Arab National Bank

- Attractive potential for retail business development and cross-selling opportunities.
- Revenue generation through JVs in diverse segments.
- Net income & assets CAGR (2009-13) of 10.9% & 6.5%.

HOLD

Target Price SR40.2

Market Data

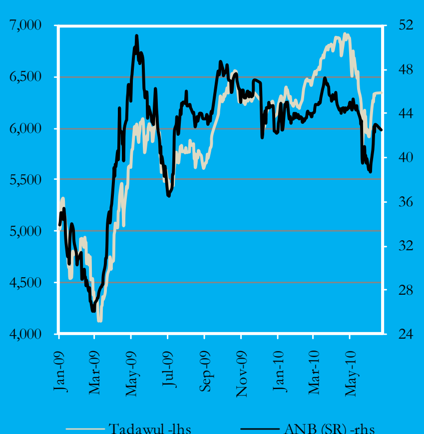
Bloomberg Code:	ARNB AB
Reuters Code:	1080.SE
CMP (27th Jun 2010):	SR42.1
O/S (mn):	650.0
Mkt Cap (SRmn):	27,365.0
Mkt Cap (US$mn):	7,297.3
P/E 2010e (x):	10.9
P/Bv 2010e (x):	1.8

Price Performance 1-Yr

High /Low (SR):	48.7 / 36.5
Average Volume (000):	116.9

	1m	3m	12m
Absolute (%)	6.6	-9.7	7.9
Relative (%)	-1.2	-2.5	-4.8

Relative Performance



Source: Tadawul & Zawya

Charming growth potential in retail business & cross-selling

Arab National Bank (ANB) improved core-banking results consumed by heightened provisions led to lower profitability during the year. The list of factors expected to drive the bank's future growth include (i) Good potential for retail business development using its network, (ii) Attractive revenue generation ability by JVs in diverse business segments, and (iii) Potential to effectively cross-sell product /services.

Profitability impacted by increased provisions

ANB's enhanced core banking performance by 3.1% was significantly impacted by provisioning increase of 8.7xs, leading to net income decline of 4.8% in FY09. Although 1Q10 net income (YoY) remained under pressure with decrease of 8.8%, profitability rose by 2.1xs as compared to 4Q09. We believe provisioning escalation to have peaked out here, and expect provisions to drop by 58.0% and net income to rise by 6.0% in 2010. We estimate ANB's net special com. income & net income to post CAGR (2009-13) of 7.1% & 10.9%, respectively, and ROE to reach 19% by 2013.

Balance sheet contraction expected to stabilize

The bank's total assets (FY09) contracted by 9.1%, while deposit and loan portfolio shrank by 10.9% & 9.8%, respectively. Although NPL ratio rose sharply to 2.8% in 2009 (being below 1.0% since 2006), we expect it to drop to 1.3% and NPL coverage to reach 172% by 2013. Overall, we expect assets, loans and deposits to record CAGR (2009-13) of 6.5%, 8.2% & 7.1%, respectively.

*Valuations - **Hold** with downside potential of 4.5%*

Based on our 2010 estimates, ANB at the closing price of SR42.1/share (as on Jun 27, 2010) is trading at P/E and P/BV multiples of 10.9x & 1.8x, respectively. According to our fair value of ANB at SR40.2/share, the scrip is trading at a premium of 4.5% to its closing price of SR42.1/share.

Investment Indicators

Year	2007A	2008A	2009A	2010E	2011E	2012E	2013E
Net income (SR mn)	2,461	2,486	2,370	2,512	2,769	3,236	3,586
EPS (SR)	3.8	3.8	3.6	3.9	4.3	5.0	5.5
BVPS (SR)	16.2	18.5	21.3	23.6	25.9	28.0	30.5
ROAE (%)	26.6	22.1	18.4	17.3	17.3	18.6	19.0
P/E (x)	22.3	8.2	11.6	10.9	9.9	8.5	7.6
P/BV (x)	5.2	1.7	2.0	1.8	1.6	1.5	1.4

*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 27th Jun, 2010.*

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Valuation & Recommendation

For arriving at the fair value of ANB 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). 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 (based on 5 years monthly data from Bloomberg). If the actual beta of the bank is less than 1 or if the data available is of less than 5 years, we have taken it as 1.
- Terminal growth rate of 3.0%.

DDM Valuation

(SR mn)		2010E	2011E	2012E	2013E
Dividends Expected		940	1,295	1,967	2,515
Terminal Value	30,223				
NPV of Dividends Expected	5,340				
NPV of Terminal Value	20,578				
Estimated Fair Value of Equity	25,918				
No. of Outstanding Shares (mn)	650				
DDM Value of ANB per share (SR)	**39.9**				

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%	40.8	43.0	45.4	48.2	51.5
	11.1%	38.4	40.3	42.5	44.9	47.7
	11.6%	36.3	38.0	**39.9**	42.1	44.5
	12.1%	34.4	36.0	37.6	39.5	41.6
	12.6%	32.7	34.1	35.6	37.2	39.1

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. 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 (%)	18.0
COE (%)	11.6
Terminal Growth Rate (%)	3.0
2010E: P/BV target multiple (x)	1.8
2010E: BV/Share (SR)	23.6
GGM Value of ANB per share (SR)	**41.5**

*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				
		17.0%	17.5%	**18.0%**	18.5%	19.0%
Cost of Equity	10.6%	43.9	45.4	47.0	48.5	50.1
	11.1%	41.1	42.6	44.1	45.5	47.0
	11.6%	38.7	40.1	**41.5**	42.9	44.3
	12.1%	36.6	37.9	39.2	40.5	41.8
	12.6%	34.7	35.9	37.2	38.4	39.6

*Source: **Global** Research*

Valuation

Based on the current market price of SR42.1 per share (as on Jun 27, 2010), the bank is traded at 2010E P/E and P/BV multiples of 10.9x and 1.8x, respectively.

Valuation Summary

	Price (SR)	Weight	Weighted Value (SR)
DDM	39.9	80%	31.9
GGM	41.5	20%	8.3
Estimated Fair Price ANB per share			**40.2**

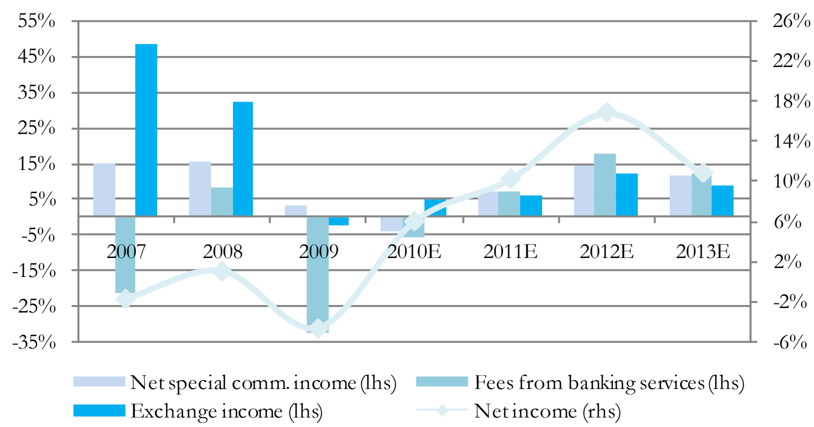
*Source: **Global** Research*

According to our estimated fair value of ANB at SR40.2 per share, the banking scrip is trading at a premium of 4.5% to its closing price of SR42.1 per share (as on Jun 27, 2010). Therefore, we maintain our recommendation of "**Hold**" on the ANB stock with medium term perspective.

Arab National Bank -Financial Update

ANB's improved core banking results posting annual (FY09) increase of 3.1% were all consumed by heightened provisions of 8.7xs, thus leading to net income decline of 4.8% in 2009. Although 1Q10 net income (YoY) remained under pressure posting a decrease of 8.8%, on quarterly basis (compared to 4Q09) profitability rose by 2.1xs. The increase in (FY09) non-commission income by 32.7% was mainly driven by reduction in impairment losses on investments, while fees from banking services dropped by 32.9%. The provisioning escalation due to credit worries from troubled corporations & overall softening of business is believed to have peaked out, and we expect provisions to decrease by 58% in 2010. With the corporate activity and business confidence gradually picking up momentum, we expect ANB profitability to start reviving from 2010. We expect net special com. income, non-com. income, and net income to post CAGR (2009-13) of 7.1%, 10.4% & 10.9%, respectively.

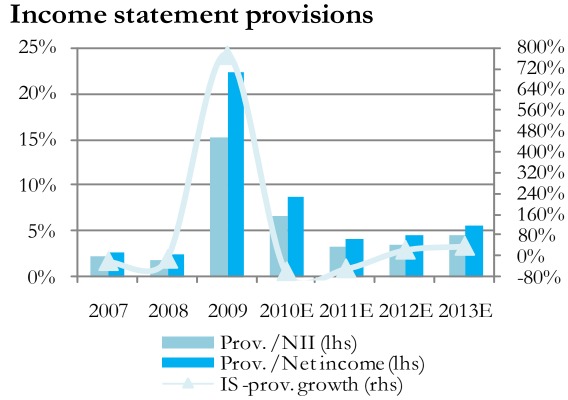
Income performance



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

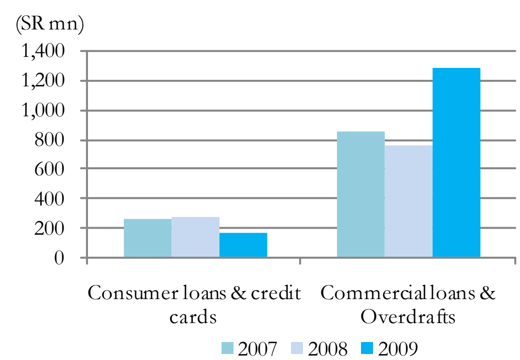
Although the provisions for credit losses rose significantly, the bank successfully reduced by 96.3% the impairment losses on investments. The high levels of prov./NII at 15.2% and prov./Net income at 22.2% in 2009, are expected to drop to 6.7% and 8.8%, respectively in 2010.

Income statement provisions



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

Provisions' details



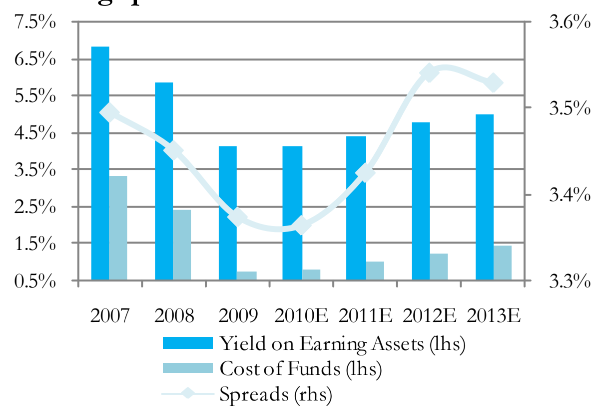
*Source: Company reports & **Global** Research*

The increase in provisions for credit losses mainly constituted of provisions for commercial loans & overdrafts (89% of total) that rose by 69.9% in 2009. However, the provisions for consumer loans (FY09) reduced by 42.0%, while credit cards provisions had relatively smaller share in total.

Pressure on spreads contained…

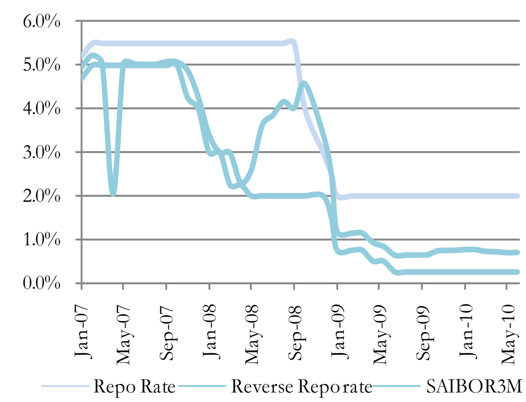
The bank's interest rate spreads that were maintained around 3.5% in 2007 & 2008, witnessed a marginal decline to around 3.4% during 2009. In low interest rate environment and cautious lending approach, ANB was able to sustain the spreads (2007-2009) by actively reducing (esp. by shedding high cost deposits) its interest expense by 260bps. We estimate the bank's interest rate spreads to gradually inch upwards touching 3.5% in 2013. The stability in the government policy rates since Jun2009 (repo rate maintained at 2.0% & reverse repo rate at 0.25%) indicates very low chances of further rate cuts, however good potential to increase from 2011 onwards.

Banking spreads



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

Interest rates market

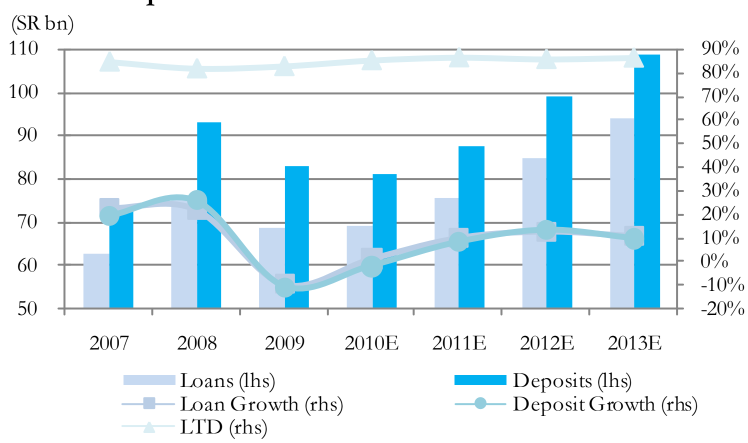


*Source: Company reports & **Global** Research*

Balance sheet contraction to stabilize…

The total assets (FY09) recording a contraction of 9.1%, signals the bank's view to consolidate its assets at lower levels with increased quality focus. ANB continued to maintain comfortable capital adequacy (2009: 16.3% CAR) position, with deposit base and loan portfolio shrinking by 10.9% & 9.8%, respectively. We expect ANB's assets, loans and deposits to post annual growth of 1.0%, 0.8% and -2.2%, respectively in 2010.

Loan and deposit base



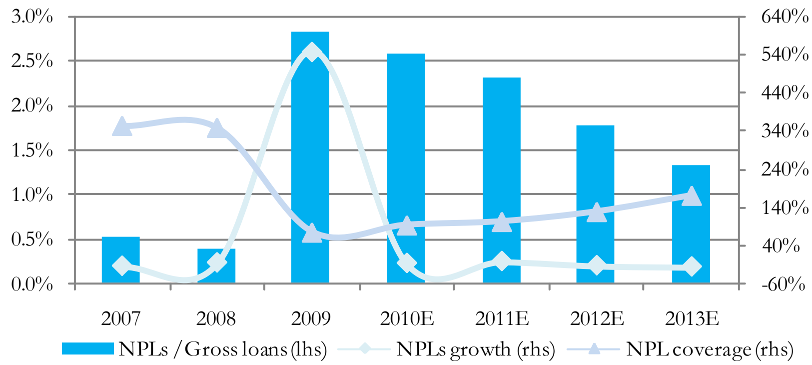
*Source: Company reports & **Global** Research*

ANB's deposits constituting 75% of assets is dominated by time deposits. However, in an effort to reduce cost of funds, time deposits were lowered by 32% & demand deposits grew by 30% in 2009.

NPL coverage drops sharply…

The bank's NPL coverage witnessed a sharp decline from 349.0% in 2008 to 75.9% in 2009. An increase in NPLs by 6.5xs (largely linked to credit worries arising from some troubled corporations) overshadowed the rise in provisioning by 41.1%. Although the bank has lost some valuable credit coverage cushion due to steep rise in NPLs, the portfolio situation is believed to only improve from here on. The drop in gross loans along with escalated NPLs in 2009 led to the inflating of NPL ratio from 0.4% in 2008 to 2.8% in 2009. As the bank gradually builds up its NPL coverage ratio, we expect NPL coverage to reach 172% by 2013, while NPLs to decline at an avg. (2010-13) of 10.1% and NPL ratio to reach 1.3% by 2013.

Credit quality



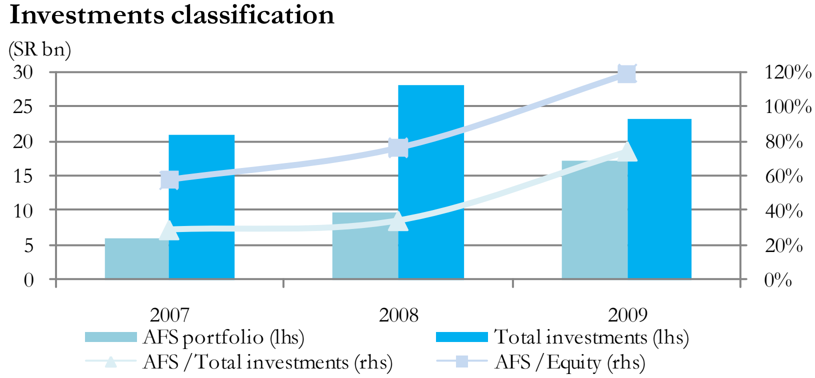
*Source: Company reports & **Global** Research*

Overall, the bank's NPLs overshadowed by commercial loans and overdrafts (constituting 98% of the total NPLs) witnessed an annual increase by 7.6xs in 2009. The other two categories of credit cards and consumer loans NPLs both showed declining trends in FY09.

Investments portfolio contracts…

ANB's investments portfolio posted a decline of 17.6% in FY09, while it was also successful in reducing allowance for impairment by 91%. The investments classified under available for sale (AFS) currently constitute 74% (FY08: 34%) of the total investments. The bank's AFS/equity ratio at 119% in 2009 signals lower equity cushion against any losses arising from un-hedged fair value for AFS.

Investments classification



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

The bank's shift towards quoted investments FY09: 58% of total (FY08: 4%) will lead to improved quality of investments. Overall, gov. & quasi-gov. securities constitute 83% of total investments.

Financial Performance -1Q2010

- ANB's net income results posted (YoY) decline of 8.8% (from SR695mn in 1Q09 to SR634mn in 1Q10). Although net income recorded an annual decline during 1Q10, on quarterly basis recorded an increase by 2.1xs as compared to 4Q09 results.

- The bank recorded lower core banking performance showing a decrease of 12.0% in 1Q10. Although the non-interest income provided some support to the top-line, operating income (YoY) showed decrease of 2.8% in 1Q10. An increase in operating expenses was mainly led by higher provisions for credit losses that increased by 77% in 1Q10.

Financial highlights 1Q2010

(all figs. in SR mn, unless stated)	1Q09	1Q10	*YoY*	4Q09	1Q10	*QoQ*
Net special com. income	912	803	*-12.0%*	812	803	*-1.1%*
Operating income	1,157	1,125	*-2.8%*	1,057	1,125	*6.4%*
Net income	**695**	**634**	***-8.8%***	**296**	**634**	***114.2%***
EPS (SR)	1.07	0.98	*-8.8%*	0.46	0.98	*114.2%*
Loans (SR bn)	73	65	*-10.2%*	67	65	*-2.1%*
Deposits (SR bn)	85	78	*-8.0%*	83	78	*-6.0%*
Assets (SR bn)	112	110	*-2.0%*	110	110	*-0.2%*

Source: Company reports & Tadawul

- The reduction in annual net special commission income by 12.0% (from SR912mn in 1Q09 to SR803mn in 1Q10) was more pronounced as compared to quarterly (4Q09) results that showed (QoQ) decrease of 1.1%. The non-interest income seems to have supported the lower top-line as the decrease (YoY) in operating income was limited to 2.8% (from SR1,157mn in 1Q09 to SR1,125mn in 1Q10), while on quarterly basis (relative to 4Q09) operating income increased by 6.4%.

- The bank's loan book shrank both on annual and quarterly basis. The loan portfolio posted (YoY) decline of 10.2% (from SR73bn in 1Q09 to SR65bn in 1Q10), while decreased by 2.1% in comparison to 4Q09. The customer deposits showed (YoY) decline of 8.0% (from SR85bn in 1Q09 to SR78bn in 1Q10) and QoQ drop of 6.0%.

- Overall ANB's total assets contracted (YoY) by 2.0% (from SR112bn in 1Q09 to SR110bn in 1Q10), while showed marginal decrease as compared to 4Q09.

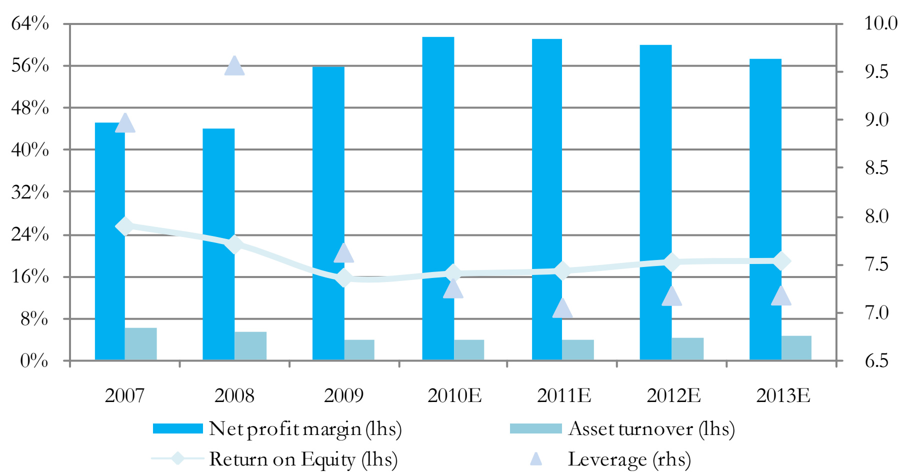
Outlook

ANB currently holds share of 10.4% and 10.6% in both total assets and deposits, respectively, amongst the listed Saudi banks. We expect the bank's assets, loans and deposits to record a 4-year (2009-13) CAGR of 6.5%, 8.2% & 7.1%, respectively. Although the bank posted subdued financial results during the challenging 2009, with improved focus on its areas of strengths it could largely benefit from future growth. The retail income being the dominant part (39% of total net income) provides the bank with good potential to harness on the Kingdom's favourable demographic situation. We expect ANB to record net income increase of 6.0% and asset growth of 1.0% in 2010. Besides, our forecasts for decrease in provisions by 58% in 2010, the overall improved performance in various business segments are expected to drive 2010 results. We expect ANB's net income to record CAGR (2009-13) increase of 10.9%.

- Good potential for retail business development using its network.
- Attractive revenue generation ability through JVs in diverse business segments (like *Saudi Home Loans Co., Arabian Heavy Equipment Leasing Co.*, etc.).
- Potential to more effectively cross-sell product & services.
- Ability to maintain banking spreads consistently.

The bank's ROE from 26% in 2007 is believed to have bottomed out at 16% in 2009. The net profit margin (NPM) around 45% in 2007 & 2008 significantly improved to 56% in 2009. The increase in NPM can mainly be attributed to decline in special com. income (due to low interest rate environment) whereas the bottom line profitability results were contained from steep decline.

DuPont analysis



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

The net profit margins are forecasted to remain close to 60%, while the leverage ratio is expected to range between 7.0x to 7.2x during 2010-13. With asset turnover ratio estimated between 3.6% to 4.6% during 2010-2013, we expect the return on equity (ROE) to reach 19% by 2013.

BALANCE SHEET	ARAB NATIONAL BANK						
(SR mn)	**2007**	**2008**	**2009**	**2010E**	**2011E**	**2012E**	**2013E**
Cash & balances with SAMA	8,228	12,051	10,457	8,911	7,699	6,192	5,257
Due from banks and other FIs	1,294	2,747	6,082	4,562	3,649	3,832	4,024
Trading investments, net	1,077	350	208	229	264	295	325
Non-trading Investments, net	19,948	27,878	23,053	26,029	28,515	32,017	35,218
Loans and Advances, net	61,122	74,662	66,811	67,108	73,648	82,852	91,559
Fixed Assets, net	774	935	1,240	1,282	1,427	1,764	2,039
Investment in associate	200	193	315	362	441	494	534
Other Assets	1,825	2,492	2,131	2,877	3,021	3,112	3,205
Total assets	**94,468**	**121,307**	**110,297**	**111,361**	**118,665**	**130,558**	**142,160**
Due to banks and other FIs	4,447	10,509	8,714	9,991	8,957	7,632	7,783
Customers' deposits	73,692	92,743	82,680	80,892	87,474	99,143	108,791
Other liabilities	2,616	3,508	2,737	3,421	3,695	3,880	4,074
Debt securities in issue	1,875	1,875	1,688	1,688	1,688	1,688	1,688
Term loan	1,313	-	-	-	-	-	-
Total liabilities	**83,943**	**108,636**	**95,819**	**95,992**	**101,813**	**112,342**	**122,336**
Share capital	4,550	6,500	6,500	6,500	6,500	6,500	6,500
Statutory reserve	3,766	4,390	5,000	5,628	6,320	6,500	6,500
General & other reserves	2,122	(86)	(47)	(14)	84	316	1,028
Retained earnings	87	1,217	2,266	3,145	3,837	4,790	5,687
Proposed dividends	-	650	650	-	-	-	-
Total equity attrib. to the bank's equity holders	**10,525**	**12,671**	**14,369**	**15,259**	**16,742**	**18,106**	**19,715**
Non-controlling interest	-	-	110	110	110	110	110
Total equity	**10,525**	**12,671**	**14,478**	**15,368**	**16,851**	**18,216**	**19,824**
Total liabilities and equity	**94,468**	**121,307**	**110,297**	**111,361**	**118,665**	**130,558**	**142,160**

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

INCOME STATEMENT	ARAB NATIONAL BANK						
(SR mn)	**2007**	**2008**	**2009**	**2010E**	**2011E**	**2012E**	**2013E**
Special commission income	5,417	5,639	4,234	4,061	4,524	5,392	6,238
Special commission expense	(2,513)	(2,285)	(778)	(747)	(973)	(1,316)	(1,684)
Special commission income, net	**2,904**	**3,354**	**3,456**	**3,314**	**3,551**	**4,076**	**4,554**
Provision for credit losses, net	(67)	(60)	(527)	(221)	(117)	(146)	(204)
Special commission income after PLLs, net	**2,837**	**3,293**	**2,930**	**3,093**	**3,434**	**3,930**	**4,350**
Fees from banking services, net	776	839	563	529	566	668	748
Exchange income, net	201	266	260	273	289	324	353
Net trading income & income from FVIS	55	(53)	(3)	29	32	51	53
Dividend income	5	6	13	33	35	40	42
(Losses) gains & impairment on non-trading investments, net	(18)	(424)	45	102	111	128	141
Other operating income	32	148	159	175	183	193	202
Total non-commission income	**1,052**	**782**	**1,037**	**1,141**	**1,216**	**1,404**	**1,540**
Total operating income	**3,889**	**4,075**	**3,967**	**4,234**	**4,650**	**5,334**	**5,890**
Salaries & employee related expenses	(843)	(908)	(934)	(981)	(1,059)	(1,165)	(1,258)
Rent & premises related expenses	(105)	(123)	(123)	(130)	(141)	(153)	(166)
Depreciation and amortization	(120)	(156)	(193)	(241)	(280)	(340)	(401)
Other general & admin. expenses	(360)	(395)	(352)	(373)	(407)	(447)	(487)
Total operating expenses	**(1,428)**	**(1,582)**	**(1,601)**	**(1,725)**	**(1,886)**	**(2,105)**	**(2,312)**
Net operating income	**2,461**	**2,493**	**2,365**	**2,509**	**2,764**	**3,228**	**3,578**
Share in earnings (losses) of associate	-	(7)	2	1	5	8	8
Net income	**2,461**	**2,486**	**2,367**	**2,510**	**2,769**	**3,236**	**3,586**
Loss attributed to non-controlling interest	-	-	3	2	-	-	-
Net income attributable to the bank's equity holders	**2,461**	**2,486**	**2,370**	**2,512**	**2,769**	**3,236**	**3,586**
P&L appropriation							
Opening balance of retained earnings	260	87	1,217	**2,266**	**3,145**	**3,837**	**4,790**
Net income	2,461	2,486	2,370	2,512	2,769	3,236	3,586
Transfer to statutory reserve	(616)	(624)	(610)	(628)	(692)	(179)	-
Transfer to general reserve	(1,950)	-	-	-	-	-	-
Dividends & zakat	(69)	(732)	(711)	(1,005)	(1,385)	(2,103)	(2,689)
Closing balance of retained earnings	**87**	**1,217**	**2,266**	**3,145**	**3,837**	**4,790**	**5,687**

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

CASH FLOW STATEMENT					ARAB NATIONAL BANK		
(SR mn)	**2007**	**2008**	**2009**	**2010E**	**2011E**	**2012E**	**2013E**
Net income	2,461	2,486	2,367	2,510	2,769	3,236	3,586
Accretion of discounts	(390)	(320)	339	-	-	-	-
Losses (gains) on investments, net	18	424	(42)	(101)	(111)	(128)	(141)
Depreciation and amortization	120	156	193	241	280	340	401
Loss/gain on disposal of fixed assets	-	(2)	(6)	-	-	-	-
Provision for loan losses	67	60	527	221	117	146	204
Share in losses (earnings) of associate	-	7	(2)	(2)	(5)	(8)	(8)
Due from banks and other FIs	3,339	(1,453)	(3,335)	1,521	912	(182)	(192)
Trading portfolio	-	727	142	(21)	(34)	(32)	(30)
Loans and advances	(11,442)	(13,600)	7,324	(518)	(6,658)	(9,350)	(8,911)
Other assets	(264)	(667)	360	(746)	(144)	(91)	(93)
Due to banks and FIs	1,349	6,062	(1,795)	1,277	(1,035)	(1,325)	152
Customers' deposits	11,919	19,051	(10,063)	(1,788)	6,582	11,669	9,648
Other liabilities	621	892	(1,071)	717	372	417	906
CF from Operations	**7,796**	**13,875**	**(5,063)**	**3,312**	**3,047**	**4,692**	**5,521**
Investment in associate	(200)	-	(120)	(45)	(74)	(45)	(31)
Net sale /purchase of investments	(2,273)	(8,354)	4,871	(2,874)	(2,375)	(3,373)	(3,061)
Capital expenditure	(307)	(315)	(491)	(284)	(424)	(677)	(675)
CF from Investing	**(2,780)**	**(8,669)**	**4,259**	**(3,204)**	**(2,874)**	**(4,095)**	**(3,767)**
Non-controlling interest	-	-	110	-	-	-	-
Debt securities in issue	-	-	(188)	-	-	-	-
Dividends & zakat paid	(4)	(71)	(711)	(1,655)	(1,385)	(2,103)	(2,689)
Term Loan	-	(1,313)	-	-	-	-	-
CF from Financing	**(4)**	**(1,384)**	**(789)**	**(1,655)**	**(1,385)**	**(2,103)**	**(2,689)**
Change in Cash	5,012	3,822	(1,593)	(1,547)	(1,212)	(1,506)	(935)
Beginning Cash	3,216	8,228	12,051	10,457	8,911	7,699	6,192
Ending cash	**8,228**	**12,051**	**10,457**	**8,911**	**7,699**	**6,192**	**5,257**

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

FACT SHEET	ARAB NATIONAL BANK						
	2007	2008	2009	2010E	2011E	2012E	2013E
Profitability							
- Return on average assets	2.9%	2.3%	2.0%	2.3%	2.4%	2.6%	2.6%
- Return on average equity	26.6%	22.1%	18.4%	17.3%	17.3%	18.6%	19.0%
- Net sp. comm. inc. after PLL's/ Total op. inc.	72.9%	80.8%	73.9%	73.1%	73.9%	73.7%	73.9%
- Non-comm. income/ Total op. income	27.1%	19.2%	26.1%	26.9%	26.1%	26.3%	26.1%
- Fees & comm./ Total op. income	20.0%	20.6%	14.2%	12.5%	12.2%	12.5%	12.7%
- Dividend payout ratio	2.8%	29.4%	30.0%	40.0%	50.0%	65.0%	75.0%
Margins							
- Net (or profit) Margin	63.3%	61.0%	59.7%	59.3%	59.6%	60.7%	60.9%
- Special comm. expense/ Special comm. income	46.4%	40.5%	18.4%	18.4%	21.5%	24.4%	27.0%
- Yield on average earning assets	6.9%	5.9%	4.2%	4.2%	4.4%	4.8%	5.0%
- Cost on average comm. bearing liabilities	3.4%	2.5%	0.8%	0.8%	1.0%	1.3%	1.5%
- Spread	3.5%	3.5%	3.4%	3.4%	3.4%	3.5%	3.5%
Efficiency							
- Total op. expenses /Total op. income	36.7%	38.8%	40.4%	40.8%	40.6%	39.5%	39.3%
- Staff expenses/ Total op. expenses	59.0%	57.4%	58.3%	56.8%	56.1%	55.3%	54.4%
- Rent, G&A expenses/ Total op. expenses	32.6%	32.7%	29.7%	29.2%	29.0%	28.5%	28.2%
Liquidity							
- Loans/ Customer deposits	84.5%	81.6%	82.6%	85.0%	86.2%	85.5%	86.1%
- Customer deposits/ Equity	700.2%	731.9%	571.1%	526.4%	519.1%	544.3%	548.8%
- Customer deposits/ Total assets	78.0%	76.5%	75.0%	72.6%	73.7%	75.9%	76.5%
- Due from banks/ Due to banks	29.1%	26.1%	69.8%	45.7%	40.7%	50.2%	51.7%
Credit Quality							
- Provisions /Total op. income	1.7%	1.5%	13.3%	5.2%	2.5%	2.7%	3.5%
- Non performing loans (SR mn)	315	296	1,921	1,776	1,732	1,499	1,248
- Provision for loan losses (SR mn)	1,115	1,033	1,457	1,678	1,796	1,942	2,146
- NPL's /Gross loans	0.5%	0.4%	2.8%	2.6%	2.3%	1.8%	1.3%
- PLLs / Gross loans	1.8%	1.4%	2.1%	2.4%	2.4%	2.3%	2.3%
- NPL Coverage	354.0%	349.0%	75.9%	94.5%	103.7%	129.5%	171.9%
Capital Adequacy							
- Equity / Total assets	11.1%	10.4%	13.1%	13.8%	14.2%	14.0%	13.9%
- Equity / Gross loans	16.9%	16.7%	21.2%	22.3%	22.3%	21.5%	21.2%
Operating Performance							
- Change in special comm. income	16.3%	4.1%	-24.9%	-4.1%	11.4%	19.2%	15.7%
- Change in fees & comm. income	-21.3%	8.1%	-32.9%	-6.0%	7.0%	18.0%	12.0%
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)	455.0	650.0	650.0	650.0	650.0	650.0	650.0
- EPS (SR) - adjusted	3.8	3.8	3.6	3.9	4.3	5.0	5.5
- DPS (SR) - adjusted	0.1	1.1	1.0	1.4	2.0	3.0	3.9
- Book value per share (SR) - adjusted	16.2	18.5	21.3	23.6	25.9	28.0	30.5
- Market price year end (SR)	84.6	31.2	42.4	42.1	42.1	42.1	42.1
- Market cap. (SR bn)	55.0	20.3	27.6	27.4	27.4	27.4	27.4
- P/E	22.3	8.2	11.6	10.9	9.9	8.5	7.6
- P/BV	5.2	1.7	2.0	1.8	1.6	1.5	1.4
- Dividends Yield	0.1%	3.4%	2.4%	3.4%	4.7%	7.2%	9.2%

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 price on Tadawul as of 27th Jun, 2010.*

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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.

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Company	Recommendation	Ticker	Price	Disclosure
Arab National Bank	Hold	ARNB AB 1080.SE	SR42.1	1,10

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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

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