Bank AlBilad

- Revived hope under new management and strategy plans.
- Moderately large branch network can be utilized more effectively.
- Operating cost efficiencies need better focus.

HOLD

Target Price
SR 19.1

Market Data

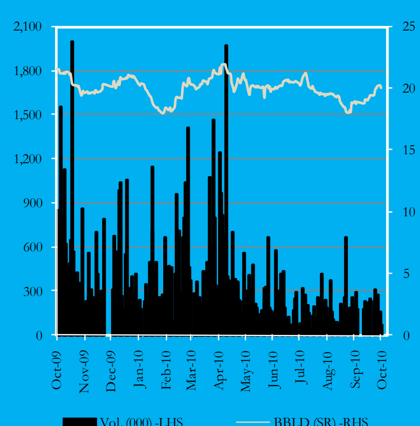
Bloomberg Code:	ALBI AB
Reuters Code:	1140.SE
CMP (5th Oct 2010):	SR19.9
O/S (mn):	300.0
Mkt Cap (SRmn):	5,970.0
Mkt Cap (US$mn):	1,592.0
P/E 2011e (x):	18.4
P/BV 2011e (x):	1.8

Price Performance 1-Yr

High /Low (SR):	22.0 / 18.0
Average Volume (000):	360.8

	1m	3m	12m
Absolute (%)	5.0	-2.5	-7.9
Relative (%)	0.3	-9.0	-18.9

Price Volume Performance



Source: Tadawul & Zawya

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Growth potential still not fully tapped

Bank AlBilad (BBLD) after experiencing net loss during the last year holds good potential to post positive net income results in 2010. Some of the factors expected to play important role in its performance include (i) New management and strategy plans, (ii) Better utilization of retail network, (iii) Improvement in cost efficiencies, (iv) Low cost of funding advantage, and (v) Strengthening of its brand name.

Core & non-core banking results to be further supported by lower provisions

Although the bank's non-comm. income rose by 21.4%, the drop of 5.2% in core banking results and provisions rise of 4.3xs led to subdued profitability in 2009. Going forward we expect improved bank performance with core banking income rise of 12.2% and reduction in provisions by 44.8% in 2010. We expect the spreads to start inching upwards from 2010 reaching 4.3% by 2013. BBLD's net income from fin. & invst., and net income is estimated to post CAGR (2010-13) of 15.6% & 53.4%, respectively, and ROAE reaching 22% by 2013.

Balance sheet growth to continue

The bank's asset base that posted rise of 8.5% in 2009 is projected to grow further recording annual increase of 14.4% in 2010. The financing and deposits are also expected to grow posting rise of 21.0% & 17.0%, respectively in 2010. We expect the current spike in NPF ratio to reduce over time reaching 3.7% while NPF coverage could reach 108.3% by 2013. We expect assets, financing & deposits to post CAGR (2009-13) of 14.8%, 20.2% & 16.8%, respectively.

*Valuation - **Hold** with downside potential of 3.9%*

Based on our 2011 estimates, BBLD at the closing price of SR19.9 per share (as on Oct 05, 2010) is trading at P/E and P/BV multiples of 18.4x & 1.8x, respectively. According to our fair value of BBLD at SR19.1 per share, the scrip is trading at a premium of 3.9% to its closing price of SR19.9 per share.

Investment Indicators

Year	2007A	2008A	2009A	2010E	2011E	2012E	2013E
Net income (SR mn)	72.5	125.1	(248.4)	147.5	324.0	605.4	817.6
EPS (SR)	0.2	0.4	(0.8)	0.5	1.1	2.0	2.7
BVPS (SR)	10.3	10.7	10.0	10.5	11.0	11.7	12.7
ROAE (%)	2.4	4.0	(8.0)	4.8	10.1	17.8	22.3
P/E (x)	166.6	67.2	NM	40.5	18.4	9.9	7.3
P/BV (x)	3.9	2.6	2.1	1.9	1.8	1.7	1.6

*Source: Company Annual Reports & **Global** Research*

**Historical P/E & P/BV multiples pertain to respective year-end prices, while those for future years are based on closing prices on Tadawul as of 5th Oct. 2010.*

Valuation & Recommendation

For arriving at the fair value of BBLD share, we have used the two valuations methods (DDM & GGM).

Dividend Discounting Model - DDM

Our use of DDM valuation is based on a 4-year forecast of dividends as cash flows (2010-13). Although no dividends have been paid up till now, there are very high chances that as earnings pick up the bank will start sharing its profits with investors. We have used following assumptions in order to arrive at the equity value of the bank:

- Cost of Equity (COE) derived using Capital Asset Pricing Model (CAPM) is estimated to be 11.6% based on the following assumptions:
  - Risk-free rate of 5.6%.
  - Market risk premium of 6.0%.
  - Beta of 1.0.

- Terminal growth rate of 3.0%.

DDM Valuation

(SR mn)		2010E	2011E	2012E	2013E
Dividends Expected		-	187.9	375.4	531.5
Terminal Value	6,388				
NPV of Dividends Expected	1,015				
NPV of Terminal Value	5,800				
Estimated Fair Value of Equity	6,815				
No. of Outstanding Shares (mn)	300				
DDM Value of BBLD per share (SR)	**22.7**				

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

Sensitivity Analysis

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

Sensitivity Analysis -DDM

		Terminal Growth Rate				
		2.0%	2.5%	**3.0%**	3.5%	4.0%
Cost of Equity	10.6%	23.2	24.2	25.3	26.5	28.0
	11.1%	22.1	23.0	23.9	25.0	26.2
	11.6%	21.2	21.9	**22.7**	23.6	24.7
	12.1%	20.3	20.9	21.6	22.5	23.4
	12.6%	19.5	20.1	20.7	21.4	22.2

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. Under this methodology, we have used the following assumptions to arrive at the fair value of the bank:

- Sustainable ROE calculated as the average ROAE of the forecasted 4 years.
- Cost of Equity derived using CAPM, using the same assumptions as in the DDM.
- Terminal growth rate of 3.0%, similar to the DDM.

Gordon Growth Model

Sustainable ROE (%)	13.7
COE (%)	11.6
Terminal Growth Rate (%)	3.0
2011E: P/BV target multiple (x)	1.3
2011E: BV/Share (SR)	11.0
GGM Value of BBLD per share (SR)	**13.7**

*Source: **Global** Research*

Sensitivity Analysis

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

Sensitivity Analysis -GGM

		Return on Equity				
		12.7%	13.2%	**13.7%**	14.2%	14.7%
Cost of Equity	10.6%	14.1	14.8	15.6	16.3	17.0
	11.1%	13.2	13.9	14.6	15.3	16.0
	11.6%	12.5	13.1	**13.7**	14.4	15.0
	12.1%	11.8	12.4	13.0	13.6	14.2
	12.6%	11.2	11.7	12.3	12.9	13.5

*Source: **Global** Research*

Valuation

Based on the current market price of SR19.9 per share (as on Oct 05, 2010), the bank is traded at 2011E P/E and P/BV multiples of 18.4x and 1.8x, respectively.

Valuation Summary

	Price (SR)	Weight	Weighted Value (SR)
DDM	22.7	60%	13.6
GGM	13.7	40%	5.5
Estimated Fair Price of BBLD per share			**19.1**

*Source: **Global** Research*

According to our estimated fair value of BBLD at SR19.1 per share, the banking scrip is trading at a premium of 3.9% on the closing price (as on Oct 05, 2010) of SR19.9 per share. Therefore, we initiate our coverage with recommendation of "**Hold**" on the BBLD stock over medium term perspective.

Key Risks to Valuations

- **Private sector participation does not revive as per expectations**
  The government of Saudi Arabia's public spending initiatives through various projects aims at further boosting economic activity and private sector confidence. A relatively slower increase in private sector participation (both domestic & foreign) in the Kingdom's project development could hamper the demand for financial services requirements by corporations.

- **Lenders risk-appetite restrains from easing**
  Since the beginning of 2010, the private sector credit has consistently shown rising trend ranging between 0.1% to 1.0% monthly. The rising growth pattern during 2010 (that remained uneven during the last year) is an encouraging sign indicating the increase in banks risk appetite in the wake of investor's financing needs.

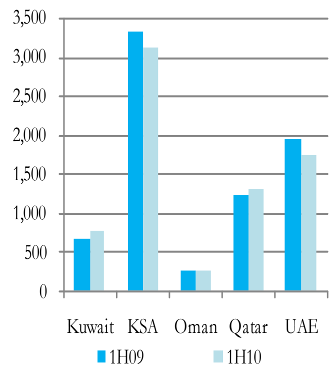
- **Improvement in asset quality encounters surprise**
  The severity of asset quality deterioration witnessed by banks in the last couple of years seems to have touched the peak in 2009. Any eruption of unforeseen credit fears internationally or domestically could not only subdue the improving confidence of financial institutions but could also lead to unexpected losses.

- **Interest rates do not firm up as expected**
  We estimate the interest rates increase to surface around mid 2011, and expect this situation to largely benefit the banking spreads as the banks' cost of funding could remain downwards sticky. Any unfavorable changes in interest rates in the coming years could have downward effect on our future earnings estimates for BBLD.

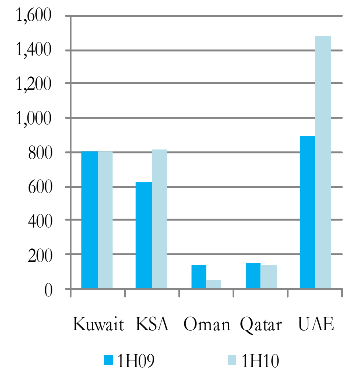
- **Provisions build up does not slowdown**
  We believe that BBLD has carried out thorough pruning of its credit & investment portfolios and has already realized the majority of provisioning necessary against its assets. Thus, going forward the provisions are expected to consolidate at lower levels, providing support to the bank's overall earnings. Although chances are slim, in case the bank goes on increasing their provisions on escalated levels, it could have a dampening effect on our profitability estimates.

GCC Banks

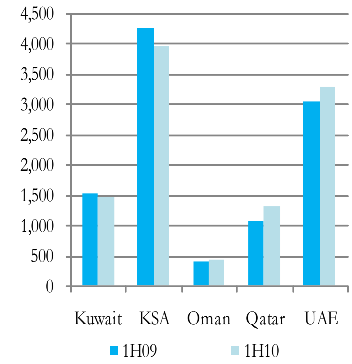
Net Income (US$ mn)



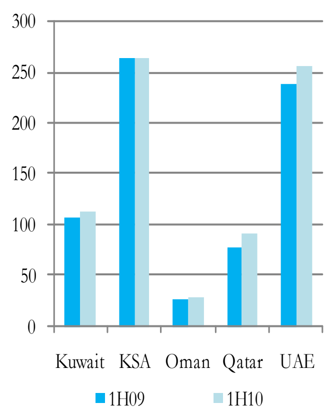
Provisions (US$ mn)



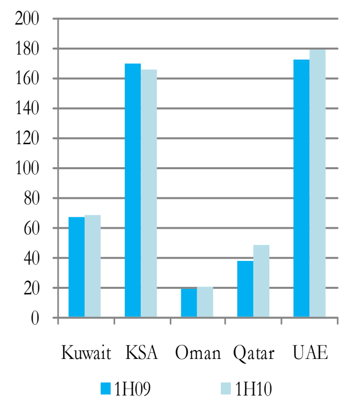
Net Interest Inc. (US$ mn)



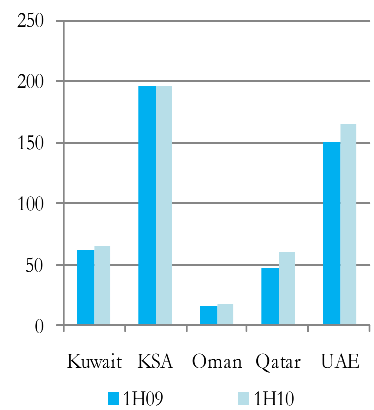
Assets (US$ bn)



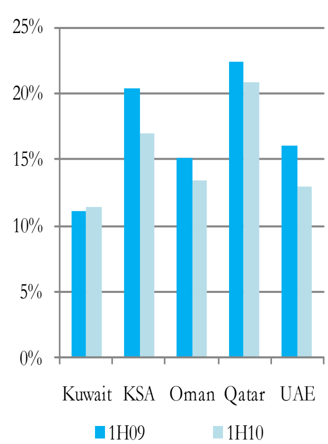
Loans (US$ bn)



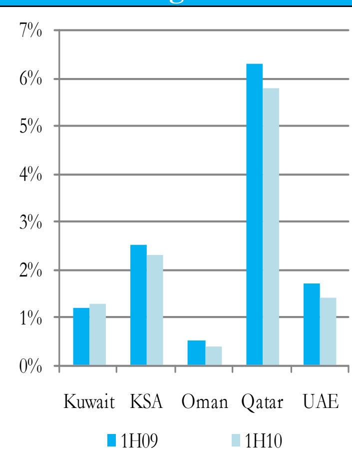
Deposits (US$ bn)



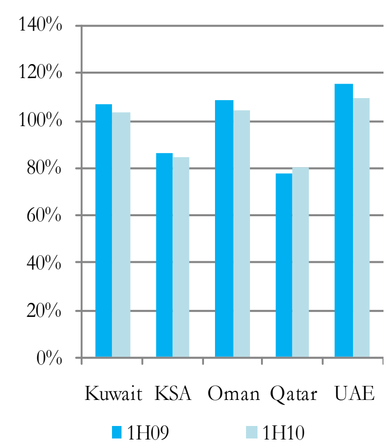
Return on Avg. Equity



Return on Avg. Assets



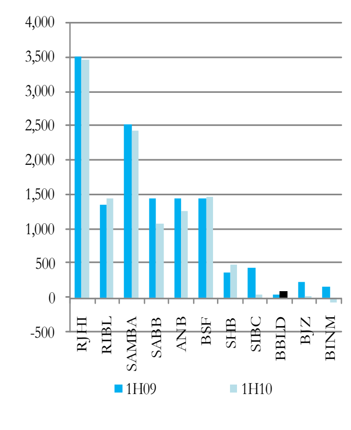
Loan to Deposit



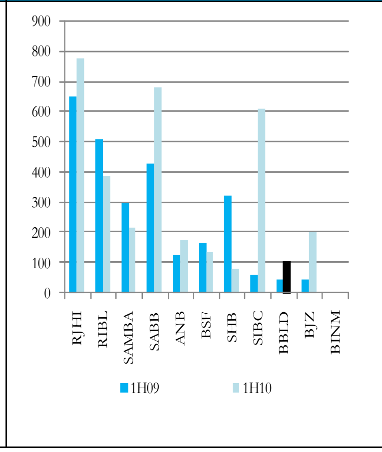
*Source: Company reports & **Global** Research*

Saudi Arabian Banks

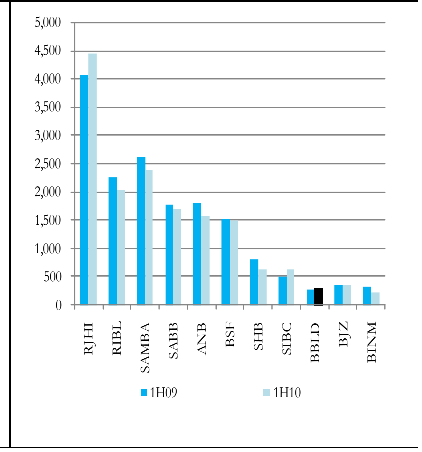
Net Income (SR mn)



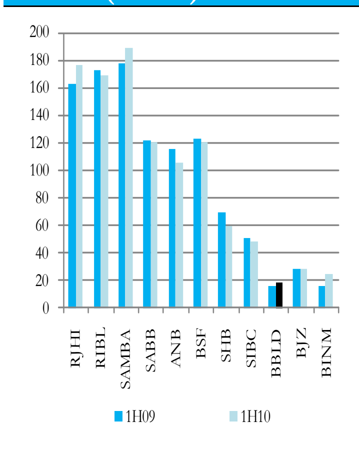
Provisions (SR mn)



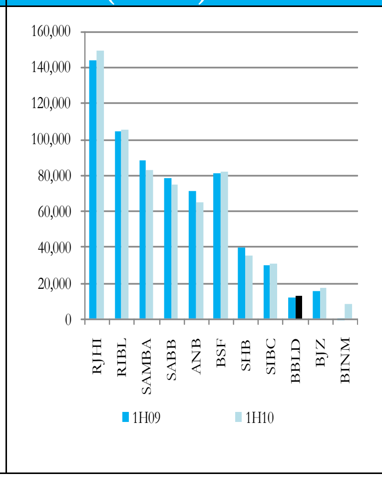
Net Interest Inc. (SR mn)



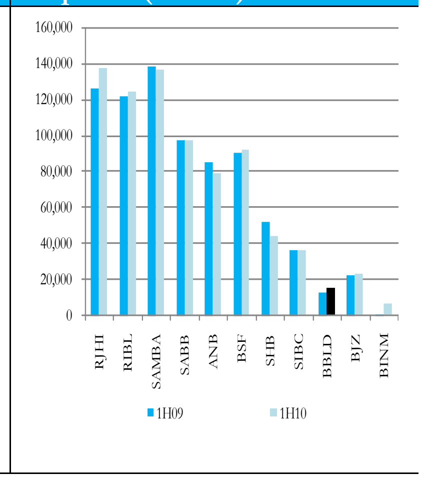
Assets (SR bn)



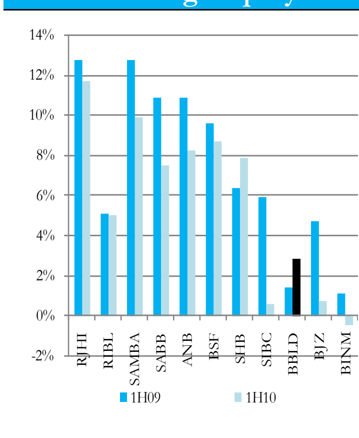
Loans (SR mn)



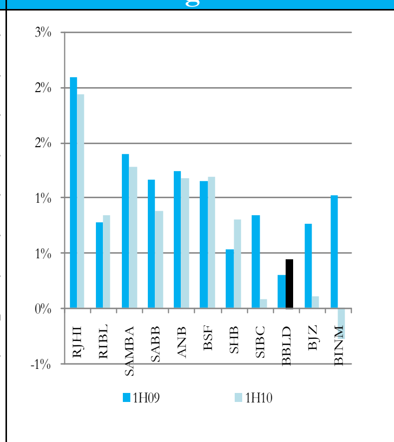
Deposits (SR mn)



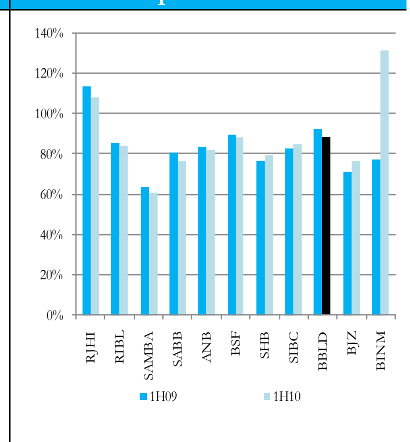
Return on Avg. Equity



Return on Avg. Assets



Loan to Deposit



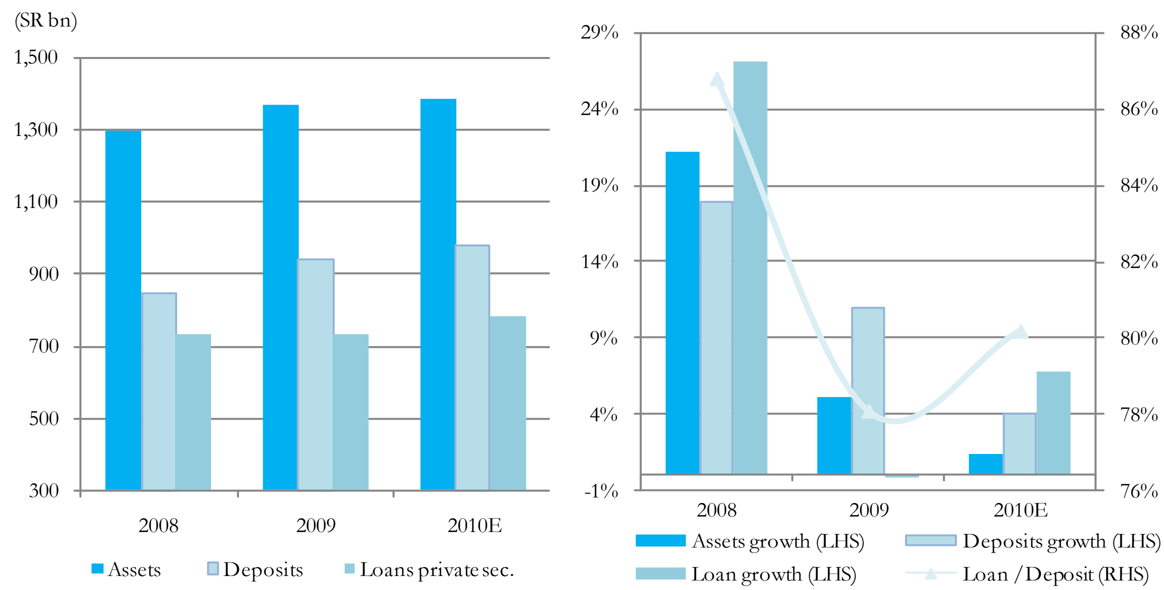
*Source: Company reports & **Global** Research*

Saudi Arabia Banking Sector

Saudi banks continue growing though at moderate pace

The Kingdom's relatively robust financial system even during the year (2008-09) of global financial crisis recorded total banking assets annual growth of 5.2%. Although it was considerably lower as compared to an annual average growth of 19.6% over the last three years, it is still encouraging considering the distress experienced across the international financial markets. The sector's total accumulated assets of SR1,381.7bn (US$368bn) showed YTD growth of 0.8% till 1H10, while on full year basis we estimate asset base to post annual growth of 1.4% in 2010. We expect the total Saudi banking assets to GDP ratio of around 92% in 2010.

Banking Sector Overview



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

Saudi banks standing in GCC region

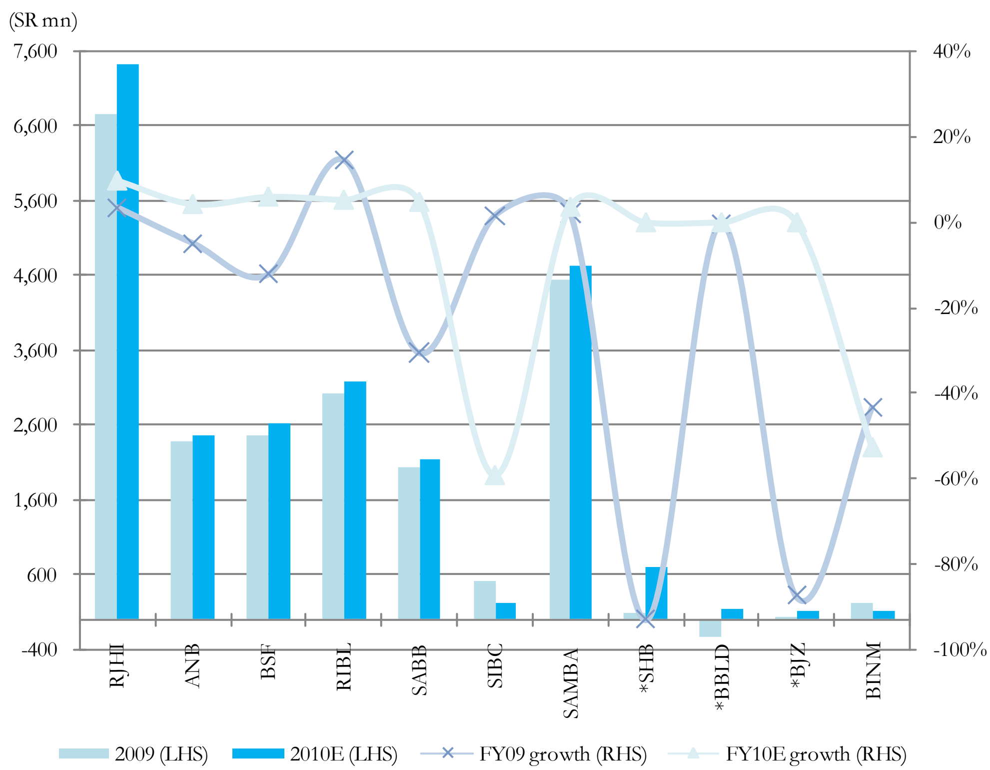
Our GCC market analysis for the banks under coverage (ex-Bahrain) shows that the Saudi banking sector assets at US$264bn led the regional banks (constituting 35% of the total assets); whereas in terms of net lending UAE comprise 37% of the total loans in 1H10. Although during the past few years the GCC banks played a vital role in regional economic growth, loan to deposit ratio ranged between 70% to 120%. Saudi Arabia and Qatar are the two regional economic giants that maintained loan to deposit ratio under 85%, whereas UAE posted the highest ratio of around 110% in 1H10. In comparison to the developed countries where the loan to deposit ratio mostly hovers around 125% or more, the regional lending remains relatively conservative, offering attractive space for future lending.

Saudi Arabia with loan deposit ratio of around 81% in 1H10 (within the limits of 85%) shows that the banks have adequate room to enhance their lending activity as the economic expansion continues and business confidence strengthens. The loan to deposit ratio of 78% during the last year is expected to post an increase by around 200bps reaching 80% in 2010. Saudi banks' cautious lending approach in the wake of global financial crisis and home-grown credit worries seems to have started to gradually ease out in 2010.

Profitability decline led by provisions & core banking pressures

Our regional analysis shows that the cumulative net income of GCC banks declined by 5% (YoY), with UAE banks recording highest decline of 11% followed by KSA banks drop of 7%, while Kuwaiti banks posted 14% increase in 1H10. The twelve Saudi banks (including unlisted NCB) in 1H10 recorded profitability decline of 5.3% (YoY) that was mainly affected by provisioning increase, while the net interest income declined during the year. The KSA banks' provisioning increase of 5.8% (YoY) in 1H10 is believed to be due to the continuing conservative approach regarding the scrutiny of lending portfolios. Overall we expect 2H10 to witness relatively lower levels of provisioning as compared to the same period last year, during which the credit fears arising from Saad and Al-Gosaibi groups were just starting to be realized. We estimate the provisions for Saudi Arabian banks to reduce by around 20% in 2010.

Sector Profitability



*Source: Tadawul, Company reports, & **Global** Research*

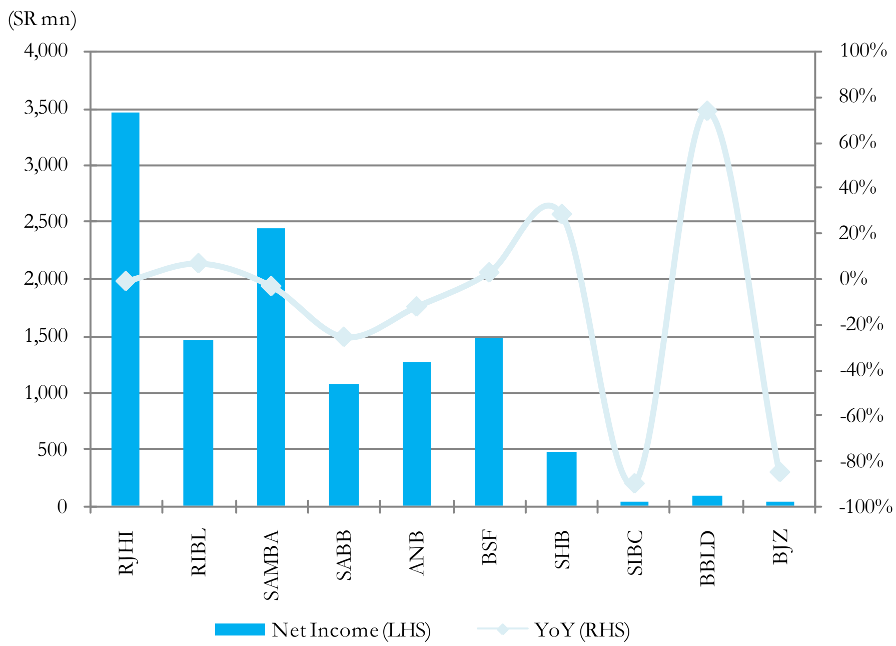
**Either profits are increasing by more than 3xs or change between loss & profit*

Although the rise in loans to private sector is an encouraging sign indicating an increase in banks' risk appetite, we do not expect the core banking results to show significant growth in 2010 as soft interest rate environment continues. The banks' aggregated net interest income witnessed decline of 1.9% (YoY) in 1H10. Overall on the full year basis, we expect FY10 profitability to increase by around 4% (YoY). We expect the Saudi banks' profitability to have more pronounced increase in 2011, based on our expectation of pick up in the lending activity, and further reduction in provisions as the international and regional uncertainties further clear up going into 2011.

Riyad bank leads amongst listed heavy weights

Although BBLD (in comparison to peers) recorded the highest increase in net income by 74% (YoY) in 1H10, amongst the top three market heavy weight banks, Riyad Bank (RIBL) was the only bank that posted increase in net income of 6.7% (YoY) on semiannual basis. The two other heavy weights namely Al Rajhi Bank (RJHI) and Samba Financial Group (Samba) both witnessed profitability decline of 1.1% and 3.3%, respectively, (YoY) in 1H10. The highest profitability decline was recorded by Saudi Investment Bank (SIBC) that recorded decline of 90% (YoY), while Bank AlInma turned from profit to net loss of SR72mn in 1H10.

Net Income -1H10



*Source: Company reports, & **Global** Research*

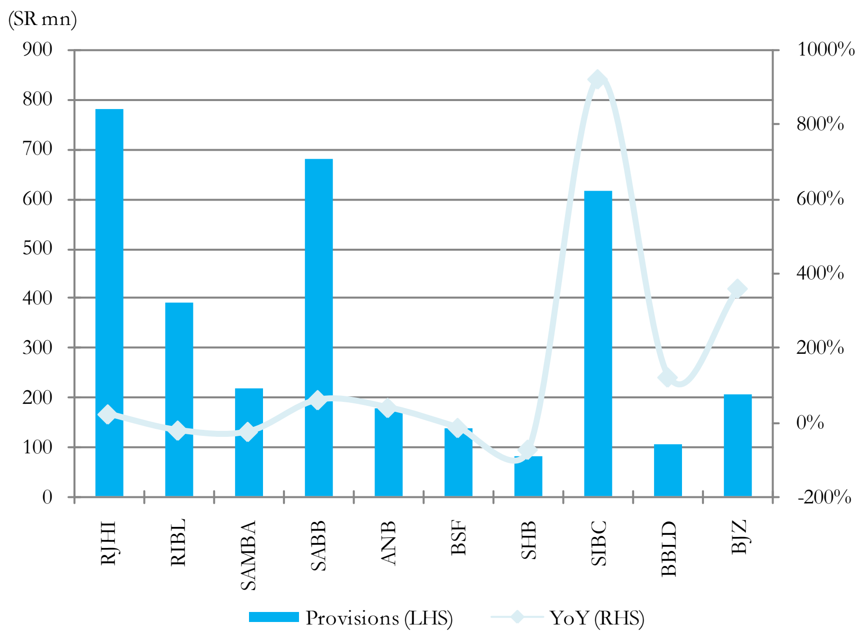
RIBL posted increase of 12.0% (QoQ) in 2Q10 as compared to the prior quarter. Although RIBL's net interest income decreased by 9.7% (YoY) in 1H10, the main support came from the decline in provisioning by 24.0% over the same period. Overall, we expect RIBL to record annual net income increase of 14.3% (YoY) in 2010. BBLD an increase in annual net income by 22.0% accompanied by improved performance in 1Q10, led to semi-annual profitability increase of 74.0%. We expect BBLD results to improve further for FY10.

Aggregate provisions rise on semiannual basis

The provisioning for Saudi listed banks recorded increase of 27% (YoY) in 1H10, which was somewhat at similar rate of 26% as recorded by aggregate provisions of GCC banking sector. The highest provisioning increase of 65% (YoY) in 1H10 was witnessed by UAE banks that could largely be linked to uncertainties arising from Dubai World and related entities. Our Oman banks universe recorded the largest decline in provisioning by 62% (YoY) in 1H10. The rise in 1H10 provisions witnessed by KSA banks could be attributed to continuing conservative stance by the banks up till now and relatively better conditions in the 1H09. We expect 2H10 to record lower provisioning as compared to 2H09, leading to overall reduced provisioning for 2010. The Saudi Investment Bank

(SIBC) recorded the highest provisioning increase by 10.2 times (YoY) followed by Bank AlJazira and Bank AlBilad recording rise of 4.6 times and 2.1 times, respectively in 1H10, while Saudi Hollandi Bank (SHB) posted largest decline in provisions by 76% on semiannual basis.

IS Provisions -1H10

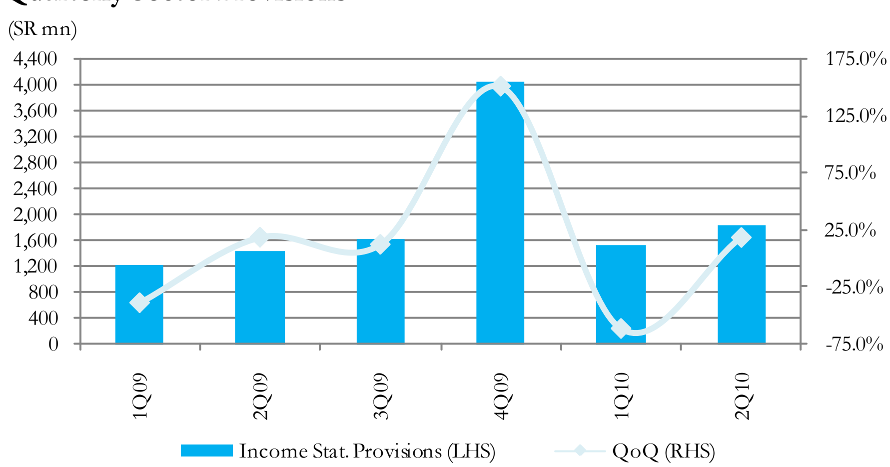


*Source: Company reports, & **Global** Research*

2H10 Provisions to ease significantly from 2H09 levels

The escalated provisions witnessed in 2H09 due to immediate shock arising from two troubled Saudi groups accompanied by the severity of international and regional financial worries, is believed to have largely bottomed out for KSA banks in 2010. The heightened provisioning increase by 2.1xs in 2H09 (compared to 1H09), has shown decline of 41% in 1H10 (compared to 2H09). Although 1H10 provisions rose by 27% (YoY), we expect the full year provisions to decline by 20% in 2010.

Quarterly Sector Provisions

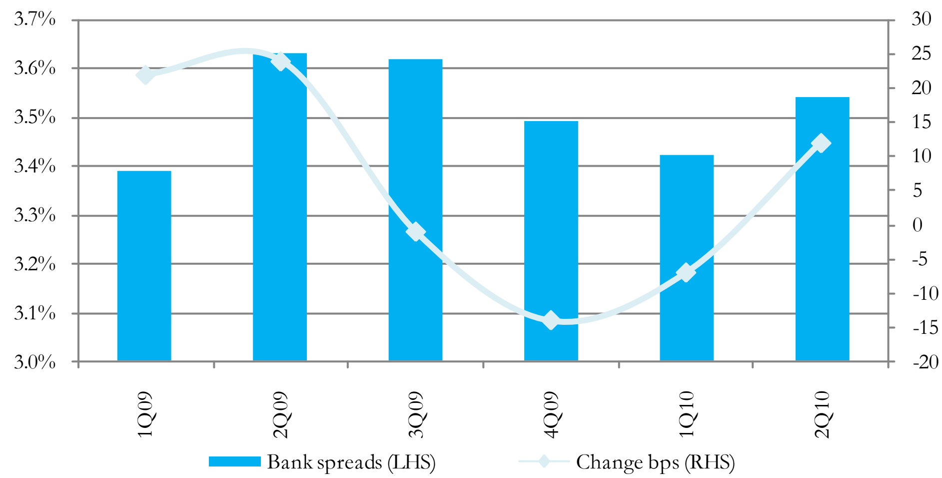


*Source: Tadawul, Company reports, & **Global** Research*

Curtailing interest expense supports bank spreads

The low interest environment in harmony with the global trends continued in Saudi Arabia as the reverse repo rate witnessed decline of 125bps and repo rate dropped by 50bps since Dec08 to Jun10. The banks realizing the reduction interest income focused on better managing the cost of funds in order to bear the pressure on bank spreads.

Quarterly Bank Spreads



Source: Tadawul, & Company reports

The quarterly decline (Dec08 -Jun10) in interest income by 190bps was overshadowed by lowering of interest expenses by 225bp. Thus, leading to overall increase in bank spreads by about 37bps over the period, reaching 3.5% in Jun10. The declining trend in bank spreads starting from Jun09 bottomed out in Dec09, with 2Q10 being the first quarter in the last one year to record increase in interest rate spreads by 12bps. Although there could be some uneven patches linked to the macroeconomic developments both regionally and internationally, overall we expect the interest rate spreads to follow a rising trend in coming quarters.

Private sector credit progressing well

The KSA banks' loans to private sector comprising 54% of the total assets in 1H2010 constitute around 80% of the total lending to private & public sectors. The private sector lending showed an increase of 3.6% till 1H10. On monthly basis since the start of 2010, the private sector credit has consistently shown rising trend ranging between 0.1% to 1.0%. The uneven monthly lending growth rates during 2009 seem to have stabilized in 2010, showing a consistent growth trend during the current year. Overall we expect private sector lending to post an annual growth of around 7% in 2010. The rise in private sector lending is an encouraging sign indicating increase in banks risk appetite while the debt requirement increases due to the business initiatives undertook by various corporations.

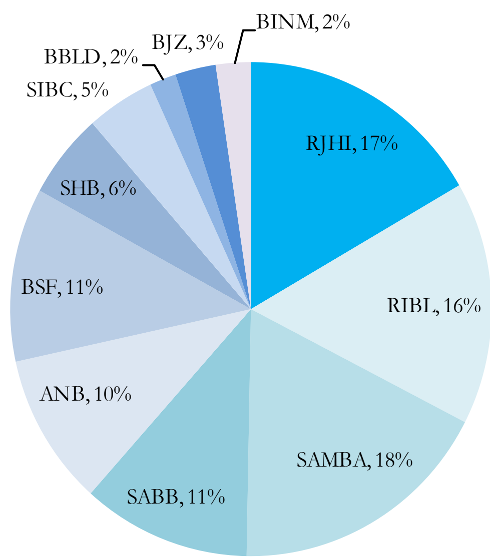
Deposit grows marginally during 1H10

The Saudi banking deposits after posting an annual average (2005-08) growth of 18%, showed a modest annual growth of 11% in FY09. The deposit base during the first six months of 2010 recorded marginal YTD growth of 0.3%. Starting 2010 with uneven growth, the deposits have shown consistent monthly increase of 1.1% & 2.3% in May and Jun 2010, respectively. The deposit base remains overshadowed by demand deposits (source of low cost of funding) composing 52.7% of total deposits. Overall, we estimate the deposits to record an annual increase of 4.0% during 2010.

KSA Islamic financing grows unhindered

The muslim population constituting around 20% of the global population offers attractive growth potential for Islamic finance industry. Four of the KSA banks are purely driven by Islamic financial principles, and in fact Al Rajhi Bank with the highest market weight of 9% in the sector is an Islamic bank. BBLD with a small market weight of 0.5% holds share of around 2.0% of total listed bank assets. The four Islamic banks with total asset size of SR250bn recorded annual growth of 6.1% in 1H10 and constituted 24% of the total listed bank assets in Saudi Arabia.

KSA Bank Assets (1H10)



*Source: Company reports, & **Global** Research*

The semiannual results by the listed KSA banks clearly shows that Islamic financial services continue to grow defying global financial crisis, while conventional banks had softening impact. During 1H10, KSA Islamic bank financing (lending) recorded (YoY) increase of 9.5% in 1H10, whereas as the conventional banks loan growth declined by 3.8% over the same period. The Kingdom of Saudi Arabia with overwhelming base of muslim population with one of the highest GDP per capita offers very attractive growth opportunities for Islamic financial services.

Outlook

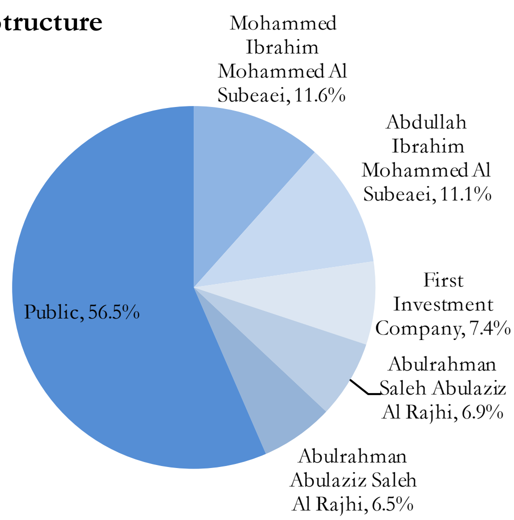
In addition to the government's continued dedication to go ahead with its ambitious public spending program, as uncertainties begin to clear up and confidence restores, the Saudi Arabian banks are expected to gradually start enhancing their lending portfolios in 2010 with more pronounced growth in 2011. Based on the expectation of improved business confidence and reduced provisioning as the international and regional uncertainties further clear up, we expect the Saudi banking sector profitability to record moderate growth of around 4%, while provisioning is estimated to decline by about 20% in 2010. Overall, the Saudi government's ambitious infrastructure spending plans besides being a stabilizing factor to keep the economy growing during volatile times, also seems to be increasing the confidence for private sector participation in the economic development. A wide range of Islamic financial services are largely popular in the Kingdom of Saudi Arabia, and are expected to continue growing both domestically and internationally. The global Islamic financial sector estimated at around US$1trillion is predicted to continue its growth trajectory with potential to reach up to US$3trillion within next five years.

Bank AlBilad Overview

Bank Albilad was formed and licensed in November 2004. BBLD with its head office situated in Riyadh, operates through the network of 67 banking branches (2008: 61) and 94 exchange and remittance centers (2008: 84) across the Kingdom of Saudi Arabia. The group comprises of the Bank and its subsidiaries, AlBilad Investment Company and AlBilad Real Estate Company. The group provides a full range of banking services, financing and investing activities through various Islamic instruments in accordance to Islamic Shari'a Law.

Bank Albilad is led by Mr. Khalid Al-Jasser, Chief Executive Officer, and Mr. Razi Fakih as Deputy Chief Executive Officer. BBLD started with focus on largely dealing with high net worth clients but under its renewed initiatives has redefined the customer segmentation and target markets that will facilitate in enhancement of customer base. The diversified business focus also includes actively addressing the needs of low to middle income groups, as this segment also offers attractive growth potential in the Kingdom's economic expansion.

Ownership Structure



Source: Zawya

Subsidiaries

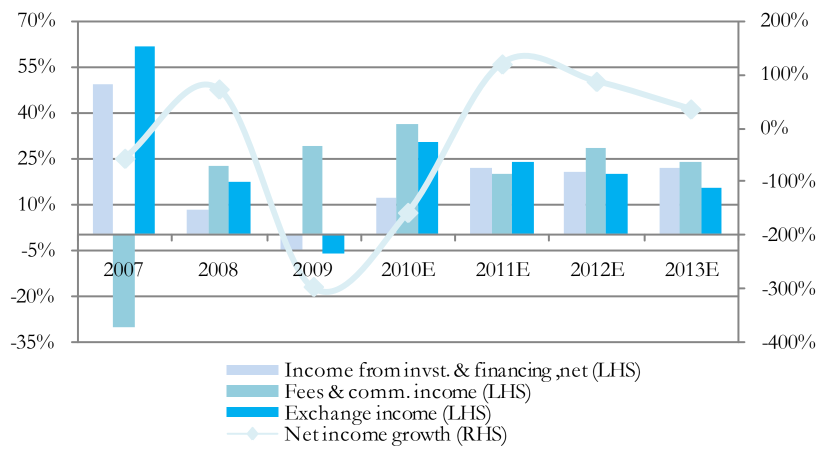
AlBilad Investment Company: This wholly owned subsidiary was established in accordance with the Capital Market Authority (CMA) directives and obtained approval for commencement of operations on May 2008. The subsidiary undertakes the management of the Bank's investment services and asset management activities related to dealing, managing, arranging, advising and custody of securities regulated by the regulatory authorities.

AlBilad Real Estate Company: This is another wholly owned subsidiary of the bank. The main purpose of this company is to register the real estate collaterals that the bank obtains from its customers.

Bank AlBilad- Financial Update & Forecast

BBLD recorded subdued financial performance with net income loss of SR248mn in 2009, mainly affected by provisioning increase of 4.3 times. The decrease in core banking income by 5.2% can largely be attributed to soft interest rates environment, while fee & commission income (2009) rise of 29.0% was driven by remittance fees business. We expect provisioning to decline by 45% in 2010, which coupled with improved business confidence will have a positive impact on the financial performance of the bank. BBLD annual net income (1H10) increase of 74.0% is expected to lead the bank in recording annual net profit of SR147mn in 2010. We expect net special com. income, and non-com. income to post CAGR (2009-13) of 18.9%, & 27.0%, respectively, while net income could reach SR818mn by 2013.

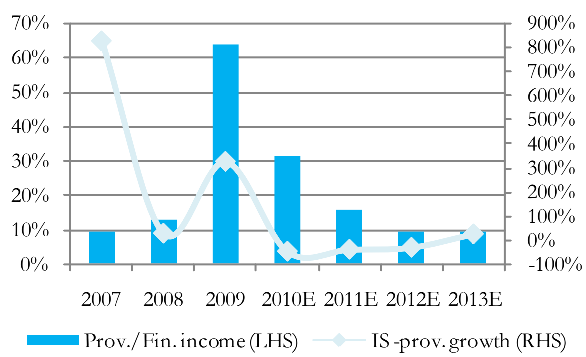
Income Performance



*Source: Company reports & **Global** Research*

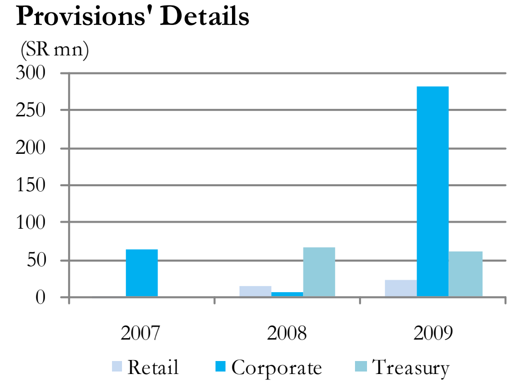
A significant increase by 15.3 times in provisions against financing assets was recorded in 2009. We expect 2010 to witness a considerable decrease of 44.8% in overall provisions, lowering provisions /financing income from 63.5% in 2009 to 31.1% in 2010. Over the medium term, provisions are expected to decline posting CAGR (2009-13) of 21.3%.

IS Provisions



*Source: Company reports & **Global** Research*

Provisions' Details



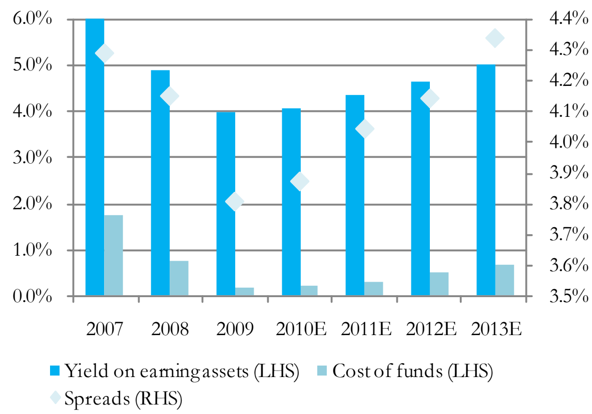
*Source: Company reports & **Global** Research*

The increase in provisions for credit losses mainly constituted of corporate provisions that rose by 46.0 times while retail provisions increased by 62.5% in 2009.

Spreads to start inching up soon…

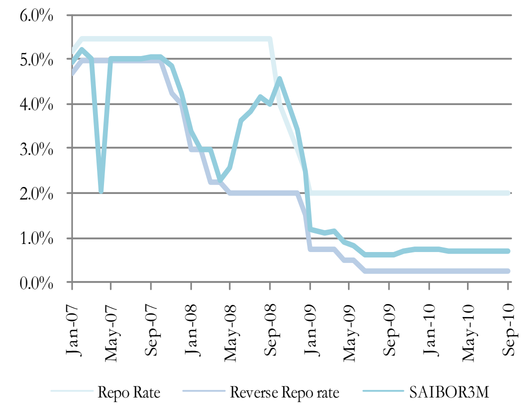
The bank's spreads witnessed a decline of around 85bps from 4.6% in 2006 to 3.8% in 2009. We forecast the bank's spreads to start inching upwards, based on our expectations that the bank will be able to generate higher return on assets as compared to liabilities expenses. We estimate the spreads to reach 4.3% by 2013. The stability in the government policy rates since Jun2009 indicates low chances of further rate cuts, however high probability exists for increase in rates from 2011 onwards.

Banking Spreads



*Source: Company reports & **Global** Research*

Interest Rates Market

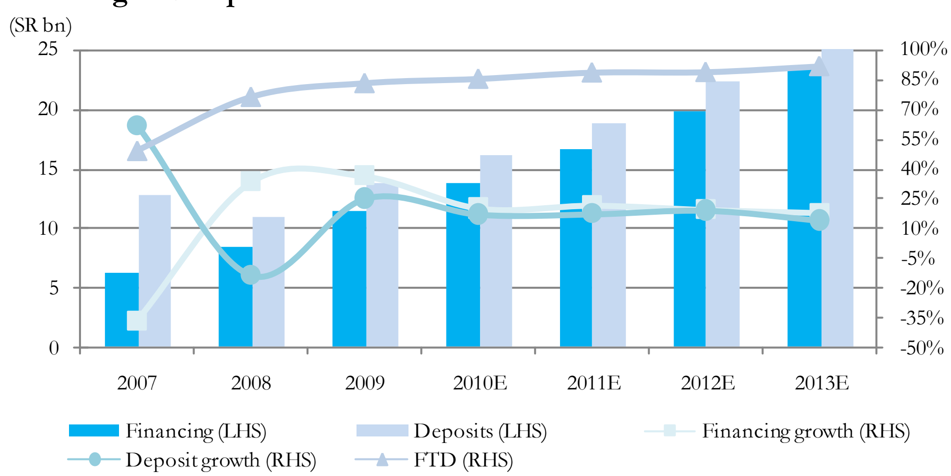


*Source: Company reports & **Global** Research*

Balance sheet grows despite pressures …

BBLD's total assets grew by 8.5%, while deposit and financing portfolios increased by 25.1% & 33.1%, respectively, in 2009. This signals the bank's commitment to grow in selective segments as it takes on targeted strategic initiatives. We expect BBLD's assets, financing & deposits to record annual increase of 14.4%, 20.0% and 17.0%, respectively in 2010. Over the medium term we estimate the bank's assets to record CAGR (2009-13) of 14.8%.

Financing and Deposit Base



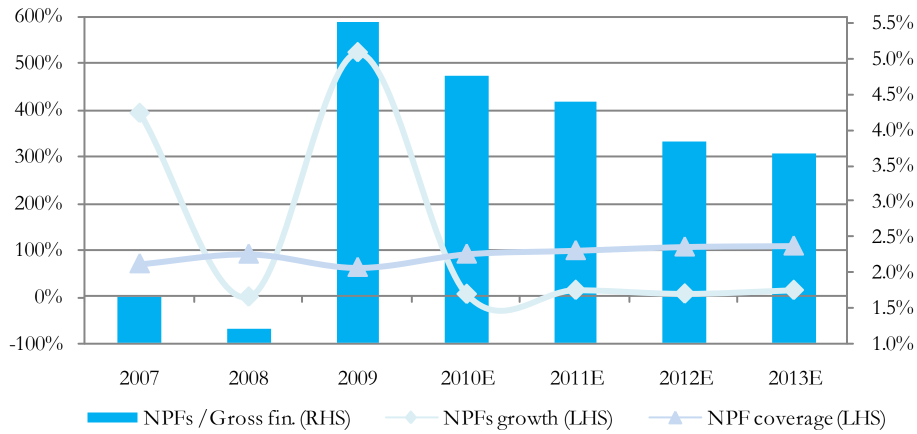
*Source: Company reports & **Global** Research*

The bank's deposit base constituting 79% of total assets remains dominated (91.6% of deposits) by current accounts that recorded growth of 26.6% in 2009. We expect the bank's focus on maintaining the dominance of current account to continue as its deposit post CAGR (2009-13) of 16.8%.

NPF coverage slides further down...

The bank's NPF coverage witnessed a decline from 90.6% in 2008 to 62.1% in 2009, as the increase in NPFs by 6.2 times (mainly from troubled industrial clients) was not matched by provisioning rise of 4.3times. Although the bank lost some valuable financing coverage cushion, we expect NPF coverage to start improving soon and is forecast to rise to 90% in 2010. Based on our expectations that the worst of asset quality deterioration is already behind us, we estimate NPFs to grow at an average of (2010-13) of 8.0%, while NPF ratio is estimated to reach 3.7% in 2013. Overall we estimate the bank's NPF coverage to increase in coming years reaching 108.2% by 2013.

Financing Quality

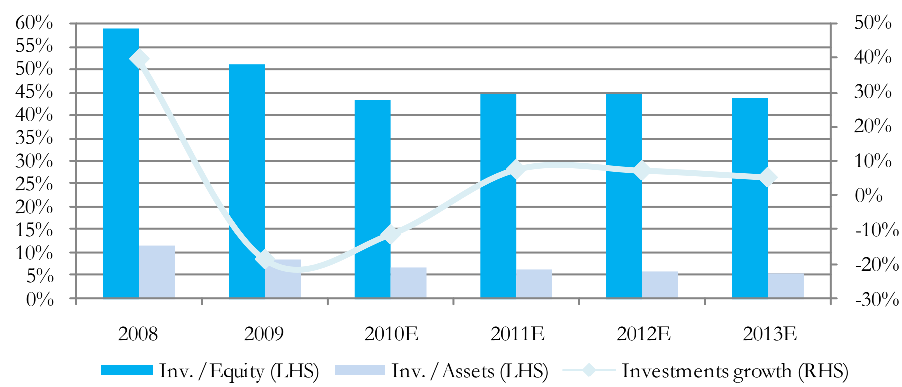


*Source: Company reports & **Global** Research*

Investments portfolio shrinks…

The bank's investments portfolio posted a decline of 18.4%, while the investment/equity and investment to asset ratios stood at 51.2% & 8.8%, respectively, in 2009. We estimate investment growth at an average (2010-13) of 3% and investment /asset ratio to range between 5% to 7% during the period of 2010-13.

Investment Portfolio



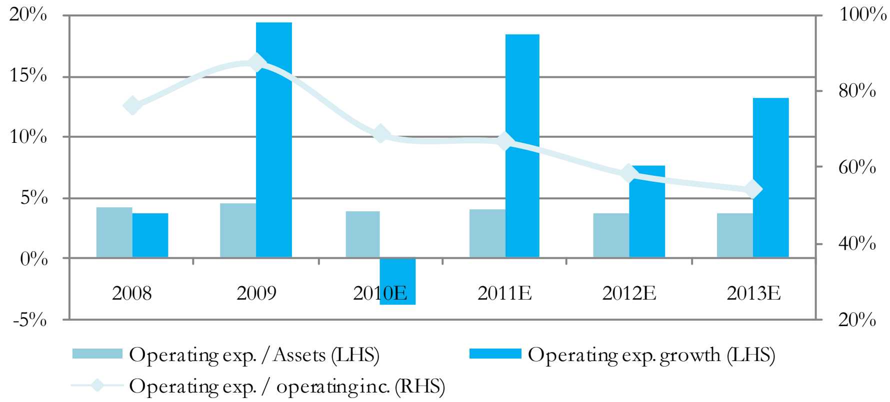
*Source: Company reports & **Global** Research*

Although dominated by unquoted securities, the share of quoted investments rose to 9.0% of total in 2009. The investment portfolio remains dominated by gov. & quasi-gov. securities constituting 81% of total investments. Overall we expect the bank's investments to post CAGR (2009-13) of 2%.

Operational efficiency improvement needs continuation…

The bank's operating expenses need better control in line with its income generation. The improving trend in op. exp./op. income and op. exp. /assets ratios to 65.3% & 1.9%, respectively in 1H10, is expected to continue during the year supported by a rise in operating income.

Operational Efficiency



*Source: Company reports & **Global** Research*

Based on our forecast for operating income 4-year CAGR (2009-13) of 22.3%, we estimate cost to income and cost to asset ratios to decline to 54.0% & 3.6%, respectively by 2013.

Financial Performance -1H2010

- BBLD's increase in annual net income by 22.0% (from SR27mn in 2Q09 to SR33mn in 2Q10) coupled with improved performance in 1Q10 led to semi-annual profitability increase of 74.0% in 1H10.

- Although the bank's income from investing & financing posted an annual increase of 10.0% (from SR138mn in 2Q09 to SR152mn in 2Q10), its semi-annual result posted a decrease of 1.3% in 1H10. Overall the operating income rise of 14.3% (from SR239mn in 2Q09 to SR273mn in 2Q10) on quarterly basis led to growth of 20.4% till 1H10.

Financial Highlights

(all figs. in SR mn, unless stated)	2Q09	2Q10	*YoY*	1H09	1H10	*YoY*
Income from invst. & fin., net	138	152	*10.0%*	279	301	*-1.3%*
Operating income	239	273	*14.3%*	455	548	*20.4%*
Net income	**27**	**33**	***22.0%***	**49**	**85**	***74.0%***
EPS (SR)	0.09	0.11	*22.0%*	0.16	0.28	*74.0%*
Financing (SR bn)	10	12	*14.8%*	10	12	*14.8%*
Deposits (SR bn)	13	15	*18.1%*	13	15	*18.1%*
Assets (SR bn)	16	19	*15.2%*	16	19	*15.2%*

Source: Company reports & Tadawul

- Besides higher core-banking results, the bank's non-commission income recorded an annual increase of 20.2% on quarterly basis. Although impairment charges for financing, investing, & other financial assets rose by 2.5 times on quarterly basis in 2Q10, the overall improved performance was somewhat able to absorb the pressure.

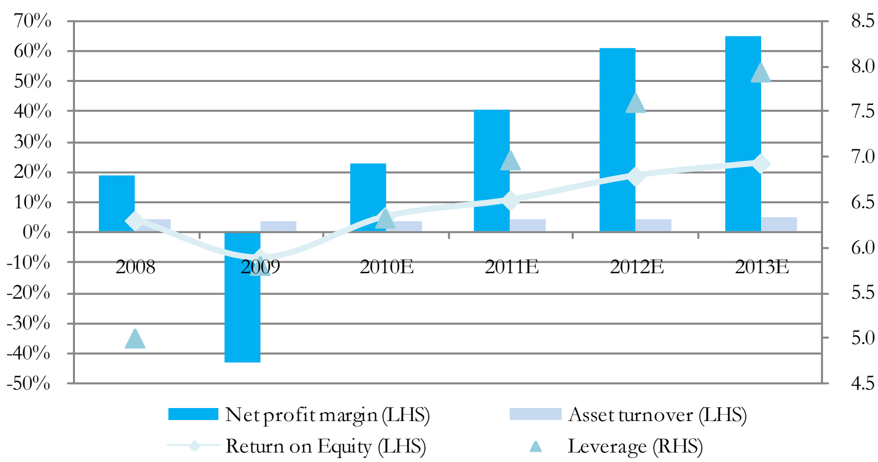
Outlook

BBLD one of the smallest banks in the sector, currently holds market share of around 2.0% in terms of both total assets and deposits of the listed Saudi banks. We expect the bank's assets, financing and deposits to record 4-year CAGR (2009-13) of 14.8%, 20.2% & 16.8%, respectively. Overall improved business confidence accompanied by the bank's strategic plans (including increased focus on middle market corporates, wider variety of retail services, more prudent credit monitoring), is expected to start producing desired results soon. The asset quality deterioration that also led to escalated provisioning levels in 2009, is expected to drop considerably over the coming years. We project the provisions to drop by 44.8% in 2010, and decline by 24.8% over medium term (2009-13). We also forecast the bank's net income to start producing positive results from 2010, with expectations to record 3-year CAGR (20010-13) of 53.4% over the medium term. Overall, BBLD holds good growth potential that can be better achieved by focus on its strength areas.

- Moderately large retail network (70 branches) can be utilized more effectively.
- Well developed brand name for (Enjaz) remittance centers.
- Revived hope under new management and strategy plans.
- Operating cost efficiencies need focus for better returns.
- Low cost of funding advantage can be better employed.

We expect the net loss of 2009 to return to profitability this year, leading to ROE of 5.0% in 2010. The net loss position kept NPM under pressure in 2009, while going forward we expect NPM to rise to 23% in 2010. This scenario is based on our expectations of higher income from fin. & investing, improved cost efficiencies and overall better financial performance.

DuPont Analysis



*Source: Company reports & **Global** Research*

With the improvement in business conditions coupled with renewed bank focus, we estimate the net profit margin to reach upto 65% in 2013, while the leverage ratio is expected to range between 6.0x to 8.0x during 2010-13. With asset turnover ratio estimated between 3.0% to 4.5% during 2010-2013, we expect the return on equity (ROE) to reach 23% by 2013.

BALANCE SHEET	BANK ALBILAD						
(SR mn)	**2007**	**2008**	**2009**	**2010E**	**2011E**	**2012E**	**2013E**
Cash & balances with SAMA	2,058	1,125	1,297	1,610	1,492	1,753	1,478
Due from banks and other FIs	6,074	3,894	2,826	3,137	3,263	3,524	3,700
Investments	1,349	1,883	1,536	1,362	1,465	1,571	1,653
Financing, net	6,190	8,276	11,014	13,099	15,920	19,042	22,455
Property & equipment, net	594	537	395	351	388	462	523
Other assets	370	336	343	364	386	420	441
Total assets	**16,636**	**16,052**	**17,411**	**19,924**	**22,914**	**26,772**	**30,250**
Due to SAMA, banks and other FIs	0	1,464	198	367	440	484	528
Customers deposits	12,689	10,971	13,721	16,053	18,814	22,389	25,523
Other liabilities	842	404	490	353	370	378	389
Total Liabilities	**13,532**	**12,839**	**14,409**	**16,773**	**19,625**	**23,251**	**26,441**
Share capital	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Employee share plan	(42)	(42)	(42)	(42)	(43)	(43)	(43)
Statutory reserve	63	94	29	66	147	298	503
Other reserve	(6)	(23)	15	17	18	21	24
Retained earnings	90	184	-	111	166	244	326
Total shareholders' equity	**3,104**	**3,213**	**3,002**	**3,151**	**3,288**	**3,521**	**3,810**
Total liabilities and shareholders' equity	**16,636**	**16,052**	**17,411**	**19,924**	**22,914**	**26,772**	**30,250**

*Source: Company reports & **Global** Research*

INCOME STATEMENT	BANK ALBILAD						
(SR mn)	**2007**	**2008**	**2009**	**2010E**	**2011E**	**2012E**	**2013E**
Income from investing & financing assets	715	669	572	646	801	1,002	1,258
Return paid to depositors	(180)	(91)	(24)	(31)	(54)	(102)	(161)
Income from investing & financing, net	**534**	**578**	**548**	**615**	**747**	**899**	**1,097**
Fees & commission income, net	177	216	279	379	455	582	722
Exchange income, net	67	79	74	96	119	143	164
Dividend income	-	-	4	4	6	9	11
(Losses) on non-trading investments, net	-	-	(2)	15	24	30	33
Other operating income	-	2	5	2	3	5	5
Total non-commission income	**244**	**296**	**360**	**496**	**606**	**768**	**934**
Total operating income	**779**	**875**	**908**	**1,111**	**1,353**	**1,667**	**2,031**
Salaries & employee related expenses	(357)	(369)	(391)	(350)	(433)	(433)	(487)
Rent & premises related expenses	(82)	(92)	(106)	(114)	(125)	(138)	(149)
Depreciation & amortization	(104)	(119)	(139)	(133)	(164)	(197)	(241)
Other general & administrative expenses	(98)	(84)	(156)	(165)	(180)	(202)	(220)
Total operating expenses	**(641)**	**(665)**	**(793)**	**(762)**	**(902)**	**(970)**	**(1,097)**
Total operating profit	**138**	**210**	**115**	**348**	**451**	**697**	**934**
Impairment charge for financing assets	(65)	(20)	(302)	(201)	(127)	(91)	(116)
Impairment charge for investing & other financial assets	-	(65)	(61)	-	-	-	-
Total operating profit after PFIs, net	**72**	**125**	**(248)**	**147**	**324**	**605**	**818**
Minority interest	-	-	-	-	-	-	-
Net income (Loss)	**72**	**125**	**(248)**	**147**	**324**	**605**	**818**
P&L appropriation							
Opening balance of retained earnings	**35**	**90**	**184**	**-**	**111**	**166**	**244**
Net income (Loss)	72	125	(248)	147	324	605	818
Transfer to statutory reserve	(18)	(31)	65	(37)	(81)	(151)	(204)
Dividends	-	-	-	-	(188)	(375)	(531)
Closing balance of retained earnings	**90**	**184**	-	**111**	**166**	**244**	**326**

*Source: Company reports & **Global** Research*

CASH FLOW STATEMENT			BANK ALBILAD				
(SR mn)	**2007**	**2008**	**2009**	**2010E**	**2011E**	**2012E**	**2013E**
Net income (loss)	72	125	(248)	147	324	605	818
Accretion of discounts	4	(65)	(58)	-	-	-	-
Impairment charge for investing, & other fin. assets	65	85	363	201	127	91	116
Depreciation & amortization	104	119	139	133	164	197	241
Financing & investments, net	2,231	(2,639)	(2,694)	(2,112)	(3,051)	(3,319)	(3,610)
Due from banks and other FIs	(5,950)	2,180	1,068	(311)	(125)	(261)	(176)
Due to SAMA, banks, & other FIs	-	1,464	(1,266)	169	73	44	44
Other assets	(306)	34	(7)	(21)	(22)	(35)	(21)
Customer deposits	4,831	(1,718)	2,750	2,333	2,761	3,575	3,134
Other liabilities	443	(455)	86	(136)	19	10	14
CF from operations	**1,495**	**(871)**	**134**	**403**	**270**	**908**	**560**
Capital expenditure	(143)	(62)	38	(90)	(201)	(271)	(302)
CF from investing	**(143)**	**(62)**	**38**	**(90)**	**(201)**	**(271)**	**(302)**
Dividends	-	-	-	-	(188)	(375)	(531)
Employee share plan	3	-	-	(0.2)	(0.2)	(0.3)	(0.4)
CF from financing	**3**	**-**	-	(0.2)	**(188)**	**(376)**	**(532)**
Change in cash	1,355	(933)	172	313	(119)	261	(274)
Beginning cash	703	2,058	1,125	1,297	1,610	1,492	1,753
Ending cash	**2,058**	**1,125**	**1,297**	**1,610**	**1,492**	**1,753**	**1,478**

*Source: Company reports & **Global** Research*

FACT SHEET	BANK ALBILAD						
	2007	2008	2009	2010E	2011E	2012E	2013E
Profitability							
- Return on average assets	0.5%	0.8%	-1.5%	0.8%	1.5%	2.4%	2.9%
- Return on average equity	2.4%	4.0%	-8.0%	4.8%	10.1%	17.8%	22.3%
- Net income from fin. & invt. /Total op. income	68.6%	66.1%	60.4%	55.4%	55.2%	54.0%	54.0%
- Non-commission income/ Total op. income	31.4%	33.9%	39.6%	44.6%	44.8%	46.0%	46.0%
- Fees & comm. income / Total op. income	22.7%	24.7%	30.7%	34.1%	33.6%	34.9%	35.5%
- Dividend payout ratio	-	-	-	-	58.0%	62.0%	65.0%
Margins							
- Net (or profit) margin	10.1%	18.7%	-43.4%	22.8%	40.4%	60.4%	65.0%
- Yield on average earning assets	6.1%	4.9%	4.0%	4.1%	4.3%	4.6%	5.0%
- Cost rate on avg. comm. bearing liabilities	1.8%	0.7%	0.2%	0.2%	0.3%	0.5%	0.7%
- Spread	4.3%	4.1%	3.8%	3.9%	4.0%	4.1%	4.3%
Efficiency							
- Total op. expenses /Total op. income	82.3%	76.0%	87.3%	68.7%	66.7%	58.2%	54.0%
- Staff expenses/ Total op. income	45.8%	42.2%	43.1%	31.5%	32.0%	26.0%	24.0%
- Rent, G&A expenses/ Total op. income	23.2%	20.1%	28.9%	25.1%	22.6%	20.4%	18.2%
Liquidity							
- Financing/ Customer deposits	49.4%	76.3%	83.1%	85.3%	88.4%	88.7%	91.6%
- Customer deposits/ Equity	408.8%	341.5%	457.0%	509.5%	572.1%	635.9%	669.9%
- Customer deposits/ Total assets	76.3%	68.3%	78.8%	80.6%	82.1%	83.6%	84.4%
Credit Quality							
- Impairment charges /Total op. income	8.4%	9.7%	40.0%	18.1%	9.4%	5.5%	5.7%
- Non performing financing (SR mn)	103.3	101.2	629.1	651.9	731.7	763.5	855.9
- Impairment charge financing & other (SR mn)	72.2	91.6	390.8	591.4	718.8	810.0	925.9
- NPFs /Gross financing	1.7%	1.2%	5.5%	4.8%	4.4%	3.8%	3.7%
- PFIs / Gross financing	1.2%	1.1%	3.4%	4.3%	4.3%	4.1%	4.0%
- NPF Coverage	69.9%	90.6%	62.1%	90.7%	98.2%	106.1%	108.2%
Capital Adequacy							
- Equity/ Total assets	18.7%	20.0%	17.2%	15.8%	14.4%	13.2%	12.6%
- Equity/ Gross financing	49.6%	38.4%	26.3%	23.0%	19.8%	17.7%	16.3%
Operating Performance							
- Change in income from financing & investing	91.3%	-6.4%	-14.5%	12.8%	24.1%	25.0%	25.6%
- Change in fees & comm. income	-30.4%	22.1%	29.0%	36.0%	20.0%	28.0%	24.0%
- Change in exchange income	61.3%	17.0%	-6.3%	30.0%	24.0%	20.0%	15.0%
Ratios used for valuation							
- Par value per share (SR)	10.0	10.0	10.0	10.0	10.0	10.0	10.0
- Shares in issue (mn)	300.0	300.0	300.0	300.0	300.0	300.0	300.0
- EPS (SR) –adjusted	0.2	0.4	-0.8	0.5	1.1	2.0	2.7
- DPS (SR) –adjusted	-	-	-	-	0.6	1.3	1.8
- Book value per share (SR) -adjusted	10.3	10.7	10.0	10.5	11.0	11.7	12.7
- Market price year end (SR)	40.3	28.0	20.9	19.9	19.9	19.9	19.9
- Market Cap. (SR bn)	12.1	8.4	6.3	6.0	6.0	6.0	6.0
- P/E	166.6	67.2	NM	40.5	18.4	9.9	7.3
- P/BV	3.9	2.6	2.1	1.9	1.8	1.7	1.6
- Dividends yield	-	-	-	-	3.1%	6.3%	8.9%

*Source: Company Annual Reports & **Global** Research*

**Historical P/E & P/BV multiples pertain to respective year-end prices, while those for future years are based on closing prices on Tadawul as of Oct 05, 2010.*

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Disclosure			
Company	Recommendation	Ticker	Price
Bank AlBilad	Hold	ALBI AB 1140 .SE	SR19.9

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 b/w +10%/-10% from the current market price
Reduce	Fair value of the stock is b/w -10%/-20% from the current market price
Sell	Fair value of the stock is < -20% from the current market price

Global Investment House -Saudia
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