July 21st, 2009

Earnings Update

AL MAL CAPITAL

Arab National Bank (ARNB)

ARNB

ST Rating: Market Perform

LT Rating: Outperform

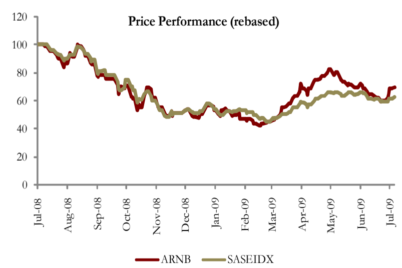
- ARNB's 2Q09 net income of SAR 746mm (-0.8% yoy, +7.4% qoq) came in above our expectation of SAR 667mm. **The results were a combination of extremely strong qoq growth in non-interest income and a lower than expected level of provisioning for non performing loans.**

- Although the loan book shrunk by 2.2% over the quarter to SAR 71.2bn, the customer deposit base has risen by 0.8% to SAR 85.2bn. The resultant loans/deposit ratio has dropped to 84% from 86% at the end of Q109 relieving some of the pressure felt in hitting the 85% limit set by SAMA. Similar to other Saudi banks, **the maturing loans were mostly diverted into growing the investment portfolio** (+4.7% qoq, SAR 1.2bn) in lieu of growing out the loan book.

- On the provisioning front, the bank was conservative with estimated provisions to be in line with Q109 numbers of SAR 55mm. **At the end of 2008, the bank had an extremely low level of NPL's at 0.39% of loans with a reserve coverage ratio of 349%.** Consumer and credit card loans make up 24.5% of all loans at ARNB (the highest among the conventional banks in Saudi Arabia) and this sector will continue to face regulatory limits on its growth but so far there is little evidence to show that ARNB is feeling stress from the retail sector. The bank did not separate out operating expenses vs. provisions but we estimate op-ex was also in line with Q1, resulting in a flat efficiency ratio of 34%.

- While ARNB has a strong quality portfolio as evidenced by low NPL's, the provisioning in Q209 shows **ARNB's prudent risk management policies**. Furthermore, with the drop in loans (SAR 1.6bn) and increase in investments (SAR 1.2bn), it is evident that ARNB (like other Saudi peers) parked the extra funds in cash and balances with SAMA and interbank assets. ARNB currently trades at a 09E P/B of 1.8 (in-line with Saudi peers) but with a better expected 09E NIM and ROE. **The stock has moved up 45% since our initiation and we believe it may have some more room on the upside.** We maintain our ST 'Market Perform' and LT 'Outperform' rating on the stock with a TP of 50.3 an upside of 18%.

Equity Data	
Current Price (SAR)	42.8
Target Price (SAR)	50.3
Upside/downside	18%
Short-Term Rating	Market Perform
Long-Term Rating	Outperform
12 Mo. Performance	-28.7%
52-Week Range (SAR)	25.7-63.0
Market Cap. (SAR bn.)	27.8
RIC	1080.SE
Bloomberg	ARNB AB



SAR Millions, except per share data	2Q08	1Q09	2Q09	yoy	qoq
Special commission income	855	912	894	4.6%	-2.0%
Non Special Commission Income	324	245	318	-1.9%	29.9%
Total Income	1,179	1,157	1,212	2.8%	4.8%
Non Commission Expense	(404)	(406)	(406) *	4.3%	0.0%
Provisions	(23)	(55)	(60) *	180.6%	165.1%
Net Income for Shareholders	752	695	746	-0.8%	7.4%
Investments	22,292	26,363	27,600	23.8%	4.7%
Net Loans and Advances	69,883	72,810	71,200	1.9%	-2.2%
Total Assets	110,330	112,407	115,100	4.3%	2.4%
Customer Deposits	84,915	84,519	85,200	0.3%	0.8%
Loans/Deposits	82%	86%	84%		
Efficiency Ratio	-34.2%	-35.1%	-33.5%		

** Al Mal estimate*

Deepak Tolani
T+971 4 360 11 52
Deepak.tolani@almalcapital.com

Downtown Burj Dubai
Emaar Square
Building 4, Office 302
Sheikh Zayed Road
P. O. Box 119930, Dubai, UAE
T +971 4 360 1111
F +971 4 360 1122
www.almalcapital.com

Al Mal Securities Group

Managing Director

Robert McKinnon	+971 4 360 11 17

Institutional Sales & Trading

Ashraf Abu Shakra	+971 4 369 66 01
Khamis Shennawi	+971 4 360 11 10
Kamal Samarrai	+971 4 360 11 05
Jalal Faruki	+971 4 360 11 03
Carlo Dalafu	+971 4 360 11 04
All Desks Numbers	+971 4 360 11 00

Al Mal Capital Research

Equity Research Analysts

Irfan Ellam	+971 4 360 11 53
Bobby Sarkar	+971 4 360 11 68
Deepak Tolani, CFA	+971 4 360 11 52
Mala Pancholia	+971 4 360 11 54