

NBK Capital**Kuwait****Head Office**

17th Floor, Dar Al-Awadi Building
Ahmed Al-Jaber Street, Sharq
P.O. Box 4950, Safat 13050,
Kuwait
Tel: +965 2224 6900
Fax: +965 2224 6904

International Network**United Arab Emirates****NBK Capital Limited**

Precinct Building 3, Office 404
Dubai International Financial Center
P.O. Box 506506, Dubai
United Arab Emirates
Tel: +971 4 365 2800
Fax: +971 4 365 2805

Turkey**NBK Capital**

Arastima ve Musavirlik AS
SUN Plaza, 30th Floor
Dereboyu Sk. No.24
Maslak 34398, Istanbul, Turkey
Tel: +90 212 276 5400
Fax: +90 212 276 5401

NBK Capital MENA Research

Tel: + 965 2224 6663
Fax: + 965 2224 6984
E-mail: menaresearch@nbkcapital.com

Disclaimer

This document and its contents are prepared for your personal information purposes only and do not constitute an offer, or the solicitation of an offer, to buy or sell a security or enter into any other agreement. Projections of potential risk or return are illustrative, and should not be taken as limitations of the maximum possible loss or gain. The information and any views expressed are given as of the date of writing and are subject to change. While the information has been obtained from sources believed to be reliable, we do not represent that it is accurate or complete and it should not be relied on as such. Watani Investment Company (NBK Capital), its affiliates and subsidiaries accept no liability for any direct, indirect or consequential loss arising from use of this document or its contents. At any time, the employees of NBK Capital and its affiliates and subsidiaries may, at their discretion, hold a position, subject to change, in any securities or instruments referred to, or provide services to the issuer of those securities or instruments.

Arab National Bank (ANB) (1080.SE)**January 20, 2009**

- Arab National Bank (ANB) reported a net profit of SAR 2.49 billion for 2008, 1% over 2007 and 3.6% below our full-year forecast. Net profit in 4Q2008 stood at SAR 434 million, reflecting an 11% year-on-year drop and a significant 31% quarter-on-quarter drop.
- Loan growth for ANB was almost nil in 4Q2008, resulting in a full-year loan growth of 22%. ANB has preferred to expand its investment portfolio in 4Q2008, rather than increase its loan book. Investments stood at SAR 28.2 billion at the end of December 2008, surging by around 29% in 4Q2008. Given the situation in the equity markets, we believe the growth was mainly in fixed income securities, especially government paper. Sector data shows a significant drop in lending growth in Saudi Arabia in 4Q2008, as total sector loans grew by 1.1% and 0.9% in October 2008 and November 2008, respectively, compared to a monthly average growth rate of 2.1% since the start of 2007. We believe this is a main reason behind SAMA's recent decision to cut interest rates. The Repo was cut by 0.5% to 2%, while the Reverse Repo was cut by 0.75% to stand at 0.75%.
- Deposits grew by SAR 4.1 billion (4.7%) in 4Q2008, matching our forecast. Deposit growth for full 2008 stands at 26%. With loans and deposits of SAR 74.7 billion and SAR 92.7 billion, respectively, as of December 2008, the loans-to-deposits ratio is a comfortable 80.6%. ANB has maintained a fairly stable loans-to-deposits ratio in the past few years, as that ratio hovered in the 80% to 85% range.
- Out of all earning components, only net interest income in 4Q2008 was disclosed. Net interest income reached SAR 798 million in 4Q2008, 7% below our forecast. We believe the underperformance in terms of loan growth in 4Q2008 (0% growth in 4Q2008) was one reason for that. Another reason could be the significant increase in investments in 4Q2008, which are probably low-yielding government securities. Another reason is the significant drop in SAIBOR recently, which plunged from a high of 4.67% in mid October 2008 to 2.5% at the end of December 2008. For full 2008, net interest income reached SAR 3.35 billion, 15% over 2007 and below our 17.7% growth forecast.
- No data was disclosed regarding any investment losses, provisions, or costs in 4Q2008.
- We will be waiting for the full financial statements to assess whether a change in fair value for ANB is warranted.

Analyst:

Raja Ghoussoub, CFA
Direct: +971-4-3652857
raja.ghoussoub@nbkcapital.com

Related Research

- ANB Update - 02 Sept. 2008
- ANB Update - 21 Feb. 2008