Global Investment House

Saudi Arabia

Arab National Bank

Broadening its horizon…

June 2008

BUY

Ticker:
ARNB AB (Bloomberg)
1080.SE (Reuters)

Listing:
Saudi Stock Exchange

CMP:
SR62.0 (as on June 04, 2008)

Investment Summary

- **Arab National Bank (ANB)** despite the net income decline of 1.7% (from SR2.5bn in 2006 to SR2.4bn in 2007), stood 2nd amongst the Saudi banking sector (in FY07 profitability terms). The bank showed an improved performance in its 1Q08 results, posting net income increase of 4.6% (from SR642.9mn in 1Q07 to SR672.2mn in 1Q08). The bank's balance sheet footing posted an annual growth (FY07) of 21% and YTD asset growth of 10.1% (from SR94.5bn in FY07 to SR103.9bn in 1Q08).

- The bank's (FY07) special commission income rise of 16.3% (from SR4.7bn in 2006 to SR5.4bn in 2007) trickled down well into the net special commission income increase of 15% (from SR2.5bn in 2006 to SR2.9bn in 2007), as compared to the Saudi banking sector performance of 14% (during 2007).

- The decline in non-interest income by 21% (from SR1.3bn in 2006 to SR1.1bn in 2007) was mainly caused by a drop in the fees from banking services by 21% coupled with an impairment loss on investments of SR210mn, resulting in the decline of ANB's overall profitability (FY07).

- Although ANB's banking spreads have been well maintained above 3% for the last three years (posting 3.8% in FY07), we expect a future reduction in banking spreads across the industry (as the Saudi government in consonance with US monetary policy follows a similar stance in the Kingdom).

- The decline in ROAA and ROAE ratios were mainly driven by the balance sheet growth. The bank recorded a drop in ROAA from 3.4% in 2006 to 2.9% in 2007, and ROAE decrease from 35.7% in 2006 to 26.6% in 2007. The bank's EPS (based on 650mn shares) marginally dropped from SR3.9 in 2006 to SR3.8 in 2007.

- Based on FY07 results, ANB ranks 7th (in terms of total assets base) amongst Saudi banks. The bank's balance sheet footing strengthened over the years, posting a 3-year

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CAGR (2004-07) of 14%. The bank's total assets showed an annual growth of 21% rising from SR78.0bn in 2006 to SR94.5bn in 2007.

- The majority (65%) of the bank's assets were generated through Net Loans & Advances that showed an increase of 23% (from SR49.7bn in 2006 to SR61.1bn in 2007). ANB's lending portfolio was dominated by commercial loan and overdraft facilities having a contribution of 70% to the total loans.

- The decline in NPLs by 15% (from SR370mn in 2006 to SR315mn in 2007) shows the bank's stringent credit controls over its disbursed loans. Although the bank reduced provisions by 6% (from SR1,185mn in 2006 to SR1,115mn in 2007), a higher drop in NPLs led to increase in NPL coverage from 321% in 2006 to 354% in 2007.

- The customers' deposits (FY07) constituting 78% of ANB's funding sources, showed a 3-year CAGR (2004-07) of 17%. The bank's deposit base posted a growth of 19% rising from SR61.8bn in 2006 to SR73.7bn in 2007, as compared to the industry deposit growth of 21%. Time deposits category with 61% share of the total dominated the bank's deposit base.

- The shareholders' equity posted a 3-year CAGR (2004-07) of 28% and an annual growth of 32% (from SR7.9bn in 2006 to SR10.5bn in 2007). ANB remains an adequately capitalized bank with TIER-1 capital (FY07) at SR10.5bn. The bank's TIER-1 capital ratio increased from 13.1% in 2006 to 14.5% in 2007.

- ANB's special commission income rise (YoY) of 9% was translated into the net income increase of 4.6% (from SR643mn in 1Q07 to SR672mn in 1Q08). The increase in bottom line profitability also led to a rise in EPS (based on 650mn shares) from SR0.99 in 1Q07 to SR1.03 in 1Q08.

- The bank with YTD asset growth of 10.1% (from SR94.5bn in 2007 to SR103.9bn in 1Q08), also showed YoY asset base growth of 26.5%. The bank's loan & advances portfolio and the customer deposit base recorded YTD growth of 6.9% and 7.0%, respectively.

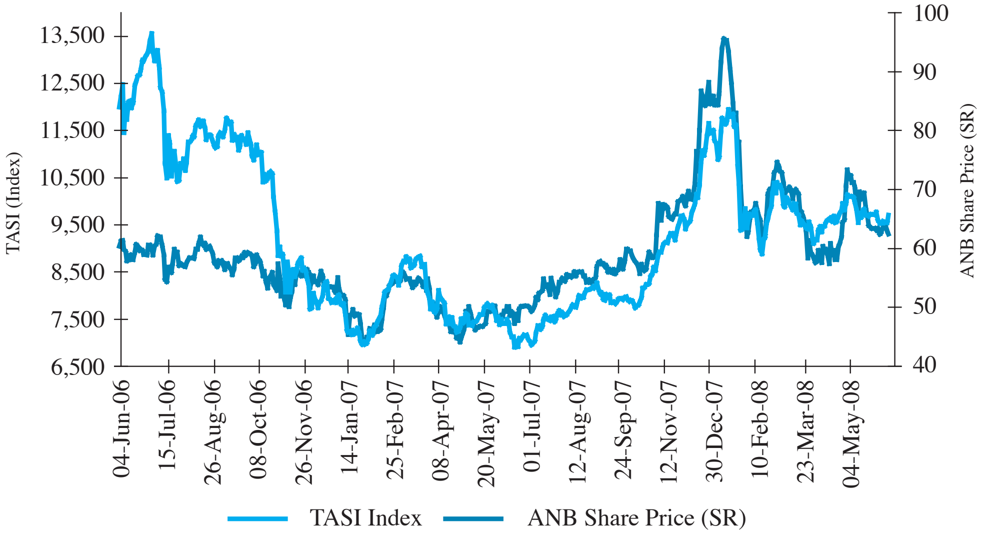
- Based on the combination of two (DDM & GGM) valuation techniques, ANB share reveals an estimated fair value of SR69.6 per share, which represents a premium of 12.3% to the current market price of SR62.0 per share (as on Jun 04, 2008). Therefore, we reiterate our earlier recommendation of "**Buy**" on the ANB stock with a medium term perspective.

Table 1: Investment Indicators

	Price (SR) Jun 04, 2008	Shares in Issue (mn)	Market Cap. (SR mn)		52 week price range (SR)		
	62.0	650.0	40,300.0		46.90 - 95.20		
Years	**Operating Income (SR mn)**	**Net Income (SR mn)**	**EPS (SR)**	**BVPS (SR)**	**ROAE**	**P/E***	**P/BV***
2009 E	5,117	3,403	5.2	20.9	27%	11.8	3.0
2008 E	4,376	2,799	4.3	18.6	25%	14.4	3.3
2007A	3,889	2,461	3.8	16.2	27%	22.3	5.2
2006 A	3,772	2,505	3.9	12.3	36%	14.2	4.4

**Historical P/E & P/BV multiples pertain to respective year-end prices, while those for future years are based on market price in the Saudi Stock Exchange as on Jun 04, 2008.*
Source: ANB Financial Reports and Global Research Estimates

Chart 1: Share Price Performance



*Source: Zawya, & **Global** Research*

Saudi Banking Industry

Saudi banking industry (as of Jan. 2008) consists of 18 banks. We have considered in our analysis National Commercial Bank (NCB), along with 10 other banks listed on Tadawul (Saudi Stock Exchange). With the total banking assets to GDP ratio (Dec. 2007) of 73% in the Kingdom, the top three banks are namely NCB, SAMBA, and Al Rajhi Bank. The three financial institutions namely Al Rajhi Bank, Bank Al Bilad, and Bank AlJazira are entirely Islamic banks. The banking services are largely provided through a network of 1,361 branches (as compared to 1,289 in 2006) and 7,699 ATMs in the country.

Asset-Liability Overview

The Saudi commercial banks' total assets posted a 5-year CAGR (2002-07) of 16%, from SR508bn in 2002 to SR1,075bn by the end of 2007. During 2007, claims on the private sector accounted for 54% (2006: 55%), while foreign assets contributed 14% (2006: 15%) of the total assets. The claims on private sector, which include credit to private sector and investments in private securities, increased at a 5-year CAGR (2002-07) of 23%.

Table 2: Consolidated Balance Sheet of Saudi Arabian Banks

(SR mn)	2002	2003	2004	2005	2006	2007
Cash in Vault	4,892	4,257	4,474	7,201	12,218	10,019
Current Deposits	1,750	847	3,415	2,238	1,012	3,143
Statutory Deposits	14,270	15,465	19,090	21,039	23,759	36,142
Other Deposits	7,732	6,094	5,056	2,167	15,072	59,310
Foreign Assets	95,490	81,082	92,798	91,430	129,796	147,712
Claims on the Private Sector	205,829	228,486	313,928	435,926	476,020	577,882
Other Assets	178,274	208,976	216,622	199,074	203,212	241,013
Total Assets	**508,237**	**545,208**	**655,383**	**759,075**	**861,089**	**1,075,221**
Total Deposits	338,097	362,020	435,965	489,387	591,259	717,564
Foreign Liabilities	42,999	40,063	45,748	65,040	59,199	105,213
Capital & Reserves	57,854	59,181	68,812	92,220	114,612	136,290
Other Liabilities	69,287	83,944	104,858	112,429	96,019	116,154
Total Liabilities & Shareholder's Equity	**508,237**	**545,208**	**655,383**	**759,076**	**861,089**	**1,075,221**

*Source: SAMA & **Global** Research*

On the liability side, total deposits posted a 5-year CAGR (2002-07) of 16% (from SR338bn in 2002 to SR718bn in 2007). The total deposits constituted 67% of the total liabilities & shareholder's equity in 2007. The capital and reserves of SR136bn as of Dec. 2007 accounted for 13% of the total liabilities & shareholder's Equity.

Profitability and Loans Performance

Lower banking profits…

Saudi banks that had consistently shown good financial performance in the past decade and remained amongst the profitable banks in the region, witnessed a decline in 2007 (over the last financial year). The net profit of the sample banks posting a figure of SR30.2bn (as of end Dec. 2007), showed a 3-year CAGR (2004-07) of 21.5%. However, on YoY basis the profits declined by 14.6% (from SR35.3bn in 2006 to SR30.2bn in 2007). Broadly, the main reason for the lower profitability in 2007 was the significant drop in fee based income due to the market factors (dampened Saudi stock market activity) that overall affected Saudi banks' profitability.

Riyadh Bank was the only bank showing net income growth of 3.5% (from SR2,909mn in 2006 to SR3,011mn in 2007), while all other banks witnessed a decline in profitability. During the year 2007, although NCB profits declined by 4%, in absolute terms NCB led the banking sector with profits amounting to SR6.0bn.

Higher NPLs to Gross Loans…

The Saudi banking sector, with an increase in Gross Loans by 21% (during 2006-07), witnessed somewhat higher rise in NPLs by 29%. This resulted in inching up of NPLs to Gross Loans ratio from 1.65% in 2006 to 1.75% in 2007, which was coherent with the decrease in coverage ratio from 173% in 2006 to 145% in 2007. Having said that, the well provisioned balance sheet of the Saudi banking sector (with the NPL Coverage of above 100%) signals the overall good health quality of the banking assets.

Credit Facilities by Sector

The total domestic credit facilities grew by 20% (from SR497bn in 2006 to SR595bn in 2007). The highest increase was observed in the credit facilities extended to the transport and communication sectors, which rose by 205% (from SR7bn in 2006 to SR21bn in 2007). Considering the financial sector performance over the last half a decade, the total credit facilities posted a 5-year CAGR (2002-07) of 23%.

Table 3: Credit Facilities by Sector

(SR mn)	2002	2003	2004	2005	2006	2007
Agriculture & Fishing	2,530	2,549	3,785	6,716	6,802	8,636
Manufacturing & Processing	24,324	26,604	26,519	34,460	37,566	54,339
Mining & Quarrying	715	650	1,252	2,275	1,802	3,897
Electricity, Water and other Utilities	1,094	1,837	3,273	3,226	3,598	5,878
Building & Construction	20,982	21,955	23,057	31,726	37,845	43,421
Commerce	42,194	51,886	62,808	83,054	111,511	127,473
Transport & Communications	13,555	12,803	13,406	14,382	6,875	20,989
Finance	8,862	11,877	33,839	56,747	61,828	62,632
Services	9,718	8,839	12,337	15,097	16,735	28,286
Miscellaneous	74,724	82,124	122,722	173,146	177,539	201,854
Govt. & Quasi Govt.	11,960	25,844	29,138	31,672	34,965	37,434
TOTAL	**210,657**	**246,967**	**332,136**	**452,501**	**497,066**	**594,840**

*Source: SAMA & **Global** Research*

Loan growth and maturity structure

The aggregate consumer loans increased by 2% (from SR188bn in 2006 to SR191bn in 2007). The highest annual loan growth of 21% was experienced in credit cards segment. Although consumer lending backed by the increasing wealth status of the individuals and positive demographic situation of the economy offers attractive growth potential, it may not witness historic high growth levels. Real estate financing by the banks recorded a 5-year CAGR (2002-07) of 28%, closing at SR16bn by the end of 2007.

Table 4: Consumer Loans

(SR mn)	2002	2003	2004	2005	2006	2007
Real Estate Financing	4,506	5,191	8,790	13,656	13,690	15,631
Cars & Equipment	25,568	28,859	27,926	29,025	34,262	37,578
Other	22,800	39,255	78,590	138,174	132,759	129,379
Credit Cards	2,857	2,579	3,295	4,259	7,349	8,896
Total	**55,730**	**75,884**	**118,601**	**185,115**	**188,060**	**191,484**

*Source: SAMA & **Global** Research*

In terms of credit facilities by their maturity period, short term lending stood at SR348bn, and accounted for 58% of the total credit facilities of SR595bn in 2007. Medium term lending of SR83bn and long term lending of SR164bn in 2007 had a share of 14% and 28%, respectively, in the total credit facilities. Going forward, with the increasing activity in the real estate sector, long term credit facilities are expected to grow at a faster pace as compared to others.

Table 5: Credit Facilities by Maturity

(SR mn)	2002	2003	2004	2005	2006	2007
Short Term	124,578	146,040	192,481	250,841	276,232	347,593
Medium Term	31,646	37,758	42,991	53,496	64,633	83,210
Long Term	54,433	63,170	96,664	148,164	156,202	164,037
Total	**210,657**	**246,968**	**332,136**	**452,501**	**497,067**	**594,840**

*Source: SAMA & **Global** Research*

Overall, it is believed that the banking sector in Saudi Arabia, due to the active participation of foreign banks, is becoming increasingly competitive and would need domestic banks to gear up for the market competition. Growth opportunities are abound in the region for players who are willing and prepared to meet the challenges. The market segments that hold attractive growth potential include private and priority banking, small to medium enterprise services, banc-assurance, mortgages, and Islamic banking.

Analysis of Financial Performance -FY 2007

Arab National Bank (ANB) despite the net income decline of 1.7% (from SR2.5bn in 2006 to SR2.4bn in 2007), stood 2nd amongst the Saudi banking sector (in FY07 profitability terms). The Saudi banking sector broadly experienced a profitability drop of 14.6% in FY07, which was mainly due to the dampened share trading activity (2007) at Tadawul that led to a steep decrease in brokerage income of the banks. ANB's improved performance from its core banking operations led to an increase in net special commission income after PLL's by 16.2% (from SR2.4bn in 2006 to SR2.8bn in 2007). The decline in non-interest income by 21% (from SR1.3bn in 2006 to SR1.1bn in 2007) was mainly caused by a drop in the fees from banking services by 21% coupled with an impairment loss on investments of SR210mn, resulting in the decline of ANB's overall profitability (FY07).

Based on FY07 results, ANB ranks 7th (in terms of total assets base) amongst Saudi banks. The bank's balance sheet footing with a 3-year CAGR (2004-07) of 14% and an annual growth of 21%, recorded the total assets size of SR94.5bn in FY07.

Table 6: Financial Summary

(SR mn)	2005	2006	2007	YoY growth (2006-07)
Special Commission Income	3,445.2	4,659.3	5,416.8	16.3%
Special Commission Expense	1,256.1	2,134.4	2,512.8	17.7%
Provision for Loan Losses	(248.4)	(83.0)	(67.1)	-19.1%
Net Special Comm. Income after PLLs	**1,940.7**	**2,442.0**	**2,836.8**	**16.2%**
Fees from banking services	693.9	986.5	776.4	-21.3%
Exchange Income	114.0	135.0	200.9	48.8%
Net Trading Income & Income from FVIS	17.6	32.4	54.9	69.7%
(Losses) Gains & Impairment on Non-Trading Investments, net	90.7	106.0	(17.6)	-116.6%
Total Non-Interest Income	952.6	1,330.4	1,052.3	-20.9%
Total Operating Income	**2,893.3**	**3,772.4**	**3,889.1**	**3.1%**
Total Operating Expenses	(1,065.7)	(1,267.7)	(1,427.9)	12.6%
Net Income	**1,827.6**	**2,504.7**	**2,461.2**	**-1.7%**

*Source: ANB Financial Reports & **Global** Research*

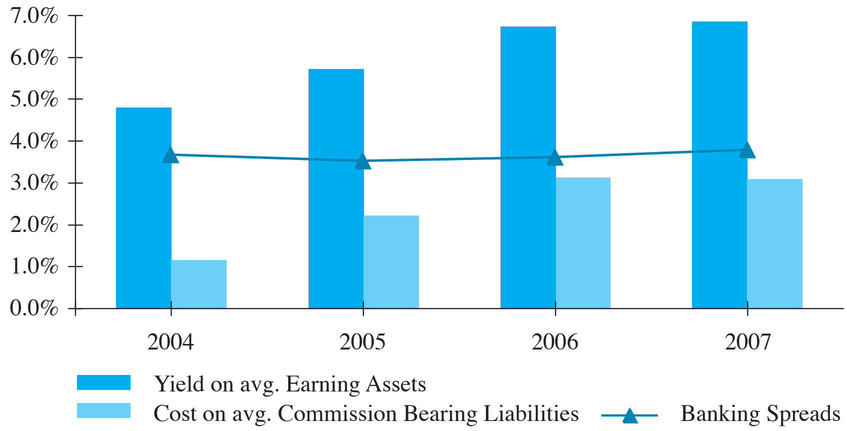
Income & Profitability

The bank's special commission income posted an increase of 16.3% (from SR4.7bn in 2006 to SR5.4bn in 2007), which was mainly generated by loans & advances contributing 78% to the top line. This rise was coupled with special commission expense increase (YoY) of 17.7%. At large, ANB posted an increase in net special commission income by 15% (from SR2.5bn in 2006 to SR2.9bn in 2007), as compared to the Saudi banking sector performance of 14% (during 2007).

Banking spreads sustain pressure...
ANB's banking spreads have been well maintained above 3% for the last three years. During FY07, the commission earning rate of 6.9% in relation to the commission expense rate of

3.1% resulted in ANB's (FY07) banking spread of 3.8%. The bank successfully sustained the pressure and in fact improved on its banking spreads in 2007, which could be due to high interest earning commercial loans & overdraft facilities (constituting 70% of the bank's loan portfolio). Although the bank has been able to maintain its spreads in recent years, we expect a future reduction in banking spreads across the industry (as the Saudi government in consonance with US monetary policy follows a similar stance in the Kingdom).

Chart 2: Banking Spreads



*Source: ANB Financial Reports & **Global** Research*

Non-Interest income witnesses decline...

The decrease in non-interest income by 21% (from 1.3bn in 2006 to SR1.1bn in 2007) was the main driving factor resulting in the drop in the bank's net income (FY 07). The decrease in non-interest income is largely composed of the decline in fees from banking services and impairment losses on non-trading investments.

The fees from banking services for ANB showed a decline of 21% (from SR986.5mn in 2006 to SR776.4mn in 2007). The drop in fees could mainly be attributed to the market factors that affected the performance of Saudi banks across the board. The 2006 correction in Saudi stock market had a clear impact in 2007 as the total share traded value on Tadawul declined by 51% (from SR5,261.85bn in 2006 to SR2,557.71bn in 2007) and the volumes traded decreased by 20% (from 73.4bn in 2006 to 58.8bn in 2007). This reduced market activity directly influenced Saudi banks' fees from banking services that are primarily linked to the trading activity at Tadawul.

The bank posted an impairment loss on investments of SR210mn (i.e. 7% of its international investments held at amortized cost), basically representing credit losses incurred on the international investments. The losses could be linked to the bank's unrated international investments exposure through Structured Investment Vehicles (SIVs), hedge funds, and Collateralized Debt Obligations (CDOs). The management believes that going forward losses of such magnitude are not expected.

CMA industry directives…

An important development regarding the banks' dealing in capital markets was the promulgation of the regulation set by the Capital Markets Authority (CMA) requiring the separation of investment services and asset management from core banking activities.

ANB following the CMA directives incorporated a new capital market company (with 98% ownership in the subsidiary) by the name of "ANB Invest" that commenced its operations in Jan 2008. In addition, the issuance of new licenses for brokerage, asset management, advisory and other fee-based services further intensified the competition in the Kingdom. Although the spin off of the brokerage business and the increasing competition could result in the short term performance pressures, in the long run, it will provide these divisions a chance to further develop on their expertise as the capital market activity picks up.

Operational efficiency….

The increase in operating expense to income ratio from 33.6% in 2006 to 36.7% in 2007, in the wake of increase in operating income by 3%, signals higher increase in expenses as compared to the income generated. The operating expenses showed an increase of 12.6% (from SR1.3bn in 2006 to SR1.4bn in 2007) and remain dominated by the salaries & employee related expenses constituting around 60% of the total. In order to strengthen the banking services network across the Kingdom, the bank added 7 new bank branches in 2006-07. The bank employee force was also increased from 3,440 in 2006 to 3,557 in 2007.

Table 7: Efficiency ratios

	2005	2006	2007
Total Operating Expenses /Total Operating Income	36.8%	33.6%	36.7%
Staff Expenses/ Total Operating Expenses	61.7%	60.8%	59.0%
Rent, G&A Expenses/ Total Operating Expenses	29.4%	32.6%	32.6%
Number of Staff	2,869	3,440	3,557
Branches (Incl. Head Office)	116	116	123
Average Cost Per Employee (SR'000)	229.2	224.0	237.0
Average Profit Per Employee (SR'000)	637.0	728.1	691.9

*Source: ANB Financial Reports & **Global** Research*

Return ratios affected by the balance sheet growth…

Although ANB's net income did not witness a significant decline in 2007, the drop in ROAA and ROAE ratios were mainly driven by the balance sheet growth. The bank recorded a decline in ROAA from 3.4% in 2006 to 2.9% in 2007, and ROAE drop from 35.7% in 2006 to 26.6% in 2007.

Business Segmentation

The majority of the net income that is 55% of the total was generated from retail banking segment. This shows the bank's ability to generate higher returns from its consumer segment. Overall the bottom line profitability had a contribution of 28% by corporate banking and 17% by treasury services.

Table 8: Segmental Analysis

FY07 (SR mn)	Retail Banking	Corporate Banking	Treasury Banking	Total
Total Operating Income	2,595.3	907.2	453.8	3,956.3
% share	*66%*	*23%*	*11%*	*100%*
Total Operating Expenses	(1,230.8)	(218.7)	(45.6)	(1,495.1)
% share	*82%*	*15%*	*3%*	*100%*
Net Income	**1,364.5**	**688.5**	**408.2**	**2,461.2**
% share	***55%***	***28%***	***17%***	***100%***

*Source: ANB Financial Reports & **Global** Research*

Balance Sheet

Based on FY07 results, ANB ranks 7th (in terms of total assets base) amongst Saudi banks. The bank's balance sheet footing strengthened over the years, posting a 3-year CAGR (2004-07) of 14%. The bank's total assets showed an annual growth of 21% rising from SR78.0bn in 2006 to SR94.5bn in 2007. With the existing asset base, ANB captures 9% market share of the total assets in Saudi banking sector. In Mar-08, following all the approvals 43% bonus shares were distributed. Thus, increasing the ANB outstanding shares from 455mn to 650mn.

Table 9: Balance Sheet Highlights

(SR mn)	2005	2006	2007
Cash & balances with SAMA	**2,495.2**	**3,216.0**	**8,228.4**
% total	3.7%	4.1%	8.7%
% increase		28.9%	155.9%
Non-trading Investments	**20,115.5**	**17,692.2**	**19,947.9**
% total	29.8%	22.7%	21.1%
% increase		-12.0%	12.7%
Net Loans and Advances	**38,778.6**	**49,747.2**	**61,121.9**
% total	57.5%	63.7%	64.7%
% increase		28.3%	22.9%
Total Assets	**67,492.1**	**78,035.4**	**94,467.6**
Customers' Deposits	**48,832.5**	**61,773.5**	**73,692.1**
% total	72.4%	79.2%	78.0%
% increase		26.5%	19.3%
Total Shareholders' Equity	**6,336.7**	**7,980.1**	**10,524.6**
% total	9.4%	10.2%	11.1%
% increase		31.6%	31.9%
Total Liabilities & Shareholders' Equity	**67,492.1**	**78,035.4**	**94,467.6**

*Source: ANB Financial Reports & **Global** Research*

Lending dominated to Consumer loans & Credit Cards segment …

A majority (65%) of the bank's assets were generated through Net Loans & Advances that showed an increase of 23% (from SR49.7bn in 2006 to SR61.1bn in 2007). The loan portfolio segment analysis shows that 30% of the bank's loan book constituted of lending to consumer and credit card segments. This category was followed by the lending of around 16% to manufacturing segment in the Kingdom.

Table 10: Loan Portfolio by Economic Sector

Economic Sectors	2005	2006	2007
Government & quasi government	0.2%	0.1%	0.1%
Banks & other financial institutions	6.9%	8.4%	5.0%
Agriculture & fishing	1.1%	1.0%	1.4%
Manufacturing	12.2%	11.1%	15.6%
Mining & quarrying	0.1%	0.6%	1.0%
Electricity, gas & health services	3.6%	3.4%	1.8%
Building & construction	6.2%	8.0%	8.9%
Commerce	11.1%	11.7%	11.3%
Transportation & communication	2.3%	3.3%	3.7%
Services	1.6%	1.5%	2.1%
Consumer loans & credit cards	39.8%	35.3%	29.9%
Others	14.9%	15.7%	19.4%
Total Loan Portfolio	**100.0%**	**100.0%**	**100.0%**

*Source: ANB Financial Reports & **Global** Research*

Segmental analysis…

The bank's asset base was dominated by the corporate banking assets constituting 43% of the total assets. The other two segments, namely retail banking and treasury services had a contribution of 27% and 30%, respectively. Similar to the assets, the funding was mainly generated from the corporate banking constituting 48% of the total bank liabilities, while the retail and treasury banking segments contributed 43% and 9%, respectively.

Table 11: Segmental details

Dec 2007 (SR mn)	Retail Banking	Corporate Banking	Treasury Banking	Total
Total Assets	25,163.5	40,658.7	28,645.4	94,467.5
% share	*27%*	*43%*	*30%*	*100%*
Total Liabilities	35,599.3	40,467.1	7,876.5	83,943.0
% share	*43%*	*48%*	*9%*	*100%*

*Source: ANB Financial Reports & **Global** Research*

Credit Quality…

ANB's lending portfolio was dominated by commercial loan and overdraft facilities having a contribution of 70% to the total loans. These credit facilities were followed by the consumer loans and credit cards with 27% and 3% contributions, respectively. Although these facilities provide high interest yields, they also carry higher credit risk.

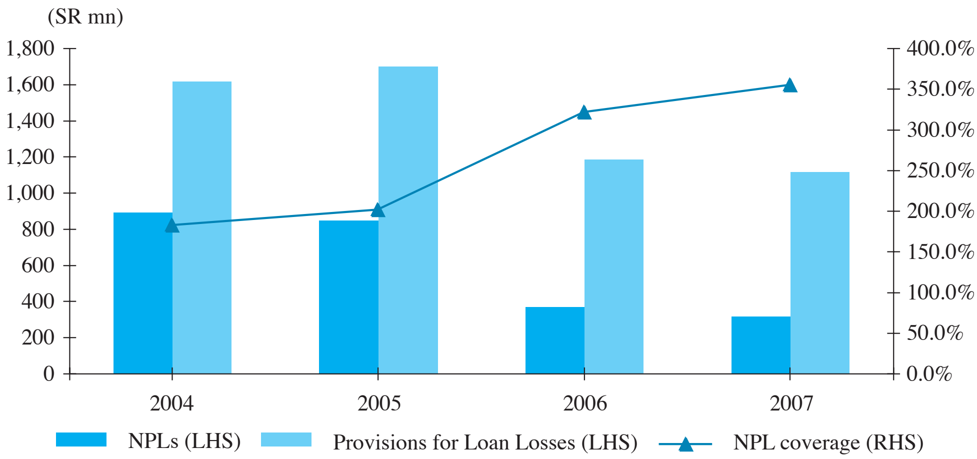
Table 12: Loan Portfolio by Credit Facilities

Credit Facilities	2005	2006	2007
Overdrafts (ODs)	10.4%	9.5%	0.0%
Credit cards	1.1%	3.0%	2.8%
Commercial loans (ODs merged in 2007)	50.0%	55.0%	70.4%
Consumer loans	38.5%	32.5%	26.8%
Others	0.0%	0.0%	0.0%
Total Loan Portfolio	**100.0%**	**100.0%**	**100.0%**

*Source: ANB Financial Reports & **Global** Research*

The decline in NPLs by 15% (from SR370mn in 2006 to SR315mn in 2007) shows the bank's stringent credit controls over its disbursed loans. It is noteworthy that although the bank reduced provisions by 6% (from SR1,185mn in 2006 to SR1,115mn in 2007), a higher drop in NPLs led to an increase in NPL coverage from 321% in 2006 to 354% in 2007.

Chart 3: Credit Quality



*Source: ANB Financial Reports & **Global** Research*

Time deposits leads customer deposits…

The customers' deposits (FY07) constitute 78% of ANB's funding sources, and showed a 3-year CAGR (2004-07) of 17%. With the network of 123 branches, the bank's presence is well spread across all the major locations in the Kingdom. The bank's deposit base posted a growth of 19% rising from SR61.8bn in 2006 to SR73.7bn in 2007, as compared to the industry deposit growth of 21%. Time deposits category with 61% share of the total deposits was followed by demand deposits (36%).

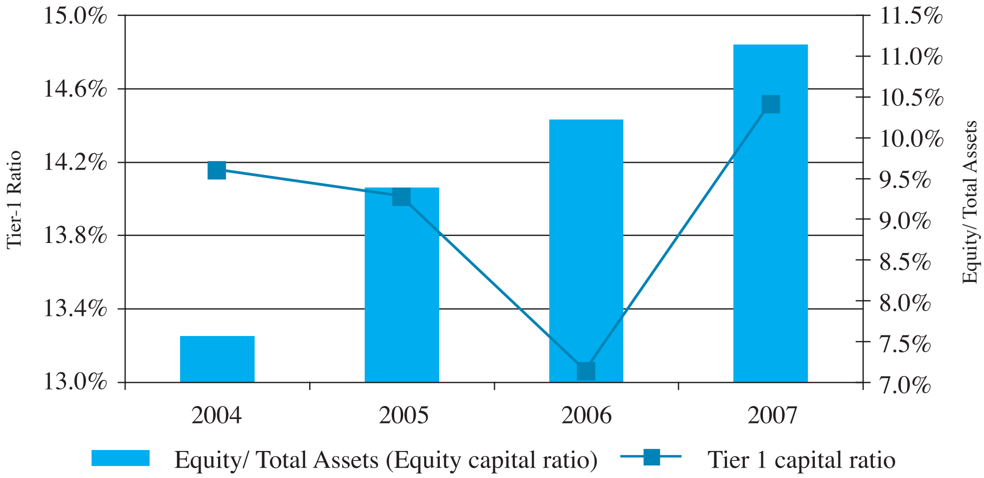
Table 13: Customers' deposits

Deposit types	2005	2006	2007
Demand	38.5%	35.6%	36.1%
Saving	0.2%	0.1%	0.1%
Time	58.0%	62.0%	60.6%
Other	3.3%	2.3%	3.2%
Total customers' deposits	**100.0%**	**100.0%**	**100.0%**

*Source: ANB Financial Reports & **Global** Research*

The shareholder's equity continues to strengthen over the years posting a 3-year CAGR (2004-07) of 28%, and contributing 11% to the total assets in 2007. The shareholder's equity showed an annual growth of 32% rising from SR8.0bn in 2006 to SR10.5bn in 2007. The increase in equity also led to improvement in Equity to Gross loans ratio that increased from 15.7% in 2006 to 16.9% in 2007.

Chart 3: Capital Adequacy



*Source: ANB Financial Reports & **Global** Research*

Well capitalized bank…

ANB remains an adequately capitalized bank with TIER-1 capital (FY07) at SR10.5bn. The rise in TIER-1 capital ratio from 13.1% in 2006 to 14.5% in 2007 signals the bank's improved capital adequacy position.

Analysis of Financial Performance -1Q08

- ANB's special commission income rise (YoY) of 9% (from SR1,297mn in 1Q07 to SR1,415mn in 1Q08) was translated into the net income increase of 4.6% (from SR643mn in 1Q07 to SR672mn in 1Q08). The higher profitability also led to a rise in EPS (based on 650mn shares) from SR0.99 in 1Q07 to SR1.03 in 1Q08.

- An increase in special commission income, coupled with 11% decrease in special commission expense (mainly due to repayment of term loan), resulted in an encouraging increase in net special commission income by 27% (from SR689mn in 1Q07 to SR875mn in 1Q08).

- Although the bank has been actively trying to recover from the pressures faced on fees from banking services in 2007, it was only partially successful in those efforts as it recorded (YoY) decline of 5% (from SR215mn in 1Q07 to SR204mn in 1Q08).

- The lower provision for credit losses by 19% (from SR18.5mn in 1Q07 to SR15.0mn in 1Q08), accompanied by the bank's improved results from the core business growth resulted in the rising profits.

Table 14: Key Income Statement Data

(SR mn)	1Q07	1Q08	YoY growth
Special Commission Income	1,297.2	1,415.6	9.1%
Special Commission Expense	(608.2)	(540.5)	-11.1%
Fees from Banking services	215.2	204.0	-5.2%
Exchange Income	39.6	53.8	36.0%
Trading Income	24.1	(2.3)	-109.4%
Provision for Credit Losses	18.5	15.0	-19.1%
Net Income	**642.9**	**672.2**	**4.6%**

*Source: ANB Financial Reports & **Global** Research*

- ANB with YTD asset base growth of 10.1% (from SR94.4bn in FY07 to SR103.9bn in 1Q08), showed a further encouraging YoY rise of 26.5%. The loan & advances portfolio posted YTD growth of 6.9% and YoY increase of 29.6%.

- The customer deposits constituting 76% of ANB's funding sources, showed YTD rise of 7.0% (from SR73.7bn in FY07 to SR78.8bn in 1Q08) and YoY increase of 24.6%. The equity base of the bank posted YTD increase of 5.3% (from SR10.5bn in FY07 to SR11.1bn in 1Q08) and YoY rise of 27.3%.

Table 15: Key Balance Sheet Data

(SR mn)	1Q07	FY07	1Q08	YoY growth	YTD growth
Cash & Balances with SAMA	4,561.2	8,228.4	10,334.2	126.6%	25.6%
Loans & Advances	50,416.7	61,121.9	65,322.2	29.6%	6.9%
Total Assets	**82,180.5**	**94,467.6**	**103,964.2**	**26.5%**	**10.1%**
Customers' Deposits	63,254.1	73,692.1	78,844.4	24.6%	7.0%
Other Liabilities	1,849.7	2,616.2	3,087.4	66.9%	18.0%
Total Shareholders' Equity	8,709.8	10,524.6	11,086.1	27.3%	5.3%
Total Liabilities & Shareholders' Equity	**82,180.5**	**94,467.6**	**103,964.2**	**26.5%**	**10.1%**

*Source: ANB Financial Reports & **Global** Research*

Outlook

ANB's latest financial performance (FY07) of being 2^{nd} (in profitability terms) amongst Saudi banking sector, signals the bank's positive positioning in the face of intensifying competition in the Kingdom. The bank also stands amongst the leading financial institutions in the Kingdom encapsulating 10% of the total gross loans during 2007.

After the relatively dampened market activity at Tadawul in 2007, going forward, the domestic stimulants like strong macro-economic outlook and corporate earnings growth, coupled with an increased focus of foreign players on the GCC markets could largely benefit Saudi stock market activity. In recent period, ANB has implemented various strategic initiatives in a number of sectors for strengthening its competitive position in the Kingdom. Such steps include i) Establishment of Saudi Home Loans Company (the associate) by teaming up with Dar Al Arkan (real estate developer), ii) Conclusion of an agreement with the Consolidated Contractors Company, to establish and operate the heavy equipment-leasing division, and iii) Extending a range of Insurance services in collaboration with American International Group (AIG). Offering of the wider range of financial services increase ANB's chances to generate both higher fee and non-fee incomes in future.

ANB's branch network expansion plans, both domestically and regionally, accompanied by its new strategic initiatives will facilitate the bank in strengthening its brand image and generating higher business growth. Such measures, besides improving the business penetration, will also enable the bank to further diversify its revenue sources. The bank's customer services-oriented culture, augmented by an enhanced sales focus will improve the bank's ability to provide greater range of services in a more efficient manner. ANB has also participated in a bid for acquiring the stake (upto 67%) in Banque du Caire (Egypt), the final decision on which is expected in next 1-2 months.

We expect ANB's total asset to grow at a 4-year CAGR (2007-11) of 13%, posting an annual growth (FY08) of 18%. The balance sheet growth will be backed by the increase Net Loans and Advances showing a 4-year CAGR (2007-11) of 15%, and the customer deposit base showing a 4-year CAGR (2007-11) of 14%. The bank's profitability led by special commission income annual growth (FY08) of 17%, is believed to record net income increase of 14% during the current fiscal year.

In Saudi Arabia, the government's increased focus on developmental and infrastructural projects accompanied with the rising inflow of wealth generated by high oil prices will augment both the deposit base and financing appetite in the Kingdom. The bank's dominant focus on the Saudi Arabian market, besides offering very attractive growth opportunities both in the retail and commercial segments, also concentrates the bank's risk in geographical terms. Having said that, for Saudi banks in particular, the future optimism is linked to the growth in Saudi economy on the back of all time high oil prices and the boost in public expenditure on mega infrastructure projects (oil and non-oil related).

Valuation and Recommendation

For arriving at the fair value of ANB share, we have used the following two valuation methods:

1. Cash flow approach represented by the Dividend Discounting Model (DDM).
2. P/BV target multiple approach using an adaption of the Gordon Growth Model (GGM).

Dividend Discounting Model - DDM

The DDM is based on a 4-year forecast of dividends as cash flows (2008-11). The dividends for the forecasted period and the terminal value are then discounted back at the cost of equity to arrive at the total net present value (NPV) of the company. In our calculations, we have made the following assumptions in order to arrive at the equity value of the bank:

- Cost of Equity (COE) derived using Capital Asset Pricing Model is estimated to be 9.9% based on the following assumptions:

    a. Risk free rate of 4.35% (yield of 10-year Saudi Government T-bill).

    b. Market risk premium of 5.50%.

    c. Beta of 1.0 (based on 5 years monthly data). If the actual beta of the bank is less than 1 or if the data available is of less than 5 years, to more appropriately reflect the market risk, we have taken it as 1.

- Terminal growth rate of 4.0%.

Table 16: DDM Valuation

(SR mn)	2008E	2009E	2010E	2011E
Dividends Expected	1,209	1,797	2,267	2,934
Terminal Value	52,153			
NPV of Dividends Expected	6,734			
NPV of Terminal Value	38,191			
Estimated Fair Value of Equity	44,925			
No. of Outstanding shares (mn)	650			
DDM Value of ANB per share (SR)	**69.1**			

Source: ***Global*** *Research*

Sensitivity - DDM

We have also prepared a sensitivity analysis for the estimated fair price of ANB share based on various terminal growth rates and COE.

Table 17: Sensitivity –DDM

		Terminal Growth Rate				
		3.0%	3.5%	4.0%	4.5%	5.0%
Cost Of Equity	8.9%	70.5	76.5	83.6	92.4	103.5
	9.4%	64.9	69.8	75.7	82.8	91.4
	9.9%	60.1	64.2	**69.1**	74.9	81.9
	10.4%	55.9	59.5	63.6	68.4	74.2
	10.9%	52.3	55.3	58.9	63.0	67.7

*Source: **Global** Research*

Gordon Growth Model - GGM

The adaptation of the Gordon Growth model uses the sustainable return on average equity (ROAE), cost of equity (COE) and expected growth in earnings (g) to calculate the target P/BV of the bank using the formula:

$$\mathbf{P/BV = (ROE - g) / (COE - g)}$$

This P/BV is then multiplied with the BVPS of the bank at the next full year, in our case the BVPS at December 31, 2008 to arrive at the fair value of ANB over a medium term investment horizon.

In our calculations, we have made the following assumptions in order to arrive at the equity value of ANB:

- Sustainable ROE calculated as the average ROAE of the forecasted 4 years.
- Cost of Equity derived using Capital Asset Pricing Model taking the same assumptions as in the DDM.
- Terminal growth rate of 4.0%, similar to the DDM.

Table 18: Gordon Growth Model

Sustainable ROE (%)	26.6
COE (%)	9.9
Terminal Growth Rate (%)	4.0
2008: P/BV target multiple (x)	3.9
2008: BV/Share (SR)	18.6
GGM Value of ANB per share (SR)	**71.6**

*Source: **Global** Research*

Sensitivity - GGM

We have also prepared a sensitivity analysis for the estimated fair price based on various terminal growth rates and ROE.

Table 19: Sensitivity – GGM

	Terminal Growth Rate					
		3.0%	3.5%	4.0%	4.5%	5.0%
Return on Equity	25.6%	61.2	64.5	68.4	73.1	78.7
	26.1%	62.5	66.0	70.0	74.8	80.6
	26.6%	63.9	67.4	**71.6**	76.6	82.5
	27.1%	65.2	68.9	73.2	78.3	84.5
	27.6%	66.6	70.4	74.8	80.0	86.4

*Source: **Global** Research*

This sensitivity shows the movement in fair value as a consequence of different ROE and COE assumptions.

Table 20: Sensitivity – GGM

	Return on Equity					
		25.6%	26.1%	26.6%	27.1%	27.6%
Cost of Equity	8.9%	82.6	84.5	86.4	88.3	90.2
	9.4%	74.9	76.6	78.3	80.1	81.8
	9.9%	68.5	70.1	**71.6**	73.2	74.8
	10.4%	63.1	64.5	66.0	67.5	68.9
	10.9%	58.5	59.8	61.2	62.5	63.9

*Source: **Global** Research*

Valuation

Based on the current market price of SR62.0 (as on Jun 04, 2008), ANB is traded at 2008E P/E and P/BV multiples of 14.4x and 3.3x, respectively.

Table 21: Valuation Summary

Valuation Methods	Price (SR)	Weight	Weighted Value (SR)
DDM	69.1	80%	55.3
GGM	71.6	20%	14.3
Estimated Fair Price of ANB per share			**69.6**

*Source: **Global** Research*

Our estimated value for ANB is estimated to be SR69.6 per share, based on DDM (80%) and adaptation of the Gordon Growth Model (20%). According to our fair value, the banking scrip offers an upside of 12.3% on the closing price of SR62.0 per share (as of Jun 04, 2008). Therefore, we reiterate our earlier recommendation of "**Buy**" on the ANB stock with a medium term perspective.

Balance Sheet

	Arab National Bank						
SR mn	**2005**	**2006**	**2007**	**2008F**	**2009F**	**2010F**	**2011F**
Cash & balances with SAMA	2,495.2	3,216.0	8,228.4	6,006.3	9,900.5	10,276.4	10,214.7
Due from Banks and other FIs	3,933.7	4,633.3	1,294.0	2,329.1	2,678.5	3,080.3	3,542.3
Trading Investments	307.2	599.4	1,076.9	1,346.2	1,682.7	2,103.4	2,629.3
Non-trading Investments	20,115.5	17,692.2	19,947.9	23,761.0	25,830.5	27,221.7	28,695.3
Net Loans and Advances	38,778.6	49,747.2	61,121.9	74,707.7	86,043.0	96,416.1	107,932.4
Net Fixed Assets	418.1	586.3	773.7	945.4	978.2	1,014.3	1,053.9
Other Assets	1,443.9	1,561.0	2,024.8	2,126.1	2,232.4	2,344.0	2,461.2
Total Assets	**67,492.1**	**78,035.4**	**94,467.6**	**111,221.8**	**129,345.9**	**142,456.1**	**156,529.1**
Due to Banks and other FIs	8,376.9	3,098.6	4,447.2	6,201.0	7,441.2	8,185.3	9,003.8
Customers' Deposits	48,832.5	61,773.5	73,692.1	88,413.4	103,712.4	114,449.7	126,338.9
Other Liabilities	2,633.5	1,995.6	2,616.2	2,668.5	2,721.8	2,776.3	2,831.8
Debt securities in issue	0.0	1,875.0	1,875.0	1,875.0	1,875.0	1,875.0	1,875.0
Term Loan	1,312.5	1,312.5	1,312.5	0.0	0.0	0.0	0.0
Total Liabilities	**61,155.4**	**70,055.2**	**83,943.0**	**99,157.9**	**115,750.4**	**127,286.2**	**140,049.6**
Share Capital	2,500.0	3,250.0	4,550.0	6,500.0	6,500.0	6,500.0	6,500.0
Statutory Reserve	2,500.0	3,150.0	3,766.0	4,465.7	5,316.5	6,300.6	6,500.0
Other Reserves	1,272.4	1,319.8	2,121.6	871.3	1,381.8	1,775.4	2,212.0
Retained Earnings	64.2	260.3	87.0	226.9	397.1	593.9	1,267.6
Total Shareholders' Equity	**6,336.7**	**7,980.1**	**10,524.6**	**12,063.9**	**13,595.4**	**15,169.9**	**16,479.5**
Total Liabilities and Shareholders' Equity	**67,492.1**	**78,035.4**	**94,467.6**	**111,221.8**	**129,345.9**	**142,456.1**	**156,529.1**

Income Statement

	Arab National Bank						
SR mn	**2005**	**2006**	**2007**	**2008F**	**2009F**	**2010F**	**2011F**
Special Commission Income	3,445.2	4,659.3	5,416.8	6,338.7	7,496.2	8,702.1	9,575.9
Special Commission Expense	(1,256.1)	(2,134.4)	(2,512.8)	(2,884.1)	(3,448.3)	(4,090.0)	(4,500.7)
Net Special Commission Income	**2,189.1**	**2,525.0**	**2,903.9**	**3,454.6**	**4,048.0**	**4,612.1**	**5,075.2**
Provision for Loan Losses	(248.4)	(83.0)	(67.1)	(99.9)	(139.9)	(163.3)	(181.3)
Net Special commission Income after PLLs	**1,940.7**	**2,442.0**	**2,836.8**	**3,354.8**	**3,908.1**	**4,448.8**	**4,893.9**
Fees from banking services	693.9	986.5	776.4	799.7	879.6	967.6	1,064.3
Exchange Income	114.0	135.0	200.9	210.9	221.5	232.5	244.2
Net Trading Income & Income from FVIS	17.6	32.4	54.9	13.7	16.5	19.8	23.7
Dividend Income	2.4	0.0	5.5	5.5	5.5	5.5	5.5
(Losses) Gains & Impairment on Non-Trading Investments, net	90.7	106.0	(17.6)	(105.6)	37.0	55.5	66.6
Other Operating Income	34.0	70.6	32.4	97.1	48.5	51.0	53.5
Total Non-Interest Income	**952.6**	**1,330.4**	**1,052.3**	**1,021.2**	**1,208.5**	**1,331.7**	**1,457.7**
Total Operating Income	**2,893.3**	**3,772.4**	**3,889.1**	**4,375.9**	**5,116.6**	**5,780.5**	**6,351.6**
Salaries & employee related expenses	(657.7)	(770.5)	(843.1)	(927.4)	(1,010.8)	(1,091.7)	(1,179.1)
Rent & premises related expenses	(62.1)	(80.5)	(104.7)	(130.9)	(150.5)	(165.6)	(182.1)
Depreciation and amortization	(75.5)	(84.1)	(119.8)	(140.5)	(154.6)	(170.0)	(187.0)
Other G & A expenses	(251.3)	(332.6)	(360.3)	(378.3)	(397.3)	(417.1)	(438.0)
Impairment of other financial assets, net	(18.8)	-	-	-	-	-	-
Other operating expenses	(0.2)	-	-	-	-	-	-
Total Operating Expenses	**(1,065.7)**	**(1,267.7)**	**(1,427.9)**	**(1,577.1)**	**(1,713.2)**	**(1,844.4)**	**(1,986.2)**
Net Income	**1,827.6**	**2,504.7**	**2,461.2**	**2,798.8**	**3,403.4**	**3,936.1**	**4,365.5**
P&L Appropriation:							
Opening Balance of Retained Earnings	**17.7**	**64.2**	**260.3**	**87.0**	**226.9**	**397.1**	**593.9**
Net income	1,827.6	2,504.7	2,461.2	2,798.8	3,403.4	3,936.1	4,365.5
Bonus share issue	-	(750.0)	(1,300.0)	-	-	-	-
Transfer to statutory reserve	(500.0)	(650.0)	(616.0)	(699.7)	(850.8)	(984.0)	(199.4)
Transfer to other reserves	(733.4)	(520.0)	(650.0)	(699.7)	(510.5)	(393.6)	(436.5)
Gross dividends	(547.7)	(325.0)	-	(1,259.5)	(1,871.9)	(2,361.7)	(3,055.8)
Others	-	(63.7)	(68.5)	-	-	-	-
Closing Balance of Retained Earnings	**64.2**	**260.3**	**87.0**	**226.9**	**397.1**	**593.9**	**1,267.6**

Cash flow

	Arab National Bank						
SR mn	**2005**	**2006**	**2007**	**2008F**	**2009F**	**2010F**	**2011F**
Net Income	1,827.6	2,504.7	2,461.2	2,798.8	3,403.4	3,936.1	4,365.5
Accretion of Discounts	(15.9)	(19.0)	(27.3)	-	-	-	-
Gains on Investments	(90.7)	(106.0)	17.6	105.6	(37.0)	(55.5)	(66.6)
Depreciation and amortization	75.5	84.1	119.8	140.5	154.6	170.0	187.0
Loss/gain on disposal of Fixed Assets	(1.2)	(32.4)	(0.4)	0.0	0.0	0.0	0.0
Provision for loan losses	248.4	83.0	67.1	99.9	139.9	163.3	181.3
Unrealized revaluation loss on Real Estate	18.8	-	-	-	-	-	-
Due from banks and other FIs	798.2	(699.7)	3,339.4	(1,035.2)	(349.4)	(401.8)	(462.0)
Trading portfolio	(14.1)	0.0	0.0	(269.2)	(336.5)	(420.7)	(525.9)
Loans and Advances	(10,456.3)	(11,027.1)	(11,405.8)	(13,685.6)	(11,475.2)	(10,536.4)	(11,697.6)
Other Real Estate	33.0	3.7	(0.7)	-	-	-	-
Other Assets	(231.1)	(150.6)	(180.7)	(101.2)	(106.3)	(111.6)	(117.2)
Due to Banks and FIs	(1,443.9)	(5,278.3)	1,348.6	1,753.8	1,240.2	744.1	818.5
Customers Deposits	2,513.3	12,944.7	11,918.6	14,721.3	15,299.0	10,737.3	11,889.3
Other Liabilities	564.7	(699.4)	439.2	52.3	53.4	54.4	55.5
CF from Operations	**(6,173.5)**	**(2,392.4)**	**8,096.7**	**4,580.9**	**7,986.0**	**4,279.3**	**4,627.9**
Net sale /purchase of investments	876.1	2,077.2	(2,577.5)	(3,918.8)	(2,032.6)	(1,335.7)	(1,407.1)
Capex	(110.1)	(219.8)	(506.8)	(312.3)	(187.4)	(206.1)	(226.7)
CF from Investing	**766.0**	**1,857.3**	**(3,084.4)**	**(4,231.0)**	**(2,219.9)**	**(1,541.8)**	**(1,633.8)**
Dividend and Zakat paid	(471.3)	1,255.8	-	(1,259.5)	(1,871.9)	(2,361.7)	(3,055.8)
Term Loan	1,312.5	-	-	(1,312.5)	-	-	-
CF from Financing	**841.2**	**1,255.8**	**-**	**(2,572.0)**	**(1,871.9)**	**(2,361.7)**	**(3,055.8)**
Change in Cash	(4,566.3)	720.8	5,012.3	(2,222.1)	3,894.2	375.9	(61.7)
Beginning Cash	7,061.5	2,495.2	3,216.0	8,228.4	6,006.3	9,900.5	10,276.4
Ending cash	**2,495.2**	**3,216.0**	**8,228.4**	**6,006.3**	**9,900.5**	**10,276.4**	**10,214.7**

Fact Sheet

	Arab National Bank						
	2005	**2006**	**2007**	**2008F**	**2009F**	**2010F**	**2011F**
Profitability							
- Return on Average Assets	2.8%	3.4%	2.9%	2.7%	2.8%	2.9%	2.9%
- Return on Average Equity	32.8%	35.7%	26.6%	24.8%	26.5%	27.4%	27.6%
- Net Special Comm. Income after PLLs/ Total Op. Income	67.1%	64.7%	72.9%	76.7%	76.4%	77.0%	77.1%
- Non-Commission Income/ Total Op. Income	32.9%	35.3%	27.1%	23.3%	23.6%	23.0%	23.0%
- Fees & Commissions/ Total Op. Income	24.0%	26.2%	20.0%	18.3%	17.2%	16.7%	16.8%
- Assets Utilization	4.3%	4.8%	4.1%	3.9%	4.0%	4.1%	4.1%
- Earning Power	96.1%	94.3%	89.3%	91.3%	89.1%	89.5%	90.0%
- Dividend Payout Ratio	30%	13%	0%	45%	55%	60%	70%
Margins							
- Net (Or Profit) Margin	63.2%	66.4%	63.3%	64.0%	66.5%	68.1%	68.7%
- Commission Expense/ Commission Income	36.5%	45.8%	46.4%	45.5%	46.0%	47.0%	47.0%
- Yield On Average Earning Assets	5.7%	6.7%	6.9%	6.8%	6.9%	7.2%	7.1%
- Cost Rate On Average Commission Bearing Liabilities	2.2%	3.1%	3.1%	3.2%	3.3%	3.4%	3.4%
- Spread	3.5%	3.6%	3.8%	3.6%	3.6%	3.7%	3.7%
- Commission Margin (Earning Assets)	3.2%	3.5%	3.6%	3.6%	3.6%	3.7%	3.6%
Efficiency							
- Total Op. Expenses /Total Op. Income	36.8%	33.6%	36.7%	36.0%	33.5%	31.9%	31.3%
- Staff Expenses/ Total Op. Expenses	61.7%	60.8%	59.0%	58.8%	59.0%	59.2%	59.4%
- Rent, G&A Expenses/ Total Op. Expenses	29.4%	32.6%	32.6%	32.3%	32.0%	31.6%	31.2%
- Non-Commission Expense/ Average Total Assets	1.6%	1.7%	1.7%	1.5%	1.4%	1.4%	1.3%
Liquidity							
- Gross Loans / Commission Earning Assets	62.4%	69.2%	73.8%	74.8%	75.8%	76.8%	77.8%
- Gross Loans/ Customer Deposits	82.9%	82.5%	84.5%	85.9%	84.3%	85.6%	86.8%
- Customer Deposits/ Equity	770.6%	774.1%	700.2%	732.9%	762.8%	754.5%	766.6%
- Customer Deposits/ Total Assets	72.4%	79.2%	78.0%	79.5%	80.2%	80.3%	80.7%
- Due From Banks/ Due To Banks	47.0%	149.5%	29.1%	37.6%	36.0%	37.6%	39.3%
Credit Quality							
- Provisions /Total Op. Income	8.6%	2.2%	1.7%	2.3%	2.7%	2.8%	2.9%
- Provisions /Average Gross Loans	0.7%	0.2%	0.1%	0.1%	0.2%	0.2%	0.2%
- Non Performing Loans (SR Mn)	847	370	315	378	521	633	654
- Provision For Loan Losses (SR Mn)	1,699	1,185	1,115	1,215	1,355	1,518	1,699
- NPL's /Gross Loans	2.1%	0.7%	0.5%	0.5%	0.6%	0.6%	0.6%
- NPL's /(Equity+Provision For Loan Losses)	10.5%	4.0%	2.7%	2.8%	3.5%	3.8%	3.6%
- Provision For Loan Losses/ Gross Loans	4.2%	2.3%	1.8%	1.6%	1.6%	1.6%	1.6%
- NPL Coverage	200.6%	320.5%	354.1%	321.6%	259.9%	240.0%	259.9%
Capital Adequacy							
- Equity To Total Assets (Equity Capital Ratio)	9.4%	10.2%	11.1%	10.8%	10.5%	10.6%	10.5%
- Equity To Gross Loans	15.7%	15.7%	16.9%	15.9%	15.6%	15.5%	15.0%
Constitution Of Total Income							
- Net Commission Income After PLLs/ Total Op. Income	67.1%	64.7%	72.9%	76.7%	76.4%	77.0%	77.1%
- Fees & Comm./ Total Op. Income	24.0%	26.2%	20.0%	18.3%	17.2%	16.7%	16.8%
- Investment Income/ Total Op. Income	3.8%	3.7%	1.1%	-2.0%	1.2%	1.4%	1.5%
- Exchange Income/ Total Op. Income	3.9%	3.6%	5.2%	4.8%	4.3%	4.0%	3.8%
- Other Income/ Total Op. Income	1.2%	1.9%	0.8%	2.2%	0.9%	0.9%	0.8%
- Provisions/ Total Op. Income	8.6%	2.2%	1.7%	2.3%	2.7%	2.8%	2.9%
Operating Performance							
- Change In Commission Income	40.3%	35.2%	16.3%	17.0%	18.3%	16.1%	10.0%
- Change In Fees And Commission	64.4%	42.2%	-21.3%	3.0%	10.0%	10.0%	10.0%
- Change In Investment Income	490.7%	25.0%	-69.1%	-302.2%	-168.1%	37.0%	18.6%
- Change In Exchange Income	22.4%	18.4%	48.8%	5.0%	5.0%	5.0%	5.0%
- Change In Other Income	347.5%	107.5%	-54.2%	200.0%	-50.0%	5.0%	5.0%
Ratios Used for Valuation							
- Par Value Per Share (SR)	50.00	10.00	10.00	10.00	10.00	10.00	10.00
- Shares in Issue (mn)	50.0	325.0	455.0	650.0	650.0	650.0	650.0
- EPS (SR) - Adjusted	2.8	3.9	3.8	4.3	5.2	6.1	6.7
- DPS Declared (SR) - Adjusted	0.8	0.5	0.0	1.9	2.8	3.5	4.5
- Book Value Per Share (SR) - Adjusted	9.7	12.3	16.2	18.6	20.9	23.3	25.4
- Market Price Year End (SR)	76.5	54.6	84.6	62.0	62.0	62.0	62.0
- Market Cap. (SR bn)	3.8	17.7	38.5	40.3	40.3	40.3	40.3
- P/E*	27.2	14.2	22.3	14.4	11.8	10.2	9.2
- P/BV*	7.8	4.4	5.2	3.3	3.0	2.7	2.4
- Dividends Yield	1.1%	0.9%	0.0%	3.0%	4.5%	5.6%	7.3%

**Historical P/E & P/BV multiples pertain to respective year-end prices, while those for future years are based on market price in the Saudi Stock Exchange as on June 4, 2008.*

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The following is a comprehensive list of disclosures which may or may not apply to all our researches. Only the relevant disclosures which apply to this particular research has been mentioned in the table below under the heading of disclosure.

Disclosure Checklist				
Company	Recommendation	Ticker	Price	Disclosure
Arab National Bank	BUY	ARNB AB (Bloomberg) 1080.SE (Reuters)	SR62.0	1,10

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Global Research: Equity Ratings Definitions	
Global Rating	Definition
Buy	Fair value of the stock is >10% from the current market price
Hold	Fair value of the stock is between +10% and -10% from the current market price
Reduce	Fair value of the stock is between -10% and -20% from the current market price
Sell	Fair value of the stock is < -20% from the current market price