

SAUDI BANKING SECTOR



SECTOR UPDATE

Strong performance to continue in 2012

We expect higher loan growth, moderate NIMs and strong non-interest income to translate into higher banking revenues in 2012. This is also likely to drive bottom-line performance as we expect a small growth in operating costs and provisions. In 4Q11, we expect lower provisions YoY to remain the main driving factor for net income growth.

- Government spending to drive loan growth**

We expect Saudi banks' strong loan momentum to continue in 2012. Saudi banks with adequate liquidity, a strong capital base and improved asset quality are well equipped to benefit from the increase in demand from both the retail and corporate segment. We expect loans to grow 11.2% and 13.5% YoY in 2011 and 2012 respectively.

- Moderate NIMs and strong fee income to keep top-line growth strong**

NIMs have remained depressed during 2011 and are expected to decline slightly in 2012 as we do not expect a significant change in interest rates. However, increased retail loans and higher demand deposits will prevent a notable decline in NIMs. Moreover, loan expansion is expected to lead to a 5.6% YoY growth in net special commission income (NSCI). We also expect higher fee income on improved banking services and growing trading activities to lead to top-line growth of 8.3% YoY in 2012.

- Lower provisions to drive 4Q11 growth**

Saudi banks' asset quality improved in 3Q11 and NPL coverage increased to 128.6% from 107.0%, a year ago. Hence, we expect a further decline in provisions in 4Q11 to enhance bottom-line performance of the banks under coverage. We expect YoY net income growth of 22% in 4Q11.

- All ratings remain the same, most fair value levels down slightly**

A weak price performance of the Saudi banking sector (13% YTD decline) on global economic concerns provides attractive valuations for most of the banking stocks. Our top-picks in the sector remain Banque Saudi Fransi and Al Rajhi Bank. We are overweight on all other banking stocks except Bank AlJazira and Bank Albilad where we are Neutral.

Exhibit 1: Valuation summary

		Mcap (SR mn)		Stock	P/E (x)	P/BV (x)	P/Adj BV	DY (%)	ROE (%)
	Rating	TP		perfr YTD	2011	2011	2011	2011	TTM
RIBL	Overweight	31.1	34,725	(13.0)	11.3	1.2	1.2	6.4	10.7
BJAZ	Neutral	18.2	4,905	(0.6)	19.8	1.0	1.0	-	3.5
SAIB	Overweight	21.5	8,608	(12.1)	12.1	1.0	0.9	-	9.7
SHB	Overweight	34.6	9,360	(3.7)	9.3	1.3	1.2	2.2	15.3
BSF	Overweight	51.7	30,230	(6.5)	10.2	1.6	1.6	4.0	16.3
SABB	Overweight	49.2	29,100	(3.7)	10.5	1.8	1.7	2.9	16.9
ANB	Overweight	33.8	23,970	(2.0)	11.3	1.5	1.5	3.4	13.4
SAMBA	Overweight	56.2	42,480	(22.9)	9.8	1.5	1.5	3.7	16.2
Al Rajhi	Overweight	82.9	102,750	(17.5)	15.6	3.4	3.2	4.3	23.8
Albilad	Neutral	17.4	5,805	(1.0)	19.3	1.7	1.6	-	7.1

Farouk Miah, CFA +966 2 690 7717
f.miah@ncbc.com

Iyad Ghulam +966 2 690 7811
i.ghulam@ncbc.com

Source: Tadawul, NCBC Research estimates. Prices as of 14 December 2011

DECEMBER 2011

Outlook Summary

- Strong loan growth momentum to continue in 2012**

After a long set back, Saudi banks are on the path to loan recovery. Favourable demographics and government spending has increased retail as well as corporate loan growth. We expect increased government spending to continue to drive loan demand in 2012. We believe, Saudi banks' strong liquidity positions and capital base will allow them to grow its loans 11.2% and 13.5% YoY in 2011 and 2012 respectively.

- Net interest margins (NIMs) to remain moderate**

We expect Saudi banks' NIMs to remain under pressure in 4Q11 as interest rates remain muted. We believe the interest rate environment in 2012 will remain stable while banks' NIMs will decline slightly. The Increasing share of retail loans in the total credit portfolio and the large pool of customer demand deposits will prevent a major decline in NIMs. However, we expect NSCI in 2011 to decline 0.9% YoY and grow 5.6% YoY in 2012.

- Strong growth in fee and other non-interest income to continue**

Increased loan books, growing trading turnover on Tadawul and improved corporate and trade financing has improved Saudi bank's fee income. We expect this strong growth in non-interest income to continue and grow 10.4% and 14.2% YoY in 2011 and 2012 respectively.

- 4Q11 net income to grow on lower provisions; strong top-line growth to lead 2012 bottom-line growth**

Saudi banks recorded 19.0% YoY growth in net income in 9M11 mainly due to lower provision charges. We expect a further decline of 44.0% YoY in provisions in 4Q11 as the asset quality for banks under our coverage improves. On an aggregate level, NPL coverage increased to 128.6% in 3Q11 vs 122.1% in 2Q11 and 107.0% in 3Q10. This is likely to translate into 22.0% growth in net income for 4Q11. On the other hand, we expect the growth in net income in 2012 to be mainly driven by increased banking revenues. We expect the top-line revenues of the banks under our coverage to grow by 8.3% YoY in 2012 supported by loan book growth and strong fee income.

- Attractive valuation given strong outlook**

Despite strong capital ratios, high ROE levels and an improved bottom-line performance due to better asset quality, the Saudi banking sector index has declined 13.4% YTD, partially we believe due to the poor global economic outlook. We believe the decline in market prices and subsequent attractive valuations lead to the Saudi banking sector offering good entry prices for all of the names which we rate at Overweight.

Exhibit 2: Changes in estimates – combined results of banks under our coverage

In SR mn

	Old 2011E	New 2011E	% Chg	YoY % Gr	Old 2012E	New 2012E	% Chg	YoY % Gr
Net Sp Comm. Income	30,690	30,670	(0.1)	(0.9)	35,690	32,376	(9.3)	5.6
Non-interest income	13,759	14,664	6.6	10.4	15,804	16,743	5.9	14.2
Total op.income	44,449	45,334	2.0	2.5	51,493	49,119	(4.6)	8.3
Pre-provision profits	28,852	29,603	2.6	0.1	34,256	32,184	(6.0)	8.7
Provisions	4,322	4,106	(5.0)	(46.5)	4,428	4,253	(4.0)	3.6
Net income	23,232	24,123	3.8	17.6	28,279	26,589	(6.0)	10.2

Source: NCBC Research estimates

DECEMBER 2011

Change in estimates

Exhibit 3: Change in estimates of individual banks

In SR mn unless specified	Old 2011E	New 2011E	% Ch	YoY % Gr	Old 2012E	New 2012E	% Ch	YoY % Gr
Riyad Bank								
Net Sp Comm. Income	4,184	4,164	(0.5)	0.5	4,949	4,417	(10.7)	6.1
Non-interest income	1,954	2,022	3.5	10.0	2,185	2,306	5.6	14.1
Total operating income	6,138	6,186	0.8	3.4	7,133	6,723	(5.7)	8.7
Pre-provision profits	3,650	3,665	0.4	(0.3)	4,430	3,960	(10.6)	8.1
Provisions	597	509	(14.7)	(45.5)	658	602	(8.6)	18.2
Net income	2,973	3,072	3.4	11.6	3,672	3,270	(11.0)	6.4
Price Target (SR)					32.2	31.1	(3.4)	
Bank Aljazira								
Net Sp Comm. Income	784	796	1.6	11.0	950	906	(4.6)	13.8
Non-interest income	408	413	1.1	(5.7)	487	512	5.1	24.1
Total operating income	1,192	1,209	1.4	4.7	1,437	1,418	(1.3)	17.3
Pre-provision profits	371	373	0.6	(4.5)	552	527	(4.6)	41.2
Provisions	165	119	(28.1)	(67.2)	221	146	(33.9)	22.6
Net income	199	247	23.9	775.6	323	371	15.0	50.1
Price Target (SR)					18.0	18.2	1.3	
The Saudi Investment Bank								
Net Sp Comm. Income	1,274	1,242	(2.5)	(5.5)	1,416	1,273	(10.1)	2.5
Non-interest income	349	388	11.0	(10.8)	393	432	10.0	11.5
Total op. income	1,623	1,630	0.4	(6.8)	1,809	1,705	(5.8)	4.6
Pre-provision profits	1,027	1,029	0.2	(13.5)	1,144	1,057	(7.6)	2.7
Provisions	297	297	0.0	(59.8)	337	333	(1.2)	12.3
Net income	711	713	0.3	67.6	842	760	(9.7)	6.7
Price Target (SR)					21.9	21.5	(1.9)	
Saudi Hollandi Bank								
Net Sp Comm. Income	1,242	1,325	6.7	2.9	1,417	1,402	(1.0)	5.8
Non-interest income	690	688	(0.2)	3.2	774	782	1.1	13.7
Total operating income	1,932	2,013	4.2	3.0	2,190	2,184	(0.3)	8.5
Pre-provision profits	1,122	1,214	8.2	2.7	1,283	1,303	1.6	7.3
Provisions	289	190	(34.2)	(51.2)	272	208	(23.4)	9.8
Net income	821	1,009	23.0	30.1	996	1,079	8.3	6.9
Price Target (SR)					33.6	34.6	2.8	
Banque Saudi Fransi								
Net Sp Comm. Income	3,154	3,149	(0.2)	2.7	3,643	3,397	(6.7)	7.9
Non-interest income	1,423	1,496	5.2	12.6	1,686	1,767	4.8	18.0
Total operating income	4,577	4,646	1.5	5.7	5,329	5,164	(3.1)	11.1
Pre-provision profits	3,181	3,175	(0.2)	1.2	3,806	3,572	(6.1)	12.5
Provisions	200	160	(19.6)	(52.7)	206	200	(3.2)	24.4
Net income	2,958	2,959	0.0	16.2	3,581	3,319	(7.3)	12.2
Price Target (SR)					53.0	51.7	(2.5)	
SABB								
Net Sp Comm. Income	3,061	3,077	0.5	(5.1)	3,521	3,218	(8.6)	4.6
Non-interest income	1,780	1,854	4.2	16.2	1,953	1,954	0.0	5.4
Total operating income	4,841	4,931	1.9	1.9	5,474	5,172	(5.5)	4.9
Pre-provision profits	3,111	3,309	6.4	7.3	3,454	3,455	0.0	4.4
Provisions	598	531	(11.2)	(56.9)	720	645	(10.4)	21.3
Net income	2,504	2,770	10.6	49.5	2,721	2,922	7.4	5.5
Price Target (SR)					49.0	49.2	0.4	
Arab National Bank								
Net Sp Comm. Income	3,219	3,174	(1.4)	0.5	3,845	3,300	(14.2)	4.0
Non-interest income	1,257	1,313	4.5	(2.5)	1,375	1,361	(1.1)	3.6
Total operating income	4,476	4,487	0.2	(0.4)	5,220	4,661	(10.7)	3.9
Pre-provision profits	2,757	2,757	0.0	(3.6)	3,274	2,864	(12.5)	3.9
Provisions	292	406	39.3	(57.9)	409	408	(0.2)	0.5
Net income	2,213	2,113	(4.5)	23.9	2,573	2,208	(14.2)	4.5
Price Target (SR)					33.9	33.8	(0.2)	

Source: NCBC Research estimates

DECEMBER 2011

Exhibit 3: Change in estimates of individual banks

	Old 2011E	New 2011E	% Ch	YoY % Gr	Old 2012E	New 2012E	% Ch	YoY % Gr
Samba Financial Group								
Net Sp Comm. Income	4,420	4,371	(1.1)	(3.6)	5,052	4,529	(10.3)	3.6
Non-interest income	2,332	2,320	(0.5)	(1.9)	2,788	2,753	(1.2)	18.7
Total operating income	6,752	6,691	(0.9)	(3.0)	7,840	7,283	(7.1)	8.8
Pre-provision profits	4,729	4,706	(0.5)	(5.7)	5,610	5,145	(8.3)	9.3
Provisions	212	254	19.6	(54.6)	205	267	30.3	5.0
Net income	4,399	4,336	(1.4)	0.4	5,264	4,751	(9.7)	9.6
Price Target (SR)					56.8	56.2	(1.0)	
Al Rajhi Bank								
Net Sp Comm. Income	8,650	8,673	0.3	(2.1)	10,083	9,173	(9.0)	5.8
Non-interest income	2,991	3,547	18.6	26.7	3,487	4,128	18.4	16.4
Total operating income	11,641	12,219	5.0	4.8	13,571	13,301	(2.0)	8.9
Pre-provision profits	8,411	8,856	5.3	2.0	10,094	9,714	(3.8)	9.7
Provisions	1,474	1,430	(3.0)	(25.1)	1,203	1,272	5.7	(11.0)
Net income	6,169	6,604	7.0	9.7	7,906	7,507	(5.1)	13.7
Price Target (SR)					83.6	82.9	(0.8)	
Bank Albilad								
Net Sp Comm. Income	701	699	(0.2)	12.0	814	761	(6.6)	8.8
Non-interest income	575	623	8.4	31.3	676	747	10.4	19.8
Total op. income	1,276	1,323	3.7	20.3	1,491	1,508	1.1	14.0
Pre-provision profits	493	518	5.1	35.6	609	587	(3.7)	13.3
Provisions	198	209	5.5	(13.6)	197	173	(12.5)	(17.6)
Net income	287	301	4.8	239.1	402	404	0.5	34.3
Price Target (SR)					16.6	17.4	4.9	

Source: NCBC Research estimates

DECEMBER 2011

3Q11 summary

The Saudi banking sector's pre-provision income increased YoY after declining for two consecutive quarters. This was mainly attributed to strong growth in non-interest income. In addition, the decline in provision expenses enhanced net income growth on a YoY basis. Loan portfolio and customer deposits expanded in 3Q11; however a decline in NIMs continued to pressure net special commission income (NSCI) growth.

- Aggregate net income of banks under our coverage reported significant growth of 27.4% YoY to SR6,369mn in 3Q11. SAIB was the only bank reporting a YoY decline in net profits (down 3.3%). On the other hand Albilad, SHB and BJAZ witnessed 36.1x, 3.5x and 3.0x times growth respectively.
- Loans and investments continued to expand in 3Q11. According to SAMA data, Retail lending increased 10.0% YoY while corporate loans grew 7.5%. Loans and investments of banks under our coverage grew 9.1% and 14.3% YoY respectively. On a YoY basis, BJAZ's loans growth was the highest at 19.3% followed by AlRajhi's 13.7%, while on a QoQ basis, Samba's loans grew 7.2% followed by AlRajhi with 6.4%. SAIB was the only bank to record a decline in loans (down 2.4%).
- Customer deposits for banks under coverage grew 9.6% YoY. BJAZ, Albilad and Al Rajhi's recorded a significant growth YoY at 35.3%, 21.3% and 17.8% respectively.
- NSCI continued to decline (1.4% YoY) despite improved lending and investments mainly due to lower NIMs (30bps YoY decrease). Despite an expanded financing portfolio, Al Rajhi's NIMs decreased 105bps YoY leading to a 4.2% YoY decline in NSCI. SAIB's NSCI declined 14.2% YoY as its loan books decreased, while BJAZ's NSCI grew 19.8% YoY on higher loan and investment portfolios.
- Despite a decline in net special commission income, strong growth in fee income and exchange income at 29.8% and 29.2% YoY for banks under our coverage led to a 4.1% YoY growth in total operating income. In addition, increased income from FVIS and gains on non-trading investments off-set the decline in trading income. Al Rajhi's fee income grew 77.9% YoY while Albilad's remained the fastest growing bank in terms of total operating income which increased by 24.7% YoY on higher NSCI.
- Pre-provision profits increased 2.5% YoY after declining for two quarters. In addition, a 46.8% decline in provision charges enabled Saudi banks to post significant increase in net profits. SHB's provisions declined 90% YoY to SR24mn, while SAIB's provisions declined 23.3%, lower than peers'.

Exhibit 4: 3Q11 results – Combined results of banks under our coverage

In SR mn unless specified

	3Q11A	3Q10A	YoY chg (%)
Net Sp. Comm. income	7,726	7,836	(1.4)
Non-interest income	3,815	3,253	17.3
Total Operating income	11,542	11,088	4.1
Operating expenses	3,893	3,626	7.4
Pre-provision profits	7,649	7,462	2.5
Provisions	1,315	2,473	(46.8)
Net income	6,369	5,000	27.4
Loans	681,563	624,608	9.1
Deposits	847,849	773,423	9.6
Investments	239,111	209,212	14.3
Assets	1,128,399	1,033,302	9.2
Loan to customer deposit ratio (%)	80.4	80.8	(0.4)
NIMs (%)	2.9	3.2	(0.3)
ROA (%)	2.3	1.9	0.3
ROE (%)	15.7	13.2	2.5

Source: Company data, NCBC Research

RIYAD BANK



COMPANY UPDATE

Top-line performance remains strong

We remain Overweight on RIBL with a revised PT of SR31.1. We expect the bank's credit books to grow faster on a strong capital base and well established presence in retail as well as corporate banking. We expect increased retail loans to improve its NIMs and NSCI going forward and growing non-interest income to drive its top-line growth.

- Retail segment – driving credit growth**

RIBL's retail focus has enabled the bank to increase its consumer loan portfolio by 22.2% YoY and increased its share in total loans to 22.3% from 19.5% a year ago. In addition, its deposit mix has a higher share of demand deposits as compared to the costly time deposits. This is likely to benefit the bank in terms of maintaining and increasing NIMs in medium to long term.

- Non-interest income aided top-line growth while lower provision added to 3Q11 bottom-line growth.**

Strong YoY growth in fee income (21.2%) and exchange income (13.2%), together with the increased gains on non-trading investments increased RIBL's non-interest income by 16.1% YoY in 3Q11. We believe, the increased market share in brokerage as well as the growing core banking activities fuelled growth in fee income. In addition, RIBL's provision expenses decreased 49.6% YoY enabling 30.0% growth in net income. RIBL's asset quality remained one of the best amongst peers with a second best gross NPL ratio of 1.6% and NPL coverage of 131%.

- Higher cost-to-income ratio than peers**

RIBL's operating cost base is higher than its peers mainly due to its large branch network and retail operations. Its cost-to-income ratio for 9M11 has remained about 6% higher than its peers. Although, the bank has been able to maintain its bottom-line growth, the high cost base puts the bank in a disadvantageous position when compared to its peers.

- Valuation**

Although it has a higher cost-to-income ratio, RIBL's ability to grow loans, improve NIMs and improved asset quality keep us positive on the stock. We remain Overweight on RIBL's stock. The stock trades at P/E of 10.6x 2012E earnings and P/BV 1.2x 2012E book value.

Financial Summary

SR mn	2010A	2011E	2012E	2013E	2014E	CAGR (%)
Net Sp Comm Income	4,142	4,164	4,417	5,141	6,182	10.5
Non-Interest Income	1,839	2,022	2,306	2,671	3,100	14.0
Total Operating Income	5,980	6,186	6,723	7,811	9,283	11.6
Net Income	2,754	3,072	3,270	3,860	4,824	15.0
Loans	106,035	115,097	132,570	154,585	179,568	14.1
Deposits	126,945	136,384	154,646	177,242	205,684	12.8
Investments	33,822	35,708	39,779	44,493	50,410	10.5
Assets	173,556	183,651	204,452	230,253	262,478	10.9
EPS	1.8	2.0	2.2	2.6	3.2	15.0

Source: Company, NCBC Research estimates

OVERWEIGHT

Target price	31.1
Current price (SR)	23.15

STOCK DETAILS

M52-week range H/L (SR)	26.9/21.1
Market cap (\$mn)	9,260
Shares outstanding (mn)	1,500
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(1.9)	(1.9)	(13.9)
Rel. to market	(1.9)	(4.7)	(9.6)

Avg daily turnover (mn)	SR	US\$
3M	4.0	1.1
12M	9.8	2.6

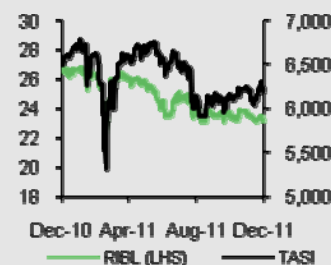
Reuters code	1010.SE
Bloomberg code	RIBL AB
	www.riyadbank.com

VALUATION MULTIPLES

	10A	11E	12E
P/E (x)	12.6	11.3	10.6
P/BV (x)	1.2	1.2	1.2
P/ABV (x)	1.2	1.2	1.1
Div Yield (%)	5.8	6.4	7.3

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Bloomberg, Tadawul

Farouk Miah, CFA +966 2 690 771
f.miah@ncbc.co

Iyad Ghulam +966 2 690 781
i.ghulam@ncbc.co

DECEMBER 2011

Financials

Exhibit 5: Income statement

In SR mn, unless otherwise stated, Year-end December 31.

	2009	2010	2011E	2012E	2013E	2014E
Special commission income	5,814	4,873	4,864	5,320	6,687	8,811
Special commission expense	(1,467)	(731)	(701)	(903)	(1,546)	(2,629)
Net special commission income	4,347	4,142	4,164	4,417	5,141	6,182
<i>Net interest margin (%)</i>	<i>2.7</i>	<i>2.4</i>	<i>2.4</i>	<i>2.4</i>	<i>2.5</i>	<i>2.6</i>
Fee income	1,223	1,418	1,556	1,800	2,104	2,463
Other Operating income	390	420	466	507	567	638
Total operating income	5,960	5,980	6,186	6,723	7,811	9,283
Pre-provision Operating Expenses	(2,193)	(2,306)	(2,521)	(2,763)	(3,082)	(3,442)
Provisions	(736)	(850)	(509)	(602)	(765)	(886)
Total operating expenses	(2,930)	(3,156)	(3,030)	(3,365)	(3,847)	(4,328)
Pre-provision profits	3,767	3,675	3,665	3,960	4,730	5,840
<i>Pre-provision profit margin (%)</i>	<i>63.2</i>	<i>61.4</i>	<i>59.2</i>	<i>58.9</i>	<i>60.5</i>	<i>62.9</i>
Net income before Zakat	3,030	2,825	3,155	3,358	3,964	4,954
Zakat	(85)	(71)	(83)	(88)	(104)	(130)
Net income after Zakat	2,945	2,754	3,072	3,270	3,860	4,824
<i>Net income margin (%)</i>	<i>49.4</i>	<i>46.0</i>	<i>49.7</i>	<i>48.6</i>	<i>49.4</i>	<i>52.0</i>

Source: Company, NCBC Research estimates

Exhibit 6: Balance Sheet

In SRmn, unless otherwise stated, Year-end December 31.

	2009	2010	2011E	2012E	2013E	2014E
Cash and balances with SAMA	23,419	23,179	21,149	19,324	16,917	16,457
Due from banks	8,704	4,689	5,149	5,555	5,992	6,406
Investments, net	32,308	33,822	35,708	39,779	44,493	50,410
Performing loans	107,027	106,510	115,688	133,269	155,473	180,674
Non performing loans	1,254	1,813	1,834	1,841	2,027	2,260
Loans and advances, net	106,515	106,035	115,097	132,570	154,585	179,568
Fixed assets, net	1,830	1,863	2,001	2,145	2,330	2,574
Other assets	3,623	3,969	4,546	5,079	5,936	7,064
Total assets	176,399	173,556	183,651	204,452	230,253	262,478
Due to banks	16,163	10,637	11,727	12,990	14,121	15,314
Customers' deposits	125,278	126,945	136,384	154,646	177,242	205,684
External borrowing	1,873	1,874	-	-	-	-
Other liabilities	4,849	4,867	5,098	5,658	6,514	7,618
Total liabilities	148,164	144,323	153,208	173,295	197,877	228,616
Share Capital	15,000	15,000	15,000	15,000	15,000	15,000
Reserves	11,587	12,502	13,291	14,130	15,121	15,814
Retained Earnings	513	611	768	768	768	1,066
Shareholders' funds	28,235	29,233	30,442	31,158	32,376	33,862
Total equity & liab	176,399	173,556	183,651	204,452	230,253	262,478

Source: Company, NCBC Research estimates

DECEMBER 2011

Exhibit 7: Key Ratios

Year-end December 31.

	2009	2010	2011E	2012E	2013E	2014E
Per share ratios (SR)						
EPS	2.0	1.8	2.0	2.2	2.6	3.2
Div per share	1.4	1.3	1.5	1.7	2.0	2.6
Book value per share	18.1	18.7	19.4	19.9	20.6	21.3
Adj Book value per share	18.4	19.1	19.8	20.4	21.2	22.0
Valuation ratios (x)						
P/E	11.8	12.6	11.3	10.6	9.0	7.2
P/BV	1.3	1.2	1.2	1.2	1.1	1.1
P/ABV	1.3	1.2	1.2	1.1	1.1	1.1
Div yield (%)	5.9	5.8	6.4	7.3	8.6	11.4
Profitability ratios (%)						
Yield on earning assets	3.58	2.88	2.82	2.84	3.19	3.71
Cost of funds	1.08	0.52	0.49	0.57	0.86	1.27
Spreads	2.50	2.36	2.33	2.27	2.33	2.44
Net Interest Margins	2.67	2.45	2.41	2.36	2.45	2.60
ROE	11.2	9.8	10.6	10.9	12.5	15.0
ROA	1.8	1.6	1.8	1.7	1.8	2.0
Liquidity ratios (%)						
Loans/ Customer Deposits	85.0	83.5	84.4	85.7	87.2	87.3
Loan/Total deposits	74.3	76.0	77.7	79.1	80.8	81.3
Investments/Customer Deposits	25.8	26.6	26.2	25.7	25.1	24.5
Capitalization ratios (%)						
Total cap. adequacy	18.2	18.3	19.3	17.4	15.7	14.3
Equity/Total assets	16.0	16.8	16.6	15.2	14.1	12.9
Loans/Assets	60.4	61.1	62.7	64.8	67.1	68.4
Investments/Assets	18.3	19.5	19.4	19.5	19.3	19.2
Asset quality ratios (%)						
Gross NPLs	1.2	1.7	1.6	1.4	1.3	1.2
Net NPLs	(0.5)	(0.4)	(0.5)	(0.5)	(0.6)	(0.6)
Provisions cover	140.9	126.2	132.2	138.0	143.8	148.9
Efficiency ratios (SR mn)						
Cost/Income (%)	36.8	38.6	40.8	41.1	39.5	37.1
Assets per employee	33.9	32.9	31.3	31.9	33.6	36.3
Optg revenue per employee	1.2	1.1	1.1	1.1	1.2	1.4
Staff cost per employee	0.2	0.2	0.2	0.2	0.2	0.3
Net profit per employee	0.6	0.5	0.6	0.6	0.6	0.7
Assets per branch	805.9	765.8	733.5	780.9	857.4	962.4
Optg revenue per branch	28.6	26.2	25.4	27.1	30.8	36.3
Optg expense per branch	10.5	10.1	10.4	11.1	12.2	13.4
Net profit per branch	14.5	12.4	13.0	13.5	15.6	19.4

Source: Company, NCBC Research estimates

BANK ALJAZIRA



COMPANY UPDATE

Aggressive growth fairly valued

We remain Neutral on BJAZ with a revised PT of SR18.2. Expanded loans with a retail focus is likely to grow BJAZ's NSCI and top-line, but we remain cautious due to the bank's deposit mix, low operating efficiency and relatively low NPL coverage. We believe the good growth outlook is priced-in at current levels.

- Expanded loan books to contribute towards core banking income**

The bank's focus on core banking has positively contributed towards BJAZ's growth. Loans have expanded significantly as compared to peers. Basel II data highlights that the bank has been focusing on the mortgage market for expansion as its mortgage exposure grew 17 times from 4Q10 to 2Q11 to SR1.97bn and its market share increased from 0.4% to 5.1% during the same period. The expansion in loan book and the increasing focus on retail (particularly mortgage) is likely to enable the bank to maintain its yield on assets and grow NSCI.

- Increased NSCI and reduced provisions led to 3x growth in 3Q11 profits**

BJAZ's NSCI grew 19.8%YoY owing to expanded loan books. This enabled the bank to offset the decline in brokerage income and to post broadly flat growth in total operating income for 3Q11. Also, lower provisions on credit losses absorbed the increase in operating expenses and improved net profits.

- High cost of funds and operating expenses poses downside risk**

The higher share of time deposits in its total customer deposit mix keeps the cost of funds higher than peers which lead to lower NIMs. Additionally, BJAZ's aggressive expansion strategy increased its operating expenses 15.4% YoY for 9M11. The cost-to-income ratio also increased to 71% from 60.5% for 9M11. Further to this, BJAZ's NPL coverage ratio of 112% is relatively low compared to the industry's 129%.

- Valuation**

BJAZ's loans and fee income grew aggressively during 9M11. However, we remain cautious on the bank's low NIMs, high cost-to-income ratio and relatively low NPL coverage which poses a risk of higher expenses. Hence, we remain Neutral on BJAZ with a revised PT of SR18.2. Currently, the stock trades at a P/E of 13.2x 2012E earnings and P/B of 0.9x 2012E book value.

Financial Summary

SR mn	2010A	2011E	2012E	2013E	2014E	CAGR (%)
Net Sp Comm Income	717	796	906	1,085	1,312	16.3
Non-Interest Income	438	413	512	618	695	12.3
Total Operating Income	1,155	1,209	1,418	1,703	2,007	14.8
Net Income	28	247	371	513	651	119.2
Loans	18,704	23,225	27,466	32,471	36,929	18.5
Deposits	27,345	31,075	36,729	42,131	47,632	14.9
Investments	4,546	5,290	6,373	7,122	7,945	15.0
Assets	33,018	38,278	44,970	51,457	57,970	15.1
EPS	0.1	0.8	1.2	1.7	2.2	119.2

Source: Company, NCBC Research estimates

Please refer to the last page for important disclaimer

NEUTRAL

Target price	18.2
Current price (SR)	16.35

STOCK DETAILS

M52-week range H/L (SR)	20.3/15.0
Market cap (\$mn)	1,308
Shares outstanding (mn)	300
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(1.5)	(1.8)	(1.8)
Rel. to market	(1.5)	(4.6)	2.6

Avg daily turnover (mn)	SR	US\$
3M	4.3	1.2
12M	7.8	2.1

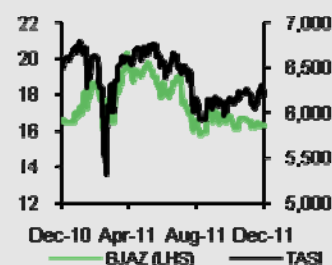
Reuters code	1020.SE
Bloomberg code	BJAZ AB
	www.baj.com.sa

VALUATION MULTIPLES

	10A	11E	12E
P/E (x)	NA	19.8	13.2
P/BV (x)	1.0	1.0	0.9
P/ABV (x)	1.1	1.0	0.9
Div Yield (%)	-	-	-

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Bloomberg, Tadawul

Farouk Miah, CFA +966 2 690 771
f. miah@ncbc.cor

Iyad Ghulam +966 2 690 781
i.ghulam@ncbc.cor

DECEMBER 2011

Financials

Exhibit 8: Income statement

In SR mn, unless otherwise stated, Year-end December 31.

	2009	2010	2011E	2012E	2013E	2014E
Special commission income	961	868	974	1,148	1,481	1,934
Special commission expense	(293)	(151)	(178)	(242)	(396)	(623)
Net special commission income	668	717	796	906	1,085	1,312
<i>Net interest margin (%)</i>	<i>2.4</i>	<i>2.4</i>	<i>2.3</i>	<i>2.3</i>	<i>2.4</i>	<i>2.5</i>
Fee income	376	265	344	434	527	592
Other Operating income	127	172	69	79	91	104
Total operating income	1,171	1,155	1,209	1,418	1,703	2,007
Pre-provision Operating Expenses	(726)	(764)	(836)	(891)	(996)	(1,102)
Provisions	(417)	(362)	(119)	(146)	(181)	(236)
Total operating expenses	(1,143)	(1,126)	(955)	(1,037)	(1,176)	(1,338)
Pre-provision profits	445	391	373	527	708	905
<i>Pre-provision profit margin (%)</i>	<i>38.0</i>	<i>33.8</i>	<i>30.9</i>	<i>37.2</i>	<i>41.6</i>	<i>45.1</i>
Net income before Zakat	28	29	253	380	526	667
Zakat	-	(1)	(6)	(9)	(12)	(16)
Net income after Zakat	28	28	247	371	513	651
<i>Net income margin (%)</i>	<i>2.4</i>	<i>2.4</i>	<i>20.4</i>	<i>26.2</i>	<i>30.1</i>	<i>32.4</i>

Source: Company, NCBC Research estimates

Exhibit 9: Balance Sheet

In SRmn, unless otherwise stated, Year-end December 31.

	2009	2010	2011E	2012E	2013E	2014E
Cash and balances with SAMA	1,405	2,608	3,913	4,569	4,390	4,635
Due from banks	7,236	5,580	4,224	4,648	5,252	5,930
Investments, net	4,284	4,546	5,290	6,373	7,122	7,945
Performing loans	15,080	18,498	23,313	27,631	32,702	37,229
Non performing loans	1,217	1,330	1,090	1,136	1,225	1,365
Loans and advances, net	15,504	18,704	23,225	27,466	32,471	36,929
Fixed assets, net	501	462	490	526	576	638
Other assets	1,047	1,117	1,137	1,387	1,646	1,893
Total assets	29,977	33,018	38,278	44,970	51,457	57,970
Due to banks	2,691	389	420	1,024	1,529	1,909
Customers' deposits	22,142	27,345	31,075	36,729	42,131	47,632
External borrowing						
Other liabilities	449	479	804	857	961	1,077
Total liabilities	25,282	28,213	33,299	39,609	45,621	51,618
Share Capital	3,000	3,000	3,000	3,000	3,000	3,000
Reserves	1,458	1,467	1,639	1,734	1,866	2,032
Retained Earnings	28	49	129	414	703	1,003
Shareholders' funds	4,694	4,806	4,980	5,361	5,836	6,352
Total equity & liab	29,977	33,018	38,278	44,970	51,457	57,970

Source: Company, NCBC Research estimates

DECEMBER 2011

Exhibit 10: Key Ratios

Year-end December 31.

	2009	2010	2011E	2012E	2013E	2014E
Per share ratios (SR)						
EPS	0.1	0.1	0.8	1.2	1.7	2.2
Div per share	0.6	-	-	-	0.4	0.7
Book value per share	15.6	16.0	16.6	17.9	19.3	20.8
Adj Book value per share	13.5	14.4	16.2	17.7	19.3	21.1
Valuation ratios (x)						
P/E	NA	173.7	19.8	13.2	9.6	7.5
P/BV	1.0	1.0	1.0	0.9	0.8	0.8
P/ABV	1.2	1.1	1.0	0.9	0.8	0.8
Div yield (%)	3.5	-	-	-	2.1	4.1
Profitability ratios (%)						
Yield on earning assets	3.52	2.90	2.86	2.88	3.21	3.70
Cost of funds	1.25	0.57	0.60	0.70	0.97	1.34
Spreads	2.27	2.33	2.26	2.18	2.24	2.36
Net Interest Margins	2.44	2.40	2.34	2.27	2.35	2.51
ROE	0.6	0.6	5.2	7.3	9.4	10.9
ROA	0.1	0.1	0.7	0.9	1.1	1.2
Liquidity ratios (%)						
Loans/ Customer Deposits	70.0	68.4	74.7	74.8	77.1	77.5
Loan/Total deposits	62.4	67.4	73.7	72.8	74.4	74.5
Investments/Customer Deposits	19.3	16.6	17.0	17.4	16.9	16.7
Capitalization ratios (%)						
Total cap. adequacy	17.7	15.7	17.7	16.1	14.7	13.9
Equity/Total assets	15.7	14.6	13.0	11.9	11.3	11.0
Loans/Assets	51.7	56.6	60.7	61.1	63.1	63.7
Investments/Assets	14.3	13.8	13.8	14.2	13.8	13.7
Asset quality ratios (%)						
Gross NPLs	7.5	6.7	4.5	3.9	3.6	3.5
Net NPLs	2.6	1.0	(0.4)	(0.6)	(0.7)	(0.8)
Provisions cover	65.2	84.5	108.1	114.5	118.9	122.0
Efficiency ratios (SR mn)						
Cost/Income (%)	62.0	66.2	69.1	62.8	58.4	54.9
Assets per employee	15.4	17.7	19.1	21.2	23.3	25.7
Optg revenue per employee	0.6	0.6	0.6	0.7	0.8	0.9
Staff cost per employee	0.2	0.2	0.3	0.3	0.3	0.3
Net profit per employee	0.0	0.0	0.1	0.2	0.3	0.3
Assets per branch	798.6	656.2	727.5	816.2	909.7	1,003.9
Optg revenue per branch	32.5	24.1	24.7	27.8	32.1	36.8
Optg expense per branch	20.2	15.9	17.1	17.5	18.8	20.2
Net profit per branch	0.8	0.6	5.2	7.5	9.9	12.2

Source: Company, NCBC Research estimates

THE SAUDI INVESTMENT BANK



COMPANY UPDATE

Attractive valuation to enter the stock

We remain Overweight on SAIB with a revised PT of SR21.5. We believe SAIB's lower share price and P/B of 0.9x offers an attractive valuation. We expect the bank's improved NPL coverage ratio to enable an expansion in loans from 2012 onwards. We expect an increased share of retail loans to maintain NIMs and strong fee income to contribute towards top-line growth.

- Improved NPL coverage and positive sector outlook to fuel loan growth**
 SAIB's NPL coverage increased to 121% in 3Q11 from 108% in 3Q10. We believe the improved NPL coverage and the positive sector outlook will enable the bank to grow its net loans. SAIB's focus on the retail segment has increased the share of the retail loans in total loans to 16.2% in 3Q11 from 12.7% in 3Q10. We expect its loan to grow 7.2% YoY in 2012 and the retail focus to improve NIMs.
- Subdued top-line and higher operating costs depressed 3Q11 profits**
 A subdued loan and investment portfolio, together with declining NIMs, decreased SAIB's NSCI for the quarter by 14.2% YoY. The non-interest income growth of 8.3% YoY partially negated the decline in NSCI. Consequently, the top-line decreased 9.7% YoY. In addition, increased operating expenses pressured net income for the quarter which declined 3.3% YoY.
- Strong fee income but lower gain on sale of investments**
 We increase SAIB's fee income forecast for 2011 and 2012 as increased banking activities and trading on TASI has positively contributed towards growth in fee income for 9M2011. This is likely to partially offset the decline in NSCI (caused by cautious lending approach). Although positive on fee income, we remain cautious on the bank's ability to grow its top-line in the short term as the bank's investment income, which contributed 7.1% in 2010, has remained subdued due to the volatile market.
- Remain overweight given loan expansion potential**
 At the current price of SR15.65, SAIB's stock indicates a 13.1% YTD decline. However, we believe the current P/B of 0.9x 2012E, a 39% discount to the industry P/B, underestimates SAIB's ability to expand loans on the backdrop of an improved NPL coverage which will generate strong fee income.

Financial Summary

SR mn	2010A	2011E	2012E	2013E	2014E	CAGR (%)
Net Sp Comm Income	1,315	1,242	1,273	1,437	1,712	6.8
Non-Interest Income	434	388	432	495	585	7.7
Total Operating Income	1,749	1,630	1,705	1,932	2,297	7.0
Net Income	425	713	760	911	1,144	28.1
Loans	31,002	31,120	33,372	37,897	43,455	8.8
Deposits	37,215	37,405	40,208	45,037	51,296	8.4
Investments	8,060	7,800	8,474	9,207	10,098	5.8
Assets	51,491	52,249	55,849	62,386	70,546	8.2
EPS	0.8	1.3	1.4	1.7	2.1	28.1

Source: Company, NCBC Research estimates

OVERWEIGHT

Target price	21.5
Current price (SR)	15.65

STOCK DETAILS

M52-week range H/L (SR)	20.5/15.4
Market cap (\$mn)	2,295
Shares outstanding (mn)	550
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(3.7)	(11.6)	(11.9)
Rel. to market	(3.7)	(14.4)	(7.5)

Avg daily turnover (mn)	SR	US\$
3M	2.1	0.5
12M	2.0	0.5

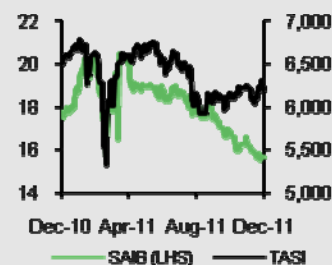
Reuters code	1030.SE
Bloomberg code	SIBC AB
	www.saib.com.sa

VALUATION MULTIPLES

	10A	11E	12E
P/E (x)	20.2	12.1	11.3
P/BV (x)	1.1	1.0	0.9
P/ABV (x)	1.0	0.9	0.8
Div Yield (%)	-	-	-

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Bloomberg, Tadawul

Farouk Miah, CFA +966 2 690 7717
f.miah@ncbc.com

Iyad Ghulam +966 2 690 7811
i.ghulam@ncbc.com

DECEMBER 2011

Financials

Exhibit 11: Income statement

In SR mn, unless otherwise stated, Year-end December 31.

	2009	2010	2011E	2012E	2013E	2014E
Special commission income	1,843	1,674	1,557	1,616	1,935	2,454
Special commission expense	(828)	(359)	(314)	(343)	(498)	(742)
Net special commission income	1,014	1,315	1,242	1,273	1,437	1,712
<i>Net interest margin (%)</i>	<i>2.1</i>	<i>2.8</i>	<i>2.6</i>	<i>2.6</i>	<i>2.7</i>	<i>2.8</i>
Fee income	240	242	303	336	384	460
Other Operating income	263	193	84	96	112	125
Total operating income	1,517	1,749	1,630	1,705	1,932	2,297
Pre-provision Operating Expenses	(539)	(559)	(601)	(648)	(717)	(808)
Provisions	(555)	(845)	(377)	(363)	(376)	(421)
Total operating expenses	(1,094)	(1,404)	(977)	(1,012)	(1,093)	(1,229)
Pre-provision profits	978	1,190	1,029	1,057	1,215	1,489
<i>Pre-provision profit margin (%)</i>	<i>64.4</i>	<i>68.0</i>	<i>63.1</i>	<i>62.0</i>	<i>62.9</i>	<i>64.8</i>
Net income before Zakat	522	429	729	778	932	1,170
Zakat	(27)	(4)	(16)	(18)	(21)	(26)
Net income after Zakat	495	425	713	760	911	1,144
<i>Net income margin (%)</i>	<i>32.6</i>	<i>24.3</i>	<i>43.7</i>	<i>44.6</i>	<i>47.2</i>	<i>49.8</i>

Source: Company, NCBC Research estimates

Exhibit 12: Balance Sheet

In SRmn, unless otherwise stated, Year-end December 31.

	2009	2010	2011E	2012E	2013E	2014E
Cash and balances with SAMA	1,528	1,442	2,311	2,600	2,743	3,303
Due from banks	5,266	8,043	8,229	8,516	9,451	10,222
Investments, net	10,737	8,060	7,800	8,474	9,207	10,098
Performing loans	29,251	31,188	31,431	33,846	38,535	44,316
Non performing loans	1,786	1,791	1,900	1,759	1,561	1,391
Loans and advances, net	29,785	31,002	31,120	33,372	37,897	43,455
Investment in associate	817	865	951	1,046	1,151	1,266
Fixed assets, net	707	748	848	898	958	1,035
Other assets	1,309	1,332	989	943	979	1,167
Total assets	50,148	51,491	52,249	55,849	62,386	70,546
Due to banks	3,212	4,896	3,693	4,134	4,748	5,455
Customers' deposits	38,247	37,215	37,405	40,208	45,037	51,296
External borrowing	500	500	1,500	1,000	1,000	1,000
Other liabilities	761	739	771	839	1,026	1,292
Total liabilities	42,720	43,350	43,369	46,180	51,811	59,043
Share Capital	4,500	4,500	5,500	5,500	5,500	5,500
Reserves	2,133	2,507	2,689	2,883	3,116	3,409
Retained Earnings	803	1,124	671	1,255	1,768	2,294
Shareholders' funds	7,428	8,141	8,880	9,668	10,575	11,503
Total equity & liab	50,148	51,491	52,249	55,849	62,386	70,546

Source: Company, NCBC Research estimates

DECEMBER 2011

Exhibit 13: Key Ratios

Year-end December 31.

	2009	2010	2011E	2012E	2013E	2014E
Per share ratios (SR)						
EPS	1.1	0.9	1.3	1.4	1.7	2.1
Div per share	-	-	-	-	0.3	0.6
Book value per share	16.5	18.1	16.1	17.6	19.0	20.5
Adj Book value per share	15.4	18.5	16.7	18.4	20.1	22.0
Valuation ratios (x)						
P/E	17.4	20.2	12.1	11.3	9.4	7.5
P/BV	1.2	1.1	1.0	0.9	0.8	0.8
P/ABV	1.2	1.0	0.9	0.8	0.8	0.7
Div yield (%)	-	-	-	-	2.2	4.1
Profitability ratios (%)						
Yield on earning assets	3.74	3.49	3.18	3.16	3.45	3.88
Cost of funds	1.88	0.85	0.74	0.78	1.04	1.37
Spreads	1.86	2.64	2.44	2.38	2.41	2.52
Net Interest Margins	2.12	2.83	2.64	2.61	2.69	2.85
ROE	7.4	5.5	8.6	8.4	9.2	10.6
ROA	1.0	0.8	1.4	1.4	1.6	1.8
Liquidity ratios (%)						
Loans/ Customer Deposits	77.9	83.3	83.2	83.0	84.1	84.7
Loan/Total deposits	71.0	72.8	73.1	73.6	74.6	75.2
Investments/Customer Deposits	28.1	21.7	20.9	21.1	20.4	19.7
Capitalization ratios (%)						
Total cap. adequacy	14.5	17.3	20.1	20.7	20.2	19.4
Equity/Total assets	14.8	15.8	17.0	17.3	17.0	16.3
Loans/Assets	59.4	60.2	59.6	59.8	60.7	61.6
Investments/Assets	21.4	15.7	14.9	15.2	14.8	14.3
Asset quality ratios (%)						
Gross NPLs	5.8	5.4	5.7	4.9	3.9	3.0
Net NPLs	1.7	(0.6)	(0.9)	(1.3)	(1.6)	(1.9)
Provisions cover	70.1	110.4	116.3	127.0	140.8	161.9
Efficiency ratios (SR mn)						
Cost/Income (%)	35.6	32.0	36.9	38.0	37.1	35.2
Assets per employee	47.1	47.9	47.8	46.0	47.3	49.2
Optg revenue per employee	1.4	1.6	1.5	1.4	1.5	1.7
Staff cost per employee	0.3	0.3	0.3	0.3	0.4	0.4
Net profit per employee	0.5	0.4	0.7	0.7	0.7	0.9
Assets per branch	1,347.3	1,155.0	1,115.5	1,103.0	1,159.2	1,254.1
Optg revenue per branch	39.4	39.8	35.0	34.8	37.9	43.3
Optg expense per branch	14.0	12.7	12.9	13.2	14.1	15.2
Net profit per branch	13.5	9.8	15.7	15.9	18.3	22.1

Source: Company, NCBC Research estimates

SAUDI HOLLANDI BANK



COMPANY UPDATE

Increasing loans, improving asset quality

We remain Overweight on SHB with a revised PT of SR34.6. We expect the bank's NSCI to grow as loan book expansion will improve its top-line growth. In addition, lower provision expenses will enhance the bottom-line for 4Q11.

- NSCI to aid top-line growth**

We revise SHB's net special commission income upward by 6.7% as we expect the recent expansion in loans to translate into an increase in NSCI. The bank's loan grew 6.0% and 2.9% QoQ in 2Q11 and 3Q11 respectively. Consequently, its NSCI increased 17.4% QoQ and 5.1% YoY in 3Q11. We expect a 10.7% YoY growth in NSCI for 4Q11 to drive the growth in total operating income for 4Q11.

- Lower provisions improved 3Q11 bottom-line**

SHB's net profits grew 3.5 times YoY mainly due to a 90% decline in provision expense. The bank's total operating income remained almost flat on a YoY basis and pre-provision income declined 3.5% YoY. However, improved asset quality enabled the bank to reduce its provision charges and book robust growth in net income. The bank's gross NPL ratio and NPL coverage ratio at the end of 3Q11 stood at 2.2% and 145.5% as compared to 2.7% and 126.3% in 2Q11. Hence, we revise our provision estimates downward by 34% for 2011.

- Growth in investment income to add to non-interest income**

SHB's trading income and gains on non-trading investment remained subdued in 9M11 as compared to 9M10 which resulted in only a 5.4% YoY growth in the non-interest income despite a 16% YoY growth in fee income and 22% growth in exchange income. Any growth in the trading income and gains on non-trading investment will further add to the top-line growth.

- Valuation**

Expected increase in NSCI and significantly reduced provision expenses has increased our net income forecast for 2011 by 23% and 8.3% for 2012. Hence, we remain Overweight on SHB's stock with a P/E of 8.7x 2012E earnings and P/BV of 1.2x 2012E book value.

Financial Summary

SR mn	2010A	2011E	2012E	2013E	2014E	CAGR (%)
Net Sp Comm Income	1,287	1,325	1,402	1,633	1,949	10.9
Non-Interest Income	667	688	782	898	1,030	11.5
Total Operating Income	1,954	2,013	2,184	2,532	2,979	11.1
Net Income	775	1,009	1,079	1,213	1,501	18.0
Loans	35,039	36,493	41,709	48,280	56,403	12.6
Deposits	41,604	44,886	49,616	57,822	66,618	12.5
Investments	11,752	12,435	13,638	15,332	17,022	9.7
Assets	53,882	56,950	62,619	71,901	81,846	11.0
EPS	2.3	3.1	3.3	3.7	4.5	18.0

Source: Company, NCBC Research estimates

OVERWEIGHT

Target price	34.6
Current price (SR)	28.30

STOCK DETAILS

M52-week range H/L (SR)	32.8/25.7
Market cap (\$mn)	2,496
Shares outstanding (mn)	331
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(0.4)	7.2	(7.2)
Rel. to market	(0.4)	4.4	(2.9)

Avg daily turnover (mn)	SR	US\$
3M	1.9	0.5
12M	2.5	0.7

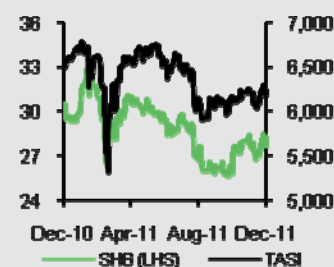
Reuters code	1040.SE
Bloomberg code	AAAL AB
	www.shb.com.sa

VALUATION MULTIPLES

	10A	11E	12E
P/E (x)	12.1	9.3	8.7
P/BV (x)	1.5	1.3	1.2
P/ABV (x)	1.4	1.2	1.1
Div Yield (%)	-	2.2	3.5

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Bloomberg, Tadawul

Farouk Miah, CFA +966 2 690 7717
f.miah@ncbc.com

Iyad Ghulam +966 2 690 7811
i.ghulam@ncbc.com

DECEMBER 2011

Financials

Exhibit 14: Income statement

In SR mn, unless otherwise stated, Year-end December 31.

	2009	2010	2011E	2012E	2013E	2014E
Special commission income	2,280	1,625	1,589	1,726	2,153	2,839
Special commission expense	(710)	(338)	(265)	(324)	(520)	(891)
Net special commission income	1,570	1,287	1,325	1,402	1,633	1,949
<i>Net interest margin (%)</i>	<i>2.7</i>	<i>2.3</i>	<i>2.5</i>	<i>2.4</i>	<i>2.5</i>	<i>2.6</i>
Fee income	366	455	509	583	674	780
Other Operating income	211	212	180	199	224	250
Total operating income	2,147	1,954	2,013	2,184	2,532	2,979
Pre-provision Operating Expenses	(812)	(772)	(799)	(881)	(977)	(1,079)
Provisions	(1,248)	(398)	(190)	(208)	(323)	(376)
Total operating expenses	(2,061)	(1,170)	(989)	(1,090)	(1,300)	(1,455)
Pre-provision profits	1,334	1,182	1,214	1,303	1,555	1,900
<i>Pre-provision profit margin (%)</i>	<i>62.2</i>	<i>60.5</i>	<i>60.3</i>	<i>59.7</i>	<i>61.4</i>	<i>63.8</i>
Net income before Zakat	86	790	1,024	1,095	1,231	1,524
Zakat	(3)	(15)	(15)	(16)	(18)	(23)
Net income after Zakat	83	775	1,009	1,079	1,213	1,501
<i>Net income margin (%)</i>	<i>3.9</i>	<i>39.7</i>	<i>50.1</i>	<i>49.4</i>	<i>47.9</i>	<i>50.4</i>

Source: Company, NCBC Research estimates

Exhibit 15: Balance Sheet

In SRmn, unless otherwise stated, Year-end December 31.

	2009	2010	2011E	2012E	2013E	2014E
Cash and balances with SAMA	9,270	5,000	6,191	5,250	5,981	5,750
Due from banks	139	309	364	419	478	532
Investments, net	12,132	11,752	12,435	13,638	15,332	17,022
Performing loans	36,028	35,266	36,900	42,199	48,824	57,010
Non performing loans	2,241	931	813	846	892	964
Loans and advances, net	36,023	35,039	36,493	41,709	48,280	56,403
Investment in associate	20	20	20	19	19	19
Fixed assets, net	497	495	528	562	608	669
Other assets	1,030	1,268	919	1,021	1,204	1,451
Total assets	59,110	53,882	56,950	62,619	71,901	81,846
Due to banks	5,757	2,857	1,710	1,772	1,860	1,953
Customers' deposits	44,827	41,604	44,886	49,616	57,822	66,618
External borrowing	1,500	1,500	1,500	1,500	1,500	1,500
Other liabilities	1,393	1,535	1,443	1,594	1,822	2,119
Total liabilities	53,477	47,495	49,538	54,482	63,004	72,191
Share Capital	3,308	3,308	3,308	3,308	3,308	3,308
Reserves	2,075	2,235	2,491	2,764	3,072	3,408
Retained Earnings	228	821	1,384	1,877	2,185	2,459
Shareholders' funds	5,633	6,387	7,411	8,137	8,897	9,656
Total equity & liab	59,110	53,882	56,950	62,619	71,901	81,846

Source: Company, NCBC Research estimates

DECEMBER 2011

Exhibit 16: Key Ratios

Year-end December 31.

	2009	2010	2011E	2012E	2013E	2014E
Per share ratios (SR)						
EPS	0.3	2.3	3.1	3.3	3.7	4.5
Div per share	-	-	0.6	1.0	1.9	2.8
Book value per share	17.0	19.3	21.8	24.1	26.0	27.8
Adj Book value per share	17.0	20.0	23.0	25.5	27.6	29.6
Valuation ratios (x)						
P/E	NA	12.1	9.3	8.7	7.7	6.2
P/BV	1.7	1.5	1.3	1.2	1.1	1.0
P/ABV	1.7	1.4	1.2	1.1	1.0	1.0
Div yield (%)	-	-	2.2	3.5	6.6	9.8
Profitability ratios (%)						
Yield on earning assets	3.89	2.96	2.95	2.96	3.29	3.79
Cost of funds	1.34	0.69	0.56	0.64	0.91	1.36
Spreads	2.55	2.27	2.39	2.32	2.37	2.43
Net Interest Margins	2.68	2.35	2.46	2.41	2.49	2.60
ROE	1.5	13.2	14.8	14.1	14.5	16.4
ROA	0.1	1.4	1.8	1.8	1.8	2.0
Liquidity ratios (%)						
Loans/ Customer Deposits	80.4	84.2	81.3	84.1	83.5	84.7
Loan/Total deposits	69.2	76.2	75.9	78.9	78.9	80.5
Investments/Customer Deposits	27.1	28.2	27.7	27.5	26.5	25.6
Capitalization ratios (%)						
Total cap. adequacy	14.8	16.3	19.4	18.8	17.5	16.0
Equity/Total assets	9.5	11.9	13.0	13.0	12.4	11.8
Loans/Assets	60.9	65.0	64.1	66.6	67.1	68.9
Investments/Assets	20.5	21.8	21.8	21.8	21.3	20.8
Asset quality ratios (%)						
Gross NPLs	5.9	2.6	2.2	2.0	1.8	1.7
Net NPLs	(0.0)	(0.6)	(1.1)	(1.1)	(1.1)	(1.0)
Provisions cover	100.2	124.4	150.1	157.9	161.1	163.0
Efficiency ratios (SR mn)						
Cost/Income (%)	37.8	39.5	39.7	40.3	38.6	36.2
Assets per employee	36.7	35.7	34.5	36.3	40.0	44.7
Optg revenue per employee	1.3	1.2	1.3	1.3	1.5	1.7
Staff cost per employee	0.3	0.3	0.3	0.3	0.3	0.3
Net profit per employee	0.1	0.5	0.6	0.7	0.7	0.9
Assets per branch	1,418.2	1,313.9	1,259.5	1,343.5	1,478.2	1,653.2
Optg revenue per branch	50.5	45.4	45.8	49.1	55.6	64.1
Optg expense per branch	19.1	18.0	18.2	19.8	21.5	23.2
Net profit per branch	2.0	18.4	23.3	24.6	27.1	32.8

Source: Company, NCBC Research estimates

BANQUE SAUDI FRANSI



COMPANY UPDATE

Loan growth to outperform industry

We remain Overweight on BSF with a PT of SR51.7. BSF's retail focus and strong corporate franchise is likely to enable the bank to outperform the industry's loan growth. Increased share of retail loans should safeguard NIMs, with excellent asset quality to aid bottom-line performance, offsetting the increase in operating costs.

- Increase in loan forecast for 2011 puts BSF ahead of peer average**
 We increase BSF's net loan forecast for 2011 by 2.7% and expect it to outperform industry loan growth. We expect BSF's loan book to grow 12.6% YoY in 2011 and at a CAGR of 14.5% during 2010-15 vs. listed banks under our coverage's aggregate growth of 11.2% for 2011 and CAGR of 13.2%. The bank's retail focus and corporate franchise should enable it to grow its loan portfolio in both segments faster than the industry average.
- Strong fee income and good asset quality led to increase in net income**
 BSF's fee income grew 32% YoY in 3Q11, mainly due to increased trading and banking activity, aiding top-line growth of 7.3% YoY. In addition, a 63.5% YoY decline in provisions led to a 22.3% bottom-line growth. This is mainly because BSF's asset quality remained one of the best with gross NPL ratio at 1.2% and NPL coverage ratio of 140.6% in 3Q11. Going forward, we expect excellent loan quality to translate into low provisions, improving bottom-line performance. We lower our provision estimate by 19.6% for 2011.
- Increase in operating costs limits pre-provision income growth**
 Although we expect 5.7% YoY growth in BSF's top-line for 2011, our pre-provision profit shows a growth of just 1.2% YoY. This is mainly attributable to the increase in operating expenses due to a change in the bank's focus to the retail segment. BSF enjoyed cost leadership in the past due to its corporate focus. We believe expanding in the retail segment is likely to increase BSF's operating costs in the short term, affecting its pre-provision profits, but in the long term this will lead to improved NIMs.
- Strong retail loan growth to support growth; remain Overweight**
 We maintain our Overweight rating on the bank's stock with a revised PT of SR51.7. We believe strong loan growth, particularly in the retail segment will improve its net spreads and NSCI in the future, enabling it to absorb increased costs. BSF's valuation at a P/E of 9.1x 2012E earnings and P/BV of 1.5x 2012E book value are attractive.

Financial Summary

SR mn	2010A	2011E	2012E	2013E	2014E	CAGR (%)
Net Sp Comm Income	3,066	3,149	3,397	3,967	4,754	11.6
Non-Interest Income	1,329	1,496	1,767	2,055	2,373	15.6
Total Operating Income	4,395	4,646	5,164	6,022	7,127	12.8
Net Income	2,547	2,959	3,319	3,929	4,813	17.2
Loans	80,977	91,160	103,818	120,188	140,143	14.7
Deposits	93,529	99,554	114,052	132,205	154,888	13.4
Investments	19,841	19,911	21,845	24,268	27,253	8.3
Assets	123,218	131,673	149,386	169,542	196,434	12.4
EPS	3.5	4.1	4.6	5.4	6.7	17.2

Source: Company, NCBC Research estimates

OVERWEIGHT

Target price	51.7
Current price (SR)	41.8

STOCK DETAILS

M52-week range H/L (SR)	50.0/35.6
Market cap (\$mn)	8,061
Shares outstanding (mn)	723.2
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(0.5)	3.2	(6.9)
Rel. to market	(0.5)	0.4	(2.5)

Avg daily turnover (mn)	SR	US\$
3M	5.1	1.4
12M	6.3	1.7

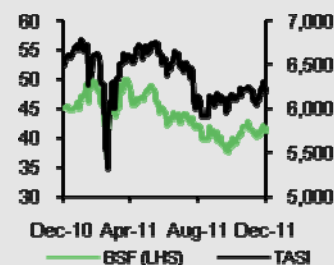
Reuters code	1050.SE
Bloomberg code	BSFR AB
	www.alfransi.com.sa

VALUATION MULTIPLES

	10A	11E	12E
P/E (x)	11.9	10.2	9.1
P/BV (x)	1.8	1.6	1.5
P/ABV (x)	1.7	1.6	1.4
Div Yield (%)	3.6	4.0	5.0

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Bloomberg, Tadawul

Farouk Miah, CFA +966 2 690 771
f.miah@ncbc.cor

Iyad Ghulam +966 2 690 781
i.ghulam@ncbc.cor

DECEMBER 2011

Financials

Exhibit 17: Income statement

In SR mn, unless otherwise stated, Year-end December 31.

	2009	2010	2011E	2012E	2013E	2014E
Special commission income	4,089	3,537	3,627	3,998	4,896	6,326
Special commission expense	(1,039)	(471)	(477)	(601)	(929)	(1,571)
Net special commission income	3,050	3,066	3,149	3,397	3,967	4,754
<i>Net interest margin (%)</i>	2.6	2.6	2.6	2.5	2.6	2.7
Fee income	840	887	1,091	1,305	1,525	1,771
Other Operating income	404	442	405	461	530	602
Total operating income	4,295	4,395	4,646	5,164	6,022	7,127
Pre-provision Operating Expenses	(1,158)	(1,259)	(1,471)	(1,591)	(1,773)	(1,980)
Provisions	(642)	(339)	(160)	(200)	(258)	(260)
Total operating expenses	(1,800)	(1,598)	(1,631)	(1,791)	(2,030)	(2,240)
Pre-provision profits	3,137	3,137	3,175	3,572	4,249	5,147
<i>Pre-provision profit margin (%)</i>	73.0	71.4	68.3	69.2	70.6	72.2
Net income before Zakat	2,471	2,801	3,011	3,378	3,998	4,897
Zakat	(181)	(254)	(52)	(58)	(69)	(84)
Net income after Zakat	2,290	2,547	2,959	3,319	3,929	4,813
<i>Net income margin (%)</i>	53.3	57.9	63.7	64.3	65.3	67.5

Source: Company, NCBC Research estimates

Exhibit 18: Balance Sheet

In SRmn, unless otherwise stated, Year-end December 31.

	2009	2010	2011E	2012E	2013E	2014E
Cash and balances with SAMA	12,631	10,864	7,595	8,623	7,825	9,112
Due from banks	7,111	5,192	6,975	8,355	9,601	11,030
Investments, net	17,481	19,841	19,911	21,845	24,268	27,253
Performing loans	78,583	81,454	91,614	104,315	120,761	140,766
Non performing loans	1,008	1,016	1,103	1,134	1,183	1,227
Loans and advances, net	78,315	80,977	91,160	103,818	120,188	140,143
Investment in associate	144	186	181	186	193	202
Fixed assets, net	606	586	586	590	609	646
Other assets	4,284	5,573	5,265	5,969	6,858	8,047
Total assets	120,572	123,218	131,673	149,386	169,542	196,434
Due to banks	4,832	2,313	3,469	4,112	4,879	5,580
Customers' deposits	91,237	93,529	99,554	114,052	132,205	154,888
External borrowing	4,946	2,466	1,780	1,780	-	-
Other liabilities	3,806	4,459	5,062	5,679	6,455	7,535
Total liabilities	104,821	105,195	112,294	128,050	145,968	170,431
Share Capital	7,232	7,232	7,232	7,232	7,232	7,232
Reserves	6,642	7,802	8,555	8,962	8,962	8,962
Retained Earnings	869	1,878	2,931	4,382	6,381	8,339
Shareholders' funds	15,752	18,023	19,379	21,336	23,574	26,003
Total equity & liab	120,572	123,218	131,673	149,386	169,542	196,434

Source: Company, NCBC Research estimates

DECEMBER 2011

Exhibit 19: Key Ratios

Year-end December 31.

	2009	2010	2011E	2012E	2013E	2014E
Per share ratios (SR)						
EPS	3.2	3.5	4.1	4.6	5.4	6.7
Div per share	1.4	1.5	1.7	2.1	2.8	4.1
Book value per share	20.4	23.4	25.9	28.5	31.2	33.9
Adj Book value per share	20.7	24.0	26.5	29.1	32.0	34.8
Valuation ratios (x)						
P/E	13.2	11.9	10.2	9.1	7.7	6.3
P/BV	2.0	1.8	1.6	1.5	1.3	1.2
P/ABV	2.0	1.7	1.6	1.4	1.3	1.2
Div yield (%)	3.3	3.6	4.0	5.0	6.6	9.7
Profitability ratios (%)						
Yield on earning assets	3.49	3.04	2.99	2.98	3.22	3.62
Cost of funds	1.00	0.47	0.46	0.52	0.71	1.04
Spreads	2.49	2.58	2.53	2.46	2.51	2.58
Net Interest Margins	2.61	2.64	2.60	2.53	2.61	2.72
ROE	16.6	16.6	16.1	16.6	17.8	19.8
ROA	2.0	2.3	2.4	2.4	2.5	2.7
Liquidity ratios (%)						
Loans/ Customer Deposits	85.8	86.6	91.6	91.0	90.9	90.5
Loan/Total deposits	77.5	80.4	85.0	84.8	86.1	86.0
Investments/Customer Deposits	19.2	21.2	20.0	19.2	18.4	17.6
Capitalization ratios (%)						
Total cap. adequacy	13.7	14.7	14.3	13.9	13.2	12.4
Equity/Total assets	13.1	14.6	14.7	14.3	13.9	13.2
Loans/Assets	65.0	65.7	69.2	69.5	70.9	71.3
Investments/Assets	14.5	16.1	15.1	14.6	14.3	13.9
Asset quality ratios (%)						
Gross NPLs	1.3	1.2	1.2	1.1	1.0	0.9
Net NPLs	(0.3)	(0.6)	(0.5)	(0.5)	(0.5)	(0.4)
Provisions cover	126.6	147.0	141.2	143.9	148.5	150.7
Efficiency ratios (SR mn)						
Cost/Income (%)	27.0	28.6	31.7	30.8	29.4	27.8
Assets per employee	51.3	48.2	47.5	49.6	53.7	58.2
Optg revenue per employee	1.8	1.7	1.7	1.8	2.0	2.3
Staff cost per employee	0.3	0.3	0.3	0.3	0.3	0.4
Net profit per employee	1.0	1.1	1.1	1.2	1.3	1.6
Assets per branch	1,621.3	1,543.0	1,544.8	1,663.1	1,854.2	2,067.7
Optg revenue per branch	56.5	55.6	56.3	61.1	70.0	80.5
Optg expense per branch	15.2	15.9	17.8	18.8	20.6	22.4
Net profit per branch	32.5	35.5	36.5	40.0	46.5	55.3

Source: Company, NCBC Research estimates

SABB



COMPANY UPDATE

Pre- provision income remains strong

We remain Overweight on SABB with PT of SR49.2. Higher net loans driving NSCI and growing non-interest income together with lower operating expenses will enable SABB to book one of the best pre-provision income growth figures for 2011. Lower provision charges will support 2011 net income YoY.

- Strong top-line and low operating costs to drive pre-provision profits**
 We believe SABB's pre-provision profits in 4Q11 will benefit from a strong top-line growth, as well as lower operating costs. An expanded loan portfolio is driving NSCI and an estimated 16.2% YoY growth in non-interest income is likely to keep SABB's to-line growth strong. Additionally, well managed operating costs which have been declining for the last three quarters, will keep SABB's pre-provision profit growth as one of the best in the industry. Hence, we revise our estimates to show a 7.3% YoY growth in pre-provision profits.
- Well managed operating costs improved 3Q11 results**
 SABB's operating costs declined 3.1% QoQ and 8.2% YoY in 3Q11. The bank's cost-to-income ratio also fell to 32.5% from 36.9% in 3Q10. In addition, provision expenses fell 39.4% YoY. This resulted in a robust YoY growth of 50.4% in net income while total operating income grew moderately by 4.4% YoY. The bank's operating costs has been declining for the last three quarters on a YoY as well as on QoQ basis, which enabled SABB to post a strong a bottom-line performance.
- Higher share of corporate loans and time deposits to pressure NIMs**
 In 3Q11, SABB's performing loans grew 3.3% QoQ mainly due to a 3.1% QoQ increase in corporate loans. In addition, time deposits increased 6.3% QoQ while the less costly demand deposits declined 2.1% QoQ. This is likely to pressure SABB's NIMs in 4Q11. Hence, we believe, the bank's focus on expanding corporate loans will keep its NIM suppressed in the short term.
- Loan book expansion key top-line driver**
 Well managed operating costs, a strong top-line performance driven by expanded loan book and the growing non-interest income are likely to increase the pre-provision income for the bank. At a P/E of 10.0x 2012 earnings and P/B of 1.6x, we maintain our Overweight rating on SABB.

Financial Summary

SR mn	2010A	2011E	2012E	2013E	2014E	CAGR (%)
Net Sp Comm Income	3,243	3,077	3,218	3,728	4,461	8.3
Non-Interest Income	1,596	1,854	1,954	2,239	2,574	12.7
Total Operating Income	4,839	4,931	5,172	5,968	7,035	9.8
Net Income	1,853	2,770	2,922	3,537	4,402	24.1
Loans (bn)	74,248	83,985	95,600	110,020	128,171	14.6
Deposits (bn)	94,673	103,007	116,629	132,932	153,222	12.8
Investments (bn)	24,972	27,080	29,644	31,658	34,915	8.7
Assets (bn)	125,373	132,599	148,540	166,605	190,811	11.1
EPS	2.5	3.7	3.9	4.7	5.9	24.1

Source: Company, NCBC Research estimates

Please refer to the last page for important disclaimer

OVERWEIGHT

Target price	49.2
Current price (SR)	38.8

STOCK DETAILS

M52-week range H/L (SR)	46.5/33.9
Market cap (\$mn)	7,760
Shares outstanding (mn)	750
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(3.0)	(4.2)	-
Rel. to market	(3.0)	(7.0)	4.4

Avg daily turnover (mn)	SR	US\$
3M	3.0	0.8
12M	5.3	1.4

Reuters code	1060.SE
Bloomberg code	SABB AB
	www.sabb.com

VALUATION MULTIPLES

	10A	11E	12E
P/E (x)	15.7	10.5	10.0
P/BV (x)	2.0	1.8	1.6
P/ABV (x)	2.0	1.7	1.5
Div Yield (%)	1.9	2.9	3.1

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Bloomberg, Tadawul

Farouk Miah, CFA +966 2 690 7717
f.miah@ncbc.com

Iyad Ghulam +966 2 690 7811
i.ghulam@ncbc.com

DECEMBER 2011

Financials

Exhibit 20: Income statement

In SR mn, unless otherwise stated, Year-end December 31.

	2009	2010	2011E	2012E	2013E	2014E
Special commission income	4,574	3,725	3,505	3,782	4,596	5,998
Special commission expense	(1,137)	(482)	(428)	(565)	(868)	(1,537)
Net special commission income	3,437	3,243	3,077	3,218	3,728	4,461
<i>Net interest margin (%)</i>	<i>2.7</i>	<i>2.7</i>	<i>2.5</i>	<i>2.4</i>	<i>2.4</i>	<i>2.6</i>
Fee income	1,211	1,181	1,217	1,432	1,673	1,965
Other Operating income	513	415	637	522	566	610
Total operating income	5,160	4,839	4,931	5,172	5,968	7,035
Pre-provision Operating Expenses	(1,678)	(1,754)	(1,622)	(1,717)	(1,869)	(2,074)
Provisions	(1,496)	(1,243)	(525)	(645)	(731)	(755)
Total operating expenses	(3,174)	(2,997)	(2,147)	(2,362)	(2,600)	(2,829)
Pre-provision profits	3,483	3,085	3,309	3,455	4,098	4,962
<i>Pre-provision profit margin (%)</i>	<i>67.5</i>	<i>63.8</i>	<i>67.1</i>	<i>66.8</i>	<i>68.7</i>	<i>70.5</i>
Net income before Zakat	2,032	1,883	2,841	2,997	3,628	4,515
Zakat	(40)	(30)	(71)	(75)	(91)	(113)
Net income after Zakat	1,992	1,853	2,770	2,922	3,537	4,402
<i>Net income margin (%)</i>	<i>38.6</i>	<i>38.3</i>	<i>56.2</i>	<i>56.5</i>	<i>59.3</i>	<i>62.6</i>

Source: Company, NCBC Research estimates

Exhibit 21: Balance Sheet

In SRmn, unless otherwise stated, Year-end December 31.

	2009	2010	2011E	2012E	2013E	2014E
Cash and balances with SAMA	16,615	15,144	9,470	9,962	10,774	12,206
Due from banks	6,005	7,042	7,872	8,701	9,397	10,118
Investments, net	23,818	24,972	27,080	29,644	31,658	34,915
Performing loans	74,631	74,248	84,499	96,469	111,286	129,803
Non performing loans	3,526	2,614	2,395	2,013	1,877	1,813
Loans and advances, net	76,382	74,248	83,985	95,600	110,020	128,171
Investment in associate	180	222	518	648	722	769
Fixed assets, net	594	559	600	636	684	750
Other assets	3,245	3,185	3,074	3,350	3,350	3,881
Total assets	126,838	125,373	132,599	148,540	166,605	190,811
Due to banks	13,606	4,661	3,931	4,132	4,752	5,551
Customers' deposits	89,187	94,673	103,007	116,629	132,932	153,222
External borrowing	5,897	5,663	4,047	4,047	2,342	2,342
Other liabilities	5,103	5,204	4,164	4,586	5,163	6,025
Total liabilities	113,793	110,201	115,149	129,395	145,189	167,141
Share Capital	7,500	7,500	7,500	7,500	7,500	7,500
Reserves	4,851	5,565	6,275	7,024	7,606	7,606
Retained Earnings	695	1,545	2,823	4,171	5,404	7,209
Shareholders' funds	13,045	15,172	17,450	19,145	21,416	23,670
Total equity & liab	126,838	125,373	132,599	148,540	166,605	190,811

Source: Company, NCBC Research estimates

DECEMBER 2011

Exhibit 22: Key Ratios

Year-end December 31.

	2009	2010	2011E	2012E	2013E	2014E
Per share ratios (SR)						
EPS	2.7	2.5	3.7	3.9	4.7	5.9
Div per share	0.9	0.8	1.1	1.2	2.4	3.6
Book value per share	17.4	19.5	22.1	24.9	27.3	29.8
Adj Book value per share	15.1	19.5	22.8	26.1	29.0	31.9
Valuation ratios (x)						
P/E	14.6	15.7	10.5	10.0	8.2	6.6
P/BV	2.2	2.0	1.8	1.6	1.4	1.3
P/ABV	2.6	2.0	1.7	1.5	1.3	1.2
Div yield (%)	2.3	1.9	2.9	3.1	6.2	9.3
Profitability ratios (%)						
Yield on earning assets	3.66	3.05	2.81	2.78	3.01	3.45
Cost of funds	1.02	0.45	0.40	0.48	0.66	1.02
Spreads	2.64	2.60	2.41	2.30	2.35	2.43
Net Interest Margins	2.75	2.66	2.46	2.36	2.44	2.57
ROE	16.5	13.3	17.4	16.4	17.9	20.0
ROA	1.6	1.5	2.2	2.1	2.3	2.5
Liquidity ratios (%)						
Loans/ Customer Deposits	85.6	78.4	81.5	82.0	82.8	83.7
Loan/Total deposits	70.4	70.8	75.8	76.7	78.7	79.6
Investments/Customer Deposits	26.7	26.4	26.3	25.4	23.8	22.8
Capitalization ratios (%)						
Total cap. adequacy	12.8	14.2	14.6	14.6	14.2	13.4
Equity/Total assets	10.3	12.1	13.2	12.9	12.9	12.4
Loans/Assets	60.2	59.2	63.3	64.4	66.0	67.2
Investments/Assets	18.8	19.9	20.4	20.0	19.0	18.3
Asset quality ratios (%)						
Gross NPLs	4.5	3.4	2.8	2.0	1.7	1.4
Net NPLs	2.2	(0.0)	(0.6)	(0.9)	(1.1)	(1.2)
Provisions cover	50.3	100.0	121.5	143.2	167.5	190.0
Efficiency ratios (SR mn)						
Cost/Income (%)	32.5	36.2	32.9	33.2	31.3	29.5
Assets per employee	37.5	34.8	34.7	36.9	41.4	46.9
Optg revenue per employee	1.5	1.3	1.3	1.4	1.6	1.8
Staff cost per employee	0.3	0.3	0.3	0.3	0.3	0.3
Net profit per employee	0.6	0.5	0.8	0.8	1.0	1.2
Assets per branch	1,846.4	1,659.3	1,592.4	1,693.6	1,864.8	2,102.4
Optg revenue per branch	73.7	63.7	60.9	62.3	70.6	82.8
Optg expense per branch	24.0	23.1	20.0	20.7	22.1	24.4
Net profit per branch	29.0	24.8	35.1	36.1	42.9	53.1

Source: Company, NCBC Research estimates

ARAB NATIONAL BANK



COMPANY UPDATE

Lower provisions to drive 4Q11 profits

We remain Overweight on ANB with a revised PT of SR33.8. Improved asset quality and lower provisions are set to remain the main drivers for ANB's 4Q11 profit growth, while expanding loans and growing fee income should keep its core income intact.

- Balanced credit portfolio mix coupled with ability to expand loans**

ANB has been growing its credit books with a balanced focus on the retail as well as the corporate segment. The bank's retail and corporate performing loans increased 8.6% and 11.4% YoY in 3Q11. ANB's large branch network and the focus on the mid size commercial entities have enabled it to grow loans in line with the industry growth. We believe this strategy will enable the bank to tap opportunities available in both segments and grow its loans at a CAGR of 12.8% during 2010-2015.

- YoY decline in provisions (but higher than expected) led to 3Q11 profit growth**

The bank's top-line income grew 1.5% YoY, but increased operating expenses curbed pre-provision income which declined 1.2% YoY. Nevertheless, ANB's net income grew significantly by 49.8% YoY mainly due to a 47.4% decline in provisions. The bank booked provisions of SR198mn (higher than our estimated SR70mn) which increased its NPL coverage to 128% in 3Q11 from 108% in 2Q11. Hence, we increase our provision forecast for the year by 39% YoY. However, we also believe provisions for the year will decline 58% YoY and is expected to remain the main driver for 4Q11 profits as ANB's provisions peaked in 4Q10.

- Improved NIMs to boost NSCI**

ANB's NIMs have remained better than its comparable peers historically due to its focus on the retail segment. However, the increase in time deposits in the last quarter will pressure its short term margins. Nonetheless, we expect the bank to accumulate more demand deposits going forward benefiting from its large branch network to improve its NIMs as well as NSCI growth.

- Good asset quality supports Overweight call**

We remain Overweight on ANB's stock with a revised PT of SR33.8. ANB's ability to tap both retail and corporate segment and improved asset quality keep us positive on the stock. At the current price of 28.2, the stock trades at P/E of 10.9x 2012E earnings and P/BV 1.3x 2012E book value.

Financial Summary

SR mn	2010A	2011E	2012E	2013E	2014E	CAGR (%)
Net Sp Comm Income	3,158	3,174	3,300	3,831	4,594	9.8
Non-Interest Income	1,346	1,313	1,361	1,534	1,724	6.4
Total Operating Income	4,504	4,487	4,661	5,365	6,317	8.8
Net Income	1,706	2,113	2,208	2,668	3,292	17.9
Loans	66,203	72,966	81,977	94,206	107,457	12.9
Deposits	84,199	86,779	96,010	109,687	126,575	10.7
Investments	32,841	30,683	34,386	39,095	44,182	7.7
Assets	116,035	121,330	132,770	150,508	171,978	10.3
EPS	2.0	2.5	2.6	3.1	3.9	17.9

Source: Company, NCBC Research estimates

Please refer to the last page for important disclaimer

OVERWEIGHT

Target price	33.8
Current price (SR)	28.20

STOCK DETAILS

M52-week range H/L (SR)	35.1/26.31
Market cap (\$mn)	6,392.1
Shares outstanding (mn)	850.5
Listed on exchanges	TADAWULI

Price perform (%)	1M	3M	12M
Absolute	0.4	0.4	0.4
Rel. to market	0.3	(2.4)	4.7

Avg daily turnover (mn)	SR	US\$
3M	4.2	1.1
12M	5.8	1.5

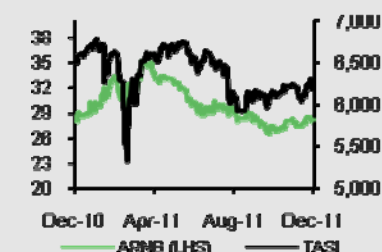
Reuters code	1080.SE
Bloomberg code	ARBN AB
	www.anb.com.sa

VALUATION MULTIPLES

	10A	11E	12E
P/E (x)	14.0	11.3	10.9
P/BV (x)	1.6	1.5	1.3
P/ABV (x)	1.6	1.5	1.3
Div Yield (%)	2.7	3.4	4.1

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Bloomberg, Tadawul

Farouk Miah, CFA +966 2 690 7717
f.miah@ncbc.com

Iyad Ghulam +966 2 690 7811
i.ghulam@ncbc.com

DECEMBER 2011

Financials

Exhibit 23: Income statement

In SR mn, unless otherwise stated, Year-end December 31.

	2009	2010	2011E	2012E	2013E	2014E
Special commission income	4,234	3,454	3,446	3,672	4,640	5,976
Special commission expense	(778)	(297)	(272)	(371)	(809)	(1,383)
Net special commission income	3,456	3,158	3,174	3,300	3,831	4,594
<i>Net interest margin (%)</i>	<i>3.1</i>	<i>2.9</i>	<i>2.8</i>	<i>2.7</i>	<i>2.8</i>	<i>2.9</i>
Fee income	563	545	703	793	887	994
Other Operating income	474	801	611	568	648	730
Total operating income	4,493	4,504	4,487	4,661	5,365	6,317
Pre-provision Operating Expenses	(1,601)	(1,644)	(1,729)	(1,797)	(1,943)	(2,166)
Provisions	(527)	(964)	(406)	(408)	(452)	(482)
Total operating expenses	(2,128)	(2,609)	(2,135)	(2,205)	(2,395)	(2,647)
Pre-provision profits	2,892	2,859	2,757	2,864	3,423	4,152
<i>Pre-provision profit margin (%)</i>	<i>64.4</i>	<i>63.5</i>	<i>61.5</i>	<i>61.4</i>	<i>63.8</i>	<i>65.7</i>
Net income before Zakat ^	2,370	1,911	2,367	2,473	2,988	3,688
Zakat	(37)	(205)	(254)	(265)	(321)	(396)
Net income after Zakat	2,333	1,706	2,113	2,208	2,668	3,292
<i>Net income margin (%)</i>	<i>51.9</i>	<i>37.9</i>	<i>47.1</i>	<i>47.4</i>	<i>49.7</i>	<i>52.1</i>

Source: Company, NCBC Research estimates

^ Net income includes minority interest and income from associates

Exhibit 24: Balance Sheet

In SRmn, unless otherwise stated, Year-end December 31.

	2009	2010	2011E	2012E	2013E	2014E
Cash and balances with SAMA	10,457	11,997	11,409	9,451	9,511	11,973
Due from banks	6,082	1,381	1,913	2,219	2,574	2,909
Investments, net	23,261	32,841	30,683	34,386	39,095	44,182
Performing loans	66,347	66,368	73,317	82,448	94,750	108,212
Non performing loans	1,921	2,029	1,800	1,670	1,742	1,811
Loans and advances, net	66,811	66,203	72,966	81,977	94,206	107,457
Investment in associate	315	327	414	553	693	714
Fixed assets, net	1,240	1,261	1,294	1,333	1,390	1,474
Other assets	2,131	2,025	2,651	2,852	3,039	3,269
Total assets	110,297	116,035	121,330	132,770	150,508	171,978
Due to banks	8,714	12,097	12,496	13,530	15,181	17,015
Customers' deposits	82,680	84,199	86,779	96,010	109,687	126,575
External borrowing	1,688	1,688	1,688	1,688	1,688	1,688
Other liabilities	2,737	2,655	3,252	2,777	3,178	3,720
Total liabilities	95,819	100,638	104,215	114,004	129,734	148,998
Share Capital	6,500	6,500	8,500	8,500	8,500	8,500
Reserves	4,953	5,435	6,027	6,645	7,392	8,314
Retained Earnings	2,266	2,706	1,658	2,530	3,286	3,850
Shareholders' funds ^	14,478	15,397	17,115	18,766	20,774	22,980
Total equity & liab	110,297	116,035	121,330	132,770	150,508	171,978

Source: Company, NCBC Research estimates

^ Shareholders' funds includes minority interest

DECEMBER 2011

Exhibit 25: Key Ratios

Year-end December 31.

	2009	2010	2011E	2012E	2013E	2014E
Per share ratios (SR)						
EPS	3.6	2.6	2.5	2.6	3.1	3.9
Div per share	1.0	1.0	1.0	1.2	1.7	2.6
Book value per share	21.3	22.7	19.2	20.9	22.7	24.4
Adj Book value per share	20.4	22.7	19.4	21.2	23.1	25.0
Valuation ratios (x)						
P/E	10.3	14.0	11.3	10.9	9.0	7.3
P/BV	1.7	1.6	1.5	1.3	1.2	1.2
P/ABV	1.8	1.6	1.5	1.3	1.2	1.1
Div yield (%)	2.7	2.7	3.4	4.1	6.2	9.2
Profitability ratios (%)						
Yield on earning assets	3.8	3.2	3.0	3.0	3.4	3.8
Cost of funds	0.8	0.3	0.3	0.4	0.7	1.0
Spreads	3.0	2.8	2.73	2.65	2.71	2.81
Net Interest Margins	3.1	2.9	2.8	2.7	2.8	2.9
ROE	17.5	12.8	14.6	13.8	15.1	16.9
ROA	2.0	1.7	2.0	1.9	2.1	2.3
Liquidity ratios (%)						
Loans/ Customer Deposits	80.8	78.6	84.1	85.4	85.9	84.9
Loan/Total deposits	71.8	67.6	72.3	73.7	74.4	74.0
Investments/Customer Deposits	28.1	39.0	35.4	35.8	35.6	34.9
Capitalization ratios (%)						
Total cap. adequacy	16.3	17.0	18.8	18.3	17.4	16.4
Equity/Total assets	13.1	13.3	14.1	14.1	13.8	13.4
Loans/Assets	60.6	57.1	60.1	61.7	62.6	62.5
Investments/Assets	21.1	28.3	25.3	25.9	26.0	25.7
Asset quality ratios (%)						
Gross NPLs	2.81	3.0	2.4	2.0	1.8	1.6
Net NPLs	0.7	(0.2)	(0.5)	(0.6)	(0.6)	(0.7)
Provisions cover	75.9	108.1	119.5	128.2	131.2	141.7
Efficiency ratios (SR mn)						
Cost/Income (%)	35.6	36.5	38.5	38.6	36.2	34.3
Assets per employee	32.5	32.1	31.9	32.9	35.4	38.1
Optg revenue per employee	1.3	1.3	1.2	1.2	1.3	1.5
Staff cost per employee	0.3	0.3	0.3	0.3	0.3	0.3
Net profit per employee	0.7	0.5	0.6	0.6	0.7	0.9
Assets per branch	857.8	814.1	844.7	888.5	973.5	1,085.8
Optg revenue per branch	33.3	32.4	31.9	32.6	36.9	42.5
Optg expense per branch	11.9	11.8	12.3	12.6	13.4	14.6
Net profit per branch	17.6	13.7	16.8	17.3	20.5	24.8

Source: Company, NCBC Research estimates

SAMBA FINANCIAL GROUP



COMPANY UPDATE

Loan growth recovery, after cautious approach

We remain Overweight on Samba with PT of SR56.2. Robust QoQ loan growth in 3Q11 highlights Samba's expansion policy of targeting corporate opportunities. This, together with a low cost base, is likely to support Samba's NSCI. We believe increase in investment income will further support top-line growth.

- Loan growth to support NSCI**

Samba's strong corporate franchise and large deposits base enables it to tap opportunities to grow its loan book. The bank has been expanding its credit portfolio after remaining conservative in 2009-10. In 3Q11, loans increased 7.2% QoQ, highest QoQ growth amongst its peers. In addition, the bank's demand deposits grew 7.8% QoQ while time deposits declined 16% QoQ. This is likely to increase its NIMs and NSCI in 4Q11. We expect the bank to benefit from its low cost base in the future and its NSCI to grow at a CAGR of 10.0% in 2010-15.

- 3Q11 net income grew 3% YoY after declining for the first two quarters**

Samba reported strong 3Q11 results in terms of loan book expansion, investment income growth, reduced provisions and increased profits. The NSCI declined despite robust 7% QoQ loan growth indicating that loans were generated at the end of the quarter and hence did not have positive impact on the NSCI. However, 10% YoY growth in investment income contributed towards total operating income. In addition, 42.5% decrease in provisions aided net income growth despite higher operating expenses.

- Non-interest income has upside potential**

Samba's fee and exchange income remained strong in 9M11 due to increased trade finance and banking services. However, investment income remained subdued due to the volatile market. We believe, stability in market conditions will reduce its investment losses and positively contribute to top-line growth.

- Loan growth outlook supports Overweight rating**

We believe Samba's ability to grow loan book, low cost of funds and excellent cost efficiency to improve its pre-provision profits for 2012. We remain Overweight on Samba with our revise PT of SR56.2. At a P/E of 8.9x and P/BV of 1.4x 2012E, Samba's valuation is attractive.

Financial Summary

SR mn	2010A	2011E	2012E	2013E	2014E	CAGR (%)
Net Sp Comm Income	4,536	4,371	4,529	5,311	6,268	8.4
Non-Interest Income	2,364	2,320	2,753	3,249	3,875	13.1
Total Operating Income	6,901	6,691	7,283	8,560	10,143	10.1
Net Income	4,319	4,336	4,751	5,751	7,016	12.9
Loans	80,251	90,151	101,301	116,475	131,963	13.2
Deposits	133,463	140,412	158,513	180,148	203,186	11.1
Investments	64,883	73,621	83,061	93,275	103,078	12.3
Assets	187,416	195,483	219,534	248,437	279,057	10.5
EPS	4.8	4.8	5.3	6.4	7.8	12.9

Source: Company, NCBC Research estimates

Please refer to the last page for important disclaimer

OVERWEIGHT

Target price	56.2
Current price (SR)	47.2

STOCK DETAILS

M52-week range H/L (SR)	62.5/42.4
Market cap (\$mn)	11,328
Shares outstanding (mn)	900
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(2.1)	8.3	(22.6)
Rel. to market	(2.1)	5.5	(18.3)

Avg daily turnover (mn)	SR	US\$
3M	7.4	2.0
12M	12.1	3.2

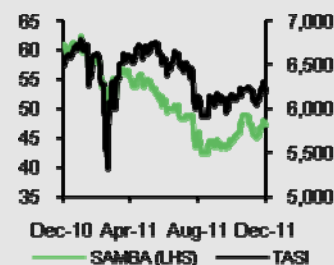
Reuters code	1090.SE
Bloomberg code	SAMBA AB
	www.samba.com.sa

VALUATION MULTIPLES

	10A	11E	12E
P/E (x)	9.8	9.8	8.9
P/BV (x)	1.7	1.5	1.4
P/ABV (x)	1.7	1.5	1.3
Div Yield (%)	3.8	3.7	4.0

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Bloomberg, Tadawul

Farouk Miah, CFA +966 2 690 7717
f.miah@ncbc.com

Iyad Ghulam +966 2 690 7811
i.ghulam@ncbc.com

DECEMBER 2011

Financials

Exhibit 26: Income statement

In SR mn, unless otherwise stated, Year-end December 31.

	2009	2010	2011E	2012E	2013E	2014E
Special commission income	6,351	5,195	4,851	5,175	6,579	8,511
Special commission expense	(1,282)	(658)	(480)	(646)	(1,268)	(2,243)
Net special commission income	5,070	4,536	4,371	4,529	5,311	6,268
<i>Net interest margin (%)</i>	2.9	2.5	2.4	2.3	2.4	2.5
Fee income	1,210	1,258	1,387	1,642	2,002	2,467
Other Operating income	830	1,106	933	1,112	1,248	1,408
Total operating income	7,110	6,901	6,691	7,283	8,560	10,143
Pre-provision Operating Expenses	(1,951)	(1,910)	(1,985)	(2,138)	(2,364)	(2,635)
Provisions	(605)	(559)	(254)	(267)	(291)	(304)
Total operating expenses	(2,556)	(2,468)	(2,239)	(2,404)	(2,655)	(2,939)
Pre-provision profits	5,158	4,991	4,706	5,145	6,197	7,508
<i>Pre-provision profit margin (%)</i>	72.6	72.3	70.3	70.6	72.4	74.0
Net income before Zakat	4,560	4,435	4,452	4,878	5,905	7,204
Zakat	(117)	(116)	(116)	(128)	(154)	(188)
Net income after Zakat	4,443	4,319	4,336	4,751	5,751	7,016
<i>Net income margin (%)</i>	62.5	62.6	64.8	65.2	67.2	69.2

Source: Company, NCBC Research estimates

Exhibit 27: Balance Sheet

In SRmn, unless otherwise stated, Year-end December 31.

	2009	2010	2011E	2012E	2013E	2014E
Cash and balances with SAMA	35,847	32,581	19,312	20,729	22,047	25,126
Due from banks	3,499	2,491	3,349	4,359	5,193	5,942
Investments, net	54,967	64,883	73,621	83,061	93,275	103,078
Performing loans	84,616	80,819	91,018	102,384	117,732	133,324
Non performing loans	2,907	3,139	2,954	2,968	3,055	3,222
Loans and advances, net	84,147	80,251	90,151	101,301	116,475	131,963
Investment in associate	9	0	0	0	0	0
Fixed assets, net	896	970	1,013	1,063	1,135	1,236
Other assets	6,154	6,240	8,037	9,021	10,312	11,711
Total assets	185,518	187,416	195,483	219,534	248,437	279,057
Due to banks	7,319	19,801	20,825	22,933	25,254	27,306
Customers' deposits	147,129	133,463	140,412	158,513	180,148	203,186
External borrowing	1,874	1,875	-	-	-	-
Other liabilities and provisions	6,695	6,675	5,699	6,299	7,228	8,387
Total liabilities	163,017	161,813	166,936	187,745	212,629	238,879
Share Capital	9,000	9,000	9,000	9,000	9,000	9,000
Reserves	7,164	8,737	8,737	8,737	8,737	8,737
Retained Earnings	6,214	8,328	11,222	14,392	18,231	21,833
Shareholders' funds ^	22,502	25,603	28,547	31,790	35,808	40,178
Total equity & liab	185,518	187,416	195,483	219,534	248,437	279,057

Source: Company, NCBC Research estimates

DECEMBER 2011

Exhibit 28: Key Ratios

Year-end December 31.

	2009	2010	2011E	2012E	2013E	2014E
Per share ratios (SR)						
EPS	4.9	4.8	4.8	5.3	6.4	7.8
Div per share	1.8	1.8	1.7	1.9	2.3	4.0
Book value per share	24.2	27.6	30.9	34.4	38.6	42.6
Adj Book value per share	24.5	28.1	31.6	35.4	39.8	43.9
Valuation ratios (x)						
P/E	9.6	9.8	9.8	8.9	7.4	6.1
P/BV	2.0	1.7	1.5	1.4	1.2	1.1
P/ABV	1.9	1.7	1.5	1.3	1.2	1.1
Div yield (%)	3.8	3.8	3.7	4.0	4.9	8.5
Profitability ratios (%)						
Yield on earning assets	3.68	2.90	2.65	2.61	2.95	3.38
Cost of funds	0.84	0.42	0.30	0.38	0.66	1.03
Spreads	2.83	2.47	2.34	2.24	2.29	2.35
Net Interest Margins	2.93	2.53	2.38	2.29	2.38	2.49
ROE	21.4	18.4	16.4	16.2	17.5	19.0
ROA	2.5	2.4	2.3	2.4	2.5	2.7
Liquidity ratios (%)						
Loans/ Customer Deposits	57.2	60.1	64.2	63.9	64.7	64.9
Loan/Total deposits	53.8	51.7	55.9	55.8	56.7	57.3
Investments/Customer Deposits	37.4	48.6	52.4	52.4	51.8	50.7
Capitalization ratios (%)						
Total cap. adequacy	17.1	18.9	19.1	19.0	18.9	18.8
Equity/Total assets	12.1	13.7	14.6	14.5	14.4	14.4
Loans/Assets	45.4	42.8	46.1	46.1	46.9	47.3
Investments/Assets	29.6	34.6	37.6	37.8	37.5	36.9
Asset quality ratios (%)						
Gross NPLs	3.3	3.7	3.1	2.8	2.5	2.4
Net NPLs	(0.5)	(0.7)	(0.9)	(1.0)	(1.0)	(1.0)
Provisions cover	116.1	118.1	129.4	136.5	141.1	142.2
Efficiency ratios (SR mn)						
Cost/Income (%)	27.4	27.7	29.7	29.4	27.6	26.0
Assets per employee	55.8	59.6	61.1	65.1	70.9	76.6
Optg revenue per employee	2.2	2.2	2.1	2.3	2.6	2.9
Staff cost per employee	0.4	0.4	0.4	0.4	0.4	0.5
Net profit per employee	1.4	1.4	1.4	1.5	1.8	2.1
Assets per branch	2,760.7	2,762.5	2,815.4	3,029.3	3,366.7	3,714.7
Optg revenue per branch	107.7	102.2	98.4	106.3	123.2	142.9
Optg expense per branch	29.6	28.3	29.2	31.2	34.0	37.1
Net profit per branch	69.1	65.7	65.5	71.2	85.0	101.5

Source: Company, NCBC Research estimates

AL RAJHI BANK



COMPANY UPDATE

Loan and fee income keep top-line strong

We remain Overweight on Al Rajhi with a revised PT of SR82.9. Its ability to grow loans faster than peers, growing non-interest income and potential upside from improvement in interest rates over the long-run keep us positive on the stock. Additionally, high cost efficiency and declining provisions support its bottom-line growth.

- Net loan growth revised up by 3.2% for 2011**

Al Rajhi has been aggressively growing its loan book in the retail segment. A large branch network, strong retail presence and the Islamic nature of its business enables the bank to have a strong hold in the retail market. In addition, a large pool of low cost demand deposits enables the bank to offer competitive loans. The bank has been able to grow its loan portfolio by 13.7% vs. industry growth of 9.1% in 3Q11. Hence, we revise our net loan forecast up by 3.2% for 2011 and expect a CAGR of 12.2% in 2010-15E.

- Non-interest income driving 3Q11 top-line growth**

Increased market share in brokerage aided by higher overall trading volumes, as well as enhanced banking activities enabled a significant increase of 78% YoY in Al Rajhi's fee income. Growth in exchange income, investment income and other income negated a 4.2% YoY decline in NSCI. Consequently total operating income grew 7.6% YoY. This, along with a 30% YoY reduction in provisions improved Al Rajhi's profits by 18% YoY.

- Increase in NIMs – an upside potential**

The bank is facing an issue of declining NIMs currently due to the low interest rate environment. However, lower cost of funds and its retail focus enabled the bank to keep its NIMs higher than peers. Additionally, any improvement in interest rates will enable the bank to grow its yield on assets faster than its cost of funds leading to higher NIMs. Hence, we expect the bank to increase its NSCI at a CAGR of 10.2% during 2010-15E.

- Leading efficiency and returns justify premium valuation**

We remain Overweight on Al Rajhi with a revised PT of SR82.9. Currently, the stock trades at a P/E 13.7x of 2012E earnings and 3.1x 2012 book value. We believe Al Rajhi's current premium valuation is justified given its ability to grow loans faster than peers, gains from any increase in interest rates, efficiency and higher returns on equity.

Financial summary

SR mn	2010A	2011E	2012E	2013E	2014E	CAGR (%)
Net Sp Comm Income	8,861	8,673	9,173	10,492	12,336	8.6
Non-Interest Income	2,800	3,547	4,128	4,801	5,530	18.5
Total Operating Income	11,661	12,219	13,301	15,293	17,866	11.3
Net Income	6,021	6,604	7,507	8,850	10,631	15.3
Loans	120,377	137,523	156,047	174,852	195,364	12.9
Deposits	143,064	168,944	190,055	215,644	246,296	14.5
Investments	28,887	40,442	46,509	53,485	62,578	21.3
Assets	184,841	213,146	237,866	267,906	303,436	13.2
EPS	4.0	4.4	5.0	5.9	7.1	15.3

Source: Company, NCBC Research estimates

Please refer to the last page for important disclaimer

OVERWEIGHT

Target price	82.9
Current price (SR)	68.50

STOCK DETAILS

M52-week range H/L (SR)	84.0/65.8
Market cap (\$mn)	27,400
Shares outstanding (mn)	1,500
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(0.4)	(1.8)	(13.8)
Rel. to market	(0.4)	(4.6)	(9.5)

Avg daily turnover (mn)	SR	US\$
3M	60.7	16.2
12M	88.0	23.5

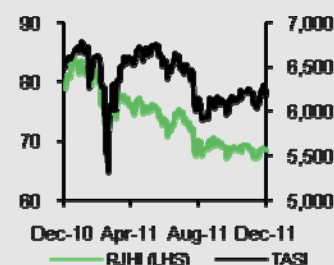
Reuters code	1120.SE
Bloomberg code	RJHI AB
www.alrajhibank.com.sa	

VALUATION MULTIPLES

	10A	11E	12E
P/E (x)	17.1	15.6	13.7
P/BV (x)	3.8	3.4	3.1
P/ABV (x)	3.6	3.2	3.0
Div Yield (%)	5.1	4.3	5.8

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Bloomberg, Tadawul

Farouk Miah, CFA +966 2 690 7717
f.miah@ncbc.com

Iyad Ghulam +966 2 690 7811
i.ghulam@ncbc.com

DECEMBER 2011

Financials

Exhibit 29: Income statement

In SR mn, unless otherwise stated, Year-end December 31.

	2009	2010	2011E	2012E	2013E	2014E
Special commission income	8,960	9,091	8,926	9,543	11,327	14,117
Special commission expense	(570)	(230)	(253)	(370)	(835)	(1,781)
Net special commission income	8,390	8,861	8,673	9,173	10,492	12,336
<i>Net interest margin (%)</i>	<i>5.4</i>	<i>5.5</i>	<i>4.7</i>	<i>4.4</i>	<i>4.5</i>	<i>4.6</i>
Fee income	1,427	1,634	2,265	2,655	3,079	3,504
Other Operating income	1,688	1,166	1,281	1,473	1,722	2,025
Total operating income	11,505	11,661	12,219	13,301	15,293	17,866
Pre-provision Operating Expenses	(2,977)	(2,981)	(3,363)	(3,587)	(3,979)	(4,475)
Provisions	(1,761)	(1,909)	(1,430)	(1,272)	(1,361)	(1,435)
Total operating expenses	(4,738)	(4,890)	(4,793)	(4,859)	(5,340)	(5,911)
Pre-provision profits	8,528	8,680	8,856	9,714	11,314	13,390
<i>Pre-provision profit margin (%)</i>	<i>74.1</i>	<i>74.4</i>	<i>72.5</i>	<i>73.0</i>	<i>74.0</i>	<i>74.9</i>
Net income before Zakat	6,767	6,771	7,426	8,442	9,953	11,955
Zakat	(327)	(750)	(823)	(935)	(1,102)	(1,324)
Net income after Zakat	6,440	6,021	6,604	7,507	8,850	10,631
<i>Net income margin (%)</i>	<i>56.0</i>	<i>51.6</i>	<i>54.0</i>	<i>56.4</i>	<i>57.9</i>	<i>59.5</i>

Source: Company, NCBC Research estimates

Exhibit 30: Balance Sheet

In SRmn, unless otherwise stated, Year-end December 31.

	2009	2010	2011E	2012E	2013E	2014E
Cash and balances with SAMA	11,413	19,475	17,264	15,941	18,600	23,188
Due from banks	14,335	11,118	12,513	13,515	14,596	15,326
Investments, net	27,139	28,887	40,442	46,509	53,485	62,578
Performing loans	112,474	121,019	138,733	157,394	176,467	197,292
Non performing loans	3,866	2,662	2,324	2,398	2,593	2,758
Loans and advances, net	112,843	120,377	137,523	156,047	174,852	195,364
Fixed assets, net	3,182	3,395	3,735	4,103	4,533	5,049
Other assets	1,817	1,589	1,669	1,752	1,840	1,932
Total assets	170,730	184,841	213,146	237,866	267,906	303,436
Due to banks	6,102	5,414	5,242	5,621	6,161	6,859
Customers' deposits	122,862	143,064	168,944	190,055	215,644	246,296
External borrowing	-	-	-	-	-	-
Other liabilities	13,025	6,045	6,092	6,415	7,060	7,799
Total liabilities	141,989	154,523	180,277	202,091	228,865	260,954
Share Capital	15,000	15,000	15,000	15,000	15,000	15,000
Reserves	10,419	12,112	13,968	15,000	15,000	15,000
Retained Earnings	744	206	1,320	2,821	5,309	7,700
Shareholders' funds	28,741	30,318	32,869	35,775	39,041	42,482
Total equity & liab	170,730	184,841	213,146	237,866	267,906	303,436

Source: Company, NCBC Research estimates

DECEMBER 2011

Exhibit 31: Key Ratios

Year-end December 31.

	2009	2010	2011E	2012E	2013E	2014E
Per share ratios (SR)						
EPS	4.3	4.0	4.4	5.0	5.9	7.1
Div per share	3.0	3.5	3.0	3.9	5.0	6.4
Book value per share	17.4	18.2	20.2	21.9	23.5	25.1
Adj Book value per share	17.6	18.8	21.1	22.9	24.8	26.6
Valuation ratios (x)						
P/E	16.0	17.1	15.6	13.7	11.6	9.7
P/BV	3.9	3.8	3.4	3.1	2.9	2.7
P/ABV	3.9	3.6	3.2	3.0	2.8	2.6
Div yield (%)	4.3	5.1	4.3	5.8	7.3	9.3
Profitability ratios (%)						
Yield on earning assets	5.55	5.26	4.61	4.34	4.59	5.06
Cost of funds	0.44	0.17	0.16	0.20	0.40	0.75
Spreads	5.10	5.10	4.45	4.14	4.19	4.31
Net Interest Margins	5.19	5.13	4.48	4.17	4.25	4.42
ROE	24.3	22.9	23.5	24.6	26.6	29.3
ROA	4.1	3.8	3.7	3.7	3.9	4.2
Liquidity ratios (%)						
Loans/ Customer Deposits	91.3	83.9	81.2	81.9	80.9	79.1
Loan/Total deposits	87.0	80.9	78.7	79.5	78.6	77.0
Investments/Customer Deposits	22.1	20.2	23.9	24.5	24.8	25.4
Capitalization ratios (%)						
Total cap. adequacy	19.3	21.1	22.1	21.2	20.5	19.6
Equity/Total assets	16.8	16.4	16.3	15.8	15.3	14.6
Loans/Assets	65.7	65.0	67.8	68.8	68.3	67.2
Investments/Assets	15.9	15.6	20.0	20.6	21.0	21.6
Asset quality ratios (%)						
Gross NPLs	3.3	2.2	1.6	1.5	1.4	1.4
Net NPLs	(0.3)	(0.8)	(1.1)	(1.1)	(1.1)	(1.2)
Provisions cover	108.4	135.8	168.0	172.9	179.0	186.8
Efficiency ratios (SR mn)						
Cost/Income (%)	25.9	25.6	27.5	27.0	26.0	25.1
Assets per employee	19.1	18.9	20.8	22.9	24.2	25.9
Optg revenue per employee	1.3	1.2	1.3	1.3	1.5	1.6
Staff cost per employee	0.2	0.2	0.2	0.2	0.2	0.2
Net profit per employee	0.8	0.7	0.8	0.9	1.0	1.1
Assets per branch	385.4	398.2	438.8	491.8	545.6	609.8
Optg revenue per branch	26.5	26.1	26.9	29.0	33.0	38.1
Optg expense per branch	6.9	6.7	7.4	7.8	8.6	9.6
Net profit per branch	15.6	15.2	16.4	18.4	21.5	25.5

Source: Company, NCBC Research estimates

BANK ALBILAD



COMPANY UPDATE

Trading at a premium

We remain Neutral on Albilad with a PT of SR17.4. We expect Albilad's loan growth to drive its NSCI but its NIMs to remain under pressure in the short term. Increased non-interest income should further drive its top-line, but higher operating costs and relatively low NPL coverage is a concern for its profitability.

- Expanded loans but NIMs under pressure**

Albilad loans portfolio is likely to expand as it targets the retail sector, leading to NSCI growth. We expect the bank's net loans to increase 10.1% YoY in 2011E and 14.2% YoY in 2012E. Although, the bank currently has a higher share of retail loans and higher demand deposit base, its NIMs are declining due to the low interest rates. We believe the bank's NIMs will remain under pressure in the short term and volumes will drive growth in NSCI. We forecast its NSCI to grow at 12.0% and 8.8% in 2011 and 2012 respectively.

- Increased NSCI and non-interest income led 3Q11 profit growth**

Albilad's NSCI grew 8.5% YoY mainly due to an increased credit portfolio. In addition, its non-interest income also expanded 50.3% mainly due to increased fee and exchange income. Consequently, top-line income grew 25% YoY. In addition, Albilad's provision expenses declined 44% YoY which resulted in 34.5x YoY increase in profits for 3Q11.

- Decline in provisions and cost-to-income to offer upside potential**

Albilad's provisions declined 22% YoY for 9M11, lower than industry peers' 48% decline. The bank's operating efficiency is also below its peers in terms of cost-to-income ratio which stood at 62% for 9M11 vs. industry peers' 35%. Any decline in provisions and cost-to-income is likely to add to the bank's profits and profitability going forward.

- Mixed outlook does not justify premium valuation**

We believe volume driven NSCI and strong non-interest income will support Albilad's top-line growth in the short term. We expect the bank's focus on the retail segment and lower cost of funds to improve its NIMs in the medium term, but its low cost efficiency and the relatively poor asset quality is likely to limit its profitability in the short term. At SR19.35, the stock trades at a high P/E of 14.4x 2012E earnings vs. industry P/E of 11.1x and a P/B of 1.5x 2012E, supporting our Neutral rating on the stock.

Financial Summary

SR mn	2010A	2011E	2012E	2013E	2014E	CAGR (%)
Net Sp Comm Income	625	699	761	875	1,030	13.3
Non-Interest Income	474	623	747	885	1,017	21.0
Total Operating Income	1,099	1,323	1,508	1,760	2,047	16.8
Net Income	89	301	404	560	742	70.0
Loans	12,290	13,537	15,466	18,296	20,228	13.3
Deposits	16,932	18,357	20,362	23,027	25,232	10.5
Investments	1,611	1,702	1,855	2,023	2,388	10.3
Assets	21,117	23,257	25,740	29,167	32,123	11.1
EPS	0.3	1.0	1.3	1.9	2.5	70.0

Source: Company, NCBC Research estimates

Please refer to the last page for important disclaimer

NEUTRAL

Target price	17.4
Current price (SR)	19.35

STOCK DETAILS

M52-week range H/L (SR)	20.2/16.6
Market cap (\$mn)	1,548
Shares outstanding (mn)	300
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	6.3	8.1	2.4
Rel. to market	6.3	5.3	6.7

Avg daily turnover (mn)	SR	US\$
3M	2.9	0.8
12M	4.1	1.1

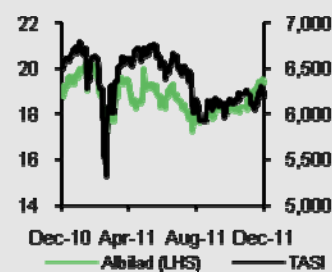
Reuters code	1140.SE
Bloomberg code	ALBI AB
www.bankalbilad.com/en	

VALUATION MULTIPLES

	10A	11E	12E
P/E (x)	65.4	19.3	14.4
P/BV (x)	1.9	1.7	1.5
P/ABV (x)	1.9	1.6	1.4
Div Yield (%)	-	-	-

Source: NCBC Research estimates

SHARE PRICE PERFORMANCE



Source: Bloomberg, Tadawul

Farouk Miah, CFA +966 2 690 7717
f.miah@ncbc.com

Iyad Ghulam +966 2 690 7811
i.ghulam@ncbc.com

DECEMBER 2011

Financials

Exhibit 32: Income statement

In SR mn, unless otherwise stated, Year-end December 31.

	2009	2010	2011E	2012E	2013E	2014E
Special commission income	572	646	725	797	955	1,208
Special commission expense	(24)	(21)	(25)	(37)	(80)	(178)
Net special commission income	548	625	699	761	875	1,030
<i>Net interest margin (%)</i>	3.4	3.4	3.3	3.2	3.3	3.5
Fee income	280	342	422	499	587	667
Other Operating income	81	133	201	248	298	350
Total operating income	909	1,099	1,323	1,508	1,760	2,047
Pre-provision Operating Expenses	(794)	(717)	(805)	(921)	(1,000)	(1,081)
Provisions	(363)	(290)	(209)	(173)	(186)	(205)
Total operating expenses	(1,157)	(1,007)	(1,014)	(1,093)	(1,186)	(1,286)
Pre-provision profits	115	382	518	587	761	965
<i>Pre-provision profit margin (%)</i>	12.6	34.7	39.2	38.9	43.2	47.2
Net income before Zakat	(248)	92	309	414	574	761
Zakat	(5)	(4)	(8)	(10)	(14)	(19)
Net income after Zakat	(254)	89	301	404	560	742
<i>Net income margin (%)</i>	(27.9)	8.1	22.7	26.8	31.8	36.2

Source: Company, NCBC Research estimates

Exhibit 33: Balance Sheet

In SRmn, unless otherwise stated, Year-end December 31.

	2009	2010	2011E	2012E	2013E	2014E
Cash and balances with SAMA	1,297	2,497	2,848	2,840	2,941	3,250
Due from banks	2,826	4,032	4,442	4,800	5,052	5,314
Investments, net	1,534	1,611	1,702	1,855	2,023	2,388
Performing loans	10,776	12,215	13,665	15,703	18,626	20,660
Non performing loans	629	708	711	770	859	957
Loans and advances, net	11,014	12,290	13,537	15,466	18,296	20,228
Fixed assets, net	395	342	340	340	347	359
Other assets	344	344	389	440	508	585
Total assets	17,411	21,117	23,257	25,740	29,167	32,123
Due to banks	198	382	822	1,036	1,223	1,362
Customers' deposits	13,721	16,932	18,357	20,362	23,027	25,232
External borrowing						
Other liabilities	490	699	667	516	539	552
Total liabilities	14,409	18,014	19,846	21,915	24,789	27,146
Share Capital	3,000	3,000	3,000	3,000	3,000	3,000
Reserves	44	76	153	257	400	590
Retained Earnings	-	69	301	611	927	1,270
Shareholders' funds	3,002	3,103	3,411	3,826	4,377	4,978
Total equity & liab	17,411	21,117	23,257	25,740	29,167	32,123

Source: Company, NCBC Research estimates

DECEMBER 2011

Exhibit 34: Key Ratios

Year-end December 31.

	2009	2010	2011E	2012E	2013E	2014E
Per share ratios (SR)						
EPS	(0.8)	0.3	1.0	1.3	1.9	2.5
Div per share	-	-	-	-	0.4	0.8
Book value per share	10.0	10.3	11.4	12.8	14.3	16.1
Adj Book value per share	9.2	10.1	11.8	13.5	15.4	17.5
Valuation ratios (x)						
P/E	NA	65.4	19.3	14.4	10.4	7.8
P/BV	1.9	1.9	1.7	1.5	1.4	1.2
P/ABV	2.1	1.9	1.6	1.4	1.3	1.1
Div yield (%)	-	-	-	-	2.0	3.9
Profitability ratios (%)						
Yield on earning assets	3.59	3.48	3.37	3.36	3.58	4.06
Cost of funds	0.18	0.14	0.14	0.18	0.35	0.70
Spreads	3.41	3.35	3.24	3.18	3.23	3.36
Net Interest Margins	3.44	3.37	3.26	3.20	3.28	3.46
ROE	(8.0)	3.0	9.5	11.4	14.0	16.3
ROA	(1.5)	0.5	1.4	1.7	2.1	2.5
Liquidity ratios (%)						
Loans/ Customer Deposits	80.3	72.6	73.7	76.0	79.5	80.2
Loan/Total deposits	80.0	71.0	71.5	73.1	76.2	76.7
Investments/Customer Deposits	11.2	9.5	9.3	9.1	8.8	9.5
Capitalization ratios (%)						
Total cap. adequacy	18.4	17.4	19.0	18.7	17.9	18.0
Equity/Total assets	17.2	14.7	14.7	14.9	15.0	15.5
Loans/Assets	63.3	58.2	58.2	60.1	62.7	63.0
Investments/Assets	8.8	7.6	7.3	7.2	6.9	7.4
Asset quality ratios (%)						
Gross NPLs	5.5	5.5	4.9	4.7	4.4	4.4
Net NPLs	2.1	0.6	(0.9)	(1.4)	(1.7)	(2.0)
Provisions cover	62.1	89.4	118.0	130.8	138.5	145.1
Efficiency ratios (SR mn)						
Cost/Income (%)	87.4	65.3	60.8	61.1	56.8	52.8
Assets per employee	8.7	9.6	9.9	9.7	10.5	11.4
Optg revenue per employee	0.5	0.5	0.6	0.6	0.7	0.8
Staff cost per employee	210.9	191.3	200.9	208.9	219.4	230.4
Net profit per employee	(0.1)	0.0	0.1	0.2	0.2	0.3
Assets per branch	261.4	271.3	280.8	289.9	313.8	342.4
Optg revenue per branch	14.2	15.5	16.7	17.8	20.1	22.9
Optg expense per branch	12.4	10.1	10.2	10.9	11.4	12.1
Net profit per branch	(3.9)	1.3	3.9	4.9	6.6	8.5

Source: Company, NCBC Research estimates

DECEMBER 2011

Kindly send all mailing list requests to research@ncbc.com

NCBC Research website

<http://research.ncbc.com>

Brokerage website

www.alahlitadawul.com
www.alahlibrokerage.com

Corporate website

www.ncbc.com

NCBC Investment Ratings

OVERWEIGHT:	Target price represents expected returns in excess of 15% in the next 12 months
NEUTRAL:	Target price represents expected returns between -10% and +15% in the next 12 months
UNDERWEIGHT:	Target price represents a fall in share price exceeding 10% in the next 12 months
PRICE TARGET:	Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

Other Definitions

NR: Not Rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or in circumstances when NCB Capital is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations

CS: Coverage Suspended. NCBC has suspended coverage of this company

NC: Not covered. NCBC does not cover this company

Important information

The authors of this document hereby certify that the views expressed in this document accurately reflect their personal views regarding the securities and companies that are the subject of this document. The authors also certify that neither they nor their respective spouses or dependants (if relevant) hold a beneficial interest in the securities that are the subject of this document. Funds managed by NCB Capital and its subsidiaries for third parties may own the securities that are the subject of this document. NCB Capital or its subsidiaries may own securities in one or more of the aforementioned companies, or funds or in funds managed by third parties. The authors of this document may own securities in funds open to the public that invest in the securities mentioned in this document as part of a diversified portfolio over which they have no discretion. The Investment Banking division of NCB Capital may be in the process of soliciting or executing fee earning mandates for companies that are either the subject of this document or are mentioned in this document.

This document is issued to the person to whom NCB Capital has issued it. This document is intended for general information purposes only, and may not be reproduced or redistributed to any other person. This document is not intended as an offer or solicitation with respect to the purchase or sale of any security. This document is not intended to take into account any investment suitability needs of the recipient. In particular, this document is not customized to the specific investment objectives, financial situation, risk appetite or other needs of any person who may receive this document. NCB Capital strongly advises every potential investor to seek professional legal, accounting and financial guidance when determining whether an investment in a security is appropriate to his or her needs. Any investment recommendations contained in this document take into account both risk and expected return. Information and opinions contained in this document have been compiled or arrived at by NCB Capital from sources believed to be reliable, but NCB Capital has not independently verified the contents of this document and such information may be condensed or incomplete. Accordingly, no representation or warranty, express or implied, is made as to, and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information and opinions contained in this document. To the maximum extent permitted by applicable law and regulation, NCB Capital shall not be liable for any loss that may arise from the use of this document or its contents or otherwise arising in connection therewith. Any financial projections, fair value estimates and statements regarding future prospects contained in this document may not be realized. All opinions and estimates included in this document constitute NCB Capital's judgment as of the date of production of this document, and are subject to change without notice. Past performance of any investment is not indicative of future results. The value of securities, the income from them, the prices and currencies of securities, can go down as well as up. An investor may get back less than he or she originally invested. Additionally, fees may apply on investments in securities. Changes in currency rates may have an adverse effect on the value, price or income of a security. No part of this document may be reproduced without the written permission of NCB Capital. Neither this document nor any copy hereof may be distributed in any jurisdiction outside the Kingdom of Saudi Arabia where its distribution may be restricted by law. Persons who receive this document should make themselves aware of, and adhere to, any such restrictions. By accepting this document, the recipient agrees to be bound by the foregoing limitations.

NCB Capital is authorised by the Capital Market Authority of the Kingdom of Saudi Arabia to carry out dealing, as principal and agent, and underwriting, managing, arranging, advising and custody, with respect to securities under licence number 37-06046. The registered office of which is at Al Mather street in Riyadh, P.O. Box 22216, Riyadh 11495, Kingdom of Saudi Arabia.