Recommendations are based on the upside (downside) between our 12-month Fair Value estimate and the current Market Price.

Buy: Fair Value higher than Market Price by at least 20%

Accumulate: Fair Value higher than Market Price by 10% to 20%

Hold: Fair Value ranges between -5% to +10% in relation to Market Price

Reduce: Fair Value lower than Market Price by 5% to 15%

Sell: Fair Value lower than Market Price by at least 15%

Risks are based on share price volatility along with qualitative factors such as the nature of the business, the country risk and sensitivity to a single event, single product or single buyer. We've arranged the risk factor into 5 trenches:

- High Risk
- Medium-to-High Risk
- Medium Risk (similar to Market Risk)
- Medium-to-Low Risk
- Low Risk

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