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Investment Update

Saudi Arabia

Saudi Hollandi Bank

Performance inertia needs sustenance…

September 2008

HOLD

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

Listing:
Saudi Stock Exchange

CMP:
SR58.0 (as on Sep. 06, 2008)

Investment Summary

- **Saudi Hollandi Bank (SHB)** supported both by its improved core banking and non-commission income performance (1H08) posted net income increase of 59.4% (from SR382.0mn in 1H07 to SR608.6mn in 1H08), which was in clear contrast to bottom line decrease of 54.0% in FY07. SHB posted (YoY) asset base growth of 18.7% (from SR49.2bn in 1H07 to SR 58.4bn in 1H08) and YTD increase of 16.0.%.

- The bank's special commission income increase of 8.9% (from SR2.6bn in 2006 to SR2.9bn in 2007) accompanied by the rise in special commission expense by 14.6% translated into SHB's net special commission income increase of 2% (from SR1.1bn in 2006 to SR1.2bn in 2007).

- The bank's core banking results were subdued by the decline in non-commission income by 24.9% (from SR766.7mn in 2006 to SR575.6mn in 2007). The drop in the bank's non-commission income was mainly caused by the reduction in fee income from banking services by 38.3%, net trading income, and other operating income. Although the net income from FVIS financial instruments and exchange income supported the pressure, overall the non-commission income experienced a drop.

- In the wake of the softening interest rate environment in Saudi Arabia, SHB's banking spreads signaled the pressure during 2005-07. In FY07, the commission earning rate of 6.4% in relation to the commission expense rate of 4.0%, resulted in SHB banking spread of 2.4% as compared to FY06: 2.6%.

- SHB's bearish results (FY07), had a significant impact on the bank's ROAA and ROAE ratios. The ROAA ratio dropped from 2.2% in 2006 to 0.9% in 2007, and the ROAE declined from 24.7% in 2006 to 10.0% in 2007.

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- SHB with asset base (FY07) of SR50.4bn was able to captured 4.9% market share of the total Saudi banking assets. The bank's balance sheet footing strengthened over the years, posting a 3 year CAGR (2004-07) of 14.7% and an annual growth of 7.9%.

- The bank's Net Loans & Advances constituting 54.7% of the total assets, posted a growth of 4.1% (from SR26.4bn in 2006 to SR27.5bn in 2007). The loan portfolio analysis shows that the highest chunk (25%) of the bank's lending is towards the commerce segment.

- The increase in NPLs by 57.3% (from SR 685.5mn in 2006 to SR 1,078.5mn in 2007) was mainly generated from the overdraft facilities, indicating the need for more stringent credit controls in that area. The rise in provisioning by 52.4% being lower than the rise in non-performing category, led to a drop in NPL coverage ratio from 113.6% in 2006 to 110% in 2007.

- The customers' deposits (FY07) representing 69% of SHB's funding sources, showed a 3-year CAGR (2004-07) of 13.2%, and an annual growth of 6.8% (from SR32.4bn in 2006 to SR34.6bn in 2007). Time deposits with 68% share of the total led the deposit base.

- The shareholders' equity contribution to the total assets was maintained 9% over the last four years. The equity continues to strengthen posting a 3 year CAGR (2004-07) of 16.3%, closing at SR4.5bn in 2007. SHB remains adequately capitalized bank with TIER-1 capital at SR4.5bn in 2007. A marginal drop in TIER-1 ratio (from 12.3% in 2006 to 12.2% in 2007) indicates a slight rise in risk-weighted assets.

- SHB's net special commission income rise (YoY) of 22.3% (from SR586.1mn in 1H07 to SR717.0mn in 1H08) translated well into the net income increase of 59.4% (from SR382.0mn in 1H07 to SR608.6mn in 1H08).

- Although special commission income in 1H08 rose by 0.7%, the decrease of 15.1% in special commission expense resulted in an encouraging increase of net special commission income. The growth in non-commission income was supported by an increase in fees from banking services, exchange and trading income by 29.0%, 17.7% & 49.8%, respectively.

- SHB posted (YoY) asset base growth of 18.7% (from SR49.2bn in 1H07 to SR 58.4bn in 1H08). Net loan & advances with 58% share of the total assets (1H08), showed YTD increase of 23.1% (from SR27.5bn in FY07 to SR33.9bn in 1H08), while the customers' deposits posted YTD increase of 21.1% (from SR34.6bn in FY07 to SR41.8bn in 1H08).

- Based on the combination of two (DDM & GGM) valuation techniques, SHB share reveals an estimated fair value of SR58.03 per share, which represents an upside of 0.1% to the current market price of SR58.0 per share (as on Sep 06, 2008). Therefore, we reiterate our earlier recommendation of "**Hold**" on the stock with a medium term perspective.

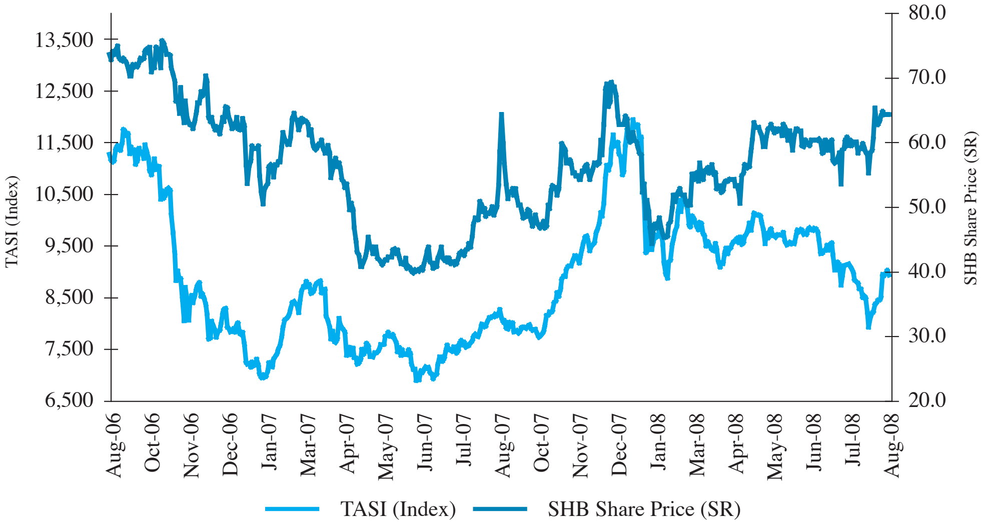
Table 01: Investment Indicators

	Price (SR) Sep 06, 2008	Shares in Issue (mn)	Market Cap. (SR mn)		52 week price range (SR)		
	58.0	264.6	15,346.8		44.0 -69.0		
Years	**Operating Income (SR mn)**	**Net Income (SR mn)**	**EPS (SR)**	**BVPS (SR)**	**ROAE**	**P/E***	**P/BV***
2009 F	2,155	1,047	4.0	19.2	21.1%	14.7	3.0
2008 F	1,898	913	3.5	18.2	19.5%	16.8	3.2
2007A	1,280	438	1.7	17.2	10.0%	37.7	3.6
2006 A	1,598	953	3.6	16.1	24.7%	17.5	3.9

**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 Sep 06, 2008.*

*Source: SHB Financial Reports and **Global** Research Estimates*

Chart 01: Share Price Performance Chart



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

Saudi Banking Industry

Saudi banking industry (as of Jun 2008) consists of 18 banks. We have considered in our analysis National Commercial Bank (NCB), along with 10 other banks listed on Tadawul (Saudi Stock Exchange). With the total banking assets to GDP ratio (Dec. 2007) of 73% in the Kingdom, the top three banks are namely NCB, SAMBA, and Al Rajhi Bank. The three financial institutions namely Al Rajhi Bank, Bank Al Bilad, and Bank AlJazira are entirely Islamic banks, which will be competing Al Inma Bank that is expected to start its commercial operations in 4Q-2008. The banking services are largely provided through a network of 1,384 branches in Jun 2008 (as compared to 1,353 in 2007) and 8,250 ATMs in the country.

Asset-Liability Overview

The Saudi commercial banks' total assets posted a 5-year CAGR (2002-07) of 16%, from SR508bn in 2002 to SR1,075bn by the end of 2007. The total assets led by claims on the private sector continued to rise closing at SR1,222bn in 1H08. During 1H08, claims on the private sector accounted for 56% (2007: 54%), while foreign assets contributed 13% (2007: 14%) of the total assets. The claims on private sector, which include credit to private sector and investments in private securities, increased at a 5-year CAGR (2002-07) of 23%.

Table 02: Consolidated Balance Sheet of Saudi Arabian Banks

(SR mn)	2002	2003	2004	2005	2006	2007	1H-2008
Cash in Vault	4,892	4,257	4,474	7,201	12,218	10,019	11,090
Current Deposits	1,750	847	3,415	2,238	1,012	3,143	4,297
Statutory Deposits	14,270	15,465	19,090	21,039	23,759	36,142	63,588
Other Deposits	7,732	6,094	5,056	2,167	15,072	59,310	22,072
Foreign Assets	95,490	81,082	92,798	91,430	129,796	147,712	153,108
Claims on the Private Sector	205,829	228,486	313,928	435,926	476,020	577,882	690,276
Other Assets	178,274	208,976	216,622	199,074	203,212	241,013	278,472
Total Assets	**508,237**	**545,208**	**655,383**	**759,075**	**861,089**	**1,075,221**	**1,222,902**
Total Deposits	338,097	362,020	435,965	489,387	591,259	717,564	783,099
Foreign Liabilities	42,999	40,063	45,748	65,040	59,199	105,213	134,561
Capital & Reserves	57,854	59,181	68,812	92,220	114,612	136,290	155,201
Other Liabilities	69,287	83,944	104,858	112,429	96,019	116,154	150,041
Total Liabilities & Shareholder's Equity	**508,237**	**545,208**	**655,383**	**759,076**	**861,089**	**1,075,221**	**1,222,902**

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

On the liability side, total deposits posted a 5-year CAGR (2002-07) of 16% (from SR338bn in 2002 to SR718bn in 2007).The total deposits dominated (64%) the funding side of the banks, increasing to SR783bn in 1H08. The total deposits constituted 67% of the total liabilities & shareholder's equity in 2007. The capital and reserves of SR136bn as of Dec. 2007 accounted for 13% of the total liabilities & shareholder's Equity.

Profitability and Loans Performance

Lower banking profits…

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

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

Higher NPLs to Gross Loans…

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

Credit Facilities by Sector

The total domestic credit facilities grew by 20% (from SR497bn in 2006 to SR594bn in 2007). The commerce segment led the credit portfolio, constituting 22% of the total in 1H08. The highest increase was observed in the credit facilities extended to the transport and communication sectors, which rose by 205% (from SR7bn in 2006 to SR21bn in 2007). Considering the financial sector performance over the last half a decade, the total credit facilities posted a 5-year CAGR (2002-07) of 23%.

Table 03: Credit Facilities by Sector

(SR mn)	2002	2003	2004	2005	2006	2007	1H-2008
Agriculture & Fishing	2,530	2,549	3,785	6,716	6,802	8,636	10,088
Manufacturing & Processing	24,324	26,604	26,519	34,460	37,566	54,339	67,208
Mining & Quarrying	715	650	1,252	2,275	1,802	3,897	4,218
Electricity, Water & other Utilities	1,094	1,837	3,273	3,226	3,598	5,878	8,683
Building & Construction	20,982	21,955	23,057	31,726	37,845	43,421	52,670
Commerce	42,194	51,886	62,808	83,054	111,511	127,473	151,711
Transport & Communications	13,555	12,803	13,406	14,382	6,875	20,989	39,134
Finance	8,862	11,877	33,839	56,747	61,828	62,632	15,252
Services	9,718	8,839	12,337	15,097	16,735	28,286	33,461
Miscellaneous	74,724	82,124	122,722	173,146	177,539	201,854	286,168
Govt. & Quasi Govt.	11,960	25,844	29,138	31,672	34,965	37,434	35,677
Total	**210,657**	**246,967**	**332,136**	**452,501**	**497,066**	**594,840**	**704,270**

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

Loan growth and maturity structure

The aggregate consumer loans increased by 2% (from SR188bn in 2006 to SR191bn in 2007). The highest annual loan growth of 21% was experienced in credit cards segment. Although consumer lending backed by the increasing wealth status of the individuals and positive demographic situation of the economy offers attractive growth potential, it may not witness historic high growth levels. Real estate financing by the banks recorded a 5-year CAGR (2002-07) of 28%, closing at SR16bn by the end of 2007. The lending to cars & equipment category, amounting to SR37bn in 1Q08, continued to lead the consumer loans segment. This was followed by the facilities extended for real estate financing.

Table 04: Consumer Loans

(SR mn)	2002	2003	2004	2005	2006	2007	1Q-2008
Real Estate Financing	4,506	5,191	8,790	13,656	13,690	15,631	15,050
Cars & Equipment	25,568	28,859	27,926	29,025	34,262	37,578	37,522
Other	22,800	39,255	78,590	138,174	132,759	129,379	126,571
Credit Cards	2,857	2,579	3,295	4,259	7,349	8,896	8,640
Total	**55,730**	**75,884**	**118,601**	**185,115**	**188,060**	**191,484**	**187,783**

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

In terms of credit facilities by their maturity period, short term lending stood at SR347bn, and accounted for 58% of the total credit facilities of SR594bn in 2007. The trend continued in 1H08 as the short term lending was recorded at SR431bn (i.e. 61% of the total). Medium term lending of SR83bn and long term lending of SR164bn in 2007 had a share of 14% and 28%, respectively, in the total credit facilities. Going forward, with the increasing activity in the real estate sector, long term credit facilities are expected to grow at a faster pace as compared to others.

Table 05: Credit Facilities by Maturity

(SR mn)	2002	2003	2004	2005	2006	2007	1H-2008
Short Term	124,578	146,040	192,481	250,841	276,232	347,593	431,731
Medium Term	31,646	37,758	42,991	53,496	64,633	83,210	98,003
Long Term	54,433	63,170	96,664	148,164	156,202	164,037	174,536
Total	**210,657**	**246,968**	**332,136**	**452,501**	**497,067**	**594,840**	**704,270**

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

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

Analysis of Financial Performance -FY07

Saudi Hollandi Bank (SHB) as per FY07 financial results posted a significant decrease in net income by 54.0% (from SR952.8mn in 2006 to SR438.5mn in 2007). During FY07, the Saudi banking sector broadly experienced a profitability drop of 14.6%. The decline could mainly be attributed to the lower fee based income of the banks, which was directly affected by the dampened trading activity (2007) at Tadawul. The bank's lackluster core banking performance (drop in net special commission income after PLLs of 15%), coupled with lower fee income from banking services by 38% led to the subdued profitability results.

Table 06: Financial Summary

(SR mn)	2005	2006	2007	Growth (2006-07)
Special commission income	1,843.4	2,667.9	2,905.7	8.9%
Special commission expense	(829.8)	(1,488.1)	(1,705.2)	14.6%
Impairment charge for credit losses, net	(99.2)	(348.6)	(495.7)	42.2%
Net special commission income after PLLs	**914.3**	**831.2**	**704.8**	**-15.2%**
Fee income from banking services, net	589.3	632.6	390.2	-38.3%
Exchange income, net	64.0	50.0	84.9	69.9%
Net trading income	47.8	69.7	65.7	-5.8%
Gains on non-trading investments	3.2	0.0	4.0	-
Total non-commission income	**704.3**	**766.7**	**575.6**	**-24.9%**
Total operating income	**1,618.6**	**1,597.9**	**1,280.4**	**-19.9%**
Total operating expenses	(566.8)	(645.1)	(841.9)	30.5%
Net Income	**1,051.9**	**952.8**	**438.5**	**-54.0%**

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

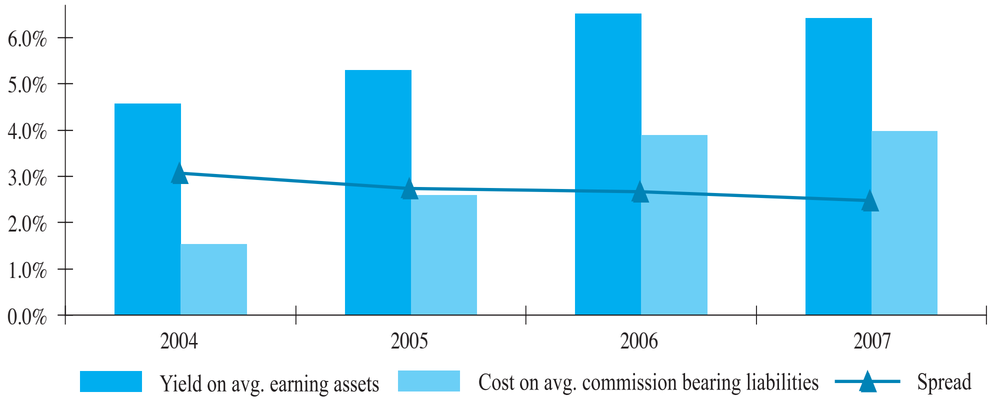
Income & Profitability

The bank's special commission income increase of 8.9% (from SR2.6bn in 2006 to SR2.9bn in 2007) was mainly generated by income from loans & advances contributing 67% to the top line, while the income from the due from banks & other financial institutions recorded the highest growth of 83.0% in the special commission income category. The special commission expense (YoY) rise of 14.6%, largely constituted of customers' deposits expense making 70.9% of the total, while the cost of due to banks & other financial institutions posted the highest growth of 67.8% amongst the special commission expense components. A substantial increase in income and expense components of due to and due from banks & other financial institutions indicate the institutional dealing rates being on the higher side in the market. Overall, SHB's net special commission income showed an increase of 2% (from SR1.1bn in 2006 to SR1.2bn in 2007). Considering the higher impairment charge for credit losses during the year, net special commission income after PLLs recorded a (YoY) decline of 15.2%.

Softening of banking spreads...

In the wake of the softening interest rate environment in Saudi Arabia, SHB's spreads remained under pressure during 2005-07. However, going forward, the bank needs to prepare itself better to handle this pressure as the government in consonance with US Fed decisions continues to follow a similar stance in the Kingdom. During FY07, the commission earning rate of 6.4% in relation to the commission expense rate of 4.0%, resulted in SHB's spread of 2.4% (as compared to FY06: 2.6%).

Chart 02: Banking Spreads



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

Non-commission income witnesses significant decline...

The bank's core banking results were further subdued by the decline in non-commission income by 24.9% (from SR766.7mn in 2006 to SR575.6mn in 2007). The drop in the bank's non-commission income was mainly caused by the reduction in fee income from banking services, net trading income, and other operating income. Although the net income from FVIS financial instruments and exchange income supported the pressure, overall the non-commission income experienced a drop.

A significant drop in the fee income from banking services by 38.3% (from SR632.6mn in 2006 to SR390.2mn in 2007) was largely because of reduction in share trading and fund management income. The correction in Saudi stock market in 2006 had a clear impact in 2007 as the total share traded value on Tadawul declined by 51% (from SR5,261.85bn in 2006 to SR2,557.71bn in 2007), and the volume traded decreased by 20% (from 73.4bn in 2006 to 58.8bn in 2007). The decrease in other operating income in 2007, was mainly due to the recording of one-off gains (SR0.5mn) on disposal of real estate in 2006.

CMA industry directives…

An important development regarding the banks' dealing in capital markets was the promulgation of the regulation set by the Capital Markets Authority (CMA) requiring the separation of asset management, brokerage and advisory services from core banking activities. In accordance with the CMA directives, SHB established a wholly owned subsidiary by the name of "Saudi Hollandi Capital". The subsidiary is expected to commence operations during the second quarter of 2008. Additionally, the issuance of new licenses for brokerage, asset management, advisory and other fee-based services in the Kingdom will further intensify the competition in the financial services sector. Although the spin-off of the banks' investment & asset management related services coupled with the increasing competition could result in the short term performance pressures, in the long run, it will provide these divisions a chance to further develop on their expertise as the capital market activity picks up.

Operational efficiency….

The rise in operating expense to income ratio from 40.4% in 2006 to 65.8% in 2007 was a result of rise in operating expenses while the income generated reduced. The operating expenses recorded an increase of 30.5% (from SR645.1mn in 2006 to SR841.9mn in 2007), while the operating income dropped by 19.9% in 2007. The need to better control the rise in operating expenses is also indicated by the increase in total operating expense to average total assets (from 1.5% in 2006 to 1.7% in 2007).

Table 07: Efficiency ratios

	2005	2006	2007
Total op. expense / Total op. income	35.0%	40.4%	65.8%
Staff expenses/ Total op. expenses	57.7%	57.2%	55.3%
Rent and G&A expenses/ Total op. Expenses	32.8%	33.5%	37.5%
Total op. expense/ Average total assets	1.5%	1.5%	1.7%
Number of staff	1,341	1,481	1,737
Branches (incl. Head office)	40	41	42
Average cost per employee (SR'000)	244	249	268
Average profit per employee (SR'000)	784	643	252

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

Return ratios affected by the lower profitability…

SHB's bearish results (FY07), had a significant impact on the bank's ROAA and ROAE ratios. The ROAA ratio dropped from 2.2% in 2006 to 0.9% in 2007, and the ROAE declined from 24.7% in 2006 to 10.0% in 2007.

Corporate banking is the income driver…

The majority of the bank's net income that is 49% of the total was generated from corporate banking segment. This also signals the bank's enhanced focus on developing its corporate business relationships. Overall the bottom line profitability had a contribution of 39% by treasury, while consumer banking only added 12%.

Table 08: Segmental Analysis

Dec 2007 (SR mn)	Corporate Banking	Consumer Banking	Treasury	Total
Total Operating Income	804	713	259	1,776
% share	45%	40%	15%	100%
Total Operating Expenses	(591)	(659)	(88)	(1,338)
% share	44%	49%	7%	100%
Net Income	213	54	171	438
% share	49%	12%	39%	100%

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

Balance Sheet

SHB with an asset base (FY07) of SR50.4bn was able to capture 4.9% market share of the total Saudi banking assets. The bank's balance sheet footing strengthened over the years, posting a 3 year CAGR (2004-07) of 14.7% and an annual growth of 7.9% in FY07.

Table 09: Balance Sheet Highlights

(SR mn)	2004	2005	2006	2007
Cash & balances with SAMA	**1,043**	**1,205**	**2,673**	**3,509**
% total	3%	3%	6%	7%
% increase		16%	122%	31%
Non-trading Investments	**9,078**	**10,289**	**10,309**	**12,138**
% total	27%	26%	22%	24%
% increase		13%	0%	18%
Net Loans and Advances	**16,633**	**23,777**	**26,480**	**27,555**
% total	50%	60%	57%	55%
% increase		43%	11%	4%
Total Assets	**33,444**	**39,958**	**46,740**	**50,411**
Customers' Deposits	**23,857**	**28,565**	**32,414**	**34,605**
% total	71%	71%	69%	69%
% increase		20%	13.5%	7%
Total Shareholders' Equity	**2,890**	**3,467**	**4,258**	**4,547**
% total	9%	9%	9%	9%
% increase		20%	23%	7%
Total Liabilities & Equity	**33,444**	**39,958**	**46,740**	**50,411**

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

Lending dominated by Commerce segment…

The bank's Net Loans & Advances constituting 54.7% of the total assets, posted a growth of 4.1% (from SR26.4bn in 2006 to SR27.5bn in 2007). SHB clearly followed a relatively conservative loan growth strategy as the Saudi banking sector at large recorded a loan growth of 21.1% over the same period. The loan portfolio analysis shows that 25% of the bank's lending is towards the commerce segment, followed by manufacturing and consumer loans & credit cards segments having a share of 17.7% and 12.9%, respectively.

Table 10: Gross Loans Portfolio by Economic Sector

Economic Sectors	2005	2006	2007
Government and Quasi Government	2.3%	7.4%	2.1%
Banks and other financial institutions	4.2%	2.4%	1.8%
Agriculture and fishing	0.7%	0.7%	1.1%
Manufacturing	13.5%	12.1%	17.7%
Mining and quarrying	0.1%	0.2%	0.1%
Electricity, water, gas and health services	2.1%	2.4%	4.7%
Building and construction	10.1%	9.5%	11.5%
Commerce	28.1%	27.4%	25.0%
Transportation and communication	1.9%	1.9%	2.5%
Services	8.2%	6.9%	5.8%
Consumer loans and credit cards	13.5%	14.0%	12.9%
Others	15.2%	15.0%	14.7%
Total Loan Portfolio	**100.0%**	**100.0%**	**100.0%**

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

Segmental analysis…

The bank's asset base was dominated by corporate banking assets constituting 48% of the total assets. The other two segments, namely treasury and consumer banking had a contribution of 40% and 11%, respectively. Similar to the assets side, the funding was mainly generated from the corporate banking comprising 42% of the total liabilities, while the consumer banking and treasury segments contributed 30% and 28%, respectively.

Table 11: Segmental Analysis

Dec 2007 (SR mn)	Corporate Banking	Consumer Banking	Treasury	Total
Total Assets	24,313	5,782	20,317	50,411
% share	48%	12%	40%	100%
Total Liabilities	19,038	13,841	12,985	45,865
% share	42%	30%	28%	100%

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

Credit Quality…

SHB's lending portfolio (2007) remains overshadowed by commercial loan facilities having a share of 71.5% of the total, while in terms of credit quality (NPLs /Loan) the overdrafts facilities posting 16.6% dominated the portfolio. These credit facilities were followed by overdraft and consumer loans facilities with the share of 15.8% and 12.1%, respectively. However, (in terms of NPLs /Loan) following the overdrafts facilities, the credit cards and commercial loans recorded 4.7% and 1.6%, respectively.

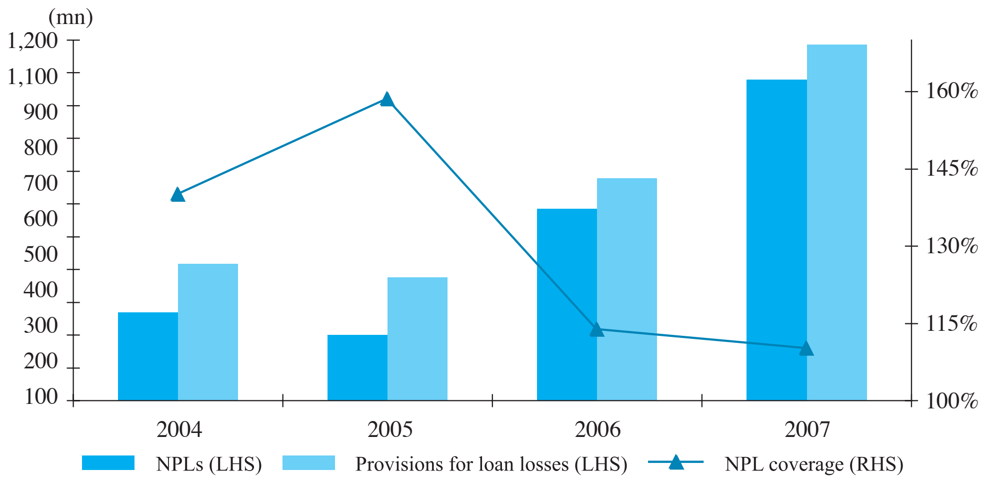
Table 12: Loan Portfolio by Credit Facilities

Credit Facilities	2004	2005	2006	2007
Overdrafts	17.4%	25.0%	18.1%	15.8%
Credit cards	0.4%	0.4%	0.6%	0.6%
Commercial loans	69.2%	62.0%	68.5%	71.5%
Consumer loans	13.0%	12.6%	12.8%	12.1%
Others	0.0%	0.0%	0.0%	0.0%
Total loan portfolio	100.0%	100.0%	100.0%	100.0%

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

The increase in NPLs by 57.3% (from SR 685.5mn in 2006 to SR 1,078.5mn in 2007) was mainly generated from the overdraft facilities, indicating the need for more stringent credit controls in that area. The rise in provisioning by 52.4% being lower than the rise in non-performing category, led to a drop in NPL coverage ratio from 113.6% in 2006 to 110% in 2007.

Chart 03: Credit Quality



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

Time deposits leading the deposit base …

The customers' deposits (FY07) representing 69% of SHB's funding sources, showed a 3 year CAGR (2004-07) of 13.2%. With a relatively small network of 42 branches, the bank covers the major parts of the kingdom. The bank's deposit base posted an annual growth of 6.8% rising from SR32.4bn in 2006 to SR34.6bn in 2007. Time deposits with 68% share of the total led the deposit base, followed by demand deposits with a share of 29.9%.

Table 13: Customers' deposits

Deposit types	2004	2005	2006	2007
Demand	35.9%	39.0%	32.9%	29.9%
Saving	1.2%	0.8%	0.9%	0.7%
Time	60.0%	56.6%	64.2%	68.0%
Other	2.9%	3.6%	2.0%	1.4%
Total Customers' deposits	**100.0%**	**100.0%**	**100.0%**	**100.0%**

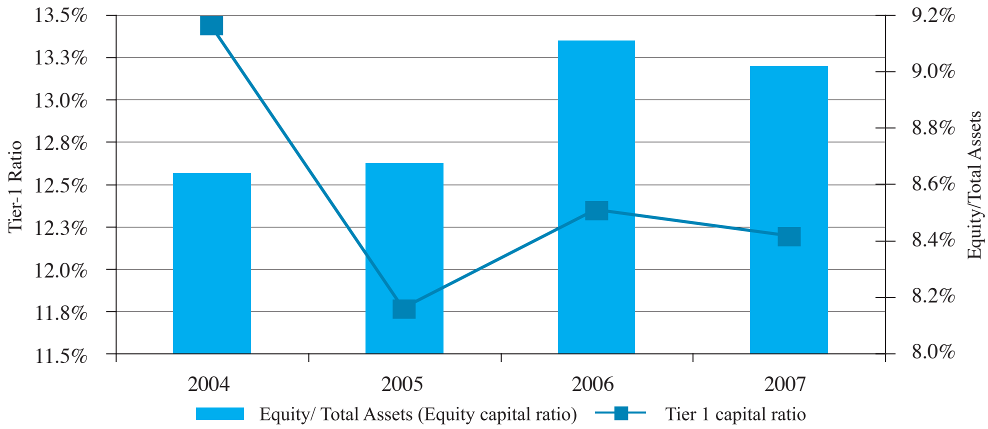
*Source: SHB Financial Reports & **Global** Research*

The shareholders' equity contribution to the total assets was maintained 9% over the last four years. The equity continues to strengthen over the years posting a 3 year CAGR (2004-07) of 16.3%, closing at SR4.5bn in 2007.

Well capitalized bank…

The increase in shareholders' equity (FY07) by 6.8%, while the increase in gross loans by 5.4% led to marginal rise in Equity to Gross loans ratio (from 15.6% in 2006 to 15.8% in 2007), implying the bank's adequate position to cover any unexpected loan losses.

Chart 04: Capital Adequacy



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

However using a more specific measure of capital adequacy ratio, SHB still remains adequately capitalized bank with TIER-1 capital at SR4.5bn in 2007. A marginal drop in TIER-1 ratio (from 12.3% in 2006 to 12.2% in 2007) indicates a slight rise in risk-weighted assets.

Analysis of Financial Performance -1H08

- SHB's net special commission income rise (YoY) of 22.3% (from SR586.1mn in 1H07 to SR717.0mn in 1H08) translated well into the net income increase of 59.4% (from SR382.0mn in 1H07 to SR608.6mn in 1H08). The higher profitability also led to a rise in EPS (based on 264.6mn shares) from SR1.4 in 1H07 to SR2.3 in 1H08.

- Although special commission income in 1H08 rose by 0.7% (1Q07 rise of 6.1% & 2Q08 drop of 4.4%), a considerable decrease of 15.1% in special commission expense resulted in an encouraging increase of net special commission income.

- The bank's consistent increase (YoY) in fees from banking services by 24.5% in 1Q08 and 33.1% in 2Q08, resulted in 1H08 increase of 29.0% (from SR184.3mn in 1H07 to SR237.8mn in 1H08). The growth in non-commission income was supported by an increase in exchange and trading income (1H08) by 17.7% & 49.8%, respectively.

- The reduction in provision for credit losses by 74.3% (from SR128.7mn in 1H07 to SR33.1mn in 1H08) accompanied by an encouraging core banking performance, translated into an overall improved profitability of the bank.

Table 14: Key Balance Sheet Data

(SR mn)	1H07	1H08	YoY growth
Special commission income	1,383.9	1,394.2	0.7%
Special commission expense	797.8	677.2	-15.1%
Fees from banking services, net	184.3	237.8	29.0%
Exchange income, net	35.2	41.5	17.7%
Trading income, net	40.7	61.0	49.8%
Impairment charge for credit losses, net	128.7	33.1	-74.3%
Net income	**382.0**	**608.6**	**59.4%**

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

- SHB posted (YoY) asset base growth of 18.7% (from SR49.2bn in 1H07 to SR 58.4bn in 1H08) and YTD rise of 16.0.%. Net loan & advances portfolio with 58% share of the total assets (1H08), showed YTD increase of 23.1% (from SR27.5bn in FY07 to SR33.9bn in 1H08).

- The customers' deposits constituting 71.6% of SHB's funding sources, posted YTD increase of 21.1% (from SR34.6bn in FY07 to SR41.8bn in 1H08). The bank's equity base posted YTD rise of 11.8% (from SR4.5bn in FY07 to SR5.0bn in 1H08).

Table 15: Key Balance Sheet Data

(SR mn)	1H07	FY07	1H08	YoY growth	YTD growth
Investments, net	10,982.9	12,954.3	13,474.7	22.7%	4.0%
Loans & advances, net	26,271.3	27,554.6	33,914.1	29.1%	23.1%
Total assets	**49,298.5**	**50,411.3**	**58,497.7**	**18.7%**	**16.0%**
Customers' deposits	33,765.3	34,605.0	41,896.6	24.1%	21.1%
Total shareholders' equity	4,625.0	4,546.8	5,081.9	9.9%	11.8%
Total liabilities & shareholders' equity	**49,298.5**	**50,411.3**	**58,497.7**	**18.7%**	**16.0%**

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

Outlook

SHB's continued efforts to recover from 2007's dismal performance are visible from the positive financial results witnessed so far in the current fiscal year (FY08). The bank's 1Q08 net income (YoY) increase of 31.1% was well driven by improved core banking performance showing net special commission income rise of 20.4% and fees from banking services recording an increase of 24.5%. A similar rising trend witnessed in 2Q08 results raise the confidence in the bank's ability to recover well from the challenging periods.

SHB, acquired by the Royal Bank of Scotland, and its partners through the acquisition of ABN in 2007, is actively back on the auction list. It is expected that in the coming months, 40% stake in SHB will be offered to the interested parties. This acquisition provides a rare opportunity for a financial institution to enter one of the largest banking sectors (i.e. Saudi Arabia) in the Gulf region. A number of banks eyeing for the stake includes Emirates National Bank of Dubai (ENBD), National Bank of Kuwait (NBK), and Standard Chartered Bank (SCB).

Saudi Arabia's strong macro-economic outlook, favorable demographics, along with the mega infrastructure investments spurred by petrodollars will provide the Kingdom's financial institutions with enormous business opportunities leading towards a higher corporate earnings growth. For Saudi banks in particular, the future optimism is linked to the growth in the economy that will enhance both the financing appetite and the customer deposit base in the Kingdom.

After the relatively dampened market activity at Tadawul in 2007, going forward, besides other domestic stimulants the increased focus of foreign players on the GCC markets could largely benefit Saudi stock market activity. In addition to other revenue sources, the increased capital market activity will also facilitate the banks in generating higher fee based income.

We expect SHB's total assets to grow at a 4-year CAGR (2007-11) of 16.5%, posting an annual growth (FY08) of 24.5%. The balance sheet growth will be backed by the increase in net loans and advances showing a 4-year CAGR (2007-11) of 21.9%, and the customer deposit base showing a 4-year CAGR (2007-11) of 21.0%. The bank's net income is expected to record an increase of 108.2% during FY08.

Valuation and Recommendation

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

1. Cash flow approach represented by the Dividend Discounting Model (DDM).

2. P/BV target multiple approach using an adaption of the Gordon Growth Model (GGM).

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

- Cost of Equity (COE) derived using Capital Asset Pricing Model is estimated to be 10.9% based on the following assumptions:

  a. Risk free rate of 5.43% (yield of 10-year Saudi Government bond).

  b. Market risk premium of 5.50%.

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

- Terminal growth rate of 4.0%.

Table 16: DDM Valuation

(SR mn)	2008E	2009E	2010E	2011E
Dividends Expected	639	785	921	1,190
Terminal Value	17,842			
NPV of Dividends Expected	2,944			
NPV of Terminal Value	12,972			
Estimated Fair Value of Equity	15,916			
No. of Outstanding shares (mn)	265			
DDM Value of SHB per share (SR)	**60.2**			

*Source: **Global** Research*

Sensitivity - DDM

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

Table 17: Sensitivity –DDM

		Terminal Growth Rate				
		3.0%	**3.5%**	**4.0%**	**4.5%**	**5.0%**
Cost Of Equity	**9.9%**	61.2	65.4	70.2	75.9	82.8
	10.4%	57.1	60.7	64.8	69.6	75.3
	10.9%	53.6	56.6	**60.2**	64.2	69.0
	11.4%	50.4	53.1	56.1	59.6	63.7
	11.9%	47.6	50.0	52.6	55.7	59.1

*Source: **Global** Research*

Gordon Growth Model - GGM

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

P/BV = (ROE - g) / (COE - g)

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

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

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

Table 18: Gordon Growth Model

Sustainable ROE (%)	22.7
COE (%)	10.9
Terminal Growth Rate (%)	4.0
2008: P/BV target multiple (x)	2.7
2008: BV/Share (SR)	18.2
GGM Value of SHB per share (SR)	**49.2**

*Source: **Global** Research*

Sensitivity - GGM

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

Table 19: Sensitivity – GGM

		Terminal Growth Rate				
		3.0%	**3.5%**	**4.0%**	**4.5%**	**5.0%**
Return on Equity	**21.7%**	43.0	44.6	46.6	48.8	51.3
	22.2%	44.1	45.9	47.9	50.2	52.9
	22.7%	45.3	47.1	**49.2**	51.6	54.4
	23.2%	46.4	48.3	50.5	53.0	55.9
	23.7%	47.6	49.5	51.8	54.4	57.5

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

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

Table 20: Sensitivity – GGM

		Return on Equity				
		21.7%	**22.2%**	**22.7%**	**23.2%**	**23.7%**
Cost of Equity	**9.9%**	54.4	55.9	57.5	59.0	60.5
	10.4%	50.2	51.6	53.0	54.4	55.8
	10.9%	46.6	47.9	**49.2**	50.5	51.8
	11.4%	43.4	44.6	45.9	47.1	48.3
	11.9%	40.7	41.8	43.0	44.1	45.3

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

Valuation

Based on the current market price of SR58.0 (as on Sep 06, 2008), SHB is traded at 2008E P/E and P/BV multiples of 16.8x and 3.2x, respectively.

Table 21: Valuation Summary

Valuation Methods	**Price (SR)**	**Weight**	**Weighted Value (SR)**
DDM	60.2	80%	48.1
GGM	49.2	20%	9.9
Estimated Fair Price of SHB per share			**58.0**

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

Our fair value for SHB is estimated to be SR58.03 per share, based on DDM (80%) and adaptation of the Gordon Growth Model (20%). According to our fair value, the banking scrip offers an upside of 0.1% on the closing price of SR58.0 per share (as of Sep 06, 2008). Therefore, we reiterate our earlier recommendation of "**Hold**" on the stock with a medium term perspective.

Balance Sheet

	Saudi Hollandi Bank						
(SR mn)	**2005**	**2006**	**2007**	**2008 F**	**2009 F**	**2010 F**	**2011F**
Cash & balances with SAMA	1,204.6	2,672.7	3,509.0	6,164.1	7,188.5	7,495.3	6,787.4
Due from banks and other FI's	3,334.7	6,019.7	5,271.9	3,163.1	3,479.4	3,827.4	4,171.8
Trading investments	195.2	154.7	815.9	856.7	899.5	917.5	935.9
Non-trading investments	10,288.6	10,308.7	12,138.4	13,962.0	15,361.5	16,900.8	18,590.9
Net Loans and advances	23,776.5	26,479.8	27,554.6	37,318.5	44,583.0	52,424.3	60,749.0
Net fixed assets	313.3	309.0	320.4	465.5	543.1	596.5	656.3
Other assets	845.4	795.4	801.1	841.2	883.3	927.4	973.8
Total Assets	**39,958.3**	**46,740.1**	**50,411.3**	**62,771.0**	**72,938.3**	**83,089.2**	**92,865.0**
Due to banks and other financial institutions	5,796.5	8,298.4	9,157.6	9,854.2	10,604.7	11,108.5	11,441.7
Customers' deposits	28,565.0	32,413.7	34,605.0	45,924.1	55,049.7	64,359.9	74,174.4
Other liabilities	1,429.6	1,070.2	1,401.9	1,472.0	1,501.5	1,531.5	1,562.1
Subordinated Debt	700.0	700.0	700.0	700.0	700.0	700.0	0.0
Total Liabilities	**36,491.2**	**42,482.3**	**45,864.5**	**57,950.4**	**67,855.9**	**77,699.9**	**87,178.3**
Share capital	1,260.0	2,205.0	2,646.0	2,646.0	2,646.0	2,646.0	2,646.0
Statutory reserve	1,260.0	1,499.0	1,609.0	1,837.2	2,099.0	2,405.8	2,646.0
General & other reserves	939.5	528.4	150.8	169.0	169.0	169.0	243.4
Retained earnings	7.6	25.3	141.0	168.4	168.4	168.4	151.3
Total shareholders' equity	**3,467.1**	**4,257.7**	**4,546.8**	**4,820.7**	**5,082.4**	**5,389.3**	**5,686.7**
Total liabilities and shareholders' Equity	**39,958.3**	**46,740.1**	**50,411.3**	**62,771.0**	**72,938.3**	**83,089.2**	**92,865.0**

*Source: Bank Reports & **Global** Research*

Income Statement

	Saudi Hollandi Bank						
(SR mn)	**2005**	**2006**	**2007**	**2008 F**	**2009 F**	**2010 F**	**2011F**
Special commission income	1,843.4	2,667.9	2,905.7	2,927.0	3,699.8	4,359.3	5,112.5
Special commission expense	(829.8)	(1,488.1)	(1,705.2)	(1,551.3)	(1,979.4)	(2,375.8)	(2,811.9)
Net special commission income	**1,013.5**	**1,179.8**	**1,200.4**	**1,375.7**	**1,720.4**	**1,983.5**	**2,300.6**
Impairment charge for credit losses, net	(99.2)	(348.6)	(495.7)	(146.7)	(331.4)	(377.6)	(390.0)
Net special commission income after PLLs	**914.3**	**831.2**	**704.8**	**1,229.0**	**1,389.0**	**1,605.9**	**1,910.6**
Fee income from banking services, net	589.3	632.6	390.2	468.2	547.8	624.5	686.9
Exchange income, net	64.0	50.0	84.9	93.4	98.0	102.9	108.1
Trading income, net	47.8	69.7	65.7	91.9	103.0	115.3	126.9
Income from FVIS financial instruments, net	0.0	13.2	30.5	15.2	17.5	20.1	22.2
Gains on non-trading investments	3.2	0.0	4.0	0.0	0.0	0.0	0.0
Other operating income	0.0	1.2	0.4	0.2	0.1	0.2	0.2
Total non-commission income	**704.3**	**766.7**	**575.6**	**668.9**	**766.5**	**863.0**	**944.2**
Total operating income	**1,618.6**	**1,597.9**	**1,280.4**	**1,897.9**	**2,155.4**	**2,468.9**	**2,854.8**
Salaries & employee related expenses	(327.3)	(368.8)	(465.3)	(535.1)	(599.3)	(671.2)	(738.4)
Rent & premises related expenses	(44.3)	(50.1)	(58.2)	(75.7)	(87.8)	(98.3)	(108.2)
Depreciation and amortization	(53.5)	(57.9)	(60.9)	(78.1)	(89.9)	(100.7)	(112.7)
Other general & admin. expenses	(141.7)	(165.9)	(257.1)	(295.7)	(331.2)	(370.9)	(408.0)
Other operating expenses	0.0	(2.3)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Total operating expenses	**(566.8)**	**(645.1)**	**(841.9)**	**(985.0)**	**(1,108.5)**	**(1,241.5)**	**(1,367.6)**
Net Income	**1,051.9**	**952.8**	**438.5**	**912.9**	**1,046.9**	**1,227.4**	**1,487.2**
P&L Appropriation:							
Opening Balance of Retained Earnings	**6.2**	**7.6**	**25.3**	**141.0**	**168.4**	**168.4**	**168.4**
Net income	1,051.9	952.8	438.6	912.9	1,046.9	1,227.4	1,487.2
Bonus share issue	0.0	(945.0)	(441.0)	0.0	0.0	0.0	0.0
Transfer to statutory reserve	0.0	(239.0)	(110.0)	(228.2)	(261.7)	(306.9)	(240.2)
Transfer to other reserves	(645.0)	444.0	441.0	(18.3)	0.0	0.0	(74.4)
Gross dividends	(405.5)	(195.1)	(212.9)	(639.0)	(785.2)	(920.6)	(1,189.8)
Closing Balance of Retained Earnings	**7.6**	**25.3**	**141.0**	**168.4**	**168.4**	**168.4**	**151.3**

*Source: Bank Reports & **Global** Research*

Cash Flow

	Saudi Hollandi Bank						
(SR mn)	**2005**	**2006**	**2007**	**2008F**	**2009F**	**2010F**	**2011F**
Net income	1,051.9	952.8	438.5	912.9	1,046.9	1,227.4	1,487.2
Accertion of discounts & premium amortization	(69.4)	32.9	63.4	0.0	0.0	0.0	0.0
Gains on investments	(3.2)	0.0	(4.0)	0.0	0.0	0.0	0.0
Depreciation and amortization	53.5	57.9	60.9	78.1	89.9	100.7	112.7
Provision for credit losses	99.2	348.6	495.7	146.7	331.4	377.6	390.0
Due from banks and other FI's	1,965.8	(2,685.0)	747.9	2,108.7	(316.3)	(347.9)	(344.5)
Trading portfolio	(110.7)	40.5	(661.2)	(40.8)	(42.8)	(18.0)	(18.4)
Loans and advances, net	(7,242.6)	(3,051.9)	(1,570.4)	(9,910.6)	(7,596.0)	(8,218.9)	(8,714.7)
Other assets	169.9	50.1	(5.8)	(40.1)	(42.1)	(44.2)	(46.4)
Due to banks and FI's	1,369.2	2,501.9	859.2	696.6	750.5	503.8	333.3
Customers' deposits	4,707.5	3,848.7	2,191.3	11,319.2	9,125.6	9,310.2	9,814.5
Other liabilities	(139.0)	(359.4)	331.7	70.1	29.4	30.0	30.6
CF from Operations	**1,852.3**	**1,737.0**	**2,947.1**	**5,341.0**	**3,376.6**	**2,920.7**	**3,044.5**
Sale /Purchase of investments	(1,207.9)	(20.1)	(1,825.7)	(1,823.6)	(1,399.6)	(1,539.3)	(1,690.1)
Capex	(76.9)	(53.7)	(72.2)	(223.3)	(167.5)	(154.1)	(172.6)
CF from Investing	**(1,284.7)**	**(73.8)**	**(1,897.9)**	**(2,046.9)**	**(1,567.0)**	**(1,693.3)**	**(1,862.6)**
Debt issuance	0.0	0.0	0.0	0.0	0.0	0.0	(700.0)
Dividend and zakat paid	(405.5)	(195.1)	(212.9)	(639.0)	(785.2)	(920.6)	(1,189.8)
CF from Financing	**(405.5)**	**(195.1)**	**(212.9)**	**(639.0)**	**(785.2)**	**(920.6)**	**(1,889.8)**
Change in cash	162.1	1,468.1	836.4	2,655.1	1,024.4	306.8	(707.9)
Beginning cash	1,042.5	1,204.6	2,672.7	3,509.0	6,164.1	7,188.5	7,495.3
Ending cash	**1,204.6**	**2,672.7**	**3,509.0**	**6,164.1**	**7,188.5**	**7,495.3**	**6,787.4**

*Source: Bank Reports & **Global** Research*

Fact Sheet

	Saudi Hollandi Bank						
	2005	2006	2007	2008 F	2009 F	2010 F	2011F
Profitability							
- Return on Average Assets	2.9%	2.2%	0.9%	1.6%	1.5%	1.6%	1.7%
- Return on Average Equity	33.1%	24.7%	10.0%	19.5%	21.1%	23.4%	26.9%
- Net special commission income after PLLs / Total op. income	56.5%	52.0%	55.0%	64.8%	64.4%	65.0%	66.9%
- Non-commission income /Total op. income	43.5%	48.0%	45.0%	35.2%	35.6%	35.0%	33.1%
- Non-commission expense/ Total op. income	35.0%	40.4%	65.8%	51.9%	51.4%	50.3%	47.9%
- Fees from banking services /Total op. income	36.4%	39.6%	30.5%	24.7%	25.4%	25.3%	24.1%
- Dividend payout ratio	38.6%	20.5%	48.5%	70.0%	75.0%	75.0%	80.0%
Margins							
- Net (or profit) margin	65.0%	59.6%	34.2%	48.1%	48.6%	49.7%	52.1%
- Special commission expense /Special commission income	45.0%	55.8%	58.7%	53.0%	53.5%	54.5%	55.0%
- Yield on average earning assets	5.3%	6.5%	6.4%	5.7%	6.0%	6.1%	6.3%
- Cost rate on average commission bearing liabilities	2.6%	3.9%	4.0%	3.1%	3.2%	3.3%	3.5%
- Spread	2.7%	2.6%	2.4%	2.6%	2.8%	2.8%	2.8%
- Commission margin (earning assets)	2.7%	2.7%	2.6%	2.4%	2.6%	2.6%	2.7%
Efficiency							
- Total op. expense /Total op. income	35.0%	40.4%	65.8%	51.9%	51.4%	50.3%	47.9%
- Staff expenses /Total op Expenses	57.7%	57.2%	55.3%	54.3%	54.1%	54.1%	54.0%
- Rent and G&A expenses /Total op. Expenses	32.8%	33.5%	37.5%	37.7%	37.8%	37.8%	37.7%
- Total op. expense/ Average total assets	1.5%	1.5%	1.7%	1.7%	1.6%	1.6%	1.6%
Liquidity							
- Loans /Commission earning assets	63.8%	62.4%	61.3%	68.3%	70.2%	71.6%	72.8%
- Loans /Customer Deposits	84.9%	84.1%	83.1%	84.2%	84.0%	84.6%	85.2%
- Customer Deposits /Equity	823.9%	761.3%	761.1%	952.7%	1083.1%	1194.2%	1304.3%
- Customer Deposits /Total assets	71.5%	69.3%	68.6%	73.2%	75.5%	77.5%	79.9%
- Due from Banks /Due to Banks	57.5%	72.5%	57.6%	32.1%	32.8%	34.5%	36.5%
Credit Quality							
- Provisions /Total op. income	6.1%	21.8%	38.7%	7.7%	15.4%	15.3%	13.7%
- Provisions /Average loans	0.5%	1.4%	1.8%	0.4%	0.8%	0.7%	0.7%
- Non Performing Loans (SR mn)	300.5	685.5	1,078.5	1,307.1	1,434.0	1,586.4	1,840.2
- Provision for loan losses (SR mn)	476.0	778.9	1,186.8	1,333.5	1,664.9	2,042.5	2,432.5
- NPLs /Gross Loans	1.2%	2.5%	3.8%	3.4%	3.1%	2.9%	2.9%
- NPLs /(Equity+provision for loan losses)	7.6%	13.6%	18.8%	21.2%	21.3%	21.3%	22.7%
- PLLs / Gross Loans	2.0%	2.9%	4.1%	3.5%	3.6%	3.8%	3.9%
- NPL Coverage	158.4%	113.6%	110.0%	102.0%	116.1%	128.8%	132.2%
Capital Adequacy							
- Equity /Total Assets (Equity capital ratio)	8.7%	9.1%	9.0%	7.7%	7.0%	6.5%	6.1%
- Equity /Gross Loans	14.3%	15.6%	15.8%	12.5%	11.0%	9.9%	9.0%
Constitution of Total Operating Income							
- Net special commission income after PLLs /Total op. income	56.5%	52.0%	55.0%	64.8%	64.4%	65.0%	66.9%
- Fees from banking services /Total op. income	36.4%	39.6%	30.5%	24.7%	25.4%	25.3%	24.1%
- Investment Income /Total op. income	3.2%	5.2%	7.8%	5.6%	5.6%	5.5%	5.2%
- Exchange Income /Total op. income	4.0%	3.1%	6.6%	4.9%	4.5%	4.2%	3.8%
- Other Income /Total op. income	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%
- PLLs /Total op. income	6.1%	21.8%	38.7%	7.7%	15.4%	15.3%	13.7%
Operating Performance							
- Change in special commission income	40.1%	44.7%	8.9%	0.7%	26.4%	17.8%	17.3%
- Change in Fees from banking services	67.0%	7.3%	-38.3%	20.0%	17.0%	14.0%	10.0%
- Change in Investment Income	8.0%	62.5%	20.8%	7.0%	12.4%	12.4%	10.0%
- Change in Exchange Income	23.9%	-22.0%	69.9%	10.0%	5.0%	5.0%	5.0%
Ratio's used for Valuation							
- Par value per share (SR)	50.0	10.0	10.0	10.0	10.0	10.0	10.0
- Shares in issue (mn)	25.2	220.5	264.6	264.6	264.6	264.6	264.6
- EPS (SR)- Adjusted	4.0	3.6	1.7	3.5	4.0	4.6	5.6
- DPS (SR)- Adjusted	1.5	0.7	0.8	2.4	3.0	3.5	4.5
- Book value per share (SR)- Adjusted	13.1	16.1	17.2	18.2	19.2	20.4	21.5
- Market price year end (SR)- Adjusted	99.1	63.1	62.5	58.0	58.0	58.0	58.0
- Market Cap. (SR bn)	2.5	13.9	16.5	15.3	15.3	15.3	15.3
- P/E*	24.9	17.5	37.7	16.8	14.7	12.5	10.3
- P/BV*	7.6	3.9	3.6	3.2	3.0	2.8	2.7
- Dividends yield	1.5%	1.2%	1.3%	4.2%	5.1%	6.0%	7.8%

*Source: Bank Reports & **Global** Research*

**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 Sep 06, 2008.*

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Disclosure Checklist

Company	Recommendation	Ticker	Price	Disclosure
Saudi Hollandi Bank	HOLD	AAAL AB (Bloomberg) 1040.SE (Reuters)	SR58.0	1,10

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Global Research: Equity Ratings Definitions

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