Al Rajhi Bank (RJHI)

Al Rajhi is the world's largest Islamic bank and the second largest bank in Saudi Arabia. The bank commands approximately 12.0% market share in terms of total assets.

TresVista Recommendation – HOLD ★★★

CURRENT –	**SAR 53.75**
TARGET –	**SAR 57.48**

Investment Thesis:

Based on our analysis, we are initiating coverage of Al Rajhi Bank with a Hold rating. We have arrived at our valuation, based on a DCF analysis and Public comparables. The DCF assesses the current state of affairs for Al Rajhi and the conventional and Islamic banking sector outlook in Saudi Arabia as well as in the GCC region. The comparables considers a comparative analysis of the Price to Earnings and Price to Book valuation of the Saudi banking competitors across Islamic and conventional space.

The mounting global financial crisis has been putting pressure on the bank's margins which are likely to continue in the near future. However, the bank remains unscathed by the US subprime market and is expected to weather the turmoil in the financial sector. The bank commands a strong position in the domestic market with the largest branch network. Also, Saudi Arabia is expected to remain resilient to the decline in the oil prices.

Validation:

Al Rajhi is the largest Islamic bank in the world and the second largest bank in Saudi Arabia in terms of total assets. The bank has significant expansion plans outside Saudi Arabia and has already opened 15 branches in Malaysia with a plan to achieve the target of 50 by 2010. The bank has also planned to foray in the other Asian markets with an immediate focus on Pakistan. Also, the bank has acquired the banking license from the government of Kuwait.

The bank has been benefitting from the low cost retail funding base enabling it to operate at high interest margins. As of end 2007, 91.0% of the total customer accounts were non-interest bearing current accounts.

With growing opportunities in the corporate lending arena, the bank is shifting its focus away from the traditional retail banking portfolio. Consequently, the bank recorded a 65.0% surge in the corporate lending in 2007.

Saudi Arabia has witnessed strong growth in the demand for Islamic banking products attracting competition from new players and existing conventional banks which offer Islamic products. The rapid growth in the bank's loan portfolio and the deteriorating market conditions increase the worries of a high default rate.

Sector – Islamic Banking

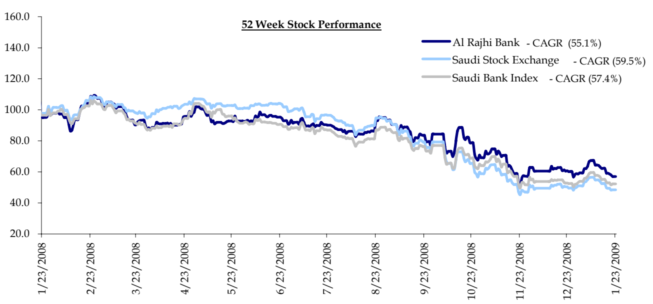
Ticker	**RJHI**
Market Cap.	SAR 80,625.0 m
Enterprise Value	SAR 64,252.4 m
LTM Revenue	SAR 10,215.0 m

Per Share Data

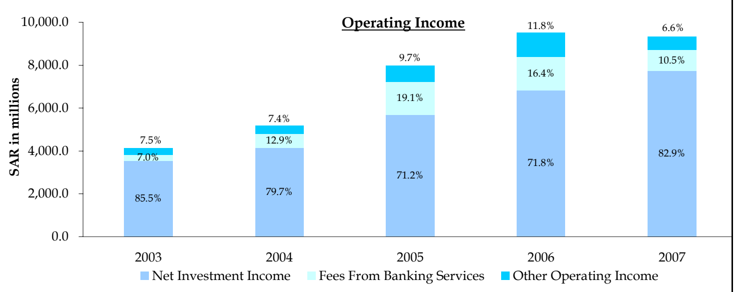
Current Price	SAR 53.75
52 Week High	SAR 104.00
52 Week Low	SAR 47.00
% of 52 Week High	51.7%
Number of Shares	1,500.000 m

Multiples

PE	
LTM	12.0x
2008E	12.0x
2009E	10.7x



Source: Bloomberg.



Source: Company filings.

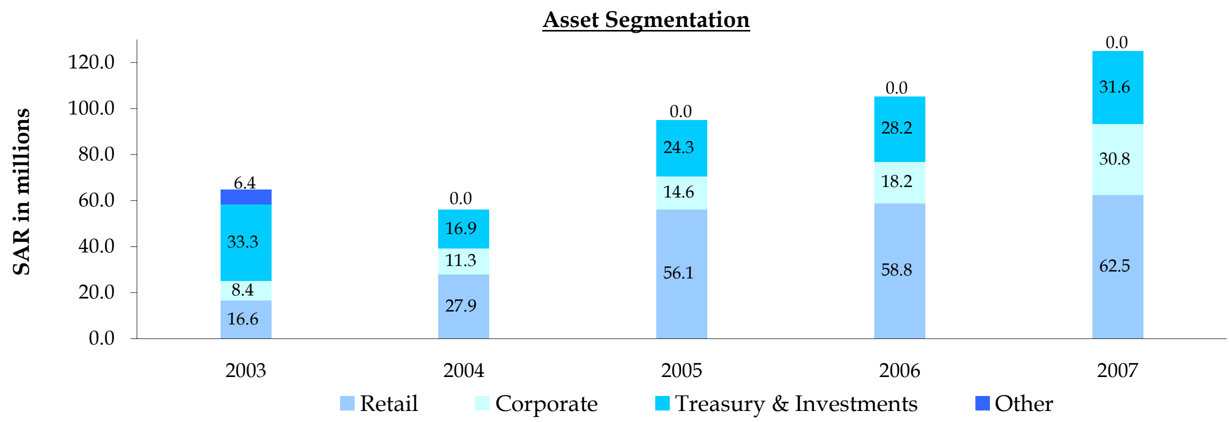
TresVista Financial Services: All prices are those current at the end of the previous trading session unless otherwise indicated. Prices are sourced from local exchanges via Bloomberg and other vendors. Investors should consider this report as only a single factor in making their investment decision. DISCLOSURES ARE LOCATED IN DISCLOSURE APPENDIX

Company Overview

Description:
Al Rajhi Bank is the largest Islamic bank in the world and the second largest bank by assets in the Kingdom of Saudi Arabia. Al Rajhi provides wholesale, retail, and commercial banking services in addition to investment banking services. The bank complies with the Shariah rules in all its business transactions. As of September 30, 2008, the bank had a total paid-up capital of SAR 15.0 bln. The bank's network includes over 450 branches for men and 107 ladies' branches. The bank has the largest ATM network with 2,220 machines and over 14,500 points of sale installed with merchants throughout the Kingdom. Al Rajhi has already set up a bank in Malaysia and also recently received approval to open a branch in Kuwait. The bank is also seeking expansion opportunities in countries other than Middle East, Asia, and Africa. The bank is also planning to venture into the insurance sector as it presents a viable opportunity which will be in sync with the overall strategy of the company. As of December 19, 2008, the bank had 7,965 employees.

The bank's business is segmented in three main divisions:

- **Retail Banking**: Al Rajhi offers conventional banking products based on Islamic principles such as consumer loans, current and investment accounts, mortgage and car loans, and credit cards. Also, the bank offers private banking services to the high net-worth individuals (HNIs). The retail portfolio installment sales make up for 94.0% of the loans.
- **Corporate Banking:** The Corporate Banking division focuses mainly on the medium-sized enterprises in the manufacturing, contracting, and real estate sectors, as well as Saudi government. The bank's products in this category consist of Mutajara (trade and commodity finance) representing 85.0% of the total corporate lending, installment sales, Istisnaa (construction finance), and Murabaha (asset finance).
- **Treasury & Investment Services:** The Treasury division manages the bank's liquidity and the correspondent banking network. The bank provides asset management products, local and international brokerage services, and investment advisory services through the Investment Services division. As of December 2007, the bank had 16 Mudaraba funds worth SAR 2.6 billion under management.



Source: Company filings.

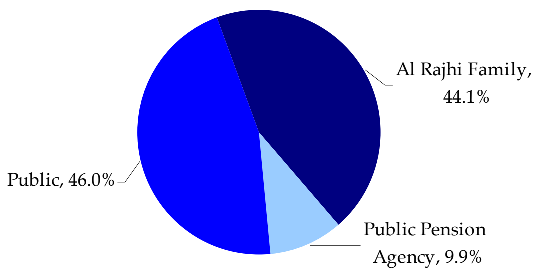
History:
The bank was founded in 1957 and the various individual establishments under the name Al Rajhi were merged to form 'Al Rajhi trading and exchange corporation' in 1978. Later on June 23, 1987, the group came to be known as Al Rajhi Banking and Investment Corporation. In 2006, the bank was renamed as Al Rajhi Bank. The bank was established as a joint stock holding company with its roots in the currency exchange business that was later merged with a family trading company. The bank opened its first men's branch at Aldirah in 1957 followed by the first ladies branch at Alshmaisi in 1979. In 2006, the bank forayed into the international markets by acquiring a banking license in Malaysia.

Board of Directors:
Chairman - Abdullah Sulaiman Al Rajhi
Director & CEO – Ahmed Rehman
Board Members:
Saeed Mohammed Al Ghamdi
Dato' Mohd Sallehuddin Bin Othman
Dato' Dr Nik Norzrul Thani Nik Hassan Thani

Shariah Board:
Associate Prof. Dr Saleh Abdullah Al Lheidan
Dr Azman Mohd Noor
Mr. Burhanuddin Lukman
Associate Prof. Dr Ashraf Md Hashim

Shareholders:

Shareholding Pattern



Source: Zawya.

Al Rajhi Family:
44.1% of the bank is owned by members of the Al Rajhi family. Of this, 24.6% is held by Suleiman Abdulaziz Al Rajhi. 13.6% is held by Saleh Abdulaziz Al Rajhi and 5.9% is held by Abdullah Abdulaziz Al Rajhi. The Al Rajhi family is a prominent group that holds interests in the Kingdom of Saudi Arabia across various sectors including basic materials, construction, distribution, food and beverage, real estate, and trading.

Government:
9.9% of the bank is owned by the government through the Public Pension Agency.

Public Float:
The remaining 46.0% is with public.

Subsidiaries and Associates:

Name of Subsidiary	Place of Incorporation	Percentage Holding
SPC Limited	British Virgin Islands	99
Arpent VAT Limited	UK	100
Al Rajhi Investment Corporation Limited	London	100
ARA 1 Company Limited	Jersey	99
Al Rajhi Company for Development Limited	Riyadh	99
Al Rajhi Banking and Investment Corporation BHD	Malaysia	100
Al Rajhi Financial Services Company	Saudi Arabia	99

Al Rajhi has expanded its operations in the international domain by obtaining an Islamic banking license in Malaysia in 2007. With an investment of USD 80.0 million, the bank currently operates 15 branches and is planning to open additional 50 branches in the next two years. The bank is also contemplating expansion in the GCC region and has recently acquired a license to open a branch in Kuwait.

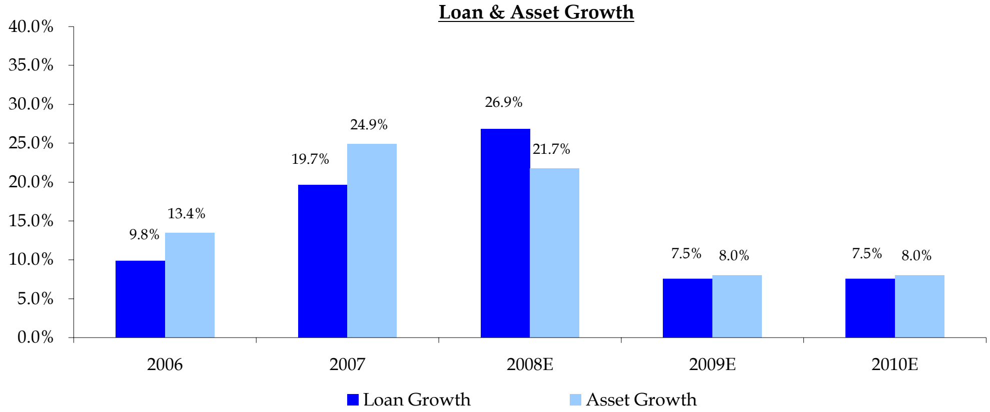
Industry Overview

Government restrictions on the credit industry has caused a sudden downturn in the Saudi Banking industry resulting in a decline in loan growth, higher cost time and saving deposits, and reduced loan/deposit ratio. However, the industry has maintained a lower asset quality ratio. The profitability remains largely dependent on the local stock market activity.

Features of the Saudi Arabia Banking Sector:

- The Saudi Arabian Monetary Authority (SAMA) is the regulatory body responsible for maintaining monetary and financial stability in the country and is regarded as one of the strongest central banks in the region.
- The banking sector comprised of 22 commercial banks throughout Saudi Arabia, comprising of 12 local banks and 10 branches of Gulf and foreign banks. The sector has attracted foreign banks such as the Bank Muscat, National Bank of Bahrain, Gulf International Bank, National Bank of Kuwait, and Emirates Bank posing competition to the local banks.
- In terms of total assets, Saudi Arabia is the second largest in the GCC with an asset base of $ 290.0 billion, just below UAE with total assets of $ 336.0 billion as of year end 2007. However, KSA is marked with low penetration rate in terms of total loans to GDP at 43.0%, and deposits to GDP at 50.0% compared to UAE's loans to GDP and deposits to GDP of around 100.0%. Also, KSA has low branch network with one branch serving an average of over 20,000 people.

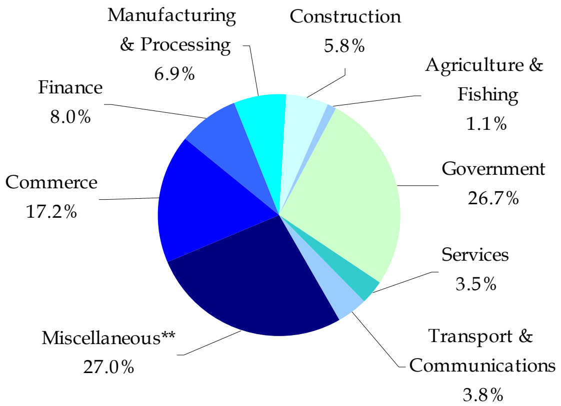
Loan & Asset Growth



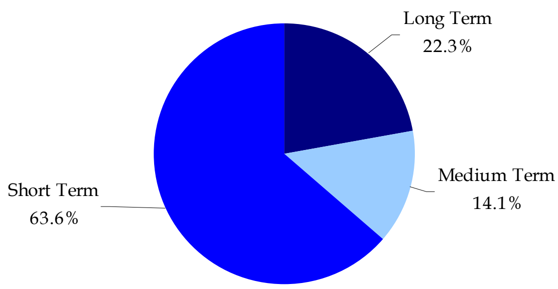
Source: SAMA, Deutsche Bank report dated January 21, 2009.

- However, the Saudi banking sector is the most lucrative and efficiently managed with the net interest margin of 3.5%, average Return of Equity (ROE) of 24.0%, average Capital Adequacy (CAR) of 15.0%, Cost to Income ratio of 31.3% and an NPL ratio of 1.7% with 145.0% NPL coverage ratio.
- The banking sector also witnessed a slump in the bottom-line profits to SAR 30.2 billion in 2007 from SAR 35.4 billion in 2006. The slowdown was primarily owing to a significant fall in the fees income mainly from trading services.

Bank Credit Breakdown*



Bank Credit By Maturity***



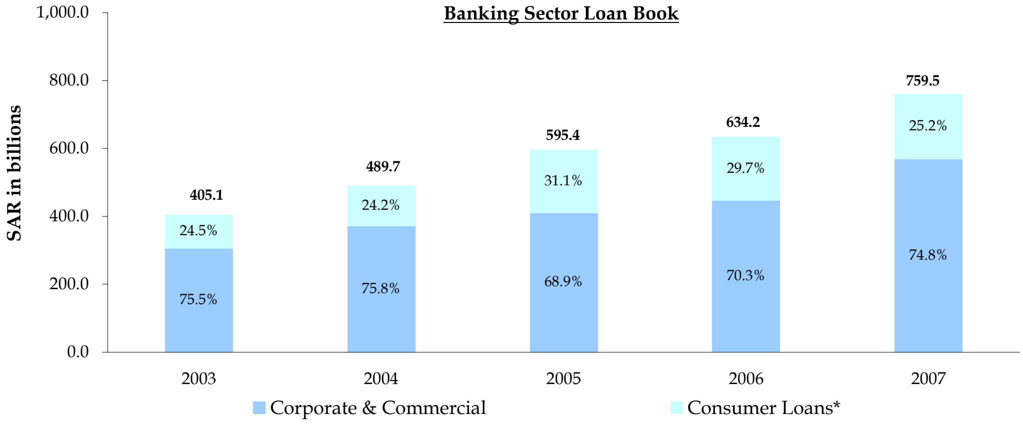
** Bank credit breakdown, excluding investments in private securities, as of end March 2008. Source: SAMA.*
*** Miscellaneous includes manufacturing and processing, electricity, water and other utilities as well as other industries.*
**** Bank credit by maturity as of November 2008. Source: SAMA.*

Regulations:

- SAMA is at the forefront in terms of implementation of regulations to maintain the stability of the banking sector.
- SAMA has ensured that the sector remains relatively highly concentrated which is why the number of commercial banks incorporated in the country has remained stable over the last 2 decades. The latest newcomer being Al Inma Bank, which recently came with the public issue, is only the second new locally incorporated bank to have come into operation over the last two decades.
- Most banks in the industry maintain a CAR of 20.0% as against the minimum 8.0% required.
- With the interest rate policy of KSA moving in tandem with the US Fed policy, SAMA has opted to use monetary tools to tackle inflation. SAMA raised the Cash Reserve Ratio (CRR) by 600 bps to curtail lending growth. This led the CRR to grow from 7.0% to 13.0% on demand deposits, and doubled the reserve requirement on saving and time liabilities to 4.0%.
- This hike in CRR and the global recession effectively curbed inflation by the end of 2008. Subsequently, SAMA reduced the CRR back to 7.0% in two stages by November 23, 2008.
- The government's plan to open up the sector to foreign players will lead to increased competition.
- SAMA has designed new rules for banks. It has issued a law mandating them to separate their investment banking and corporate banking segments. This will lead to the launch of separate units changing the market structure.

Loans:

- The total loans grew at a CAGR of 17.0% between the period 2003-2007 reaching SAR 759.5 billion in 2007. The consumer lending growth is expected to be 10.9% through 2008-09 primarily due to inorganic growth in the sector and a rising Saudi bankable population, and development of housing finance.

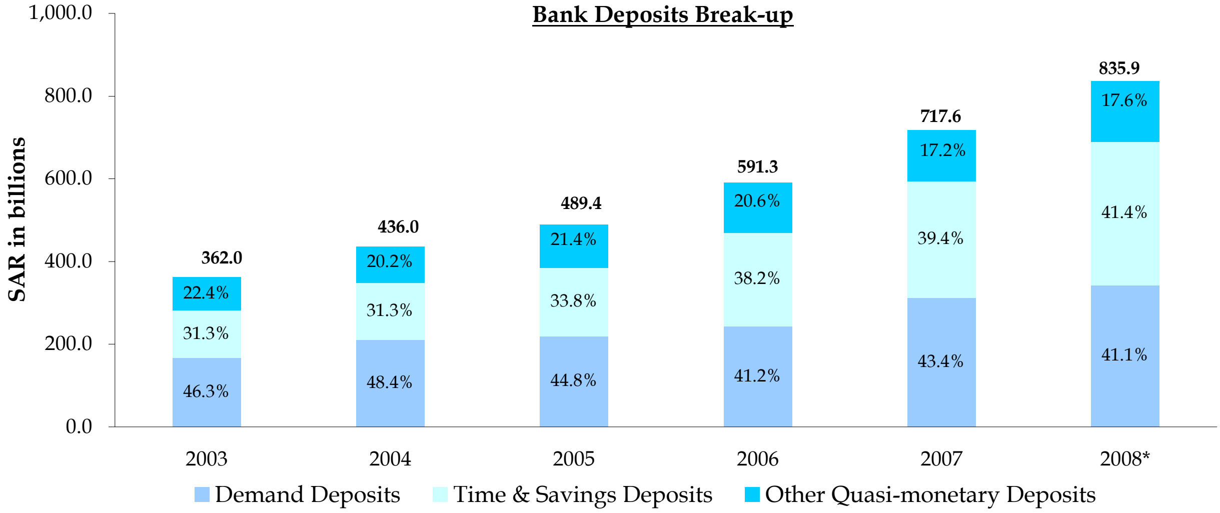


**Consumer loans include total credit card loans. Source: SAMA.*

- The strong fundamentals that led to this growth were government salaries domiciled at banks, rising consumer demand and spending, booming local stock market, and falling unemployment rate.
- The overall loan growth declined in 2006 witnessing 6.5% growth as opposed to more than 20.0% growth in 2004 and 2005. The low growth in 2006 was owing to the strengthening of government regulations to limit credit granting to borrowers and reduction in repayment period. The SAMA also applied a 30.0% ceiling on the supply of loans to consumers out of total loans.
- Despite the high loan growth in 2004 and 2005, the Loan/GDP ratio remained low due to increase in Saudi's nominal GDP.
- The overall loan growth is estimated at 7.5% in 2009 as well as 2010 primarily due to growth in commercial loans due to government's planned development in infrastructure, oil & gas, petrochemicals, electricity, telecom, and tourism.

Deposits:

- Time and savings (T&S) deposits grew 20.9% in 2005, grew strongly in 2006 at 36.8% and recorded a 25.2% growth in 2007. The sector deposits have witnessed a shift towards the higher cost T&S deposits at the expense of demand deposits. This is primarily due to higher interest rates, poor local stock market returns in 2006, price competition among banks, and strong growth in public sector deposits.

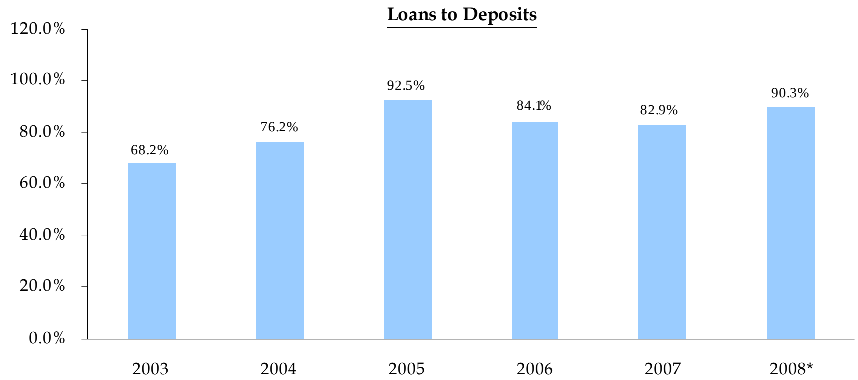


**As of November 2008. Source: SAMA.*

- The deposit mix has inclined towards T&S as the banks were forced to raise deposits quickly to meet the booming loan book. The Y-o-Y deposit growth of the sector witnessed a steady growth of 20.8% and 21.4% in 2006 and 2007 respectively. The banks, therefore, opted to offer attractive rates to the depositors which were offset by higher yielding consumer loan.
- The deposit mix which had started deteriorating in 2006 and early 2007, as a result of higher growth in T&S accounts, is beginning to normalize. The composition of demand deposits in the overall deposit mix of the bank is beginning to improve and the ratio of demand deposits to total deposits stood at 43.4% in Dec-2007 as against 41.2% in 2006.
- Most banks are expected to revamp their deposit mix by promoting demand and Islamic deposits (non-interest bearing accounts) as a move to reduce the pressure on their margins created by T&S deposits.

Liquidity:

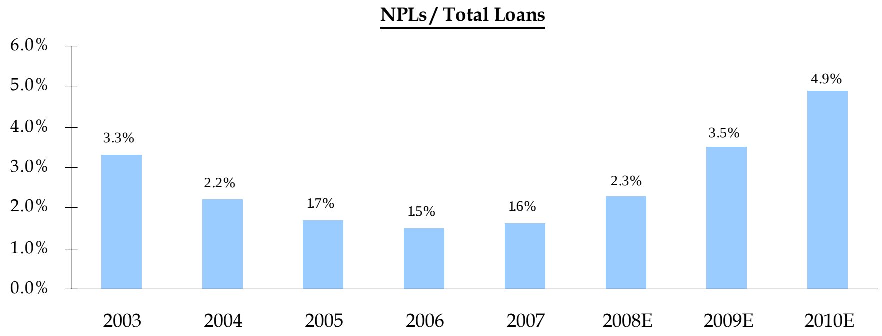
- The loan/deposit ratio declined in 2006 due to increase in banking sector deposits propelled by increased government deposits. Additionally, the loan sector dipped to Y-o-Y growth 9.8% down from 34.5% and 36.3% in 2004 and 2005 respectively. The ratio slipped to 84.1% at the end of 2006. In the 2007, the sector experienced higher deposit growth than loan growth resulting in a decline in the loan/deposit ratio to 82.9%.
- During 2008, the economy experienced a surge in the loan growth compared to the growth in deposits increasing the loan / deposit ratio to 90.3% as of November 2008.



** As of November 2008. Source: SAMA.*

Asset Quality:

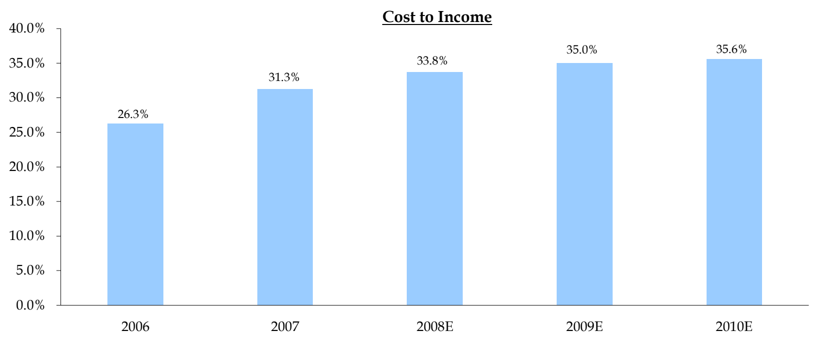
- The asset quality of Saudi Banks was healthy in 2007 and has so far experienced improving asset quality with an average 2.0% of the total loans falling under non-performing category.
- For consumer finance specifically, the banks have opted for salary assignments as protection against defaults. Also, before consumers can draw any form of loans, they are required to assign salary to the bank from which they are obtaining consumer loans. All these measures have led to insignificant defaults in the overall context.
- Also, on the corporate side, the robust economic environment has curtailed big defaults over the last few years.
- The sector has witnessed a very high growth in credit and the deteriorating macroeconomic fundamentals are going to strain the asset quality in the industry. Although the delinquency rates are expected to rise, limited direct exposure to real estate sector and government measures are expected to put a ceiling on the growing NPLs.



Source: Deutsche Bank research dated January 21, 2009.

Profitability:

- Saudi banking sector is likely to witness strong profitability growth over the medium term. However, the growth in the individual banks is based on each bank's capability to exploit the benign environment and cope with the increasing competition pressures.
- Interest income is likely to experience a pinch with an expected decline in Interest Earning Assets (IEA) primarily due to decline in overall loan growth, higher corporate loans with tighter spreads, and increased competition among banks.
- The cost of funding is likely to rise due to shift towards T&S deposits from demand deposits. This is likely to put pressure on the net interest spreads in the short term. In terms of adjusting to this low margin environment, the conventional banks are better off as compared to the Islamic banks as they have the ability to re-price their liabilities if the situation demands.
- However, banks have been exposed to such unfriendly environment in the past and were able to cope with the margin and interest rate spreads shrinkage.
- Net banking fees as a part of Net Income, which are driven by stock market activities and increased number of IPOs, have rose drastically during 2003-2005. The brokerage fees become a larger part of the total banking fees and are vulnerable to the negative performance of stock market activity. The brokerage income is likely to remain low for 2008 reflecting a global economic downturn.
- On the non-special commission aspect, banks are likely to face pressure on the brokerage commission though the pressure would not be as severe as witnessed in 2007. Also, with the unpredictability marked in the global markets, investment related gains are to shrink going forward.
- The operating costs are likely to increase due to an expected increase in expansion of the banking sector. The Saudi banking sector has made significant investment in new distribution capacity. With the overall slowdown in the business growth, the growth in costs is expected to outrun the revenue development and the cost to income ratio is expected to reach 36.6% by 2010 from 31.3% in 2007.



Source: Deutsche Bank research dated January 21, 2009.

Islamic Banking Overview:

- The Islamic banking sector in the GCC has witnessed a sharp growth following a high demand for the Islamic Shariah-compliant products and services. In terms of market share, the Islamic banks accounted for 17.0% of GCC's total assets.
- The total assets of the 14 listed Islamic banks in the GCC have grown at a CAGR of 40.9% between 2004 and 2007.
- The Sukuk issuance grew by 73.0% during 2007 to reach USD 32.7 billion. Of this, USD 19.0 billion was issued in the Gulf and the remaining in Malaysia. At the end of June 2008, Standards and Poor's estimated the global Sukuk outstanding at USD 80.0 billion.
- Saudi Arabia has prominent Islamic banking industry in the GCC region. However, the KSA has only four full-fledged

Shariah-compliant banks namely- Al Rajhi Bank, Bank Al Bilad, Al Jazira Bank, and Al Inma Bank. However, most of the Saudi banks have started to offer Shariah-compliant products and services, as well as accept deposits according to the Islamic principles.

- The total assets for the Islamic banks in Saudi have grown at a CAGR of 22.6% between 2004 and 2007 as compared to those of the conventional banks that grew at a CAGR of 17.4% for the same period. Also, the Islamic banking assets shared a 15.7% of the total banking assets in the country at end June 2008.

Recent Developments

For the first half of 2008, the bank paid SAR 1,875.0 million in cash dividends at SAR 1.25 per share.

The bank joined the underwriters on the USD 10.0 billion Kayan petrochemical project in June 2008 and planned to contribute USD 650.0 million as an Islamic tranche.

Previously, in March 2008, the bank obtained the preliminary approval from the Kuwait central bank to open a branch in Kuwait.

In February 2008, the bank's shareholders approved to increase the bank's capital by 11.1% from SAR 13.5 billion to SAR 15.0 billion. Subsequently, the bank issued 150.0 million bonus shares at the rate of one bonus share for nine shares held. The additional capital was utilized to expand the bank's operations in Malaysia and to fund major financing deals. The bank also paid a cash dividend of SAR 1.80 per share for 2007.

Going Forward

Al Rajhi Bank has a large presence in the Kingdom of Saudi Arabia with the widest distribution network in the country. The bank plans to leverage its strong market foothold to consolidate its position in the retail banking sector, especially in the installment sales segment.

The bank primarily focuses on improving its position in the Islamic banking arena owing to the rising competition from the upcoming Islamic banks, as well as conventional banks offering Islamic banking products. Subsequently, the bank has planned to execute an aggressive expansion policy by opening 70 new branches in the KSA over the next 18 months, and innovating Shariah-compliant products and services.

The bank has increased its attention to the corporate banking and project finance segments that have a high growth potential. Consequently, corporate lending has increased by 65.0% during 2007 and is expected to remain robust in the near future.

Al Rajhi Bank has gradually started to enter the international domain by setting up 15 branches in Malaysia. The bank plans to open additional 50 branches by the year 2010. The bank plans to leverage its success in Malaysia to expand into other markets in Asia and has expressed interest to enter the Pakistan market. Recently, the bank has also obtained a license to operate in Kuwait.

The bank also has a well established identity in the money transfer business, and is planning to develop better services to serve the expatriates in the country.

Valuation and Price Targets

Discounted Cash Flow Analysis and Public Comparables:
We have projected the company's operations through 2012. The key assumptions related to our forecasts are loan growth, interest income rate, interest expense rate, and income on investments. Considering the company's exposure to foreign/derivative investments is limited, what we believe is a conservative estimate of the company's operations. We have also considered 2009 P/E and LTM P/B as other valuation methodologies. With its current multiples, the company is trading at market and we maintain a HOLD rating on the company.

Key Investment Highlights:

Key Investment Merits:

- **Local market presence:** Al Rajhi is one of the best known financial brands in the country. It is the 3rd largest Islamic bank in the country in terms of assets, having a market share of 12.0% of the aggregate banking assets as of December 2007.
- **Risk diversification:** The Bank has diversified geographically and opened branches in Malaysia, a major Islamic banking hub. It has also launched funds for India and China. This is reflective of Corporation's vision to diversify across opportunities outside Saudi Arabia.
- **Pure-play Islamic bank:** The Bank would continue to enjoy depositors' confidence as it has the image of being the "pure-play" Islamic bank in the country.
- **Loyal customer base:** As of 2006, the Bank had a network of 70 remittance centers. The presence of large expatriate population and their tendency to send money back to their home countries bodes well for the Company. The Bank has also developed innovative services such as remittance services called "Cash Online" ensuring delivery of funds within 2 hours.
- **Buoyant economy:** Healthy oil prices, new issues from strong companies, and liberalization measures consequent to Saudi Arabia's entry in the World Trade Organization would provide sustainable impetus to the economy. This would increase the volume of Islamic banking activity in Saudi Arabia. Al Rajhi, with its formidable presence in Saudi Arabia, would be able to take advantage of this.
- **Competition:** Al Rajhi faces competition from multiple banks. However, the expanding Saudi Arabian economy would lead to unsatisfied demand for Islamic products which would soak up competition in the country.
- **Improved Ratings:** The Bank's rating was upgraded to "A" from "A-" by S&P, and its Fitch ratings were increased to "A+" from "A". The reasons given for these upgrades were a healthy customer franchise in the retail sector, excellent profitability, concentration in loans and deposits which is lower than its peers, and strong capitalization. This rating reflects the bank's improved financial performance and strengths.

Key Investment Risks:

- **Hike in CRR:** The hike in the CRR from 7.0% to 13.0% for demand deposits would result in extra cash having to be kept aside with the Central Bank. Since the Bank has 87.0% of its deposits as demand deposits, this would adversely affect the bank.
- **Dependence on market factors:** The fees from banking services is heavily dependent on market factors as can be seen from the steep fall in revenue from this segment in 2007.

Valuation – Discounted Cash Flow Analysis
(SAR in millions)

		Projected Fiscal Year Ending December 31,				
	2007	2008	2009	2010	2011	2012
EPS	SAR 4.30	SAR 4.48	SAR 5.03	SAR 5.54	SAR 6.76	SAR 7.42
EPS growth rate		*4.3%*	*12.2%*	*10.2%*	*21.9%*	*9.8%*
Dividend discount model on capital adequacy						
Risk weighted assets	85,356.4	113,109.9	132,047.7	152,736.7	173,715.1	191,817.1
Growth rate (%)		32.5%	16.7%	15.7%	13.7%	10.4%
Beginning equity		23,606.1	29,106.5	34,688.9	39,397.9	45,368.1
Net income		6,724.3	7,542.0	8,313.9	10,135.2	11,128.8
Previously proposed cash dividends		(1,223.9)	(1,959.6)	(3,604.9)	(4,165.0)	(5,077.4)
Equity available for dividends		29,106.5	34,688.9	39,397.9	45,368.1	51,419.5
Proposed cash dividends		3,183.5	5,564.5	7,769.9	9,242.4	10,652.5
Ending (Total Required) equity		13,573.2	15,845.7	18,328.4	20,845.8	23,018.1
Dividend payout ratio		47.3%	73.8%	93.5%	91.2%	95.7%
Target capital adequacy ratio		12.0%	12.0%	12.0%	12.0%	12.0%
Dividend payout ratio						
Dividends		3,183.5	5,564.5	7,769.9	9,242.4	10,652.5
Dividends growth rate			*74.8%*	*39.6%*	*19.0%*	*15.3%*
Change in RWA		27,753.5	18,937.9	20,689.0	20,978.5	18,101.9
CAR * Difference between RWA		3,330.4	2,272.5	2,482.7	2,517.4	2,172.2
Net income		6,724.3	7,542.0	8,313.9	10,135.2	11,128.8
Free Cash Flow to Equity shareholders		3,393.9	5,269.4	5,831.2	7,617.8	8,956.5
Growth rate (%)			55.3%	10.7%	30.6%	17.6%
Discount periods		0.50	1.50	2.50	3.50	4.50
Present value of dividends						
10.7%		3,226.5	4,527.3	4,527.8	5,345.6	5,680.1
11.2%		3,219.2	4,496.7	4,477.0	5,261.9	5,566.1
11.7%		3,212.0	4,466.6	4,427.1	5,179.9	5,454.8
12.2%		3,204.8	4,436.7	4,377.9	5,099.5	5,346.2
12.7%		3,197.7	4,407.2	4,329.5	5,020.8	5,240.2

Shares outstanding 1,500.000

Discount Rate	Discounted Dividends	PV of Terminal Value With a Dividend Perpetuity Growth Rate of 2.75%	3.00%	3.25%	Total Equity Value 2.75%	3.00%	3.25%
10.7%	SAR 23,307.2	SAR 73,877.8	SAR 76,477.7	SAR 79,253.3	SAR 97,185.0	SAR 99,784.9	SAR 102,560.5
11.2%	23,020.9	68,084.8	70,344.1	72,746.3	91,105.8	93,365.0	95,767.2
11.7%	22,740.3	62,975.0	64,952.7	67,048.2	85,715.3	87,693.0	89,788.5
12.2%	22,465.1	58,438.3	60,181.1	62,021.7	80,903.5	82,646.2	84,486.9
12.7%	22,195.4	54,387.2	55,932.0	57,558.9	76,582.6	78,127.3	79,754.2

Discount Rate	Equity Value per Share 2.75%	3.00%	3.25%
10.7%	SAR 64.79	SAR 66.52	SAR 68.37
11.2%	60.74	62.24	63.84
11.7%	57.14	58.46	59.86
12.2%	53.94	55.10	56.32
12.7%	51.06	52.08	53.17

Public Company Comparable Trading Analysis
Saudi Arabia

			Stock Price				Price			
		Currency		52-Week		% of 52	EPS			BVPS
Company	Country	Units	Jan-23-09	High	Low	Week High	LTM	FY 2008	FY 2009	LTM
Local Banks										
Arab National Bank	Saudi Arabia	SAR	32.70	75.25	28.10	43.5%	11.2x	7.7x	6.2x	1.75x
Samba Financial Group	Saudi Arabia	SAR	42.00	107.33	38.20	39.1%	8.2x	7.6x	6.3x	2.04x
Banque Saudi Fransi	Saudi Arabia	SAR	49.50	98.00	39.90	50.5%	9.7x	9.3x	8.0x	2.14x
Saudi British Bank	Saudi Arabia	SAR	61.00	117.00	45.50	52.1%	13.2x	16.4x	10.8x	3.34x
Riyad Bank	Saudi Arabia	SAR	19.85	48.12	18.40	41.3%	102.6x	9.6x	7.2x	11.58x
Saudi Hollandi Bank	Saudi Arabia	SAR	41.90	65.00	31.50	64.5%	13.7x	10.8x	10.5x	2.07x
Bank AlJazira	Saudi Arabia	SAR	14.30	48.57	13.30	29.4%	9.0x	6.5x	5.4x	0.90x
Bank Albilad	Saudi Arabia	SAR	24.75	43.50	21.30	56.9%	59.2x	NA	23.3x	2.29x
						Low	**8.2x**	**6.5x**	**5.4x**	**0.90x**
						Mean	**28.4x**	**9.7x**	**9.7x**	**3.26x**
						Median	**12.2x**	**9.3x**	**7.6x**	**2.11x**
						High	**102.6x**	**16.4x**	**23.3x**	**11.58x**
Al-Rajhi Bank	**Saudi Arabia**	**SAR**	**53.75**	**104.00**	**47.00**	**51.7%**	**12.0x**	**12.0x**	**10.7x**	**3.15x**

Source: Bloomberg.

Public Company Comparable Trading Analysis
GCC and Global Region

Company	Country	Currency Units	Stock Price Jan-23-09	52-Week High	52-Week Low	% of 52 Week High	Price / EPS LTM	Price / EPS FY 2008	Price / EPS FY 2009	Price / BVPS LTM
GCC Banks										
Qatar National Bank SAQ	Qatar	QAR	113.00	264.90	105.00	42.7%	7.3x	7.6x	6.9x	1.60x
National Bank of Kuwait	Kuwait	KWD	0.82	2.16	0.81	37.9%	7.4x	6.7x	6.1x	1.33x
Al Ahli Bank of Kuwait KSC	Kuwait	KWD	0.60	1.18	0.58	50.8%	8.6x	7.6x	6.7x	1.97x
Abu Dhabi Commercial Bank PJSC	United Arab Emirates	AED	1.35	6.18	1.33	21.8%	4.0x	3.0x	2.8x	0.62x
Commercial Bank of Qatar QSC	Qatar	QAR	54.30	178.90	49.40	30.4%	5.5x	5.5x	4.8x	1.04x
						Low	**4.0x**	**3.0x**	**2.8x**	**0.62x**
						Mean	**6.6x**	**6.1x**	**5.4x**	**1.31x**
						Median	**7.3x**	**6.7x**	**6.1x**	**1.33x**
						High	**8.6x**	**7.6x**	**6.9x**	**1.97x**
Global Banks										
Royal Bank of Scotland Group PLC	United Kingdom	GBP	0.12	3.58	0.10	3.4%	1.7x	0.4x	1.8x	0.05x
Bank of America Corp	United States	USD	6.24	45.08	5.05	13.8%	5.5x	4.6x	3.1x	0.18x
Deutsche Bank AG	Germany	EUR	25.49	89.80	18.59	28.4%	7.0x	9.8x	4.1x	0.38x
Barclays PLC	United Kingdom	GBP	0.51	5.11	0.47	10.0%	1.0x	1.2x	2.0x	0.15x
Standard Chartered PLC	United Kingdom	USD	7.54	16.66	5.82	45.3%	3.8x	3.9x	4.9x	0.61x
HSBC Holdings PLC	United Kingdom	USD	5.16	9.38	4.60	55.0%	3.8x	4.6x	4.7x	0.48x
Dexia SA	Belgium	EUR	2.50	18.86	2.24	13.3%	1.6x	NA	3.3x	0.30x
						Low	**1.0x**	**0.4x**	**1.8x**	**0.05x**
						Mean	**3.5x**	**4.1x**	**3.4x**	**0.31x**
						Median	**3.8x**	**4.3x**	**3.3x**	**0.30x**
						High	**7.0x**	**9.8x**	**4.9x**	**0.61x**
Al-Rajhi Bank	**Saudi Arabia**	**SAR**	**53.75**	**104.00**	**47.00**	**51.7%**	**12.0x**	**12.0x**	**10.7x**	**3.15x**

Source: Bloomberg.

Disclosure Appendix

Stock Rating Key:

★★★★★	**5-STARS (Strong Buy)**: Total shareholder return, is expected to outperform the broad market benchmark by a wide margin and we highly recommend that investors buy the stock.
★★★★☆	**4-STARS (Buy)**: Total shareholder return, is expected to outperform the broad market benchmark and we recommend that investors buy the stock.
★★★☆☆	**3-STARS (Hold)**: Total return is expected to be in line with the overall expected market return in the short and long term and we do not recommend a Buy or Sell.
★★☆☆☆	**2-STARS (Sell)**: Total shareholder return is expected to underperform the broad market benchmark and the stock is not anticipated to show a gain.
★☆☆☆☆	**1-STAR (Strong Sell)**: Total shareholder return is expected to underperform the broad market benchmark by a wide margin and the stock is anticipated to falling in price on an absolute basis.

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