Global

بيت الاستثمار العالمي

Global Investment House



Results Update

Saudi Arabia

# The Saudi Investment Bank

## *Interesting times lie ahead*

Reuters Code:
1030.SE

August, 2007

HOLD

Listing:
Saudi Stock Exchange

CMP:
SR40.00 (As at August 28th, 2007)

**Key Data**

| | |
|---|---|
| CMP#(SR) | 40.00 |
| EPS*(SR) | 2.9 |
| BVPS*(SR) | 17.5 |
| P/E | 14.0 |
| P / BV | 2.3 |
| 12M Avg.vol. | 231,175 |
| 52 week Lo / Hi (SR) | 36.50 - 70.77 |

*Source: **Global** Research*
*#As at Aug 28, 2007* **2007 projected*

**Highlights**

- **The Saudi Investment Bank (SAIB)** reported net income of SR2,006.2mn in FY06, an increase of 88.5% over FY05. Actual net income was 9.4% below our forcasts. The company reported an EPS of SR8.3 in 2006 as compared to SR6.2 reported in the previous year. Return on average equity (ROAE) increased from 24.1% in 2005 to 35.5% in 2006.

- In 2006, SAIB's total assets expanded by 3.2% to reach SR40.8bn from SR39.6bn reported in 2005. Net loans and advances increased by 4.5%, attributed to the reduced appetite from customers to borrow in 2006.

- Lower trading volumes reduced brokerage commissions due to lack of investor confidence in the domestic capital market. This, coupled with the issuance of new licenses for brokerage, asset management, custodial services, advisory services and securities by the Saudi Monetary Authority (SAMA) is further likely to increase competition for the fee-based income.

- Return ratios, namely the return on average equity (ROAE) and the return on average assets (ROAA) improved on the back of strong growth in net income. ROAE increased from 24.1% in 2005 to 35.5% in 2006. Similarly, ROAA increased from 3.1% in 2005 to 5.0% in 2006.

- Net income for the second quarter of 2007 declined from SR838.3mn in 2Q2006 to reach SR225.4mn in 2Q2007. Total assets increased by 3.2% y-o-y to reach SR40.4bn at the end of 1H-2007. Loans and advances increased by 2.1% y-o-y to reach SR19.7bn. On the liabilities side, core customer deposits increased by 2.8% y-o-y to reach SR27.7bn.

- At the current market price of SR40, SAIB's share is quoting at a discount of 9% to its fair value of SR43.6. Hence we downgrade our earlier recommendation on the bank from "BUY" to **"HOLD"**.

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**Recent Developments**

- SAIB signed in April 07 a protocol establishing the principles of a strategic cooperation in asset management with BNP Paribas Asset Management. This protocol contemplates that BNPP AM will make an equity investment in a company to be incorporated under the laws of the Kingdom, following the transfer of SAIB's asset management operations to this company. BNPP AM's contribution and involvement as a shareholder of the new company will include in-depth advise, assistance and tools to manage it's operations.

- In July 07, Bahrain based Albaraka Banking Group has entered into a share- swap deal with Saudi Investment Bank. Under the swap deal, the group will take a 45% stake in Saudi Investment Bank, and in return, the group's 50% shares will be acquired by the bank.

- The bank launched an internet share trading service "Aswaqnet" in 2006, along with the existing internet retail banking services.

- In 2006, the bank announced its joint venture alliance with Emaar and Amlaak from UAE, and with Asir joint stock company and Albarakah Investment and Development Co. to establish the first closed Joint Stock Company for real estate financing. The new company will be located in Riyadh and have a capital base of SR1.0bn.

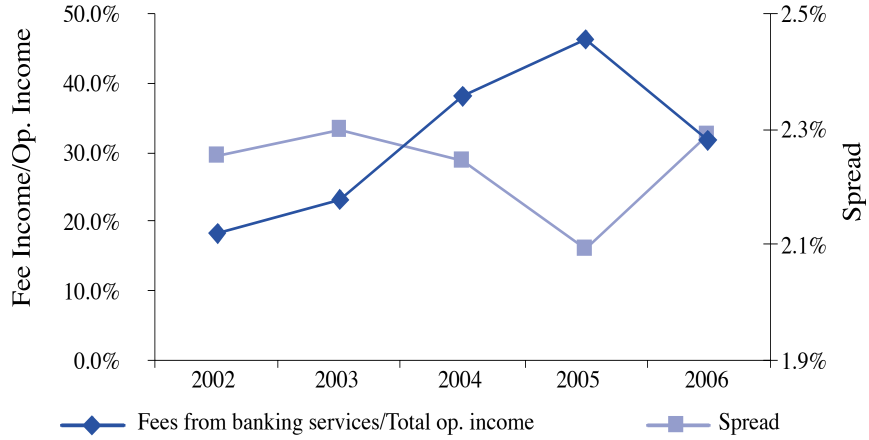
- The Saudi Investment Bank received approval to establish The Mediterranean and Gulf Insurance and Reinsurance Co. In terms of capital, it will be the largest insurance company in Saudi Arabia. The bank owns 91% of the company, and 25% of the company was offered to the public in February 2007, and was four times oversubscribed.

**Analysis of 2006 Financial Performance**

- SAIB reported net income of SR2,006.2mn in FY06, an increase of 88.5% over FY05, and 9.4% below our forecasted net income of SR2,215.6mn for 2006. The company reported an EPS of SR8.3 in 2006 as compared to SR6.2 reported in the previous year. Income from core banking activities i.e. net commission income increased from SR785.7mn in 2005 to reach SR1,030.5mn in 2006, registering a y-o-y growth of 31.1%.

- Fees from banking services increased to SR783.9mn in 2006, recording a 19.6% increase y-o-y, while foreign exchange income rose by 26.9% to reach SR34.8mn. Profits from sale of investments were the biggest contributor to earnings for the year ended 2006. Gains of non-trading investments increased from SR25.4mn to reach SR672.6mn in 2006.

**Chart 1: SAIB- Changing Growth Drivers**



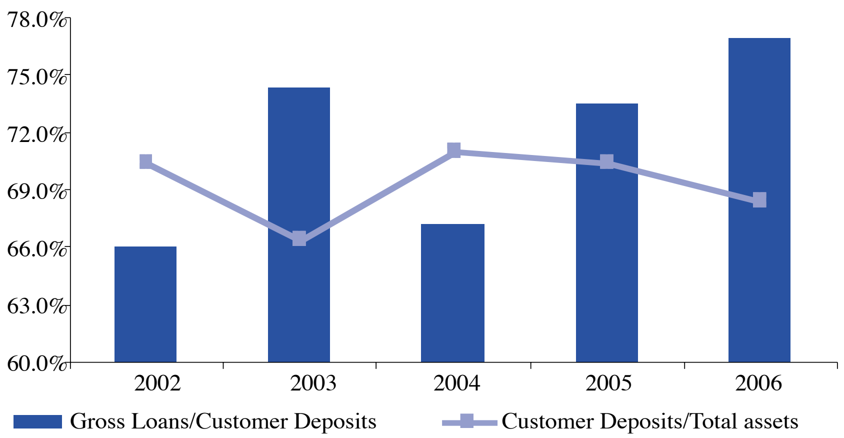

*Source: **Global** Research, SAIB*

- Return ratios, namely the ROAE and the ROAA improved on the back of strong growth in net income of the bank. ROAE increased from 24.1% in 2005 to 35.5% in 2006. Similarly, ROAA increased from 3.1% in 2005 to 5% in 2006.

- In 2006, SAIB's total assets expanded by 3.2% to reach SR40.8bn from SR39.6bn in 2005. Net loans and advances increased by a mere 4.5% attributed to the reduced appetite from retail clients.

- Customer deposits increased from SR27.8bn in 2005 to reach SR27.9bn in 2006, a marginal increase of 0.3%. Shareholders equity for the year ended 2006 stood at SR6.0bn as compared with SR5.3bn in 2005, an increase of 13.1% on a y-o-y basis.

**Chart 2: SAIB-Loans and Deposits**

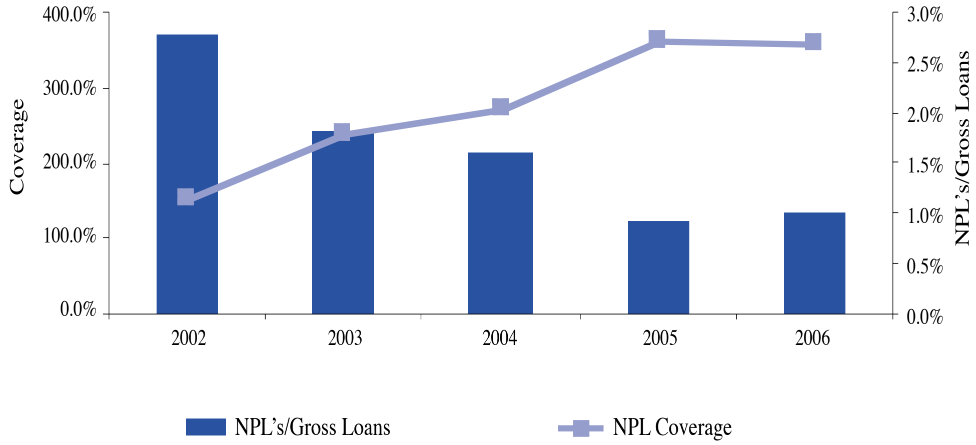



*Source: **Global** Research, SAIB*

- The bank continued to provide aggressively. Provisions for loan losses for the year ended 2006 stood at SR96.5mn as compared to SR100.0mn in 2005. Non-performing loans of the bank as at year end 2006 stood at SR217.3mn. NPL's as a percentage of gross loans declined from 1.6% in 2004 to 1.0% in 2006. Due to the aggressive provisioning policy, the bank coverage ratio increased from 240.0% in 2003 to 357.7% in 2006.

- SAIB is well capitalized to support growth in its risk-adjusted assets. As at the end of 2006, the bank's Tier 1 ratio at end 2006 was 23.5%, giving the bank enough head room to grow its balance sheet size.

**Chart 3: SAIB- Asset Quality**




*Source: **Global** Research, SAIB*

- In terms of operating efficiency, the banks cost to income ratio improved significantly. Cost to income ratio declined from 24.8% in 2005 to 18.4% in 2006. Operating expense as a percentage of average assets increased marginally from 1.0% in 2005 to 1.1% in 2006.

**Analysis of 1H2007 Financial Performance**

- Total assets in 1H2007 increased by 3.2% y-o-y to reach SR40.4bn. This is mainly driven by an increase of 52.6% increase in investments to reach SR15.2bn at the end of 1H2007. The banks' investments are mainly comprised of fixed rate securities. Loans and advances on the other hand increased by 2.1% y-o-y to reach SR19.7bn. We expect loans to increase as banks aggressively pursue project finance lending on the back of increased government spending on infrastructure projects. We also expect retail lending to grow in the medium term.

**Table 1: Key Balance Sheet Parameters**

| *SR mn* | FY2005 | FY2006 | 1H-2006 | 1H-2007 |
|---|---|---|---|---|
| Cash and balances with SAMA | 971.7 | 861.2 | 749.0 | 815.2 |
| Investments | 11,276.2 | 11,776.9 | 9,941.4 | 15,167.4 |
| Loans and advances | 19,793.6 | 20,691.3 | 19,318.8 | 19,727.8 |
| **Total Assets** | **39,580.7** | **40,844.6** | **39,172.1** | **40,440.7** |
| Customer deposits | 27,858.1 | 27,931.0 | 26,948.1 | 27,694.6 |
| Total Liabilities | 34,274.0 | 34,843.3 | 33,521.8 | 33,992.9 |
| Share capital | 1,718.8 | 2,406.3 | 2,406.3 | 3,910.2 |
| **Total shareholders' equity** | **5,306.7** | **6,001.3** | **5,650.3** | **6,447.8** |
| **Total Liabilities & Shareholders' Equity** | **39,580.7** | **40,844.6** | **39,172.1** | **40,440.7** |

*Source: SAIB*

- On the liabilities side, core customer deposits increased by 2.8% y-o-y to reach SR27.7bn. Customer deposits continue to be the biggest contributor in terms of aggregate liabilities, constituting 83.9% of total funding mix at the end of June 2007 as compared to 82.9% as at 1H2006.

**Table 2: Key Income Statement Parameters**

| *SR mn* | FY2005 | FY2006 | 2Q-2006 | 2Q-2007 |
|---|---|---|---|---|
| Special commission income | 1,746.0 | 2,505.3 | 618.5 | 598.5 |
| Special commission expense | (960.2) | (1,474.8) | (370.7) | (349.8) |
| **Net special commission income** | **785.7** | **1,030.5** | **247.9** | **248.7** |
| Fees from banking services | 655.7 | 783.9 | 227.0 | 83.0 |
| Exchange income | 27.4 | 34.8 | 9.9 | 7.4 |
| Dividend income | 21.8 | 34.4 | 22.8 | 3.8 |
| Gains on non-trading investments | - | 672.6 | 500.3 | 4.5 |
| Provisions for loan losses | (100.0) | (96.5) | (30.0) | (5.0) |
| **Total operating income** | **1,390.7** | **2,459.8** | **977.8** | **342.5** |
| **Total operating expenses** | **(351.8)** | **(453.5)** | **(139.5)** | **(117.1)** |
| **Net Income** | **1,038.9** | **2,006.3** | **838.3** | **225.4** |

*Source: SAIB*

- Net income for the second quarter of the current fiscal declined from SR838.3mn in 2Q2006 to reach SR225.4mn in 2Q2007. Net special commission income in 2Q2007 was SR248.7mn, which was at relatively similar levels achieved in 2Q2006. Non-commission income declined significantly from SR759.9mn in 2Q2006 to reach SR98.8mn in 2Q2007, a yearly decline of 87.0%.

- Fees from banking services and gains on non-trading investments contributed the most to the reduction in non-commission income of the bank. This has been due to the continued pessimism in the local capital market. In addition to that, new licences were issued by the Saudi financial authority (SAMA) to financial intermediaries for conducting brokerage, investment banking, and other financial services which is likely to increase competition for those banking services.

- In February 2007, the bank's capital increased by way of a bonus issue. The distribution of the bonus shares was on the basis of 1 share to each 1.6 outstanding shares.

**Outlook and Valuation**

- It is evident that SAIB was adversely affected by the Saudi stock market crash in 2006. Loans and advances have modestly increased in FY2006, however we expect that this trend will reverse as the Saudi market is regaining its lost grounds. In addition, the mega infrastructure projects boom taking place in the Kingdom currently, has driven banks to aggressively pursue project finance lending, which will enhance the banks loan book.

- The Saudi Monetary Agency (SAMA) has recently approved new licenses for brokerage, investment banking, and advisory services, amongst others. SAMA, also ordered the separation of those activities from conventional banking activities, which consequently drove banks offering those services to spin them off under different legal entities. This is likely to increase competition in the financial industry, which will narrow down the banks income generating avenues.

- In our earlier update on SAIB in Sept-06, we recommended a "Buy" based on a price target of SR129.1, at the prevailing market price of SR113.25, an upside of 14.0%.

- However, the down trend in the domestic capital market has affected the bank's profitability. As a result we have revised our projections to incorporate the impact of the capital market activity. Besides the revised projections, we have increased the risk-free rate assumed in our previous report from 5.1% to 5.8%. We have maintained a market risk premium of 5.0%, a beta of 1 and the terminal growth rate at 5.0%. The revised valuation parameters have resulted in a cost of equity of 10.8%.

- The combination of the revised projections and the revised cost of equity have led to a value of SR36.6 per share, which is lower by 8.4% as compared to the current market price. Based on a forward P/BV multiple of 4.08x 2007 projected book value for the Saudi Banking sector, the peer valuation method results in a valuation of SR71.4 per share. Assigning an 80% weight to the DDM value, and a 20% weight to the relative value, the weighted average share value of SAIB came out to SR43.6 per share. At the current market price of SR40.0, SAIB's share is quoting at a discount of 9% to its fair value. Hence we downgrade our earlier recommendation on the bank from "BUY" to **"HOLD"**.

**BALANCE SHEET**

| | The Saudi Investment Bank | | | | | | |
|---|---|---|---|---|---|---|---|
| *SR mn* | **2004** | **2005** | **2006** | **2007 F** | **2008 F** | **2009 F** | **2010 F** |
| Cash & Balances with SAMA | 577.8 | 971.7 | 861.2 | 945.5 | 1,305.1 | 1,092.1 | 1,013.6 |
| Due from Banks and other FIs | 5,996.1 | 6,797.7 | 6,299.2 | 3,149.6 | 3,464.6 | 3,603.1 | 3,459.0 |
| Trading Investments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Non-trading Investments | 8,501.7 | 11,276.2 | 11,776.9 | 15,612.4 | 16,362.9 | 17,150.4 | 17,976.6 |
| Net Loans and Advances | 13,031.1 | 19,793.6 | 20,691.3 | 21,527.2 | 23,128.5 | 24,849.5 | 26,699.3 |
| Net Fixed Assets | 144.8 | 204.6 | 340.4 | 375.3 | 388.6 | 403.2 | 419.3 |
| Other Assets | 292.1 | 536.8 | 875.7 | 1,007.1 | 1,057.4 | 1,110.3 | 1,165.8 |
| **Total Assets** | **28,543.5** | **39,580.7** | **40,844.6** | **42,617.0** | **45,707.0** | **48,208.5** | **50,733.5** |
| Due to Banks and other FIs | 3,971.0 | 3,990.7 | 4,447.0 | 4,209.4 | 4,293.6 | 4,379.4 | 4,467.0 |
| Customers' Deposits | 20,284.9 | 27,858.1 | 27,931.0 | 29,048.2 | 31,290.1 | 32,979.5 | 34,763.4 |
| Other Liabilities | 778.1 | 1,000.3 | 1,040.3 | 1,092.3 | 1,147.0 | 1,204.3 | 1,264.5 |
| Term Loan | | 1,425.0 | 1,425.0 | 1,425.0 | 1,425.0 | 1,425.0 | 1,425.0 |
| **Total Liabilities** | **25,034.1** | **34,274.0** | **34,843.3** | **35,774.9** | **38,155.6** | **39,988.2** | **41,919.9** |
| Share Capital | 1,375.0 | 1,718.8 | 2,406.3 | 3,910.2 | 3,910.2 | 3,910.2 | 3,910.2 |
| Statutory Reserve | 1,184.0 | 1,450.0 | 1,952.0 | 2,232.3 | 2,554.7 | 2,926.3 | 3,350.1 |
| General & Other Reserves | 947.8 | 2,006.5 | 137.3 | 34.6 | 163.6 | 312.2 | 481.8 |
| Retained Earnings | 2.7 | 1.6 | 1,505.8 | 665.0 | 923.0 | 1,071.6 | 1,071.6 |
| Proposed gross dividend | | 129.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total Shareholders' Equity** | **3,509.4** | **5,306.7** | **6,001.3** | **6,842.1** | **7,551.4** | **8,220.3** | **8,813.6** |
| **Total Liabilities and Shareholders' Equity** | **28,543.5** | **39,580.7** | **40,844.6** | **42,617.0** | **45,707.0** | **48,208.5** | **50,733.5** |

**INCOME STATEMENT**

| | The Saudi Investment Bank | | | | | | |
|---|---|---|---|---|---|---|---|
| *SR mn* | **2004** | **2005** | **2006** | **2007 F** | **2008 F** | **2009 F** | **2010 F** |
| Special Commission Income | 981.0 | 1,746.0 | 2,505.3 | 2,476.4 | 2,813.5 | 3,033.2 | 3,266.4 |
| Special Commission Expense | (393.2) | (960.2) | (1,474.8) | (1,411.5) | (1,617.8) | (1,728.9) | (1,845.5) |
| **Net Special Commission Income** | **587.8** | **785.7** | **1,030.5** | **1,064.8** | **1,195.8** | **1,304.3** | **1,420.9** |
| Provision For Loan Losses | (130.0) | (100.0) | (96.5) | (73.1) | (100.8) | (97.7) | (92.6) |
| **Net Special Commission Income After PLL's** | **457.8** | **685.7** | **934.0** | **991.8** | **1,095.0** | **1,206.5** | **1,328.3** |
| Fees From Banking Services | 335.0 | 655.7 | 783.9 | 493.9 | 582.8 | 687.7 | 797.7 |
| Exchange Income | 14.2 | 27.4 | 34.8 | 36.6 | 39.5 | 43.4 | 48.6 |
| Net Trading Income | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividend Income | 16.4 | 21.8 | 34.4 | 41.3 | 49.5 | 57.0 | 65.5 |
| Net Gains On Investments | 59.9 | 25.4 | 672.6 | 33.6 | 42.0 | 49.6 | 58.5 |
| Other Operating Income | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total Non-Commission Income** | **425.5** | **730.3** | **1,525.8** | **605.3** | **713.8** | **837.7** | **970.4** |
| **Total Operating Income** | **883.4** | **1,416.0** | **2,459.8** | **1,597.1** | **1,808.8** | **2,044.2** | **2,298.7** |
| Salaries & Employee Related Expenses | (167.3) | (224.0) | (259.3) | (298.2) | (328.0) | (354.2) | (386.1) |
| Rent & Premises Related Expenses | (26.8) | (33.6) | (41.6) | (46.6) | (51.3) | (55.4) | (60.4) |
| Depreciation And Amortization | (17.5) | (23.9) | (31.4) | (40.4) | (44.5) | (48.9) | (53.8) |
| Other G & A Expenses | (84.7) | (70.3) | (121.2) | (90.9) | (95.4) | (99.2) | (103.2) |
| **Total Operating Expenses** | **(296.3)** | **(351.5)** | **(453.5)** | **(476.1)** | **(519.2)** | **(557.8)** | **(603.5)** |
| **Net Income** | **587.1** | **1,064.5** | **2,006.3** | **1,121.0** | **1,289.6** | **1,486.4** | **1,695.2** |

| **Statement Of Retained Earnings** | **2004** | **2005** | **2006** | **2007 F** | **2008 F** | **2009 F** | **2010 F** |
|---|---|---|---|---|---|---|---|
| **Beginning Retained Earnings** | **40.4** | **2.7** | **1.6** | **1,505.8** | **665.0** | **923.0** | **1,071.6** |
| Net Income | 587.1 | 1,064.5 | 2,006.3 | 1,121.0 | 1,289.6 | 1,486.4 | 1,695.2 |
| Adjustmernts | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Bonus Share Issue | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Transfer To Statutory Reserve | (147.0) | (266.0) | (502.0) | (280.3) | (322.4) | (371.6) | (423.8) |
| Transfer To Other Reserves | (343.8) | (668.5) | 0.0 | (1,401.3) | (129.0) | (148.6) | (169.5) |
| Gross Dividends | (97.4) | (129.9) | 0.0 | (280.3) | (580.3) | (817.5) | (1,101.9) |
| Net Change In Fair Value | (36.7) | (0.9) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Others | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Ending Balance** | **2.7** | **1.9** | **1,505.8** | **665.0** | **923.0** | **1,071.6** | **1,071.6** |

**CASH FLOW**

| | The Saudi Investment Bank | | | | | | |
|---|---|---|---|---|---|---|---|
| *SR mn* | **2004** | **2005** | **2006** | **2007 F** | **2008 F** | **2009 F** | **2010 F** |
| Net Income | 587.1 | 1,064.5 | 2,006.3 | 1,121.0 | 1,289.6 | 1,486.4 | 1,695.2 |
| Gains on Investments | (59.9) | (25.4) | (672.6) | (33.6) | (42.0) | (49.6) | (58.5) |
| Depreciation And Amotization | 17.5 | 23.9 | 31.4 | 40.4 | 44.5 | 48.9 | 53.8 |
| Provision for Loan Losses | 130.0 | 100.0 | 96.5 | 73.1 | 100.8 | 97.7 | 92.6 |
| Due from Banks and other FIs | (2,682.2) | (801.7) | 498.5 | 3,149.6 | (315.0) | (138.6) | 144.1 |
| Loans And Advances | (2,929.5) | (6,862.5) | (994.1) | (909.0) | (1,702.1) | (1,818.7) | (1,942.4) |
| Other Assets | (29.7) | (244.7) | (338.9) | (131.4) | (50.4) | (52.9) | (55.5) |
| Due To Banks And FIs | (115.1) | 19.7 | 456.3 | (237.6) | 84.2 | 85.9 | 87.6 |
| Customers Deposits | 5,881.0 | 7,573.1 | 72.9 | 1,117.2 | 2,241.9 | 1,689.4 | 1,783.9 |
| Other Liabilities | 170.8 | 319.5 | 40.1 | 52.0 | 54.6 | 57.3 | 60.2 |
| **CF From Operations** | **872.0** | **1,006.0** | **1,064.5** | **4,241.7** | **1,706.2** | **1,406.0** | **1,861.0** |
| | | | | | | | |
| Net Sale /Purchase Of Investments | (695.4) | (1,855.7) | (877.9) | (3,801.9) | (708.5) | (737.9) | (767.7) |
| Capex | (64.4) | (83.7) | (167.2) | (75.3) | (57.8) | (63.5) | (69.9) |
| **CF From Investing** | **(759.8)** | **(1,939.4)** | **(1,045.1)** | **(3,877.2)** | **(766.3)** | **(801.4)** | **(837.6)** |
| | | | | | | | |
| Term Loan | | 1,425.0 | 0.0 | | | | |
| Dividend And Zakat Paid | (76.3) | (97.4) | (129.9) | (280.3) | (580.3) | (817.5) | (1,101.9) |
| **CF From Financing** | **(76.3)** | **1,327.7** | **(129.9)** | **(280.3)** | **(580.3)** | **(817.5)** | **(1,101.9)** |
| | | | | | | | |
| Change In Cash | 35.9 | 394.3 | (110.5) | 84.3 | 359.6 | (213.0) | (78.5) |
| Beginning Cash | 541.9 | 577.8 | 971.7 | 861.2 | 945.5 | 1,305.1 | 1,092.1 |
| **Ending Cash** | **577.8** | **972.1** | **861.2** | **945.5** | **1,305.1** | **1,092.1** | **1,013.6** |

## FACT SHEET

| | The Saudi Investment Bank | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 F | 2008 F | 2009 F | 2010 F |
| **Profitability** | | | | | | | |
| - Return on average assets | 2.3% | 3.1% | 5.0% | 2.7% | 2.9% | 3.2% | 3.4% |
| - Return on average equity | 19.1% | 24.1% | 35.5% | 17.5% | 17.9% | 18.8% | 19.9% |
| - Net special commission income after PLL's/ Total op. income | 51.8% | 48.4% | 38.0% | 62.1% | 60.5% | 59.0% | 57.8% |
| - Non-commission income/ Total op. income | 48.2% | 51.6% | 62.0% | 37.9% | 39.5% | 41.0% | 42.2% |
| - Non-commission expense/ Total op. income | 33.5% | 24.8% | 18.4% | 29.8% | 28.7% | 27.3% | 26.3% |
| - Fees from banking services/ Total op. income | 37.9% | 46.3% | 31.9% | 30.9% | 32.2% | 33.6% | 34.7% |
| - Dividend payout ratio | 17% | 12% | 0% | 25% | 45% | 55% | 65% |
| **Margins** | | | | | | | |
| - Net (or profit) margin | 66.5% | 75.2% | 81.6% | 70.2% | 71.3% | 72.7% | 73.7% |
| - Special commission expense/ Special commission income | 40.1% | 55.0% | 58.9% | 57.0% | 57.5% | 57.0% | 56.5% |
| - Yield on average earning assets | 4.1% | 5.5% | 6.7% | 6.3% | 6.8% | 6.9% | 7.0% |
| - Cost rate on average commission bearing liabilities | 1.8% | 3.3% | 4.4% | 4.1% | 4.5% | 4.6% | 4.6% |
| - Spread | 2.3% | 2.2% | 2.3% | 2.2% | 2.3% | 2.3% | 2.3% |
| - Commission margin (earning assets) | 2.5% | 2.5% | 2.8% | 2.7% | 2.9% | 2.9% | 3.0% |
| **Efficiency** | | | | | | | |
| - Cost/ Total op. income | 33.5% | 24.8% | 18.4% | 29.8% | 28.7% | 27.3% | 26.3% |
| - Staff expenses/ Total op. Expenses | 56.5% | 63.7% | 57.2% | 62.6% | 63.2% | 63.5% | 64.0% |
| - Rent, G&A expenses/ Total op. Expenses | 37.6% | 29.6% | 35.9% | 28.9% | 28.3% | 27.7% | 27.1% |
| - Non-commission expense/ Average total assets | 1.2% | 1.0% | 1.1% | 1.1% | 1.2% | 1.2% | 1.2% |
| **Liquidity** | | | | | | | |
| - Gross Loans / Commission earning assets | 50.1% | 56.7% | 55.6% | 55.8% | 56.1% | 56.8% | 57.7% |
| - Gross Loans/ Customer Deposits | 67.2% | 73.5% | 76.9% | 77.0% | 77.0% | 78.5% | 80.1% |
| - Customer Deposits/ Equity | 578.0% | 525.0% | 465.4% | 424.6% | 414.4% | 401.2% | 394.4% |
| - Customer Deposits/ Total assets | 71.1% | 70.4% | 68.4% | 68.2% | 68.5% | 68.4% | 68.5% |
| - Due from Banks/ Due to Banks | 151.0% | 170.3% | 141.6% | 74.8% | 80.7% | 82.3% | 77.4% |
| **Credit Quality** | | | | | | | |
| - Provisions /Total op. income | 14.7% | 7.1% | 3.9% | 4.6% | 5.6% | 4.8% | 4.0% |
| - Provisions /Average loans | 1.1% | 0.6% | 0.5% | 0.3% | 0.4% | 0.4% | 0.3% |
| - Non Performing Loans (SR mn) | 218.5 | 189.1 | 217.3 | 276.3 | 320.7 | 357.6 | 384.4 |
| - Provision for loan losses (SR mn) | 596.0 | 688.2 | 777.3 | 850.3 | 951.1 | 1,048.9 | 1,141.5 |
| - NPLs /Gross Loans | 1.6% | 0.9% | 1.0% | 1.2% | 1.3% | 1.4% | 1.4% |
| - NPLs /(Equity+provision for loan losses) | 5.3% | 3.2% | 3.2% | 3.6% | 3.8% | 3.9% | 3.9% |
| - PLLs / Gross Loans | 4.4% | 3.4% | 3.6% | 3.8% | 4.0% | 4.1% | 4.1% |
| - NPL Coverage | 272.8% | 364.0% | 357.7% | 307.8% | 296.5% | 293.3% | 297.0% |

**FACT SHEET - Continued**

| | The Saudi Investment Bank | | | | | | |
|---|---|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2007 F** | **2008 F** | **2009 F** | **2010 F** |
| **Capital Adequacy** | | | | | | | |
| - Equity/ Total Assets (Equity capital ratio) | 12.3% | 13.4% | 14.7% | 16.1% | 16.5% | 17.1% | 17.4% |
| - Equity/ Gross Loans | 25.8% | 25.9% | 28.0% | 30.6% | 31.4% | 31.7% | 31.7% |
| **Constitution of Total Operating Income** | | | | | | | |
| - Net special commission income after PLL's/ Total op. income | 51.8% | 48.4% | 38.0% | 62.1% | 60.5% | 59.0% | 57.8% |
| - Fees from banking services/ Total op. income | 37.9% | 46.3% | 31.9% | 30.9% | 32.2% | 33.6% | 34.7% |
| - Investment Income/ Total op. income | 8.6% | 3.3% | 28.7% | 4.7% | 5.1% | 5.2% | 5.4% |
| - FX Income/ Total op. income | 1.6% | 1.9% | 1.4% | 2.3% | 2.2% | 2.1% | 2.1% |
| - Other Income/ Total op. income | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| - PLL's/ Total op. income | 14.7% | 7.1% | 3.9% | 4.6% | 5.6% | 4.8% | 4.0% |
| **Operating Performance** | | | | | | | |
| - Change in Special commission income | 13.1% | 78.0% | 43.5% | -1.2% | 13.6% | 7.8% | 7.7% |
| - Change in Fees from banking services | 105.2% | 95.7% | 19.6% | -37.0% | 18.0% | 18.0% | 16.0% |
| - Change in Investment Income | -22.6% | -38.2% | 1400.9% | -89.4% | 22.2% | 16.4% | 16.4% |
| - Change in Fx Income | 13.1% | 93.0% | 26.9% | 5.0% | 8.0% | 10.0% | 12.0% |
| **RATIO'S USED FOR VALUATION** | | | | | | | |
| - Par value per share (SR) | 50.0 | 50.0 | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 |
| - Shares in issue (mn) | 27.5 | 34.4 | 240.6 | 391.0 | 391.0 | 391.0 | 391.0 |
| - EPS (SR) - Adjusted for Split | 4.3 | 6.2 | 8.3 | 2.9 | 3.3 | 3.8 | 4.3 |
| - DPS (SR)- Adjusted for Split | 0.7 | 0.8 | - | 0.7 | 1.5 | 2.1 | 2.8 |
| - Book value per share (SR)- Adjusted for Split* | 25.5 | 30.9 | 24.9 | 17.5 | 19.3 | 21.0 | 22.5 |
| - Market price year end (SR)- Adjusted for Split | 112.4 | 128.6 | 88.5 | 40.0 | 40.0 | 40.0 | 40.0 |
| - Market Cap. (SR'mn) | 15,455 | 22,103 | 21,295 | 15,641 | 15,641 | 15,641 | 15,641 |
| - P/E | 26.3 | 20.8 | 10.6 | 14.0 | 12.1 | 10.5 | 9.2 |
| - P/BV | 4.4 | 4.2 | 3.5 | 2.3 | 2.1 | 1.9 | 1.8 |
| - Dividends yield | 0.6% | 0.6% | 0.0% | 1.8% | 3.7% | 5.2% | 7.0% |

** Historical P/E & P/BV multiples pertain to respective year-end prices, while those for future years are based on closing prices as at August 28, 2007*

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 |
| The Saudi Investment Bank | Hold | 1030.SE | SR40.00 | 1,8,10 |

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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 |