Saudi Arabia

Global
بيت الاستثمار العالمي
Global Investment House

Result Update

Saudi Hollandi Bank

Performance maintenance a challenge ahead...

March, 2009

Tickers:
AAAL AB (Bloomberg)
1040.SE (Reuters)

Hold

Listing:
Saudi Stock Market

CMP:
SR35.0 (as on March 25, 2009)

Key Data

CMP#(SR)	35.0
EPS*(SR)	3.1
BVPS*(SR)	18.1
P/E*	11.4
P/BV*	1.9
12M Avg. vol.	70,427
52 week Lo / Hi (SR)	26.7 /52.0

*Source: **Global** Research & Bloomberg*
 # As on March 25, 2009
**2009 Projected*

Highlights

- SHB's profitability showed a sharp increase of 179.1% (from SR438.53n in 2007 to SR1,223.7mn in 2008) as compared to YoY decline of 54.0% in 2007. The FY08 profitability results were higher than our forecasts, as the bank beyond our expectations, successfully managed the effects of stressful global financial conditions. The bank's total assets posted an encouraging annual growth of 21.9% (from SR50.4bn in 2007 to SR61.4bn in 2008) as compared to 7.9% in 2007.

- The bank's special commission income increase of 2.5% coupled with the drop in special commission expense by 10.1%, led to net special commission income increase of 20.4% (from SR1,200mn in 2007 to SR1,445mn in 2008).

- The improved top-line performance was further enhanced by an increase (YoY) in non-commission income by 15.7% in FY08, which in turn resulted in an encouraging increase in total operating income by 62.9% (from SR1.2bn in 2007 to SR2.0bn in 2008).

- SHB did not record any significant impairment charge for investments which stood at SR52.1mn in FY08, and in fact showed a decline of 94.9% in impairment charge for net credit losses (from SR495.7mn in 2007 to SR25.5mn in 2008).

- The bank's balance sheet footing recorded a 3 year CAGR (2005-08) of 15.4% with an annual increase of 21.9% in 2008. Gross loans & advances recorded an annual growth of 36.3% (FY08: SR39.1bn), while customer deposits posted (YoY) growth of 24.3% (FY08: SR43.0bn).

- Although NPL coverage decline from 110.0% in 2007 to 107.8% in 2008, it remained in comfortable range for providing cushion against the bank's loan portfolio. SHB remains an adequately capitalized bank with Tier-1 capital (FY08) of SR5.4bn, and Tier-1 ratio (FY08: 9.9%).

- Our fair value for SHB is estimated to be SR37.8 per share. According to our fair value the banking scrip is 8.1% higher than the current market price of SR35.0 (as on Mar 25, 2009). Therefore, we maintain our earlier recommendation of "Hold" on the stock with a medium term perspective.

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Recent Developments

- In Mar-09, during an EGM the distribution of 25% bonus shares for the year ended December 31, 2008 was approved. Consequently, the Saudi Hollandi Bank's share capital has increased from 264.6mn to 330.7mn shares.

- In Mar-09, the bank won the 'Equity Deal of the Year' award for its recent issuance of SR775mn Sukuk. The deal is believed to be one of the first quasi equity deals in Islamic finance.

- In Feb-09, the BOD also proposed the distribution of cash dividend of SR0.75 per share, in addition to the 25% bonus shares.

Rating Update

- In Dec-08, Fitch Ratings Agency announced the ratings for the bank. The bank was assigned stable outlook, with long-term issuer default rating (IDR) affirmed at 'A-', the short-term IDR affirmed at F2, and the individual rating downgraded to 'C' from B/C.

Analysis of Financial Performance -FY08

Income Statement

- SHB's profitability showed a sharp increase of 179.1% (from SR438.53n in 2007 to SR1,223.7mn in 2008) as compared to YoY decline of 54.0% in 2007. The bank's strong financial results besides being attributable to significantly lower impairment charge for net credit losses, low base effect, increasing focus on controlling costs and conservative investment policy, also indicated an encouraging outcome of the SHB's restructuring initiatives. The bank's annual performance (FY08) was by far better than the listed Saudi banking sector that registered a marginal growth of 0.5% in FY08. The Saudi banks' 2008 performance was mainly dampened by 4Q08 results that witnessed pressure due to setting aside of higher financial allocations by the banks in consideration to the decline in their investment portfolios.

Table 01: Income Statement Highlights

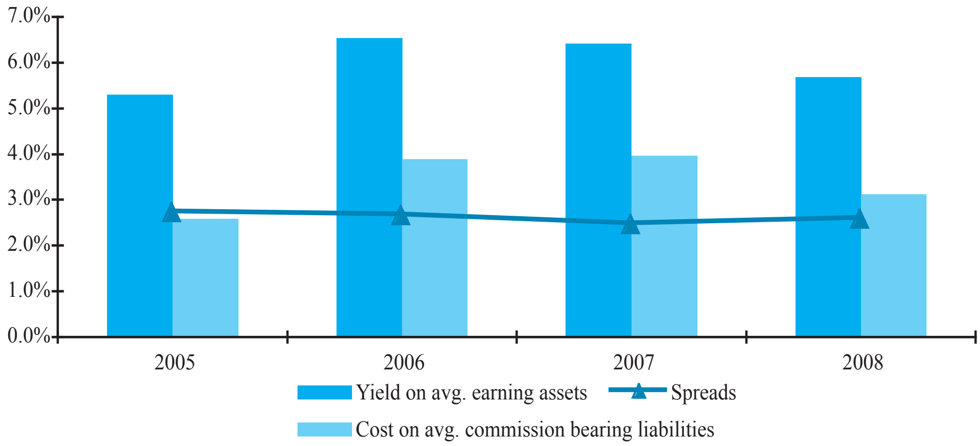
(SR mn)	**2005**	**2006**	**2007**	**2008**	**Growth (2007-08)**
Special commission income	1,843.4	2,667.9	2,905.7	2,977.3	2.5%
Net special commission income	1,013.5	1,179.8	1,200.4	1,445.1	20.4%
Total non-interest income	704.3	766.7	575.6	666.1	15.7%
Total operating income	1,618.6	1,597.9	1,280.4	2,085.7	62.9%
Net income	**1,051.9**	**952.8**	**438.5**	**1,223.7**	**179.1%**

*Source: SHB reports & **Global** research*

- Although the bank's special commission income showed an increase of 2.5% (from SR2,905mn in 2007 to SR2,977mn in 2008), it was largely due to the drop in special commission expense by 10.1% that led to a rise in net special commission income. The lowering of interest rates is believed to be the main reason for decline in special commission expense. Overall, the bank showed an improved core banking performance recording net special commission income increase of 20.4% (from SR1,200mn in 2007 to SR1,445mn in 2008) as compared to marginal rise of 1.8% in 2007.

- In the wake of widening global financial crisis, the Kingdom besides undertaking other proactive measures, reduced its official repurchase rate (through various rate cuts) from 5.5% in Dec-07 to 2.5% in Dec-08. Although SHB's commission earning rate of 6.4% in FY07 declined to 5.7% in FY08, the bank's spreads improved to 2.6% (in comparison to FY07: 2.4%) as the commission expense rates dropped from 4.0% in FY07 to 3.1% in FY08. We expect that going forward (esp. in 2009) it will be much more challenging to fight the contraction in the banking spreads across the industry as compared to 2008. The year 2008 was different because interest rates mainly declined in 4Q08, thus providing a window for banks to have sustained higher banking spreads for the major part of the year before feeling the heat in the last quarter. The year 2009 has started amidst low interest rate environment, which is not expected to change very soon due to global recessionary trends.

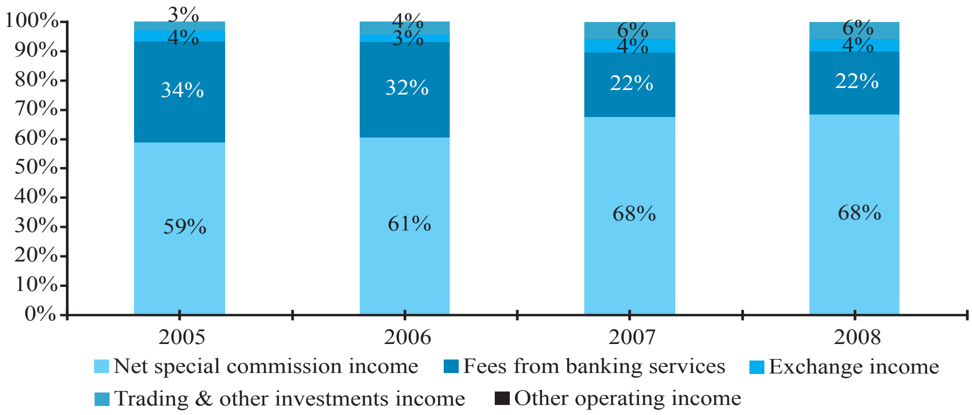
Chart 01: Banking Spreads



*Source: SHB reports & **Global** research*

- The bank's top-line performance was further enhanced by an increase (YoY) in non-commission income by 15.7% in FY08. Although share brokerage & fund management income (directly affected by TASI decline of 56.5%) witnessed a decrease of 27.2% in 2008, the net fees from banking services (supported by income from trade finance & other banking services) showed an annual increase of 17.0% in 2008. Overall, the bank's non-commission income was able to absorb a significant decline in net income from FVIS financial instruments by 83.0% (from SR30.4mn in 2007 to SR5.1mn in 2008), which was a consequence of decline in unrealized gains (linked to dampened market conditions).

Chart 02: Operating Income Mix

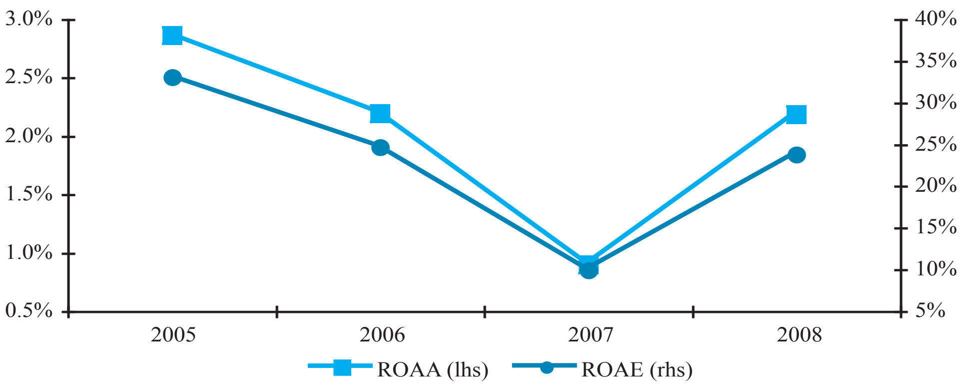


*Source: SHB reports & **Global** research*

- An improved core banking performance supported by non-commission income led to an encouraging increase in total operating income by 62.9% (from SR1.2bn in 2007 to SR2.0bn in 2008). The net special commission income continued to dominate the operating income results. A marginal increase of 2.4% (as compared to FY07: 30.5%) in operating expenses did not add any significant pressure on the bank's overall financial performance.

- Although the Saudi banks maintained an overall good asset quality, in consideration to global financial crisis of 2008, the Saudi banks (in 4Q08) either actually realizing losses or being prudent increased provisions /financial allocations for recording any future decline in asset values. SHB did not record any significant impairment charge for investments which stood at SR52.1mn in FY08, and in fact showed a decline of 94.9% in impairment charge for net credit losses (from SR495.7mn in 2007 to SR25.5mn in 2008).

Chart 03: ROAA & ROAE Trend



*Source: SHB reports & **Global** research*

- SHB's encouraging financial performance in FY08 also had a positive impact on the bank's profitability ratios. Even after recording an annual asset and equity growth of 21.9% and 25.7%, respectively in 2008, the bank recorded ROAA increase from 0.9% in 2007 to 2.2% in 2008, and ROAE increase from 10.0% in 2007 to 23.9% in 2008.

Balance sheet

- SHB with an asset base (FY08) of SR61.4bn, captured 5.8% market share of the total assets (SR1.0tr) of the listed Saudi banks. The bank's balance sheet footing recorded a 3 year CAGR (2005-08) of 15.4%.

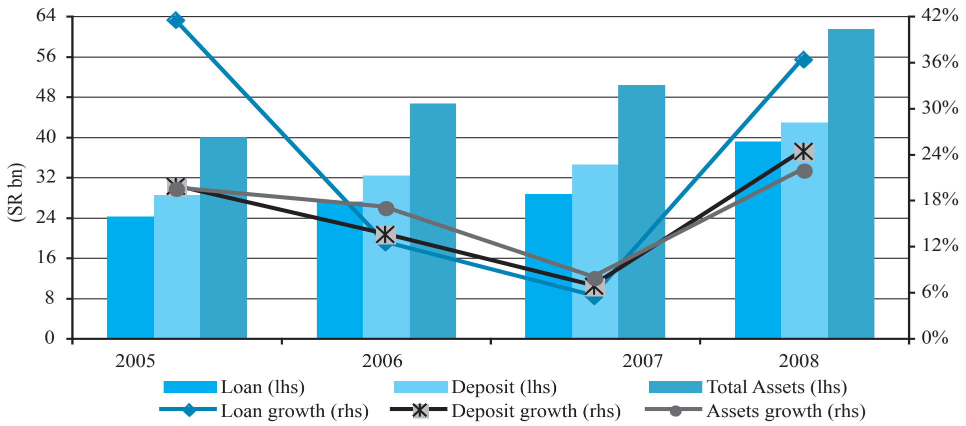
Table 02: Balance Sheet Highlights

(SR mn)	2005	2006	2007	2008
Cash & balances with SAMA	**1,204.6**	**2,672.7**	**3,509.0**	**2,790.7**
% total	3.0%	5.7%	7.0%	4.5%
Investments, net	**10,483.7**	**10,463.4**	**12,954.3**	**18,368.3**
% total	26.2%	22.4%	25.7%	29.9%
Loans and advances, net	**23,776.5**	**26,479.8**	**27,554.6**	**38,017.1**
% total	59.5%	56.7%	54.7%	61.9%
Total assets	**39,958.3**	**46,740.1**	**50,411.3**	**61,436.2**
Customer deposits	**28,565.0**	**32,413.7**	**34,605.0**	**43,012.3**
% total	71.5%	69.3%	68.6%	70.0%
Total shareholders' equity	**3,467.1**	**4,257.7**	**4,546.8**	**5,715.2**
% total	8.7%	9.1%	9.0%	9.3%
Total liabilities & shareholders' equity	**39,958.3**	**46,740.1**	**50,411.3**	**61,436.2**

*Source: SHB reports & **Global** research*

- The bank's total assets posted an encouraging annual growth of 21.9% (from SR50.4bn in 2007 to SR61.4bn in 2008) as compared to 7.9% in 2007. Gross loans & advances constituting 63.8% of the total assets, recorded an annual growth of 36.3% (from SR28.7bn in 2007 to SR39.1bn in 2008). The customer deposits composing 70.0% of SHB's funding sources, posted (YoY) growth of 24.3% (from SR34.6bn in 2007 to SR43.0bn in 2008).

Chart 04: Balance Sheet Growth

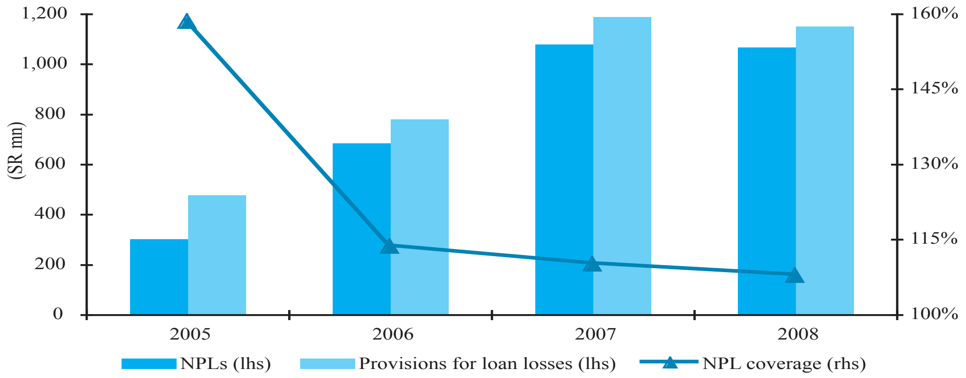


*Source: SHB reports & **Global** research*

- SHB's lending portfolio remains dominated by commercial loans constituting 79.9% of total gross loans, followed by overdraft and consumer loans having a share of 11.0% and 8.5%, respectively. Although overall the non-performing loans (NPLs) showed a decline of 1.0% (from SR1,078.5mn in 2007 to SR1,067.4mn in 2008), the NPLs in overdraft facilities rose by 8.0%.

- The decline in NPLs coupled with reduction in provisioning by 3.0% (from SR1,186.8mn in 2007 to SR1,150.6mn in 2008) led to a minor decrease in NPL coverage ratio. Although NPL coverage decline from 110.0% in 2007 to 107.8% in 2008, it remained in comfortable range for providing cushion against the bank's loan portfolio.

Chart 05: Credit Quality



*Source: SHB reports & **Global** research*

- The customer deposits recorded a 3-year CAGR (2005-08) of 14.6%. The bank's deposit base remained dominated by Time deposits composing 70.2% of the total, followed by demand deposits having a share of 28.1% in total deposits.

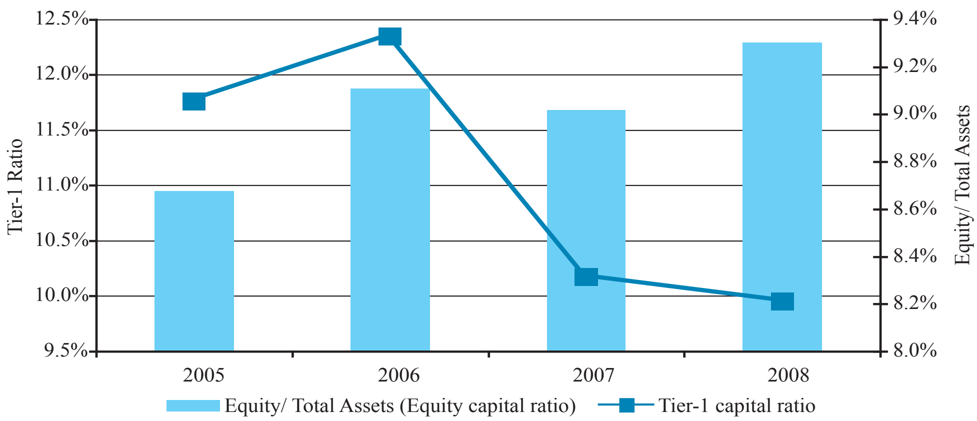
Table 03: Customer deposits

	2005	2006	2007	2008
Demand	39.0%	32.9%	29.9%	28.1%
Savings	0.8%	0.9%	0.7%	0.6%
Time	56.6%	64.1%	68.0%	70.2%
Other	3.6%	2.1%	1.4%	1.1%
Total customer deposits	**100.0%**	**100.0%**	**100.0%**	**100.0%**

*Source: SHB reports & **Global** research*

- The total equity of the bank strengthened over the years recording a 3-year CAGR (2005-08) of 18.1% (from SR3.4bn in 2005 to SR5.7bn in 2008), and an annual (FY08) increase of 25.7%. Although equity to gross loans ratio witnessed a decline from 15.8% in 2007 to 14.6% in 2008, it did not signify any alarming situation.

Chart 06: Capital Adequacy



*Source: SHB reports & **Global** research*

- SHB remains an adequately capitalized bank with Tier-1 capital (FY08) of SR5.4bn. Although the Tier-1 capital showed an increase over the last year, a higher increase in risk-weighted assets led to decline in Tier-1 ratio (from 10.2% in 2007 to 9.9% in 2008). Overall, the bank continues to maintain the minimum level of the regulatory capital and the ratio of total regulatory capital to the risk-weighted asset at or above the agreed minimum of 8%.

Analysis of Financial Performance -4Q08

- Besides SHB's consistent performance throughout the year, the bank 4Q08 results recorded (QoQ) increase of 0.9% and on YoY basis converted 4Q07 loss of SR106.3mn to an encouraging profit of SR308.9mn in 4Q08.

- The increase in special commission income by 8.3% (from SR772.0mn in 4Q07 to SR835.8mn in 4Q08) even after a rise in special commission expense by 1.7%, led to an overall increase in net special commission income by 17.6% (from SR316.4mn in 4Q07 to SR372.2mn in 4Q08).

- After effects of declining stock markets were visible through the net fees from banking services decline of 14.3% (from SR118.0mn in 4Q07 to SR101.1mn in 4Q08) and net exchange income decrease (YoY) of 34.5%; while support was provided from net trading income that recorded profit of SR31.6mn in 4Q08 as compared to loss of SR9.6mn in 4Q07. Although bank recorded an impairment charge for investments of SR52.1mn in 4Q08 (absent in 4Q07), some relief was offered in net impairment charge for credit losses through reversal of SR13.4mn in 4Q08 as compared to a charge of SR306.0 in 4Q07.

Table 04: Key Income Statement Data

(SR mn)	**4Q07**	**4Q08**	**YoY growth**
Special commission income	772.0	835.8	8.3%
Special commission expense	455.6	463.5	1.7%
Fees from banking services, net	118.0	101.1	-14.3%
Exchange income, net	35.0	23.0	-34.5%
Trading income, net	(9.6)	31.6	-
Impairment charge for credit losses, net	306.0	(13.4)	-
Impairment charge for investments	-	52.1	-
Net income	**-106.3**	**308.9**	**-**

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

- SHB's total assets growth of around 21.8% both on 9M08 and full year basis (from SR50.4bn in FY07 to SR61.4bn in FY08) was quite encouraging as compared to an annual growth of 7.9% in FY07. The growth was led by net loan & advances portfolio recording (YoY) increase of 38.0% (from SR27.5bn in FY07 to SR38.0bn in FY08) in comparison to an annual increase of 4.1% in FY07.

- The customer deposits constituting 70.0% of SHB's balance sheet footing, recorded (YTD) rise of 28.6% and (YoY) increase of 24.3% (from SR34.6bn in FY07 to SR43.0bn in FY08) as compared to annual growth of 6.8% in FY07. The equity base of the bank also posted an increase during 2008, recording (YTD) growth of 17.6% followed by annual growth of 25.7% (from SR4.5bn in FY07 to SR5.7bn in FY08).

Table 05: Key Balance Sheet Data

(SR mn)	**FY07**	**9M08**	**FY08**	**YTD growth**	**YoY growth**
Investments, net	12,954.3	15,203.7	18,368.3	17.4%	41.8%
Loans & advances, net	27,554.6	38,909.7	38,017.1	41.2%	38.0%
Total assets	**50,411.3**	**61,399.9**	**61,436.2**	**21.8%**	**21.9%**
Customer deposits	34,605.0	44,504.7	43,012.3	28.6%	24.3%
Total equity	4,546.8	5,345.0	5,715.2	17.6%	25.7%
Total liabilities & equity	**50,411.3**	**61,399.9**	**61,436.2**	**21.8%**	**21.9%**

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

Outlook

- Saudi banking sector strengths accompanied by cautiously optimistic macro-economic outlook, favourable demographics, ability to support infrastructure investments through sovereign muscle, sectoral reforms, and trends in global financial markets in 2009, holds significant potential to allure investments. Having said that, containing the interest margins, managing credit and market investments risks remain a few of the challenging areas for the Kingdom's banks.

- SHB's restructuring efforts that showed improved performance in 2008, needs continued efforts to sustain performance in challenging market conditions. Similar to our expectations for the banking industry at large, SHB is also believed to have near term focus towards managing interest spreads better rather than balance sheet growth. A relatively larger corporate banking assets while providing an opportunity for better loan re-pricing, will demand careful management in maintaining interest rate spreads as the customer deposit base is dominated by time deposits.

- Although SHB has relatively smaller presence in the retail segment (that has higher potential for any asset quality deterioration), the rise in NPLs of consumer loans and overdraft need to be closely monitored. Lower equity market investments coupled with 90% of investment portfolio (FY08) in government and quasi-government does not significantly expose the bank to any major risks arising from capital market volatilities.

- We expect SHB's total assets to grow at a 4-year CAGR (2008-12) of 10.0%, posting an annual growth (FY09) of 11.3%. The net loans and advances are expected to record a 4-year CAGR (2008-12) of 13.0%, and the customer deposit base showing a 4-year CAGR (2008-12) of 13.5%. The bank's net income is estimated to decline by 17.1 % in 2009.

Valuation

- Our fair value for SHB is estimated to be SR37.8 per share, based on Dividend Discounting Model (80%) and adaptation of the Gordon Growth Model (20%).

Table 06: Sensitivity -DDM

		Terminal Growth Rate				
		2.0%	2.5%	3.0%	3.5%	4.0%
Cost of Equity	10.0%	38.4	40.6	43.0	45.9	49.3
	10.5%	36.1	38.0	40.1	42.6	45.4
	11.0%	34.0	35.7	**37.6**	39.7	42.1
	11.5%	32.2	33.7	35.3	37.2	39.3
	12.0%	30.6	31.9	33.3	35.0	36.8

*Source: **Global** Research*

- Our sensitivity analysis shows variation in estimated fair price based on various rates.

Table 07: Sensitivity -GGM

		Return on Equity				
		19.1%	19.6%	20.1%	20.6%	21.1%
Cost of Equity	10.0%	41.9	43.2	44.5	45.8	47.1
	10.5%	39.1	40.3	41.5	42.7	43.9
	11.0%	36.6	37.7	**38.9**	40.0	41.1
	11.5%	34.4	35.5	36.6	37.6	38.7
	12.0%	32.5	33.5	34.5	35.5	36.6

*Source: **Global** Research*

- Based on the current market price of SR35.0 (as on Mar 25, 2009), SHB is trading at (2009E) P/E and P/BV multiples of 11.4x and 1.9x, respectively.

Table 08: Valuation Summary

Valuation Methods	Price (SR)	Weight	Weighted Value (SR)
DDM	37.6	80%	30.0
GGM	38.9	20%	7.8
Estimated Fair Price of SHB per share			37.8

*Source: **Global** Research*

- According to our fair value the banking scrip is 8.1% higher than the current market price of SR35.0 (as on Mar 25, 2009). Therefore, we maintain our earlier recommendation of "**Hold**" on the stock with a medium term perspective.

Balance Sheet

	Saudi Hollandi Bank						
(SR mn)	**2006**	**2007**	**2008**	**2009 F**	**2010 F**	**2011F**	**2012F**
Cash & balances with SAMA	2,672.7	3,509.1	2,790.7	2,068.9	3,427.6	4,303.9	4,829.2
Due from banks and other FI's	6,019.7	5,271.9	365.1	2,555.7	2,683.4	2,817.6	2,958.5
Trading investments, net	154.7	815.9	363.3	381.5	389.1	396.9	404.8
Non-trading investments, net	10,308.7	12,138.4	18,005.0	17,647.0	16,769.4	16,440.0	17,265.9
Loans and advances, net	26,479.8	27,554.6	38,017.1	43,667.6	49,657.6	55,435.9	61,939.9
Fixed assets, net	309.0	320.4	465.6	569.1	678.1	790.6	887.8
Other assets	795.4	801.1	1,429.3	1,500.8	1,575.8	1,670.4	1,804.0
Total assets	**46,740.1**	**50,411.3**	**61,436.2**	**68,390.6**	**75,181.2**	**81,855.3**	**90,090.2**
Due to banks and other financial institutions	8,298.4	9,157.6	9,286.1	8,226.4	8,161.1	8,135.6	8,117.5
Customer deposits	32,413.7	34,605.0	43,012.3	50,666.3	57,061.9	63,911.9	71,414.8
Other liabilities	1,070.2	1,401.9	1,947.6	2,044.9	2,147.2	2,361.9	2,716.2
Subordinated debt	700.0	700.0	1,475.0	1,475.0	1,475.0	775.0	775.0
Total liabilities	**42,482.3**	**45,864.5**	**55,721.0**	**62,412.7**	**68,845.1**	**75,184.4**	**83,023.5**
Share capital	2,205.0	2,646.0	2,646.0	3,307.5	3,307.5	3,307.5	3,307.5
Statutory reserve	1,499.0	1,609.0	1,915.0	2,168.5	2,466.9	2,801.7	3,197.6
General & other reserves	528.4	150.8	84.6	82.3	201.6	268.6	347.8
Retained earnings	25.3	141.0	825.3	419.7	360.0	293.0	213.9
Proposed dividend	-	-	233.4	-	-	-	-
Staff share plan reserve	-	-	10.8	-	-	-	-
Total shareholders' equity	**4,257.7**	**4,546.8**	**5,715.2**	**5,978.0**	**6,336.0**	**6,670.9**	**7,066.7**
Total liabilities and shareholders' equity	**46,740.1**	**50,411.3**	**61,436.2**	**68,390.6**	**75,181.2**	**81,855.3**	**90,090.2**

Income Statement

	Saudi Hollandi Bank						
(SR mn)	**2006**	**2007**	**2008**	**2009 F**	**2010 F**	**2011F**	**2012F**
Special commission income	2,667.9	2,905.7	2,977.3	3,082.1	3,607.6	4,132.6	4,903.8
Special commission expense	(1,488.1)	(1,705.2)	(1,532.2)	(1,448.6)	(1,731.6)	(2,045.6)	(2,451.9)
Net special commission income	**1,179.8**	**1,200.4**	**1,445.1**	**1,633.5**	**1,875.9**	**2,086.9**	**2,451.9**
Impairment charge for credit losses, net	(348.6)	(495.7)	(25.5)	(311.6)	(328.2)	(339.5)	(403.9)
Net special commission income after PLLs	**831.2**	**704.8**	**1,419.6**	**1,321.9**	**1,547.8**	**1,747.4**	**2,048.0**
Fee income from banking services, net	632.6	390.2	456.3	410.7	460.0	496.8	536.5
Exchange income, net	50.0	84.9	88.5	90.2	94.8	96.7	98.6
Trading income, net	69.7	65.7	115.0	57.5	64.4	70.9	74.4
Income from FVIS financial instruments, net	13.2	30.5	5.2	4.1	4.8	5.2	5.5
Gains on non-trading investments, net	0.0	4.0	0.6	0.6	0.6	0.7	0.7
Other operating income	1.2	0.4	0.5	0.5	0.5	0.5	0.5
Total non-commission income	**766.7**	**575.6**	**666.1**	**563.7**	**625.1**	**670.7**	**716.3**
Total operating income	**1,597.9**	**1,280.4**	**2,085.7**	**1,885.6**	**2,172.8**	**2,418.1**	**2,764.3**
Salaries & employee related expenses	(368.8)	(465.3)	(452.5)	(475.1)	(522.7)	(564.5)	(609.6)
Rent & premises related expenses	(50.1)	(58.2)	(73.9)	(81.3)	(93.4)	(104.7)	(117.2)
Depreciation	(57.9)	(60.9)	(63.1)	(83.8)	(97.2)	(111.7)	(126.3)
Other general & admin. expenses	(165.9)	(257.1)	(220.3)	(231.3)	(266.0)	(297.9)	(327.7)
Impairment charge for investments	-	-	(52.1)	-	-	-	-
Other operating expenses	(2.3)	(0.4)	-	-	-	-	-
Total operating expenses	**(645.1)**	**(841.9)**	**(861.9)**	**(871.5)**	**(979.3)**	**(1,078.8)**	**(1,180.9)**
Net Income	**952.8**	**438.5**	**1,223.7**	**1,014.1**	**1,193.5**	**1,339.3**	**1,583.4**
P&L Appropriation							
Opening Balance of Retained Earnings	**7.6**	**25.3**	**141.0**	**825.3**	**419.7**	**360.0**	**293.0**
Net income	952.8	438.6	1,223.7	1,014.1	1,193.5	1,339.3	1,583.4
Transfer to statutory reserve	(239.0)	(110.0)	(306.0)	(253.5)	(298.4)	(334.8)	(395.9)
Transfer to other reserves	(501.0)	0.0	0.0	(659.2)	(119.4)	(67.0)	(79.2)
Gross dividends	(195.1)	(212.9)	(233.4)	(507.1)	(835.5)	(1,004.5)	(1,187.6)
Closing Balance of Retained Earnings	**25.3**	**141.0**	**825.3**	**419.7**	**360.0**	**293.0**	**213.9**

Cash Flow Statement

	Saudi Hollandi Bank							
(SR mn)	**2005**	**2006**	**2007**	**2008**	**2009F**	**2010F**	**2011F**	**2012F**
Net income	1,051.9	952.8	438.5	1,223.7	1,014.1	1,193.5	1,339.3	1,583.4
Accretion of discounts & premium amortization	(69.4)	32.9	63.4	(94.9)				
Gains on investments	(3.2)	0.0	(4.0)	(0.6)	-	-	(0.7)	(0.7)
Depreciation	53.5	57.9	60.9	63.1	83.8	97.2	111.7	126.3
Impairment charge for credit losses, net	99.2	348.6	495.7	25.5	311.6	328.2	339.5	403.9
Impairment of other financial assets	-	-	-	52.1	-	-	-	-
Due from banks and other FI's	1,965.8	(2,685.0)	747.9	4,906.8	(2,190.6)	(127.8)	(134.2)	(140.9)
Trading portfolio	(110.7)	40.5	(661.2)	452.6	(18.2)	(7.6)	(7.8)	(7.9)
Loans and advances, net	(7,242.6)	(3,051.9)	(1,570.4)	(10,488.0)	(5,962.1)	(6,318.2)	(6,117.8)	(6,907.9)
Other assets	169.9	50.1	(5.8)	(628.2)	(71.5)	(75.0)	(94.5)	(133.6)
Due to banks and FI's	1,369.2	2,501.9	859.2	128.5	(1,059.7)	(65.4)	(25.5)	(18.1)
Customer deposits	4,707.5	3,848.7	2,191.3	8,407.3	7,654.0	6,395.6	6,850.0	7,502.9
Other liabilities	(139.0)	(359.4)	331.7	545.6	(146.9)	102.2	214.7	354.3
CF from Operations	**1,852.3**	**1,737.0**	**2,947.1**	**4,593.7**	**(386.0)**	**1,522.1**	**2,474.9**	**2,761.7**
Sale /Purchase of investments	(1,207.9)	(20.1)	(1,825.7)	(5,866.1)	358.6	878.2	330.1	(825.3)
Capex	(76.9)	(53.7)	(72.2)	(208.4)	(187.3)	(206.2)	(224.2)	(223.5)
CF from Investing	**(1,284.7)**	**(73.8)**	**(1,897.9)**	**(6,074.4)**	**171.3**	**672.0**	**105.9**	**(1,048.8)**
Debt issuance	-	-	-	775.0	-	-	(700.0)	-
Dividends paid	(405.5)	(195.1)	(212.9)	(12.6)	(507.1)	(835.5)	(1,004.5)	(1,187.6)
CF from Financing	**(405.5)**	**(195.1)**	**(212.9)**	**762.4**	**(507.1)**	**(835.5)**	**(1,704.5)**	**(1,187.6)**
Change in cash	162.1	1,468.1	836.4	(718.3)	(721.8)	1,358.7	876.3	525.3
Beginning cash	1,042.5	1,204.6	2,672.7	3,509.1	2,790.7	2,068.9	3,427.6	4,303.9
Ending cash	**1,204.6**	**2,672.7**	**3,509.1**	**2,790.7**	**2,068.9**	**3,427.6**	**4,303.9**	**4,829.2**

Fact Sheet

	Banque Saudi Fransi						
	2006	**2007**	**2008**	**2009F**	**2010F**	**2011F**	**2012F**
Profitability							
- Return on Average Assets	2.2%	0.9%	2.2%	1.6%	1.7%	1.7%	1.8%
- Return on Average Equity	24.7%	10.0%	23.9%	17.3%	19.4%	20.6%	23.1%
- Net special commission income after PLLs / Total op. income	52.0%	55.0%	68.1%	70.1%	71.2%	72.3%	74.1%
- Non-commission income /Total op. income	48.0%	45.0%	31.9%	29.9%	28.8%	27.7%	25.9%
- Non-commission expense/ Total op. income	40.4%	65.8%	41.3%	46.2%	45.1%	44.6%	42.7%
- Fees from banking services /Total op. income	39.6%	30.5%	21.9%	21.8%	21.2%	20.5%	19.4%
- Dividend payout ratio	20.5%	48.5%	19.1%	50.0%	70.0%	75.0%	75.0%
Margins							
- Net (or profit) margin	59.6%	34.2%	58.7%	53.8%	54.9%	55.4%	57.3%
- Special commission expense /Special commission income	55.8%	58.7%	51.5%	47.0%	48.0%	49.5%	50.0%
- Yield on average earning assets	6.5%	6.4%	5.7%	5.0%	5.3%	5.6%	6.1%
- Cost rate on average commission bearing liabilities	3.9%	4.0%	3.1%	2.5%	2.7%	2.9%	3.2%
- Spread	2.6%	2.4%	2.6%	2.5%	2.5%	2.6%	2.8%
- Commission margin (earning assets)	2.7%	2.6%	2.5%	2.5%	2.6%	2.7%	2.9%
Efficiency							
- Total op. expense /Total op. income	40.4%	65.8%	41.3%	46.2%	45.1%	44.6%	42.7%
- Staff expenses /Total op Expenses	57.2%	55.3%	52.5%	54.5%	53.4%	52.3%	51.6%
- Rent and G&A expenses /Total op. Expenses	33.5%	37.5%	34.1%	35.9%	36.7%	37.3%	37.7%
- Total op. expense/ Average total assets	1.5%	1.7%	1.5%	1.3%	1.4%	1.4%	1.4%
Liquidity							
- Loans /Commission earning assets	62.4%	61.3%	67.7%	68.7%	72.2%	74.6%	75.8%
- Loans /Customer Deposits	84.1%	83.1%	91.1%	89.1%	90.2%	90.1%	90.3%
- Customer Deposits /Equity	761.3%	761.1%	752.6%	847.5%	900.6%	958.1%	1010.6%
- Customer Deposits /Total assets	69.3%	68.6%	70.0%	74.1%	75.9%	78.1%	79.3%
- Due from Banks /Due to Banks	72.5%	57.6%	3.9%	31.1%	32.9%	34.6%	36.4%
Credit Quality							
- Provisions /Total op. income	21.8%	38.7%	1.2%	16.5%	15.1%	14.0%	14.6%
- Provisions /Average loans	1.4%	1.8%	0.1%	0.7%	0.7%	0.6%	0.7%
- Non Performing Loans (SR mn)	685.5	1,078.5	1,067.4	1,314.5	1,498.5	1,622.4	1,817.0
- Provision for loan losses (SR mn)	778.9	1,186.8	1,150.6	1,462.2	1,790.4	2,129.9	2,533.8
- NPLs /Gross Loans	2.5%	3.8%	2.7%	2.9%	2.9%	2.8%	2.8%
- NPLs /(Equity+provision for loan losses)	13.6%	18.8%	15.5%	17.7%	18.4%	18.4%	18.9%
- PLLs / Gross Loans	2.9%	4.1%	2.9%	3.2%	3.5%	3.7%	3.9%
- NPL Coverage	113.6%	110.0%	107.8%	111.2%	119.5%	131.3%	139.4%
Capital Adequacy							
- Equity /Total Assets (Equity capital ratio)	9.1%	9.0%	9.3%	8.7%	8.4%	8.1%	7.8%
- Equity /Gross Loans	15.6%	15.8%	14.6%	13.2%	12.3%	11.6%	11.0%
Constitution of Total Operating Income							
- Net special commission income after PLLs /Total op. income	52.0%	55.0%	68.1%	70.1%	71.2%	72.3%	74.1%
- Fees from banking services /Total op. income	39.6%	30.5%	21.9%	21.8%	21.2%	20.5%	19.4%
- Investment Income /Total op. income	5.2%	7.8%	5.8%	3.3%	3.2%	3.2%	2.9%
- Exchange Income /Total op. income	3.1%	6.6%	4.2%	4.8%	4.4%	4.0%	3.6%
- PLLs /Total op. income	21.8%	38.7%	1.2%	16.5%	15.1%	14.0%	14.6%
Operating Performance							
- Change in special commission income	44.7%	8.9%	2.5%	3.5%	17.1%	14.6%	18.7%
- Change in Fees from banking services	7.3%	-38.3%	17.0%	-10.0%	12.0%	8.0%	8.0%
- Change in Investment Income	62.5%	20.8%	20.6%	-48.5%	12.1%	10.0%	5.0%
- Change in Exchange Income	-22.0%	69.9%	4.2%	2.0%	5.0%	2.0%	2.0%
Ratio's used for Valuation							
- Par value per share (SR)	10.0	10.0	10.0	10.0	10.0	10.0	11.0
- Shares in issue (mn)	220.5	264.6	264.6	330.8	330.8	330.8	300.7
- EPS (SR)- Adjusted	2.9	1.3	3.7	3.1	3.6	4.1	4.8
- DPS (SR)- Adjusted	0.6	0.6	0.7	1.5	2.5	3.0	3.6
- Book value per share (SR)- Adjusted	12.9	13.7	17.3	18.1	19.2	20.2	21.4
- Market price year end (SR)- Adjusted	50.5	50.0	32.0	35.0	35.0	35.0	35.0
- Market Cap. (SR bn)	11.1	13.2	8.5	11.6	11.6	11.6	10.5
- P/E*	17.5	37.7	8.6	11.4	9.7	8.6	7.3
- P/BV*	3.9	3.6	1.9	1.9	1.8	1.7	1.6
- Dividends yield	1.2%	1.3%	2.2%	4.4%	7.2%	8.7%	10.3%

**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 Mar 25, 2009.*

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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
Saudi Hollandi Bank	Hold	AAAL AB (Bloomberg) 1040.SE (Reuters)	SR35.0	1, 10

1. Global Investment House did not receive and will not receive any compensation from the company or anyone else for the preparation of this report.
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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