

Saudi Awwal Bank SJSC

Initiation of Coverage

Sector - Banks

Best positioned for sustained growth – Initiating with Outperform

Bank uniquely placed to benefit from current interest rate environment

Saudi Awwal Bank (SAB) has exhibited robust loan growth with a 20.1% y-o-y (year-on-year) increase in FY-2024, outpacing industry averages across both corporate and retail segments. Corporate lending, which constitutes ~75% of SAB's loan book, remains a key driver, supported by strong economic activity and the bank's deep involvement in financing Vision 2030 mega-projects like NEOM. The 100 bps rate cut by the FED has been stimulatory rather than disruptive, as it has been sufficient to drive credit expansion while maintaining a stable net interest margin. Additionally, SAB's stable CASA mix and strategic push toward fixed-rate loans in recent years position it well to navigate various interest rate scenarios. In the event of a rate cut, SAB is well-prepared to hedge its position, having strategically diversified its loan book to include the typically higher priced fixed-rate retail loans. The bank has increased its share of fixed-rate mortgage loans from 4.7% in FY-2022 to 11.1% in FY-2024, demonstrating management's proactive approach to enhancing portfolio resilience amid evolving market conditions.

Improving fundamentals in the post-merger phase

Saudi Arabia's Vision 2030 fuels strong credit demand, with USD 1.4 Tn in projects driving capital expenditure, while a stable rate outlook supports margins. Despite the recent rate cuts, further reductions appear unlikely, providing a stable outlook for margins. SAB's industry-leading cost-to-income ratio of 30.6%, well below the peer average of 35.9%, and its improving return on assets (RoA) of 2.3% underscores its operational efficiency. While a higher NPL ratio—including POCI loans—remains a concern, the bank has strengthened its coverage ratio, mitigating potential risks. With strong fundamentals, increasing participation in mega-projects, and a resilient loan portfolio, SAB is poised for continued profitability and RoE expansion.

Valuation & Risks

SAB is currently trading at a price-to-book (P/B) multiple of 1.2x, a ~23.9% discount to the peer average of 1.6x (excluding Al Rajhi). The forward P/B multiple stands at 1.2x, compared to a peer average of 1.4x highlighting a valuation gap. Since start of 2024, the share declined (7.5%) primarily due to concerns over asset quality—though improving—and market expectations of rate cuts in FY-2024. However, in FY-2025, SAB's share price has now gained 4.5% year-to-date (YTD) whereas TASI Bank Index has improved to 3.3% over the same period. We believe there has been a trend reversal due to lower probabilities of rate cuts in FY-2025 following the January 2025 FOMC meeting. With steadily improving asset quality and a coverage ratio now in line with industry averages, SAB is well-positioned for growth given favorable macroeconomic conditions and stable interest rate expectations. We believe SAB's current valuation presents an attractive entry point for investors, implying a 22.2% upside. On the contrary, if infrastructure projects progress more slowly than expected, SAB's loan book growth could be affected in the near-to-medium term due to its corporate tilt. Furthermore, any deviation in the NPLs over and above our cost of risk (CoR) estimate of 0.2%-0.3% could affect our valuations.

Key Financials - SAR Mn	FY-2023	FY-2024	FY-2025E	FY-2026E	FY-2027E
Net Special Commission Income	10,342	11,024	11,726	12,423	13,535
Fee Income	2,369	2,994	4,206	5,384	6,242
Net Income	7,003	8,070	8,639	9,532	10,601
EPS (SAR)	3.41	3.78	4.20	4.64	5.16
DPS (SAR)	1.86	2.00	2.10	2.32	2.58
P/B (x)*	1.3x	1.1x	1.2x	1.1x	1.0x
P/E (x)*	11.1x	8.9x	8.3x	7.6x	6.8x
Dividend Yield (%) *	4.9%	5.9%	6.0%	6.6%	7.4%

Source: Kamco Invest Research, SAB

*Historical multiples are based on year-end share price, year-end BV/ EPS and projected multiples are based on closing share price as of 11th March 2025 (Refinitiv)

Outperform

CMP 11-Mar-2025: SAR 35.05

Target Price: SAR 42.85

Upside: 22.2%



Price Perf:	1M	3M	12M
Absolute	-2.9%	6.9%	-14.5%
Relative	2.8%	10.4%	-7.8%

Source: Kamco Invest Research, Refinitiv

Stock Data

Bloomberg Ticker	SABB AB
Last Price (SAR)	35.05
MCap (SAR Mn)	72,945
MCap (USD Mn)	19,445
Stock Performance - YTD	4.5%
P/B – FY-2025E (x)	1.2
P/E – FY-2025E (x)	8.3
Dividend Yield – FY-2025E (%)	6.0
52-Week Range (SAR)	30.80/42.65

Source: Kamco Invest Research, Refinitiv

Report Sections

✓ Valuation & Risks.....	2
✓ SAB Bank in Charts.....	5
✓ Banking Sector Overview.....	6
✓ Financial Overview.....	10
✓ SAB Financials.....	20

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Valuation and Risks

Initiate with a TP of SAR 42.85 and an 'Outperform' rating

We initiate SAB coverage with an 'Outperform' rating, supported by improving fundamentals, industry-outpacing loan growth, continued long-term growth potential and a price trend reversal that is already underway. The bank ranks among the top five largest in Saudi Arabia across key metrics and, in our view, remains undervalued compared to its peers. It has consistently maintained a lower cost-to-income ratio and in FY-2024 has recorded a higher RoA than the industry average. We expect SAB's NPL and NPL coverage ratios to improve further, driven by an improving asset quality and higher loan recoveries. The Bank's Stage 1 loans have increased from 77.9% (FY-2020) to 90.2% (FY-2024) to date.

We believe the current interest rate environment is favorable for SAB. The 100 bps rate cuts have been stimulatory for loan growth, while the lower probability of further cuts in FY-2025 minimizes the risk of significant NIM contraction. Although SAB's loan book remains corporate-focused, its composition is evolving, with mortgage-led retail lending growing at a pace comparable to corporate loan growth in FY-2024. Even if rates decline further in FY-2025 and FY-2026, strong credit demand from Vision 2030 giga projects and continued mortgage expansion should support robust loan growth, mitigating any profitability impact. Additionally, the bank offers an attractive FY-2025E dividend yield of 6.0%. Also, SAB has consistently outperformed its peers over the past two years, particularly in cost efficiency. We expect SAB's credit growth to align with its historical performance at around ~12.8% and overall industry growth to be around ~8.5% for FY-2025. We expect dividend payouts to remain consistent with the historical trends at ~50%.

We have applied residual income, dividend discount and public comparables (P/B) to value SAB. However, we base our target price on the forward FY-2025E P/B. We exclude Al Rajhi from the peer average P/B as it appears to be an outlier (3.6x FY-2025E P/B). Currently, SAB's P/B ratio stands at 1.2x (FY-2024 BVPS, closing price), lower than its peer average of 1.6x, bolstering our view that a trend reversal is on the cards for the share's underperformance.

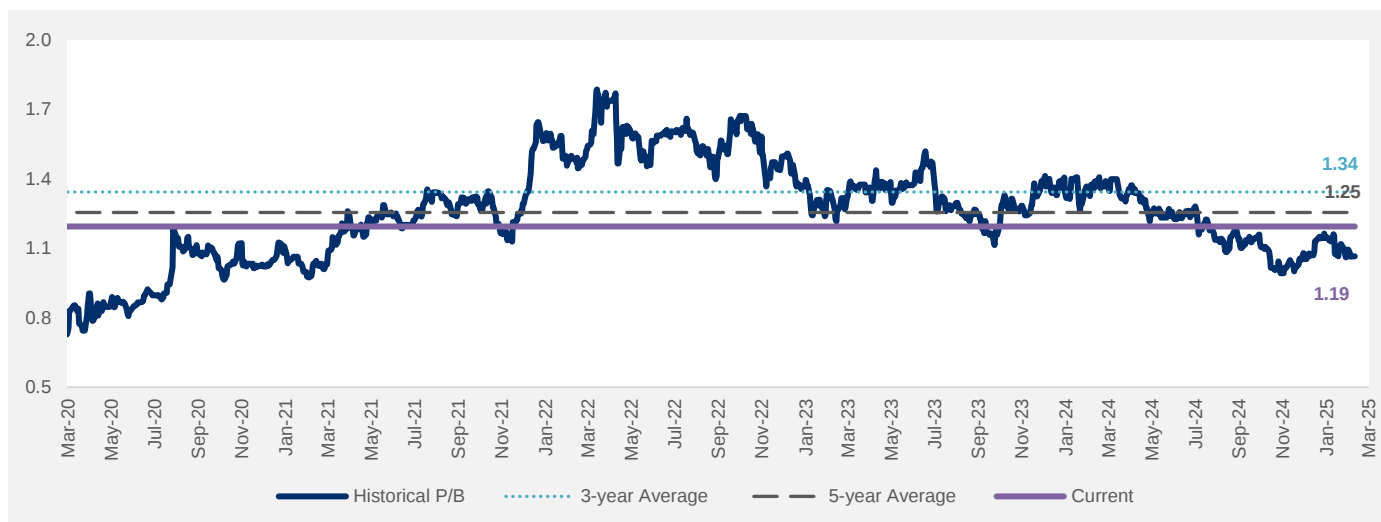
We have applied a 5.0% premium to our valuation to reflect SAB's exceptional performance across key metrics, including credit growth, RoA, and cost-to-income ratio—each consistently surpassing industry averages in recent years. We expect this momentum to persist, fueled by strong credit demand, strategic loan book diversification towards mortgage loans, market leadership in non-funded business, and the competitive advantages of an internationally recognized brand.

Based on the peer average FY-2025E P/B of 1.4x, our target valuation implies a 22.2% upside to the 11th March 2025 closing share price, with a target price of SAR 42.85.

Valuation	SAR Mn	Per Share
<u>Price target based on:</u>		
P/B FY-2025E	88,038	42.85
Target Upside		22.2%
<u>Other methods:</u>		
Residual Income Model	113,804	55.38
Dividend Discount Model - Perpetuity Growth	80,699	39.27

Source: Kamco Invest Research

SAB Historical Price-to-Book



Source: KAMCO Invest Research, Refinitiv

Snapshot – Relative Valuation ¹

Company Name	Market Cap (SAR Mn)	Price to Book		Price to Earnings		Dividend Yield		RoE (3 yr avg)	NIMs FY-2024	Cost-to-Income FY-2024
		FY-2025E	FY-2026E	FY-2025E	FY-2026E	FY-2025E	FY-2026E			
Al Rajhi	407,200	3.6x	3.2x	18.8x	16.4x	2.9%	3.3%	20.1%	3.1%	24.9%
SNB	210,600	1.2x	1.1x	9.6x	8.7x	5.9%	6.3%	12.2%	3.0%	28.3%
Riyad Bank	91,200	1.4x	1.3x	8.3x	7.4x	6.0%	6.8%	15.2%	3.4%	30.6%
BSF	42,500	1.0x	1.0x	9.0x	8.5x	6.1%	6.4%	10.9%	3.1%	35.3%
Albilad	46,625	2.1x	1.9x	14.7x	14.1x	1.7%	2.1%	16.9%	3.1%	42.6%
Alinma	74,625	1.9x	1.7x	12.2x	11.1x	3.5%	3.8%	15.9%	3.7%	30.9%
ANB	43,800	1.1x	1.0x	8.8x	8.5x	5.9%	6.2%	11.8%	3.6%	32.9%
Aljazira	17,610	1.1x	1.0x	13.0x	10.9x	2.0%	2.5%	8.0%	2.0%	56.0%
SAIB	17,625	1.1x	1.0x	9.2x	8.6x	5.7%	6.1%	9.0%	2.7%	41.5%
Average (ex-Al Rajhi)	68,073	1.4x	1.2x	10.5x	9.7x	4.7%	5.0%	12.5%	3.1%	37.3%
SAB	72,945	1.2x	1.1x	8.3x	7.6x	6.0%	6.6%	11.5%	2.9%	30.6%

Source: KAMCO Invest Research, Company filings, Refinitiv

¹ Based on closing share prices as of 11th March 2025 (Refinitiv), NIMs, Cost-to-Income as per company filings

For our residual income and dividend discount models, we use a cost of equity assumption of 9.7%, factoring in a 5-year market beta of 1.17, an equity risk premium of 4.7%, and a US 10-year government bond yield of 4.2%. For the dividend discount model, we use a perpetual growth rate of 3.5%.

Snapshot – Residual Income Model

Residual Income Model	Units	Projected				
		FY-2025	FY-2026	FY-2027	FY-2028	FY-2029
Long-Term Growth Rate	%					3.5%
Cost of Equity	%					9.7%
Residual Income	SAR	1.27	1.45	1.70	1.82	1.96
Present Value (PV) of Residual Income	SAR	1.21	1.27	1.35	1.32	1.29

Beginning Book Value Per Share (BVPS)	SAR	28.19
Add: Present Value (PV) of Residual Income	SAR	6.43
Terminal Value	SAR	31.52
Add: Present Value (PV) of Terminal Value	SAR	20.77
Equity Value Per Share	SAR	55.38

Source: Kamco Invest Research

Snapshot – Dividend Discount Model

Dividend Discount Model	Units	Projected				
		FY-2025	FY-2026	FY-2027	FY-2028	FY-2029
Dividends Per Share (DPS) – FY-2024	SAR	2.0				
Cost of Equity (Ke)	%	9.7%				
Dividend Growth Rate (g)	%	3.5%				
Dividend Per Share (DPS)	SAR	2.10	2.32	2.58	2.78	3.01
Present Value (PV) of Dividend	SAR	1.83	1.84	1.86	1.83	1.81

Share Price Calculation

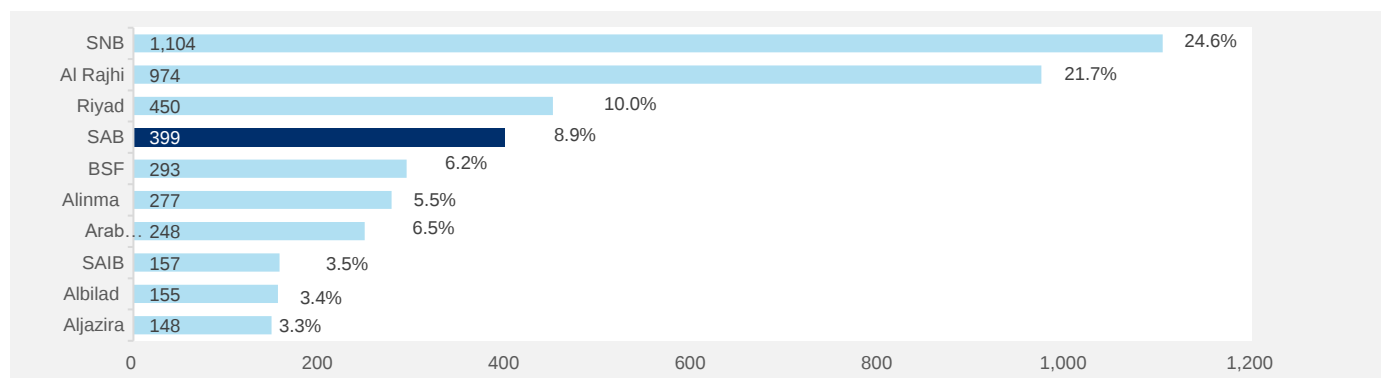
PV of Sum of Dividends	SAR	9.17
Year 5 Dividend × (1 + Growth Rate)	SAR	3.11
Terminal Value	SAR	50.12
PV of Terminal Value	SAR	30.10
Value Per Share	SAR	39.27

Source: Kamco Invest Research

Saudi Awwal Bank in Charts

SAB is one of the top five largest banks by total assets and has a sizeable asset market share across all segments...

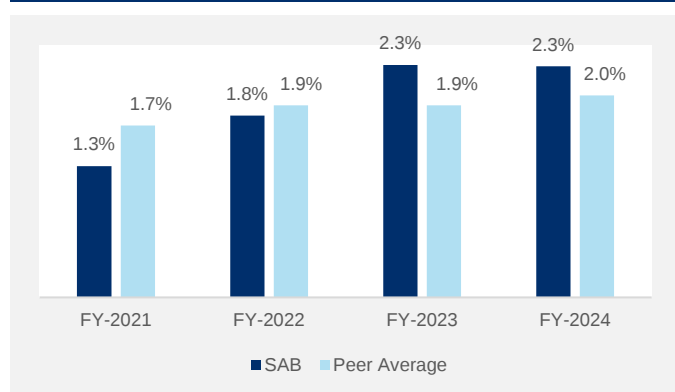
Total Assets (SAR Bn) & Market Share (%) in FY-2024^{2*}



Source: Kamco Invest Research, SAMA, *Excluding bank's overseas branches

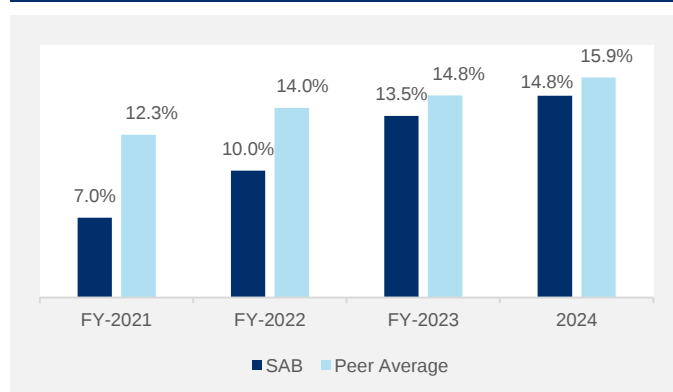
...While reporting peer-leading ROA...

Return on Assets (RoA) vs Peer Average



Source: Kamco Invest Research, Refinitiv³

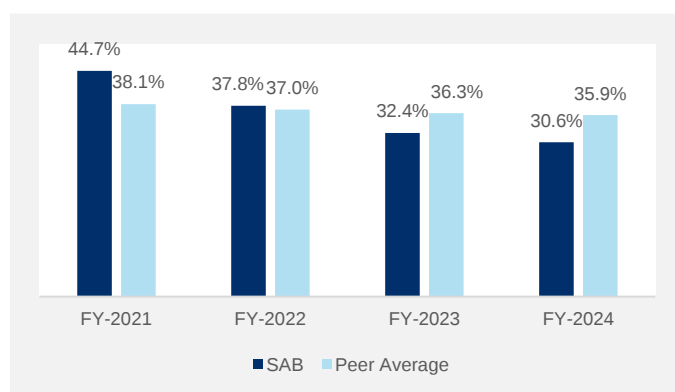
Return on Equity (RoE) vs Peer Average



Source: Kamco Invest Research, Refinitiv⁷

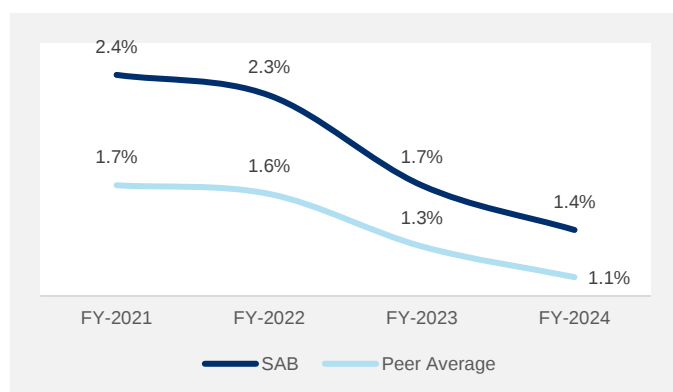
...While maintaining strong operational efficiency and an improving asset quality

Cost-to-Income Ratio: SAB vs Peer Average



Source: SAB, Company filings⁴

Non-Performing Loans Ratio (NPL): SAB vs Peer Average



Source: SAB, Company filings

² Market share = Total assets of individual banks/ Total assets of commercial banks reported by SAMA

³ Return on Assets = Net Income/ Average Total Assets, Return on Equity = Net Income/ Average Common Equity, sourced from Refinitiv

⁴ Calculated figures for Bank Albilad and Arab National Bank

Saudi Arabia Banking Sector Overview

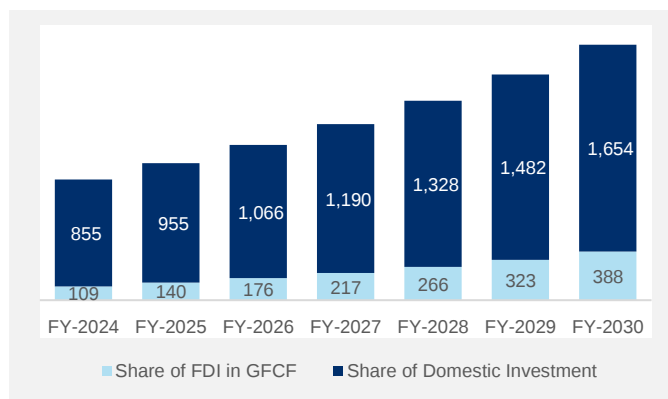
GDP Growth by Activities

Period	Finance	Real Estate	Construction	Wholesale & Retail Trade
FY-2019	6%	1%	7%	8%
FY-2020	3%	0%	3%	-9%
FY-2021	8%	2%	6%	15%
FY-2022	18%	3%	13%	9%
FY-2023	13%	9%	9%	11%
Q1-2024	8%	12%	6%	9%
Q2-2024	8%	10%	9%	8%
Q3-2024	9%	14%	7%	8%

Source: General Authority of Statistics (GASTAT)

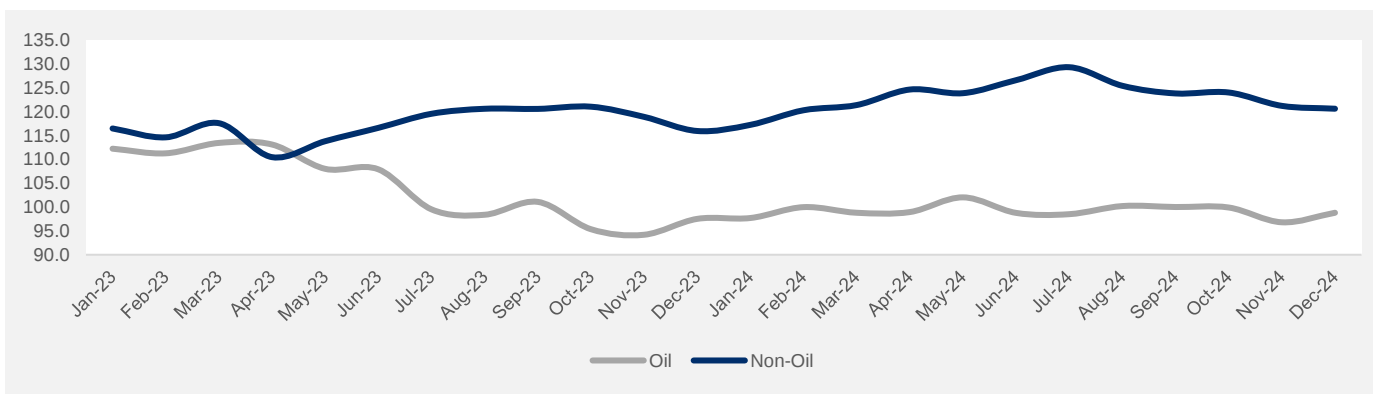
The KSA economy rebounded robustly from the recession caused by the COVID-19 pandemic, buoyed by rising commodity prices and a faster rollout of the National Investment Strategy (NIS) as part of its ambitious Vision 2030 reform plan. In Q3-2024, Saudi Arabia's real GDP increased by 2.8% y-o-y, primarily due to a 0.3% y-o-y increase in the oil activities resulting from production cuts. OPEC+ in their latest meet pushed back the oil output rises by three months until April 2025 and extended the full unwinding of cuts by a year until the end of FY-2026 due to weak demand and booming production outside the group.

Expected Gross Fixed Capital Formation (GFCF) Targets till 2030 (SAR Bn)



Source: National Investment Strategy (NIS)

KSA Industrial Production Index (Oil Vs Non-Oil Activities)



Source: GASTAT

Going forward, non-oil growth is expected to continue rising as the world's top oil exporter undergoes a major economic overhaul to reduce reliance on oil and invest billions in new sectors and sustainable revenue streams. The Finance, Insurance, and Business Services sector in Saudi Arabia has shown the strongest performance in terms of annual GDP growth from FY-2019 to FY-2023, consistently outperforming other sectors. The IMF projects Saudi GDP growth of 1.4% in FY-2024, rising to 3.3% in FY-2025 (1.3% decrease since October 2024 projections) while the World Bank estimates 1.6% growth in FY-2024 and 4.9% in FY-2025 (1% decrease since June 2024 projections).

Despite of geopolitical events in the Middle East the Saudi economy has not been significantly affected, to date. The IMF notes that KSA benefits from a strong banking system, increasing home ownership, solid non-oil economic growth, and strong private consumption. Saudi banks are well-capitalized, profitable, and show resilience to severe macroeconomic shocks.

Saudi Arabia is set to host several major international events, such as the 2034 World Cup and Expo 2030, alongside ambitious multi-trillion-dollar mega projects like NEOM, which will necessitate significant spending. The financial system has seen rapid credit growth, fueled by booming real estate activity and government incentives under the Vision 2030 transformation plan. According to the IMF,

the unemployment rate in Saudi Arabia hit a record low by the end of FY-2023, largely due to an increase in private sector jobs. Additionally, COVID-19-related regulatory measures, including loan deferrals and guaranteed lending programs, were fully phased out in early FY-2023.

The National Investment Strategy (NIS), integral to Saudi Arabia's Vision 2030, aims to draw in USD 3 Tn in investments by 2030 through a combination of foreign direct investment (FDI), domestic capital, and public-private partnerships. Of this total, the PIF plans to invest USD 1.3 Tn into the economy by 2030. Saudi banks are anticipated to handle a substantial share of this capital influx, providing services such as capital financing, treasury management, and investment banking.

Saudi Giga Projects Current Status (FY-2024)

Country	Projects underway in FY-2024 (USD Bn)	Projects in Pipeline (USD Bn)	Expected Completion
Saudi Arabia	420	1,490	2030

Source: MEED

According to MEED, approximately USD 420 Bn worth of projects are either planned or underway and ~USD 1.4 Tn worth of projects in the pipeline, making it the largest projects market in the MENA region. The accelerating project timelines are expected to drive an uptick in the capex cycle, fueled by growing construction demand. Saudi banks are anticipated to remain key financiers, supporting the execution of these initiatives.

As the pace of these developments accelerates, banks are likely to see higher deposit inflows with the share of government-related deposits in the banking system rising from 22% in Q1-2021 to 30% in Q4-2024, as per SAMA enhancing their liquidity and financing capabilities.

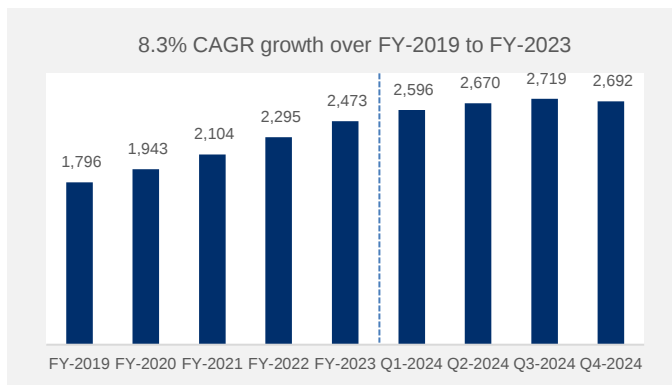
As per Fitch, this capital influx is projected to significantly boost corporate lending, with Saudi banks increasing their financing growth rate to about 12% in FY-2024. Banks in Saudi are expected to continue growing at about double the GCC average rate, with corporate financing likely making up about 60% of new loan originations in FY-2024.

Saudi banks poised for growth, fueled by oil prices, Vision 2030 spending, and strong liquidity: The operating environment for Saudi banks remains favorable, driven by high oil prices and increased government spending related to Vision 2030. With the real non-oil GDP growth projected at 4.3% by Fitch for FY-2024-2025 and strong liquidity from government-related deposits, Saudi banks are well-positioned for growth, potentially outpacing the GCC average.

Steady deposit growth and declining NPLs strengthening Saudi Arabia's banking sector under Vision 2030: Deposits in Saudi Arabia have grown at an 8% CAGR since FY-2019, fueled by economic expansion and diversification under the Vision 2030 initiatives while increased government investments, higher oil revenues, and improved financial inclusion through digital banking have boosted liquidity and attracted more deposits from businesses and individuals. The stability of Saudi banks, even in low-interest-rate environments, has further enhanced their appeal as a secure option for savings.

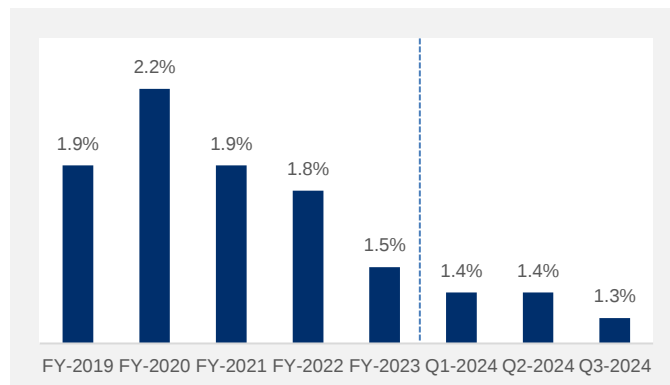
While the industry's asset quality has been improving with NPLs ratio declining from 1.9% in FY-2019 to 1.3% as of Q3-2024. This reduction in NPLs reflects improved economic conditions, better risk management by banks, and government support during the pandemic, along with regulatory reforms that have strengthened the financial sector and led to healthier loan portfolios.

KSA Bank Deposit Growth (SAR Bn)



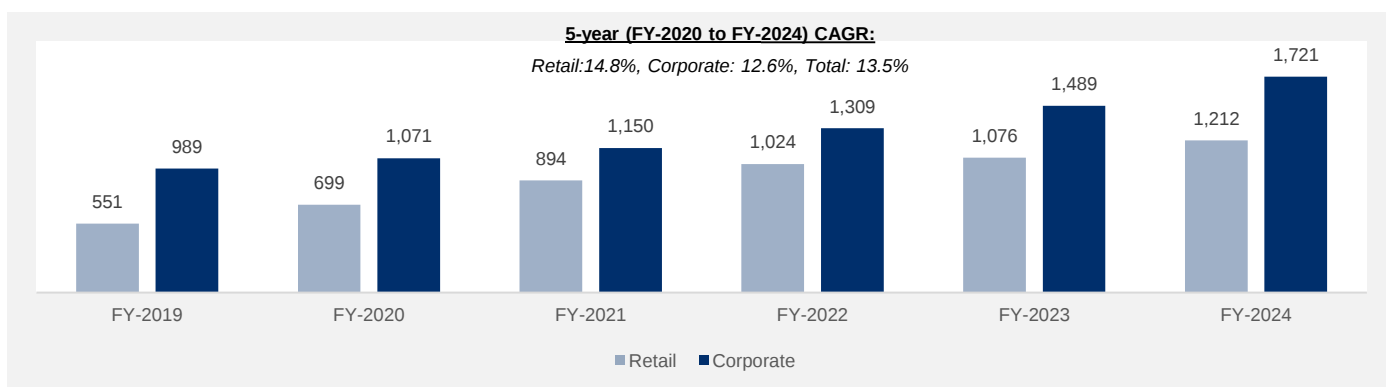
Source: SAMA

KSA Non-Performing Loans (%)



Source: SAMA

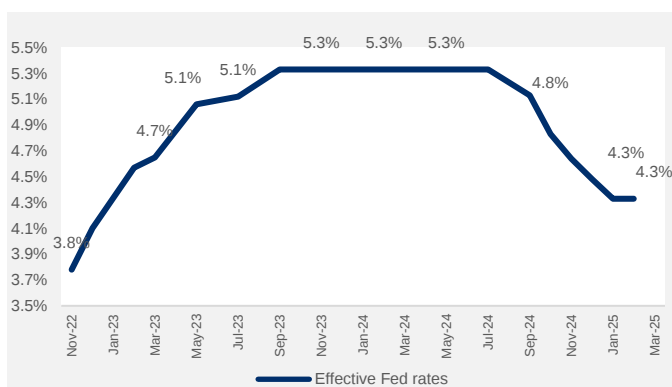
KSA Bank Credit Growth (SAR Bn)



Source: SAMA

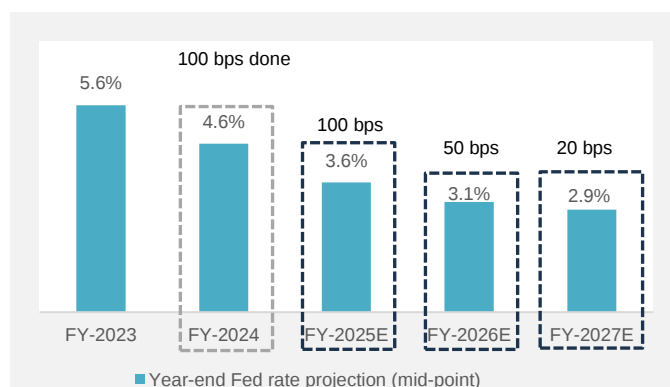
US FOMC rate guidance

Effective Fed Funds Rates (March 2022 to February 2025)



Source: FRED

FOMC Projections⁵ (as per December 2024 SEP)



Source: Summary of Economic Projections

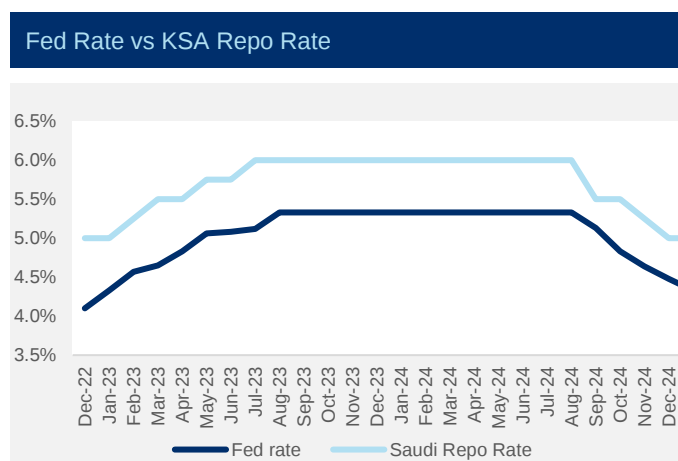
The Federal Open Market Committee (FOMC) cut interest rates by 25 bps in December 2024 and, according to the Summary of Economic Projections (SEP), anticipated a further reduction of 100–150 bps over FY-2025 and FY-2026, with rates settling at 2.9% through FY-2027. In its January 2025 meeting, the FOMC kept the federal funds rate unchanged at 4.25%–4.50%, signaling a cautious

⁵ Updated SEP will be released after the March 2025 FOMC meeting

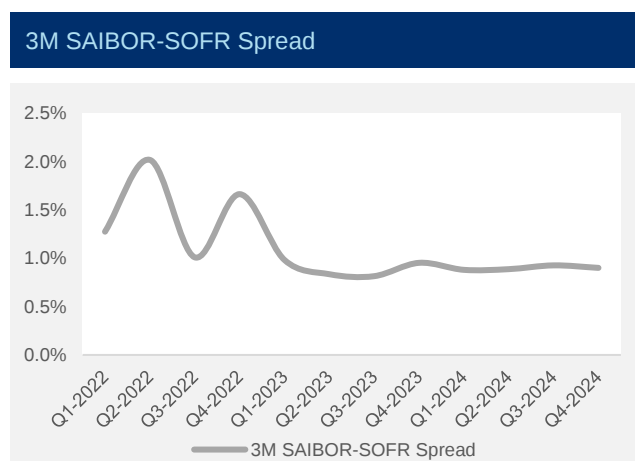
approach after the late 2024 cuts, while market expectations indicate low probabilities of any imminent changes to the Fed rate.

SAMA's rate cuts and Vision 2030 projects are expected to boost lending growth in the banking sector: SAMA is expected to align with the FOMC's interest rate cuts, which are expected to enhance growth in the banking sector by lowering borrowing costs and expanding lending opportunities. Over the past three years, the sector has experienced a 14.8% CAGR in corporate loans (FY-2020 to FY-2023). The ambitious Vision 2030 projects, which require significant investment, are expected to increase credit demand in key sectors such as infrastructure and energy while bank loan-to-deposit ratios remain below regulatory limits, coupled with corporate and retail demand, and a lower interest rate environment, lending growth could accelerate at a steady rate over the medium term.

The narrowing SAIBOR-SOFR spread signals improved liquidity in Saudi banks due to increased government deposits: The narrowing of the SAIBOR-SOFR spread reflects easing liquidity conditions in Saudi Arabia. In FY-2022, tight liquidity pushed the SAIBOR-SOFR spread higher and raised borrowing costs for banks. However, the spread narrowed in FY-2023, signaling improved liquidity. This shift was supported by an increase in government-related entity (GRE) deposits directly into the banking system, which surged to 30% of sector deposits by Q4-2024 from 22% in Q1-2021. These GRE deposits, though primarily in high-interest deposit accounts, provided banks with a stable liquidity source, easing interbank lending pressures. As a result, banks' funding costs have stabilized, keeping net financing margins steady around 2.8% (3-yr average).

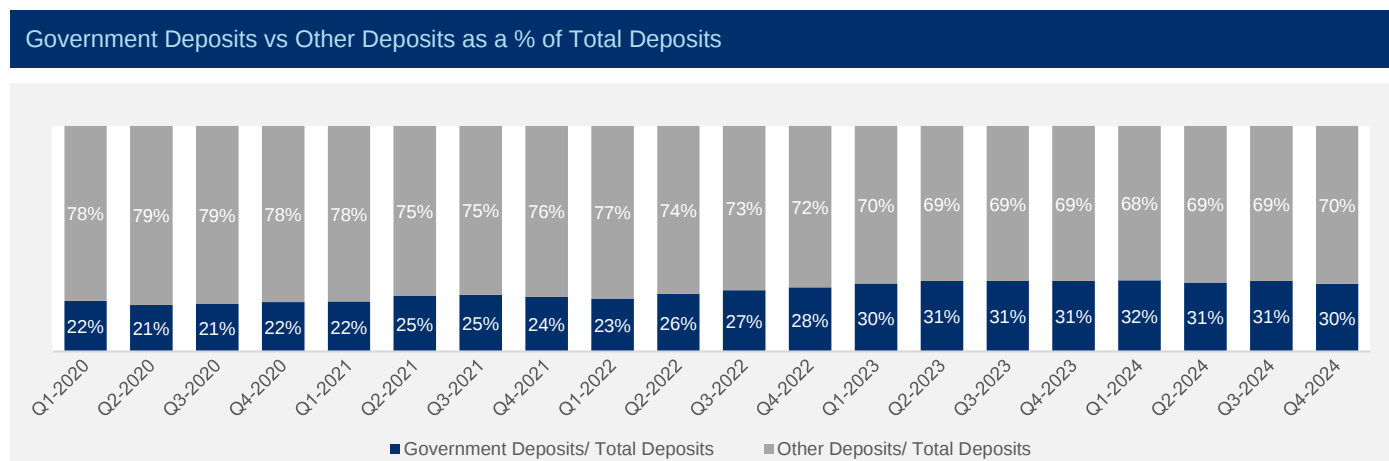


Source: SAMA, FRED



Source: SAMA, FRED

The increasing GRE deposits have also helped narrow the SAIBOR-SOFR spread from 127 bps in Q1-2022 to 86 bps by Q4-2024, reflecting reduced liquidity stress. Moreover, this consistent government liquidity injection has allowed banks to manage balance sheets more effectively, aligning SAIBOR more closely with SOFR and supporting overall financial stability.



Source: SAMA

Saudi Awwal Bank - Segmental Overview

Particulars (SAR Mn)	Wealth and Personal			Corporate and Institutional		
	FY-2023	FY-2024	y-o-y	FY-2023	FY-2024	y-o-y
Net special commission income	3,060	3,513	14.8%	5,792	6,292	8.6%
Fee and commission income, net	135	209	55.0%	803	951	18.4%
Operating income	3,454	4,114	19.1%	6,870	7,534	9.7%
Operating expenses	(1,868)	(1,865)	-0.2%	1,581	(1,720)	-208.8%
Impairments	(78)	(199)	155.4%	(481)	(368)	-23.5%
Net income before zakat	1,508	2,050	36.0%	4,808	5,447	13.3%
Total assets	73,973	61,935	-16.3%	197,517	165,447	-16.2%
Loans and advances, net	64,326	53,013	-17.6%	193,318	161,723	-16.3%
Investments	0	0		0	0	
Total liabilities	90,963	82,223	-9.6%	159,837	152,854	-4.4%

Source: SAB

Particulars (SAR Mn)	Treasury			Capital markets		
	FY-2023	FY-2024	y-o-y	FY-2023	FY-2024	y-o-y
Net special commission income (NSCI)	1,375	1,077	-21.6%	114	141	23.4%
Fee and commission income, net	(0)	(4)	16218.5%	207	295	42.1%
Operating income	2,061	1,925	-6.6%	338	446	32.2%
Operating expenses	(397)	(434)	9.4%	(228)	(258)	13.2%
Impairments	(4)	1	-129.7%	(0)	(1)	193.5%
Net income before zakat	1,660	1,491	-10.2%	138	188	36.5%
Total assets	123,932	124,614	0.5%	2,751	2,186	-20.5%
Loans and advances, net	0	0		1,702	1,199	-29.5%
Investments	97,222	95,757	-1.5%	581	386	-33.4%
Total liabilities	80,123	59,441	-25.8%	187	171	-8.3%

Source: SAB

The highest contributors to NSCI and fee & commission income are 57.1% and 31.9% from corporate and wealth & personal banking, respectively, followed by treasury at 9.8%.

The operating segments' operating income contributions are 53.7% corporate, 29.3% wealth and personal, 13.7% treasury and 3.2% capital markets, respectively.

SAB ranks fourth by assets in Saudi Arabia, with total assets share of 8.9% as of FY-2024. With corporate and wealth & personal loans contributing 40.5% and 13.3% of the total assets.

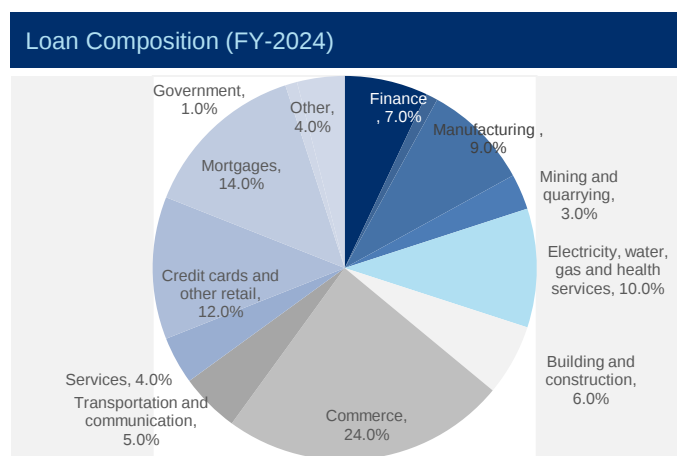
Saudi Awwal Bank - Financial Overview

Saudi Awwal Bank is positioned for growth in both corporate and retail segments

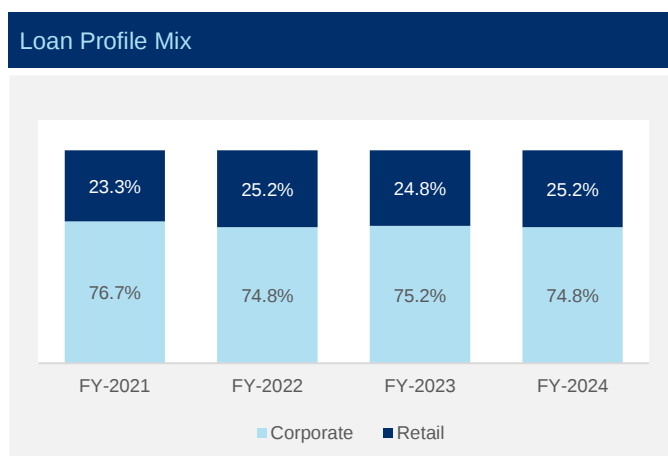
SAB's loan portfolio outpaces industry growth with significant gains in market share: The loan portfolio expanded faster than the market across both corporate and retail during FY-2024. The overall loan growth was 14.3%, with corporate lending growing by 15.6% and retail (consumer loans and credit cards) by 12.6%. However, SAB was comfortably ahead of these levels with an overall growth of 20.1% and segment-wise growth of corporate 19.5% and retail 21.8%.

SAB's overall market share improved from 8.9% in FY-2023 to 9.4%⁶ aided by both corporate and retail segments. Additionally, in the retail mortgage segment, SAB has delivered phenomenal growth with a much higher market share of 11.1% in FY-2024 from 4.7% in FY-2022. The bank has seen a steady rise in mortgage originations, increasing from USD 1.7 billion in Q4-2022 to USD 3.6 billion in Q1-2024, with the latest figure at USD 2.3 billion. This reflects a three-year CAGR of 16.3% as of FY-2024.

SAB has maintained a steady loan portfolio mix, with corporate loans making up ~75%, on average, and retail loans at ~25%. Since the merger, through FY-2021 to FY-2023, retail lending has been outpacing corporate lending at 40% and 25% growth, respectively. As non-oil GDP continues to grow and Vision 2030 projects drive new lending opportunities, the 100 bps rate cut in FY-2024, are expected to further stimulate demand across both segments.



Source: SAB



Source: SAB

SAB's corporate loan market share has remained relatively stable over the last two years (FY-2023-12.4%, Q3-2024-12.6%)⁷. SAB achieved above-market growth in the corporate segment, driven by drawdowns from flagship Vision 2030 giga-projects and additional commitments, strengthening its future pipeline. The corporate originations trend remained resilient, supporting broader sector diversification with no significant concentration in any single sector.

The loan growth outlook for FY-2025 is projected in the mid-teens, driven by sustained momentum in the retail mortgage and corporate segments, which are expected to remain the primary growth drivers. Credit demand is anticipated to strengthen significantly, particularly in the corporate segment, from FY-2028 onwards as Vision 2030 approaches its target completion. In the retail mortgage segment, the Housing Program Delivery Plan, part of Vision 2030, aims to achieve a 70% homeownership rate, further supporting growth.

⁶ As of 30th September 2024, SAB Investor Presentation FY-2024

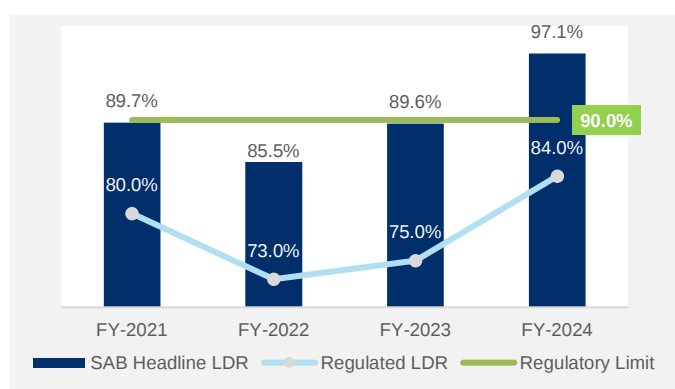
⁷ Market share = SAB Investor Presentation FY-2024

Robust liquidity position: SAB's regulated LDR is below the SAMA regulatory limits, enhancing lending capacity and liquidity resilience: SAB maintains a SAMA-weighted LDR of 84.0%, reflecting a strategic balance between lending and liquidity management. This LDR is well below the regulatory limit of 90%, as well as in-line with the peer average at 83.7% (excluding Bank Aljazira - 72.4%). The current ratio indicates that SAB is well-positioned to support the anticipated growth in credit demand, particularly considering the ongoing economic initiatives under Vision 2030.

The bank's strong deposit mix, characterized by a healthy proportion of CASA alongside time deposits, significantly bolsters its liquidity position. Therefore, strategic balance enhances SAB's ability to meet long-term lending requirements associated with Vision 2030.

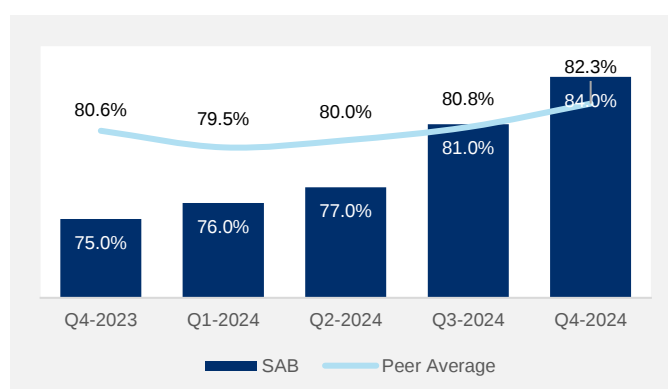
Furthermore, SAB's capital structure is fortified by a recent issuance of Tier 1 Sukuk amounting to SAR 4.0 billion, contributing to a robust Tier 1 capital ratio of 15.4% and a total capital ratio of 19.7%. This strong capital base provides a significant cushion against potential lending pressures, allowing the bank to consider additional Tier 1 capital issuance if necessary to sustain growth.

Loan To Deposit Trend (LDR)



Source: SAB

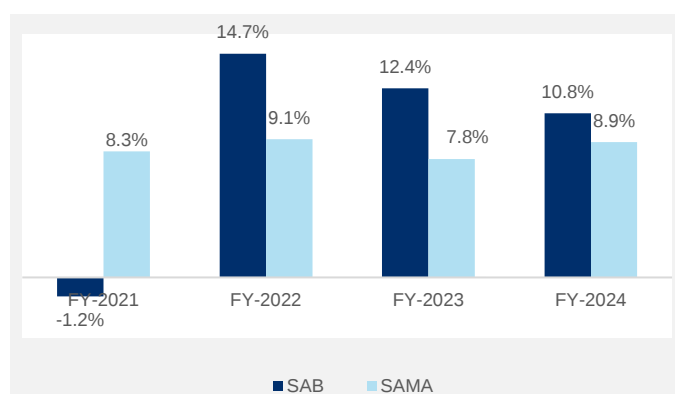
SAMA Weighted LDR: SAB vs Peer Average



Source: SAB, Company filings⁸

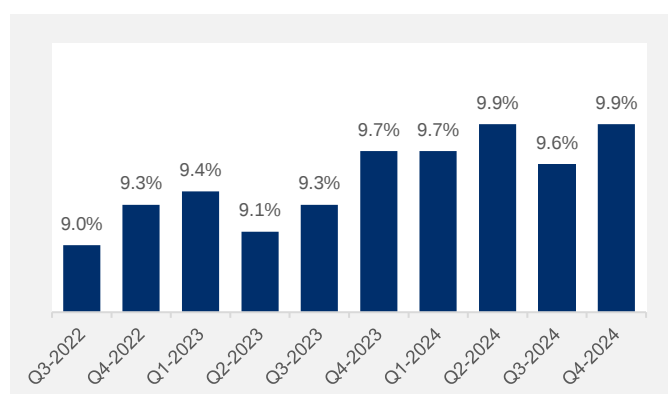
Strategically balanced deposit mix could potentially tilt towards CASA deposits amid rate cuts

Deposit Growth: SAB vs SAMA Total Deposits



Source: SAB, SAMA

Deposit Share of SAB



Source: SAMA, SAB, Kamco Invest Research

SAB has consistently maintained a market share of 9.0% to 10.0% of total banking deposits in Saudi Arabia. The bank has achieved a balanced mix of current accounts and savings accounts (CASA), while also focusing strategically on time deposits for long-term funding. Over the past year, SAB's deposit growth has outperformed the industry, except for the merger transition period. As of FY-2024,

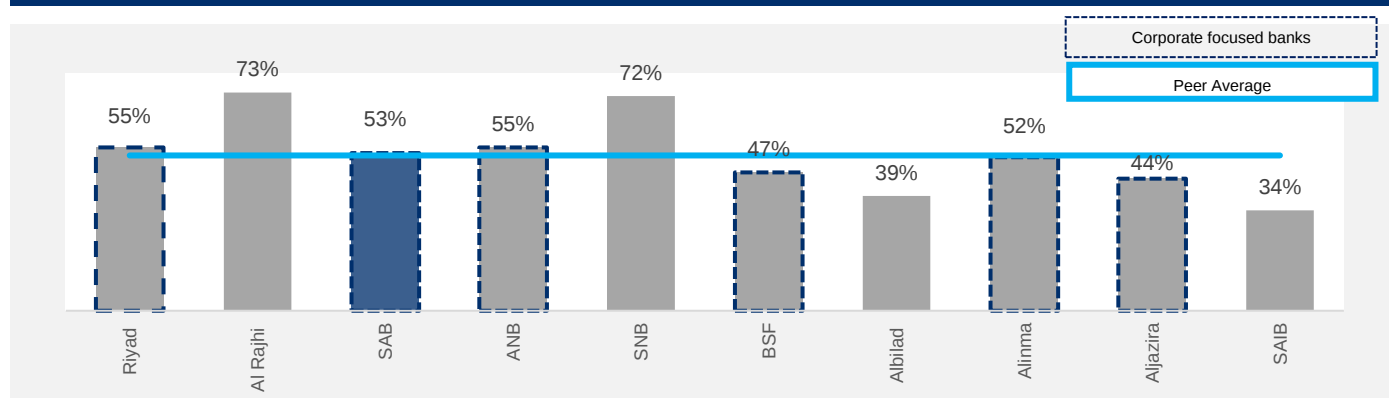
⁸ Except Bank Albilad for Q4-2024 (not reported as of 11th March 2024)

SAB's y-o-y deposit growth was 10.8%, outpacing the SAMA-reported total deposits of 8.9%. However, the average cost of funding on time deposits will continue going down into FY-2025 and FY-2026 due to the rate cuts in FY-2024.

Strong CASA position among corporate-focused peers: SAB maintains one of the highest CASA ratios among its corporate-focused peers, including Riyad Bank, Arab National Bank, Banque Saudi Fransi, Alinma Bank, and Bank AlJazira. In FY-2021, it achieved an industry-leading CASA ratio of 84%. However, the post FY-2021 rise in interest rates triggered a shift from CASA to interest-bearing deposits, increasing funding costs and narrowing the gap with competitors.

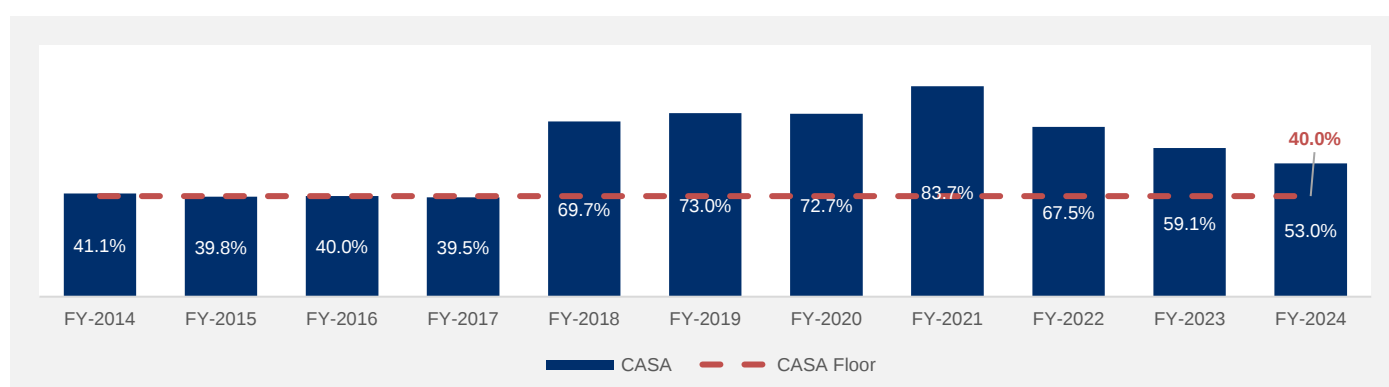
As the impact of Federal Reserve rate cuts continues to be priced in, the deposit mix is expected to remain range-bound at recent levels as banks adjust their offerings to attract customers. Lower funding costs from these cuts may help stabilize net interest margins, provided banks effectively manage credit volumes and pricing.

CASA Ratios: SAB vs Peers (FY-2024)



Source: KAMCO Invest Research, Company filings

SAB CASA Trend: FY-2014 to FY-2024

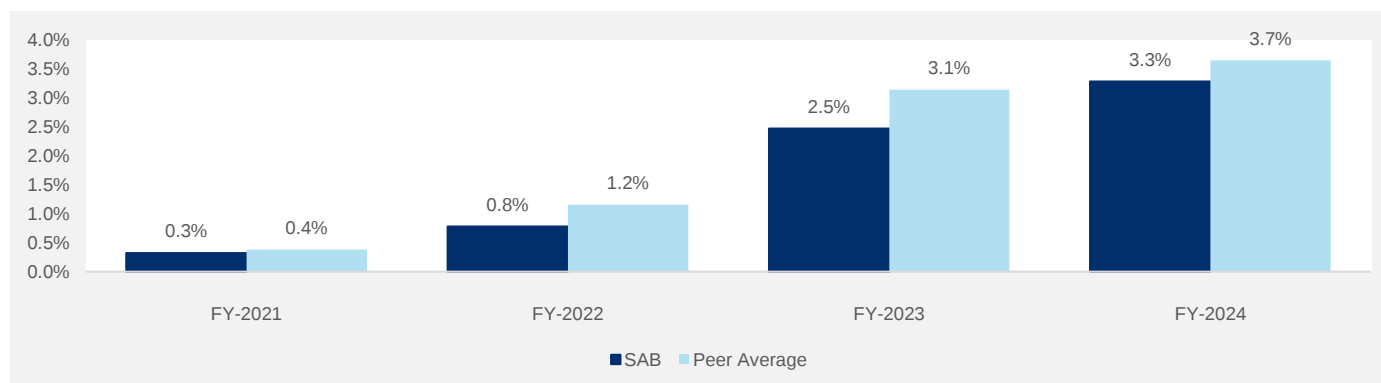


Source: KAMCO Invest Research, SAB

CASA Trend	SAB	Riyad	ANB	BSF	Alinma	Aljazira	Average
FY-2019	73.0%	58.9%	51.9%	54.8%	56.5%	51.7%	54.8%
FY-2020	72.7%	67.0%	63.5%	67.6%	58.7%	58.0%	62.9%
FY-2021	83.7%	64.6%	61.9%	66.9%	65.8%	52.7%	62.4%
FY-2022	67.5%	60.0%	52.7%	61.1%	56.8%	47.8%	55.7%
Q3-2023	61.0%	53.7%	51.8%	55.9%	49.9%	43.6%	51.0%
Q4-2023	59.1%	55.2%	53.2%	47.1%	48.2%	39.9%	48.7%
Q1-2024	56.4%	56.4%	52.3%	47.6%	50.7%	42.3%	49.8%
Q2-2024	55.1%	57.2%	52.9%	42.8%	50.6%	41.3%	49.0%
Q3-2024	51.8%	52.3%	54.0%	46.8%	51.4%	42.4%	49.4%
Q4-2024	53.0%	54.9%	54.9%	46.5%	51.6%	44.4%	50.9%

Source: KAMCO Invest Research, Company filings

Cost Of Funding: SAB vs Peer Average



Source: KAMCO Invest Research, Refinitiv⁹

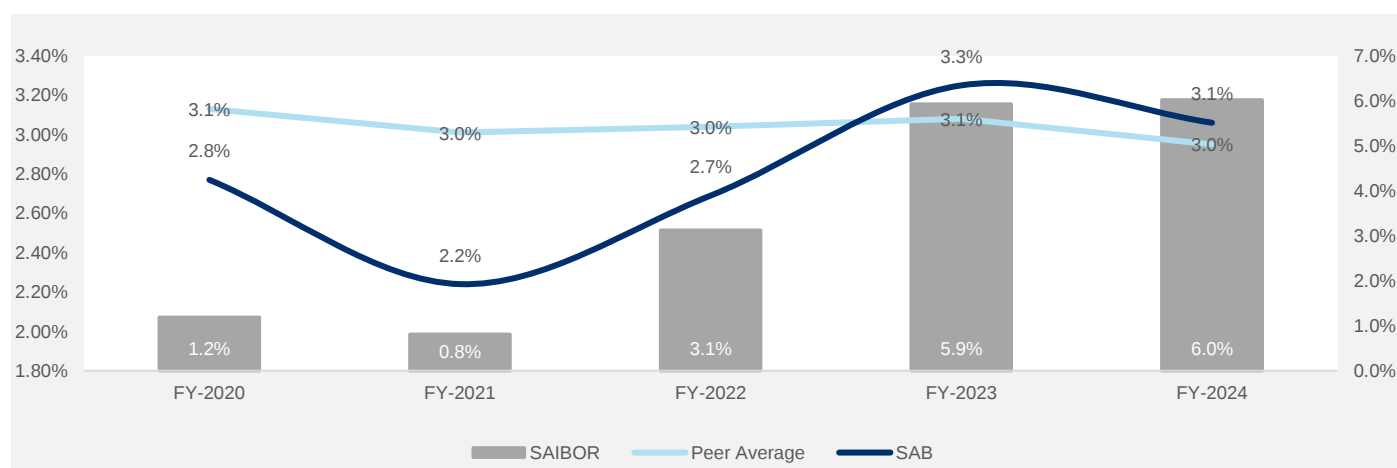
According to Bloomberg's Fed rate consensus, no rate cuts are expected in FY-2025 and FY-2026, contrasting with the 50 bps and 25 bps cuts previously projected in the Fed dot plot. Given this, we expect SAB's CASA ratio to remain stable in the 50-55% range in the short-to-medium term as the 100 bps rate cut in FY-2024 continues to be priced in. Historically, SAB's lowest CASA ratio in the past decade was approximately 40% in FY-2014, which could serve as a potential floor in the event of further rate cuts beyond FY-2024

⁹ Cost of funding (annual) = Interest cost/ Average customer deposits + due to banks + debt securities

NIMs to temporarily face headwinds from Fed interest rate cuts and the resultant corporate loan repricing: During the rising interest rate environment, SAB's Net Interest Margins (NIMs) expanded from 2.0% in Q1-2022 to 3.0% in FY-2023, benefiting from the faster repricing of its corporate loan portfolio due to its strong corporate exposure. However, NIMs have historically faced downward pressure relative to its peers, during rate cut cycles, due to the same repricing working against it, as its corporate loan book typically gets repriced within a year and ~85% within three months. Similarly, headwinds from Fed monetary easing led to a contraction of 19 bps y-o-y in FY-2024.

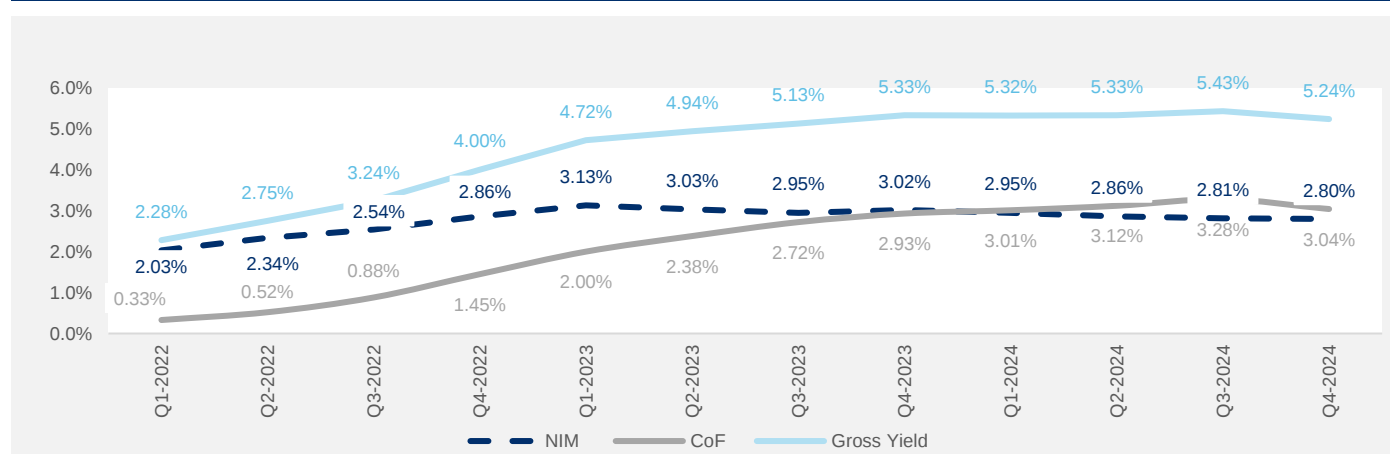
Despite competition and integration challenges, SAB's strategic decision to minimize interest rate sensitivity allowed it to benefit from the rising rate environment. NIMs cumulatively expanded by 99 basis points between FY-2022 and FY-2023. Furthermore, gross yields also saw considerable improvement, resulting from stronger lending growth in both the corporate and retail segments, particularly in mortgage portfolios. On the other hand, the 100 bps rate cut by the Federal Reserve in FY-2024 poses risks due to SAB's lower retail loan contribution and short-tenor corporate lending, which tend to reprice more quickly and are negatively impacted by monetary easing.

Net Interest Margin: SAB vs Peer Average Against SAIBOR



Source: KAMCO Invest Research, SAMA, SAB, Company filings, Refinitiv¹⁰

SAB: Net Interest Margins vs Cost of Funding vs Gross Yield



Source: SAB, Company filings

¹⁰ Refinitiv

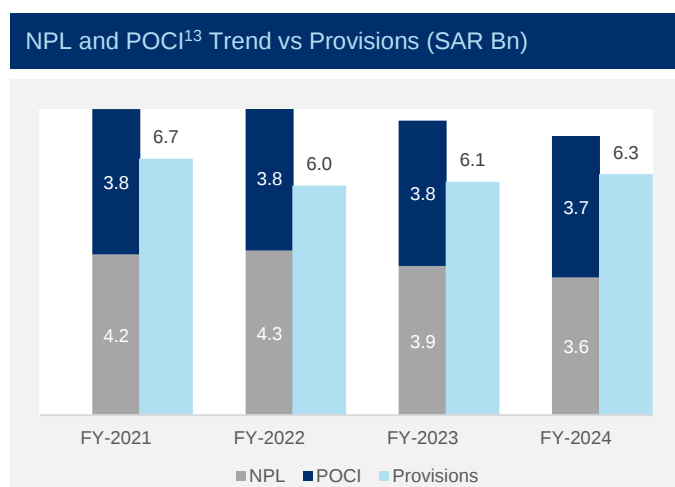
However, as per Bloomberg consensus, no additional rate cuts are expected in FY-2025 and FY-2026. The recent rate cuts have been optimally priced to stimulate loan growth, striking a balance between supporting credit expansion and limiting margin compression. Given SAB's stable CASA mix and its strategic focus on growing its fixed loan book in recent years, the bank is well-positioned to navigate these tailwinds with minimal NIM contraction. The FY-2024 rate cut is likely to support loan growth, particularly in the corporate segment, as Vision 2030 projects approach key target dates, driving new loan originations. With corporate loans comprising 75% of SAB's loan book, this concentration could enhance growth potential. The rate cuts are currently well-calibrated to stimulate lending, allowing SAB to capitalize on credit demand while managing margin pressures effectively.

Assessing the Impact of Rate Cuts	FY-2025E	FY-2026E	FY-2027E
Fed rate cut assumption	0 bps	0 bps	0 bps
Floating rate interest-earning assets (% of total)	60.9%	64.0%	63.1%
Floating rate interest-bearing liabilities (% of total)	59.6%	60.3%	62.1%
Impact on NIMs:			
Gross yields	5.43%	5.15%	5.15%
Cost of financing	2.58%	2.39%	2.37%
Net interest margin	2.85%	2.76%	2.78%

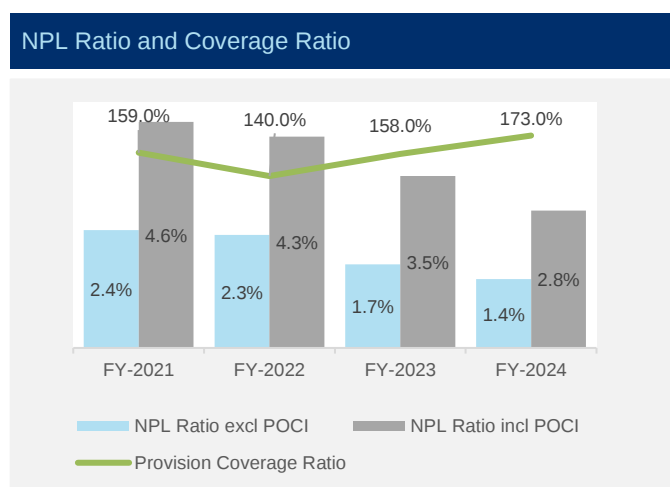
Source: Fed Reserve Economic Projections, KAMCO Invest Research

Retail loan repricing occurs with a lag; based on SAB's asset repricing disclosures, approximately 25% of the portfolio is repriced within a year, 34% over a 1-5 year term, and 40% beyond five years. While recent Fed rate cuts may exert pressure on margins and profitability, SAB can mitigate these challenges by leveraging a strong lending outlook across both corporate and retail mortgage segments. Additionally, it can capitalize on alternative revenue streams, including trade-related income—supported by its ~24% market share in trade assets—investment income, and cross-selling initiatives to drive non-funded income growth.

Declining Non-Performing Loan (NPL) trend leading to normalized CoR levels: SAB has demonstrated significant progress in enhancing its asset quality, with the NPL ratio reaching 1.4% (ex-POCI) in FY-2024, reflecting a y-o-y improvement of 38 bps. This improvement is further evidenced by a decline in Stage 3 loans from pandemic-era highs of 3.7% to 1.5%. Concurrently, Stage 1 loans have increased substantially from 77.9% to 90.2%, indicating improving asset quality.



Source: SAB



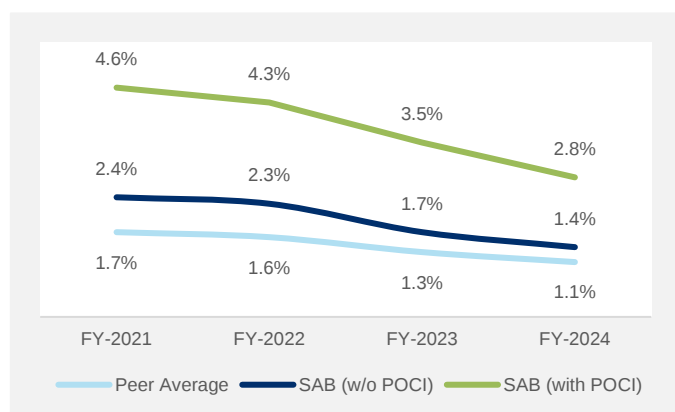
Source: SAB

¹³ POCI – Purchased or Originated Credit Impaired

SAB has also strengthened its coverage for NPLs since FY-2020 and post-integration, achieving a coverage ratio of 173.0%. Despite macroeconomic challenges, the bank has successfully transitioned into improving its coverage above its 5-year average of 152.8%. SAB's overall coverage has been moving almost at par with the peer average of 173.0% vs 169.9% in FY-2024.

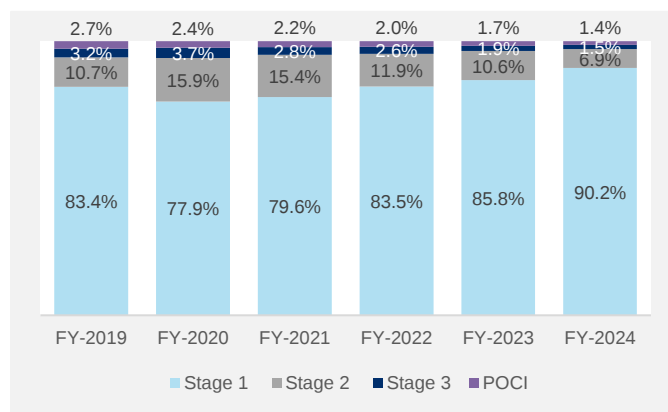
The bank's cost of risk is lower than the peer average, indicating stronger expected recoveries from Non-Performing Loans (NPLs). However, with higher loan growth in a lower interest rate environment, some elevation in NPLs is likely, prompting an expected increase in provisions.

NPL Ratio: SAB vs Peer Average



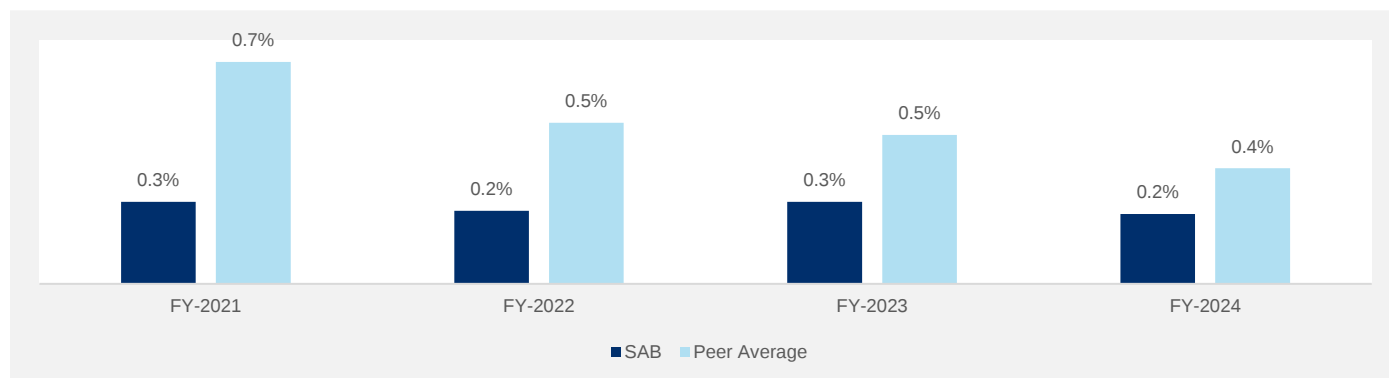
Source: SAB, Company filings

Loan Portfolio across Stages



Source: SAB

Cost of Risk (CoR): SAB vs Peer Average



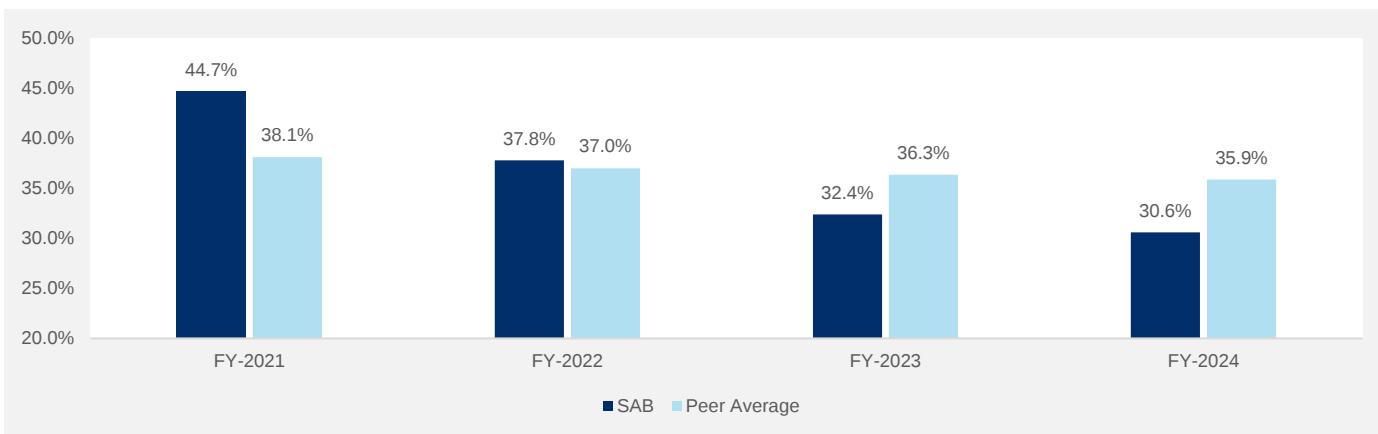
Source: KAMCO Invest Research¹⁴, SAB, Company filings

SAB's CoR, which exceeded 100 bps during the pandemic and integration period, has significantly declined to 23 bps and continued to improve. In FY-2024, the bank reported a CoR of 23 bps, well below the peer average of 38 bps, maintaining consistency. This improvement has been driven by enhanced asset quality. Looking ahead, we expect SAB's CoR to remain within the 25-35 bps range for FY-2025 and possibly elevate slightly in the succeeding periods.

SAB's cost-to-income ratio consistently outperformed the peer average: The bank has demonstrated notable improvements in cost efficiency in its post-integration period, despite continued investments in infrastructure, digital transformation, and strategic initiatives. The bank's cost-to-income ratio decreased by approximately 180 bps from FY-2023 to FY-2024, highlighting its ability to manage expenses effectively while pursuing growth.

¹⁴ Calculated figures for Bank Albilad and Arab National Bank

Cost-to-Income Ratio: SAB vs Peer Average



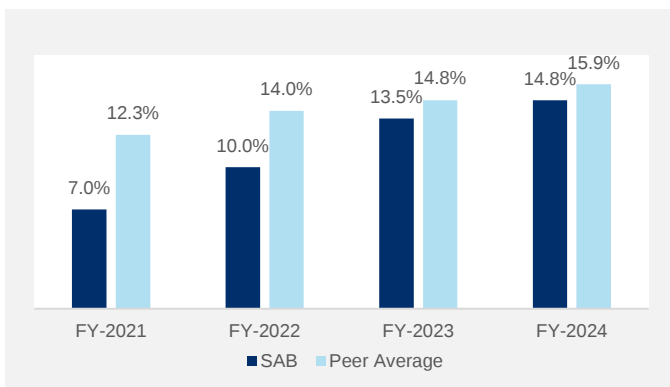
Source: KAMCO Invest Research¹⁶, SAB, Company filings

Bank under its updated strategy, is focused on automating and increasing operating leverage through improved digitalization acting as a key catalyst across segments. The benefits would be more visible in the long term but in the mid-term the bank aims to achieve the cost to income within 30-32%.

Lower P/B valuation, improving RoE: Historically, SAB's RoE has lagged the peer average, largely due to its post-merger integration period. However, the bank benefited from the interest rate hike cycle, leveraging its favorable corporate and retail mix to close the gap with peers. Going forward, we expect SAB to achieve higher profitability, supported by macroeconomic tailwinds, a stable interest rate environment, lower cost-to-income, and a declining cost of risk—leading to an improvement in RoE.

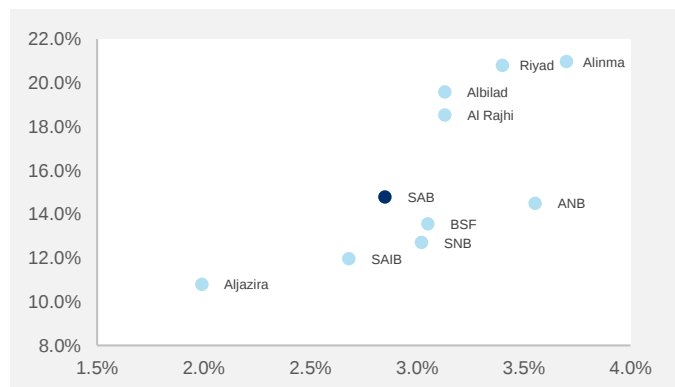
Since FY-2019, the bank's P/B ratio has consistently remained below the peer average, with steadily improving RoE. Currently, SAB is trading at a P/B ratio of 1.2x and RoE of 13.1%, compared to peer averages (excluding Al Rajhi) of 1.6x¹⁷ and 13.3%, respectively.

RoE: SAB vs Peer Average



Source: Kamco Invest Research, Refinitiv²⁰

NIMs vs RoE



Source: Kamco Invest Research, SAB, Company filings²¹, Refinitiv¹³

Lending growth outpacing industry, low cost-to-income, and cost of risk to support EPS growth: The company has demonstrated impressive EPS growth, driven by strong fundamentals despite pressures on net interest margins (NIMs) following recent Federal Reserve rate cuts. In FY-

¹⁶ Return on Equity (RoE) sourced from Refinitiv

¹⁷ Based on closing share price as of 11th March 2025 (Refinitiv)

²⁰ Return on Equity = Net Income/ Average Common Equity, sourced from Refinitiv

²¹ NIMs: FY-2024 sourced from company filings

2024, EPS growth was significantly supported by robust fee income, which surged 26.7% y-o-y, including a 35.3% y-o-y increase in Q4 alone.

While monetary easing may initially lead to some NIM compression, this impact is expected to be offset by industry-leading loan growth, fuelled by Vision 2030 initiatives and the international backing of HSBC, which positions SAB to support large-scale projects. The cost-to-income ratio improved to 30.6% in FY-2024, well within the targeted range of 32% and better than the 32.4% recorded in the previous year.

Additionally, impairments grew at a muted rate of 0.6% y-o-y, reflecting improving asset quality, as indicated by stage-wise loan classifications. These factors have collectively driven strong EPS growth, and we expect EPS to grow by approximately 14.1% in FY-2025 and 12.3% in FY-2026.

Management guidance revised downward: SAB has revised the loan growth guidance downward from 20% to mid-teens at the end of Q4-2024. The bank expects corporate loans to outpace retail loans. Our expectations are in line with the bank. SAB expects a decrease of 5-15 bps change in NIM margins. Our expectations on NIMs are a bit more optimistic as we have not factored in any rate cut for FY-2025 and FY-2026. Our cost-to-income expectation is in line with management's guidance of 30.5% in FY-2025.

SAB Financials

Balance Sheet (SAR Mn, unless stated otherwise)	FY-2022	FY-2023	FY-2024	FY-2025E	FY-2026E	FY-2027E
Assets						
Cash and balances with SAMA	19,259	16,741	17,363	19,889	24,465	30,578
Due from banks and FIs	5,872	7,407	3,430	4,590	5,243	5,733
Investments	86,962	97,029	98,876	107,252	114,401	125,452
Other assets	4,767	5,127	5,681	6,004	7,248	7,986
Net Loans	183,132	215,936	259,346	292,490	323,942	349,798
Property and equipment and right of use assets, net	3,622	3,845	4,088	4,594	6,138	7,236
Goodwill and other intangibles	10,790	10,556	10,660	9,943	9,793	9,655
Total Assets	314,404	356,642	399,443	444,761	491,230	536,438
Liabilities						
Due to banks and other FIs	25,517	32,196	40,997	43,873	38,873	43,725
Customers' deposits	214,279	240,940	267,011	305,985	349,502	382,230
Debt securities in issue	5,115	5,178	5,178	5,728	6,670	5,979
Other liabilities	14,856	16,428	17,971	19,061	20,869	23,450
Total Liabilities	259,767	294,742	331,157	374,649	415,913	455,383
Shareholder's Equity						
Share capital	20,548	20,548	20,548	20,548	20,548	20,548
Reserves	27,890	27,658	26,254	26,254	26,254	26,254
Retained earnings	6,198	9,708	11,464	15,346	20,550	26,288
Total shareholders' equity	54,637	57,915	60,321	62,148	67,352	73,090
Tier 1 sukuk	0	3,985	7,965	7,965	7,965	7,965
Total equity	54,637	61,900	68,286	70,113	75,317	81,055
Total Liabilities & Equity	314,404	356,642	399,443	444,761	491,230	536,438

Income Statement (SAR Mn, unless stated otherwise)	FY-2022	FY-2023	FY-2024	FY-2025E	FY-2026E	FY-2027E
Special commission income	9,322	17,088	20,501	20,778	21,810	23,796
Special commission expense	(1,914)	(6,747)	(9,478)	(9,052)	(9,386)	(10,262)
Net special commission income	7,408	10,342	11,024	11,726	12,423	13,535
Fee and other trading income	2,242	2,369	2,994	4,206	5,384	6,242
Total operating income, net	9,650	12,711	14,018	15,932	17,807	19,777
	0	0	0	0	0	0
Operating expenses	(3,662)	(4,113)	(4,291)	(4,859)	(5,485)	(6,091)
Impairment charge for credit losses	(445)	(562)	(566)	(909)	(1,108)	(1,214)
Impairment charge for investments,	0	0	0	0	0	0
Total operating charge incl impairments	(4,107)	(4,676)	(4,857)	(5,768)	(6,593)	(7,305)
Net operating income	5,543	8,035	9,161	10,163	11,214	12,472
Share in earnings of associates	172	188	205	0	0	0
Pre-tax income:	5,715	8,223	9,366	10,163	11,214	12,472
(-) Zakat	(890)	(1,221)	(1,296)	(1,525)	(1,682)	(1,871)
Net income to common:	4,826	7,003	8,070	8,639	9,532	10,601
Earnings per share (SAR):	2.35	3.41	3.78	4.20	4.64	5.16

Source: Kamco Invest Research, SAB

Valuation & Financial Metrics	FY-2022	FY-2023	FY-2024	FY-2025E	FY-2026E	FY-2027E
Gross yield (%)	3.63%	5.74%	5.68%	5.43%	5.15%	5.15%
Cost of financing (%)	0.80%	2.45%	2.88%	2.58%	2.39%	2.37%
Net interest margin (%)	2.82%	3.29%	2.79%	2.85%	2.76%	2.78%
Cost of risk (%)	0.2%	0.3%	0.2%	0.3%	0.3%	0.3%
Cost to income ratio (%)	37.9%	32.4%	30.6%	30.5%	30.8%	30.8%
Dividend payout ratio (%)	54.9%	54.6%	52.9%	50.0%	50.0%	50.0%
Net loans/deposits (%)	85.5%	89.6%	97.1%	95.6%	92.7%	91.5%
Non-Performing Loan (NPL) ratio (%)	2.3%	1.7%	1.4%	1.4%	1.5%	1.4%
NPL coverage ratio (%)	140.0%	158.2%	173.2%	185.2%	190.4%	210.3%
Return on assets (RoA) (%)	1.6%	2.1%	2.1%	2.0%	2.0%	2.1%
Return on equity (RoE) (%)	9.0%	12.4%	13.1%	13.4%	15.4%	15.7%
Common Equity Tier 1 (CET1) ratio	17.7%	16.3%	17.9%	19.7%	20.4%	20.0%
Tier 1 capital ratio	17.7%	17.7%	20.4%	21.9%	22.4%	21.8%
Earnings per share (SAR)	2.35	3.41	3.78	4.20	4.64	5.16
Dividend per share (SAR)	1.29	1.86	2.00	2.10	2.32	2.58
Book value per share (SAR)	26.59	28.19	29.36	30.25	32.78	35.57
P/B (x) ¹⁷	1.5x	1.3x	1.1x	1.2x	1.1x	1.0x
P/E (x) ¹⁷	16.6x	11.1x	8.9x	8.3x	7.6x	6.8x
Dividend yield (%) ²²	3.3%	4.9%	5.9%	6.0%	6.6%	7.4%

Source: Kamco Invest Research, SAB

²² Based on closing share price as of 11th March 2025 (Refinitiv) for FY-2025E, FY-2026E, and FY2027E

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