

Update for H1 2016

Sector: Banking

Country: Jordan

Date: October 13th, 2016

Arab Bank Net Income Remains Steady at USD 419M despite Low Interest Rate Environment

Low Interest Rates Halt Income Growth

Arab Bank's financials revealed a static bottom-line performance, as net income during the first half of 2016 registered \$418.74M (JOD 297.16M) in comparison with \$418.76M (JOD 297.04M) by the same period last year.

Arab Bank did show a slight improvement in its net revenues by 0.31% to become \$787.34M (JOD 558.74M) by June 2016. In detail, net interest income grew to \$554.77M (JOD 308.74M) in H1 2016, from \$540.11M (JOD 301.51M) in H1 2015. This result was below Blominvest estimates of \$575.37M (JOD 407.48M) due to the steady decrease of interest rates over the year. In fact, the average trailing twelve-month interest rate on loans stood at 4.33%, with that of deposits standing at 1.80%, resulting in a spread of 2.53% between H2 2015 and H1 2016.

Meanwhile, net commission income rose from \$163.02M (JOD 87.09M) by June 2015 to \$165.15M (JOD 87.03M) over the same period. In terms of expenses, Arab Bank managed to reduce their non-interest expenses to \$380.4M (JOD 269.95M) in 2016, down from \$390.68M (JOD 277.25M) a year earlier.

Reduced Deposits Result in Lower Assets

On the balance sheet, the bank's total assets shed 1.61% y-t-d to reach \$48.26B (JOD 34.21B). Loans and advances to customers managed to gain 1.55% to \$22.52B (JOD 15.95B) over the first six months of 2016, however, time and notice deposits held at the Central Bank as well as investments in treasury bills and government bonds were scaled back, probably as a result of declining deposits at the bank.

The loan portfolio indicated that credit facilities extended in Jordan amounted to 25.82% of total direct credit facilities as of June 2016 at \$5.82B (JOD 4.12B), compared to 24.96% by end-2015 with a value of \$5.54B. In contrast, credit facilities extended to other Arab countries maintained their weight in the portfolio, accounting for 64.98%, increasing from \$14.41B (JOD 10.20B) to \$14.63B (JOD 10.36B). The remaining portion of the loan portfolio was distributed among the other remaining geographical locations by June 2016, compared to 10.09% by end-2015. This would indicate that Arab Bank is concentrating more of its loans in Jordan as a result of its avoidance of economies with reduced or near-zero rates, such as in the U.S and Europe.

Furthermore, deposits slid by 1.77% to reach \$32.22B (JOD 22.84B) during the first 6 months of 2016. This could be attributed to the decrease of corporate and government and public sector deposits at Arab Bank by 9.77% and 6.27% y-t-d, respectively. As such, the weight of these depositors in the Arab Bank portfolio dropped from 31.84% to 31.09%.

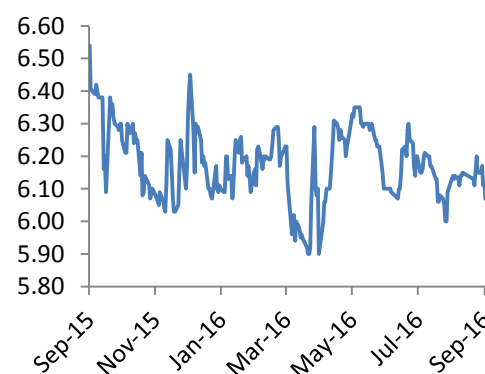
Resultantly, the bank's loan-to-deposit ratio increased from 67.63% by last year to reach its 3-year peak of 69.91% in H1 2016. Historically, Jordanian banks have averaged an LTD ratio of close to 70%.

Share Data

Bloomberg Symbol	ARBK.JR
Reuters Symbol	ARBK.AM
Market Cap (JODm)	3,918.46
Number of Shares (m)	640.8
Free Float	45.0%
Price-to-Earnings	12.71
Price-to-Book	0.69

Source: Bloomberg,

Share Performance



1 Month Return	-0.98%
3 Month Return	-0.49%
6 Month Return	-2.57%
12 Month Return	-7.19%
52 Week Range (JOD)	5.90-6.54

Source: Reuters

Credit Rating/Outlook	BB- / Negative
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Year of Foundation	1930
Major Shareholders	OGER Middle East Holding (19.83%)
	Social Security Corporation (16%)
	Ministry of Finance (4.49%)
	Shohman Abdel Hamid (3.65%)

Performance and Forecasts

	2013	2014	2015	2016 H1
Net Interest Income (USDm)	1,064	1,075	1,091	555
Net Income (USDm)	497	574	431	419
EPS (USD)	0.93	1.01	0.67	0.65
BVPS (USD)	14.27	13.63	12.31	12.52
ROA (%)	1.08	1.20	0.90	0.92
ROE (%)	6.46	7.32	5.52	5.54

Source: Arab Bank, Blominvest