Samba Financial Group

Saudi Is Not Enough

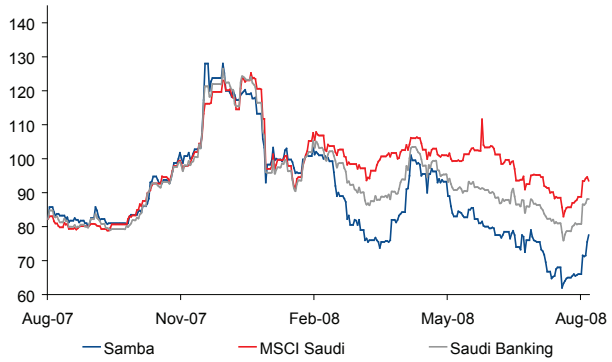
August 28, 2008

Key Data

Closing Price*	Avg. Value Traded per Day
SAR 77.5	SAR 23.8 million
52-Week High	**Market Cap**
SAR 128	SAR 69.8 billion
52-Week Low	**Shares Outstanding**
SAR 62	900 million
Reuters	**Bloomberg**
1090.SE	SAMBA AB
Ownership Structure	
Closely Held: 56%	Public: 44%

** As of August 27, 2008. Sources: Reuters, Tadawul, and NBK Capital*

Rebased Performance



Sources: Reuters and NBK Capital

Key Ratios

	2007 a	2008 f	2009 f	2010 f	2011 f
P/B (latest)	3.9	3.5	2.8	2.3	1.9
P/E (latest)	14.9	13.7	11.5	9.9	8.8
Net Profit Growth	-7.3%	5.3%	18.8%	16.0%	13.4%
RoAE	29.1%	27.1%	26.9%	25.1%	23.7%
RoAA	3.5%	2.9%	2.8%	2.9%	2.9%
Net Interest Margin	3.9%	3.3%	3.3%	3.3%	3.3%
Dividend Payout	36.1%	27.8%	26.8%	28.2%	27.4%

1Q2008 Net Profit a	2Q2008 Net Profit a
SAR 1201 million	SAR 1224 million
3Q2008 Net Profit f	**4Q2008 Net Profit f**
SAR 1405 million	SAR 1256 million

a = actual, f = forecast. Sources: Reuters and NBK Capital

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Highlights

12-Month Fair Value: SAR 91.70

Recommendation: Accumulate – Risk Level: 2**

Reason for Report: Initiation of Coverage

- Samba Financial Group (Samba) is the second largest bank in Saudi Arabia, with a 15% share of the country's total banking assets. Samba enjoys high brand recognition and exhibits one of the best efficiency and profitability indicators in the Saudi banking sector.
- Diversification of the income stream through regional inorganic growth is the main pillar of Samba's strategy. Domestically, some of the bank's current focus areas include credit cards, SMEs, project financing, investment banking, and mortgages. Samba has an especially strong corporate banking franchise and its investment banking arm, Sambacapital, is the leader in Saudi Arabia.
- Samba's net profit dropped by 7% in 2007 on the back of lower brokerage commissions. Nevertheless, this drop was lower than the 16% fall in the combined net profit of its peers. In 1H2008, Samba's net profit dropped by 6%, partly due to losses and provisions on the investment portfolio, and partly due to a continued drop in brokerage commissions.
- We forecast Samba's net loans and deposits to grow by a CAGR of 21% and 18%, respectively, in the five years ending in 2012. Total operating income and net profit are forecasted to grow by a CAGR of 14%, reaching SAR 13.7 billion and SAR 9.2 billion in 2012, respectively.
- Our estimate of Samba's 12-month fair value per share stands at SAR 91.70, 18% above the share's closing price as of August 27 — hence, our "Accumulate" recommendation. This value is a weighted average of three estimates reached by using three valuation models: Discounted Equity Cash Flow (DECF), the Dividend Discount Model (DDM), and a peer-based multiples valuation model.
- We have assigned Samba a risk rating of 2 (on a scale of 1 to 5). We believe the major risks faced by Samba relate to its desire for regional expansion, and its exposure to instruments that were negatively affected by the meltdown in the US subprime mortgage market.

*** Please refer to the last page for recommendations and risk ratings.*

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EXECUTIVE SUMMARY

Samba is the second largest bank in Saudi Arabia, with a 15% share of the country's total banking assets. Samba enjoys high brand recognition and exhibits one of the best efficiency and profitability indicators in the Saudi banking sector. Samba achieved a 29% return on average equity in 2007, compared with an average of 24% for its peers. Owing to its smaller branch network and extensive reliance on alternative delivery channels, Samba has a lower cost-to-income ratio and higher net profit per branch and net profit per employee than its peers.

Diversification of the income stream through regional inorganic growth is the main pillar of Samba's strategy. Samba acquired 68% of a bank in Pakistan in 2007, launched a branch in Dubai in 1Q2008, and received a license to operate from the Qatar Financial Centre. Domestically, some of the bank's current focus areas include credit cards, SMEs, project financing, investment banking, and mortgages. Samba has an especially strong corporate banking franchise, with high penetration of the biggest Saudi companies. Sambacapital, the investment banking arm of Samba, is the leader in Saudi Arabia, enjoying also significant assets under management (SAR 29 billion as of December 2007) and has around a 9% share of the brokerage market in Saudi Arabia.

Like most Saudi banks, Samba's net profit dropped in 2007 on the back of lower brokerage commissions, despite robust growth in core banking operations. Nevertheless, Samba's 7% drop in net profit in 2007 was lower than the 16% drop in the combined net profit of its peers. In 1H2008, Samba's net profit dropped by 6%, partly due to losses and provisions on the investment portfolio, and partly due to a continued drop in brokerage commissions.

Driven by the corporate book, lending growth for Samba (and the Saudi sector as a whole) has picked up again since 2Q2007, after five quarters of weak growth. Going forward, we forecast Samba's net loans and deposits to grow by a CAGR of 21% and 18%, respectively, in the five years ending in 2012. Total operating income and net profit are forecasted to grow by a CAGR of 14%, reaching SAR 13.7 billion and SAR 9.2 billion in 2012, respectively.

Our estimate of Samba's 12-month fair value per share stands at SAR 91.70, 18% above the share's closing price as of August 27 — hence, our "Accumulate" recommendation. This value is a weighted average of three estimates reached by using three valuation models: The DECF, the DDM, and a peer-based multiples valuation model.

We have assigned Samba a risk rating of 2 (on a scale of 1 to 5). This follows our subjective criteria for risk, such as franchise strength, stock price volatility, and the overall operating environment. We believe Samba faces one major risk and one major challenge:

- Samba has some exposure to structured finance investments that were affected by the meltdown in the US subprime mortgage market. For the majority of multinational financial institutions that were hit by subprime, losses eventually turned out to be higher than originally expected. It remains to be seen whether the same will apply to Samba.
- Samba is very much interested in regional expansion, which has its own risks. There is implementation risk in expanding into countries whose banking sectors are less understood by Samba than is the Saudi banking sector. In addition, there is the risk of overpaying if acquiring a major stake in another bank.

VALUATION

The purpose of this valuation exercise is to estimate Samba's fair value per share 12 months from now. Although the estimate reached is our best guess of the share's value one year from now, this does not mean we believe this value will necessarily prevail at that time. Ultimately, it is investor behavior that determines the price of any share. This behavior is a function of a wide array of factors, including sentiment, risk tolerance, objectives, and technical analysis, as well as analyst recommendations.

Our estimate of Samba's 12-month fair value per share stands at SAR 91.70, 18% above the share's closing price as of August 27. This value is a weighted average of three estimates reached via three valuation models: Discounted Equity Cash Flow (DECF), the Dividend Discount Model (DDM), and a peer-based multiples valuation model, which is a variant of the Warranted Equity Valuation (WEV) model (Figure 1). DECF carries the highest weight because it is a more firm-specific, cash flow-based valuation method that entails a comprehensive and detailed breakdown of the bank's future cash flows.

Our 12-month fair value for Samba is SAR 91.70 per share

Figure 1 Weighted Average Fair Value per Share

Valuation Method	Value (SAR)	Weight (%)
Discounted Equity Cash Flow (DECF)	107.60	60%
Dividend Discount Model (DDM)	63.20	30%
Peer-Based Valuation (WEV)	81.50	10%
Weighted Average Fair Value	**91.70**	**100%**

Source: NBK Capital

Discounted Equity Cash Flow

DECF is a function of the following variables, which we forecast over the next five years:

- Forecasts of Net Attributable Income (NAI) – This is an earnings measure and therefore primarily a function of total income, cost structure, and provisioning levels.
- Forecasts of Changes in Risk-Weighted Assets – Globally accepted standards and local Saudi banking regulations mandate that minimum levels of capital adequacy be maintained as growth occurs. Hence, a percentage of income must be reinvested, which is thus not available for distribution. While the current minimum ratio required by the Saudi Arabian Monetary Agency (SAMA) – the Central Bank of Saudi Arabia – is 8%, Samba's management has indicated that 12% to 13% is a range that they are not comfortable falling behind. Hence, 13% was used for Samba.
- Forecasts of Depreciation – These are primarily a function of the bank's gross fixed assets level.

In addition, estimates of the following two variables are required:

- The long-term expected growth rate in equity cash flows beyond the forecast horizon (that is, beyond the next five years) – This should be a sustainable growth rate that

extends in perpetuity and is necessary to estimate Samba's value at the end of the forecast horizon, widely known as the Terminal Value.

- The Cost of Equity for Samba – This is the investors' minimum required return for investing in Samba's shares and hence is used to discount future equity cash flows.

In the DECF valuation (Figure 2), full financial statements are forecasted until 2013. Equity cash flows (ECFs), defined as NAI plus depreciation minus 13% of the increase in risk-weighted assets, are then extracted from those financial statements. In addition, ECFs are assumed to grow at a perpetual rate of 5.5% in 2014 and beyond. ECFs beyond 2008 are then discounted to a point in time that is 12 months from now, yielding a total value to shareholders of SAR 96.9 billion. Dividing this value by the current number of shares outstanding (900 million) yields a fair value of SAR 107.60 per share.

The chosen cost of equity (9.5%) is mainly a function of interest rate levels, risks in the operating environment, a subjective assessment of the equity risk premium, and the volatility of Samba's share price returns as compared with those of the stock market.

The DECF valuation resulted in a fair value of SAR 107.60 per share

Figure 2 DECF Valuation

Figures in SAR Thousands			Forecast		
Fiscal Year Ends December	2009	2010	2011	2012	2013
Net Attributable Income	6,042,399	7,010,617	7,949,086	9,174,270	10,573,308
Equity Cash Flows	2,243,148	3,089,020	3,458,629	4,012,863	4,705,502
Terminal Value					124,107,621
Total Value of Equity in 12 Months		96,870,964			
Number of Shares Outstanding ('000)		900,000			
Fair Value per Share (SAR)		107.60			

Source: NBK Capital

One major drawback of discounted cash flow valuations is that they are highly sensitive to the inputs. This issue is more acute in the case of banks because they are more heavily leveraged than most other companies. To assess the impact of input changes on the valuation output, we performed a sensitivity analysis on two primary inputs of the DECF model: the cost of equity and the perpetual growth rate (Figure 3).

The estimate of fair value is highly sensitive to two primary inputs

Figure 3 DECF Sensitivity

		Perpetual Growth Rate				
		4.5%	5.0%	5.5%	6.0%	6.5%
Cost of Equity	8.5%	110.9	125.0	143.9	170.3	209.8
	9.0%	98.4	109.3	123.2	141.7	167.7
	9.5%	88.5	97.0	107.6	121.3	139.6
	10.0%	80.3	87.2	95.6	106.0	119.5
	10.5%	73.5	79.1	85.9	94.2	104.5

Source: NBK Capital

Dividend Discount Model

The DDM can be used when the dividend stream can be reasonably forecasted, a situation that generally applies to banks. DDM is a function of the following variables:

- Dividends that will be declared and paid during the forecast horizon.
- An assumption regarding the perpetual growth rate in dividends beyond the forecast horizon (similar to the case for the DECF model), and
- Samba's cost of equity.

The dividend payout ratio has dropped in the past few years to stand at 36% in 2007. We believe Samba's payout ratio will drop further in the coming few years, driven by falling capital adequacy with the implementation of Basel II, and to help fund the high forecasted growth in the balance sheet. The DDM yields a total value for shareholders of SAR 56.9 billion 12 months from now. Dividing by 900 million outstanding shares, we have arrived at a fair value of SAR 63.20 per share (Figure 4).

The DDM resulted in a fair value of SAR 63.20 per share

Figure 4 Dividend Discount Model

Figures in SAR Thousands	Forecast				
Fiscal Year Ends December	**2009**	**2010**	**2011**	**2012**	**2013**
Dividend Payout	26.8%	28.2%	27.4%	28.5%	25.7%
Dividends	**1,620,000**	**1,980,000**	**2,178,000**	**2,613,600**	**2,722,500**
Terminal Value					**71,805,938**

Total Value of Equity in 12 Months	**56,883,231**
Number of Shares Outstanding ('000)	**900,000**
Fair Value per Share	**63.20**

Source: NBK Capital

Peer-Based Valuation

We have used a peer-based multiples valuation model that is a variant of the WEV valuation model. We employed it by comparing the adjusted price-to-book (P/B) multiples of some similarly rated commercial banks operating in countries comparable to Saudi Arabia in terms of gross domestic product (GDP) per capita. In fact, the majority of the countries we chose have a higher GDP per capita than Saudi Arabia. One reason for this is our inability to identify a comparable sample of banks if we specify a respective GDP per capita that is very close to Saudi Arabia's. Nevertheless, we believe that Saudi banks should, in fact, be compared to banks in countries having a higher GDP per capita owing to the enormous amount of oil, and hence potential growth, that Saudi Arabia should witness. Additionally, we include some other GCC banks in the sample because their operating environments are similar to Saudi Arabia's, even if the respective countries' GDP-per-capita levels are dissimilar.

In this peer-based valuation, we adjust the P/B ratio by correcting for two variables that

significantly affect the P/B level, namely, expectations of future earnings growth and future return on equity levels. Specifically, the adjusted P/B is obtained by dividing the raw leading P/B by both the CAGR in earnings per share (EPS) for the coming three or four years and the average return on equity (ROE) for the same period (all based on consensus estimates). The rationale behind this adjustment is that different P/B multiples among banks do not necessarily reflect differences in "valuations", but rather can be a reflection of different growth expectations and potential. After adjusting the P/B ratios for the sample of Samba's peers, we eliminate the highest and lowest values and then we average. We then assume that Samba's adjusted P/B should be equal to that average. Afterward, we plug in our forecast of Samba's CAGR in EPS and average ROE for the coming four years to extract a raw leading P/B ratio. Finally, using our forecast of Samba's book value per share, we arrive at a value of SAR 81.50 per share for Samba (Figure 5).

Samba appeared undervalued compared to its peers

Figure 5 Peer-Based Valuation

Country	Bank	P/B* (2008 f)	ROE **	EPS Growth ***	WEV	FSR Moody's
South Korea	Daegu Bank	1.0	16.7%	6.3%	94.8	C-
South Korea	Kookmin Bank	1.1	14.6%	1.7%	425.3	C
South Korea	Korea Exchange Bank	1.3	15.1%	7.6%	109.8	C-
South Korea	Pusan Bank	1.0	17.2%	8.1%	75.1	C-
Greece	Alpha Bank AE	2.0	23.9%	11.7%	71.2	C
Greece	EFG Eurobank Ergasias SA	1.6	21.7%	13.3%	55.1	C+
Greece	National Bank of Greece	1.9	25.2%	15.4%	48.2	C+
Greece	Piraeus Bank SA	1.6	21.3%	18.6%	40.9	C
Greece	ATEbank	1.4	15.4%	6.2%	150.4	D
Greece	Emporiki Bank of Greece	1.7	17.4%	17.9%	54.5	C-
Portugal	Banco BPI	1.0	18.2%	7.5%	73.9	C
Portugal	Banco Comercial Portugues	1.1	14.2%	7.8%	95.8	C+
Portugal	Banco Espirito Santo	0.9	14.0%	10.0%	65.9	C+
Czech Republic	Komercni Banka	2.6	21.7%	10.5%	113.4	C
Hungary	OTP Bank	1.6	20.4%	16.1%	48.4	C+
UAE	Abu Dhabi Commercial Bank	1.8	19.0%	13.9%	69.7	C-
UAE	National Bank of Abu Dhabi	2.8	24.0%	14.6%	79.4	C
UAE	Dubai Islamic Bank	2.5	24.6%	15.0%	67.3	D+
Saudi Arabia	Banque Saudi Fransi	3.5	26.3%	14.7%	91.1	C+
Saudi Arabia	Arab National Bank	3.1	22.2%	19.7%	71.7	C
Saudi Arabia	Saudi British Bank	4.7	30.1%	22.8%	67.9	C+
Cyprus	Bank of Cyprus	2.2	24.9%	12.2%	71.3	C-
Cyprus	Marfin Popular Bank	1.0	16.8%	15.3%	39.9	C-
	Average				**76.9**	
Saudi Arabia	**Samba**		**27.6%**	**13.7%**		**C+**
	12-Month Fair Value (SAR)	**81.50**				

** Prices as of August 24, 2008. ** ROE is the average of the forecasted ROEs for the next three or four years, based on consensus estimates. *** EPS growth is the CAGR in forecasted EPS for the next three or four years, based on consensus estimates. Sources: Reuters Knowledge, Moody's, and NBK Capital*

Risks and Challenges

- Samba has some exposure to structured finance investments, such as collateralized debt obligations (CDOs) and structured investment vehicles (SIVs) that were affected by the meltdown in the US subprime mortgage market and the ensuing liquidity crisis. Write-downs and write-offs eventually turned out to be higher than originally expected for the majority of multinational financial institutions that were directly or indirectly hit by the subprime collapse. It remains to be seen whether the same will apply to Samba.

- Samba is very much interested in regional expansion. While meaningful expansion beyond the Saudi borders will help diversify the earning stream, it still has its own risks. There is implementation risk in expanding into countries whose banking sectors are less understood by Samba than is the Saudi banking sector. In addition, there is the risk of overpaying when acquiring a stake in another bank, thereby penalizing Samba's shareholders.

- Samba's capital adequacy ratio stood at 12.5% at the end of June 2008, down from 16.5% at the end of 2007. The implementation of Basel II and the consequent increase in risk-weighted assets, due to the inclusion of operational risk and pillar II risks, was a main reason for this drop in capital adequacy. Therefore, we believe that a capital-boosting activity is possible in the short term, especially if Samba undertakes a major acquisition.

- A major risk facing Samba arises from the fact that the bank is predominantly a domestic Saudi player. Thus, Samba is overexposed to the vagaries of the Saudi economy, which is very much tied to one single factor: the price of oil. A deteriorating Saudi economy will hamper earnings and balance sheet growth; in addition, it will worsen asset quality.

- One risk arises from the fact that banks are heavily regulated. The imposition of overly cautious policies that could possibly hamper growth is an ever-present risk that cannot be eliminated. The consumer lending tightening regulations imposed at the end of 2005, and the subdued growth in consumer lending since, is one clear example of how drastically regulations can affect a bank's performance. Another more recent example is the frequent increase in the reserve requirement, after being untouched for many years, in an attempt to lessen credit growth.

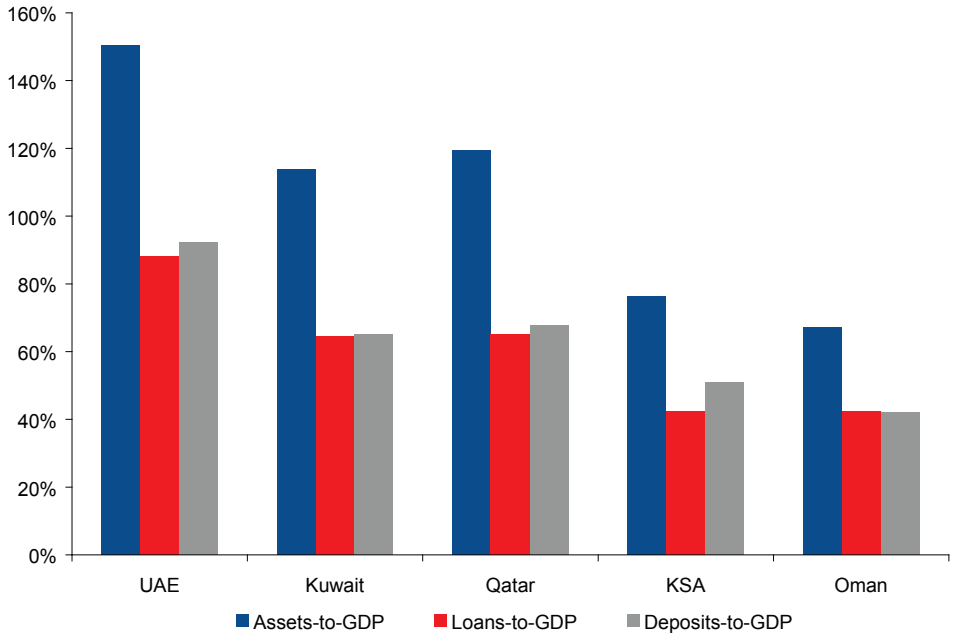
SAUDI BANKING SECTOR HIGHLIGHTS

Sector Size versus Economy Size

The Saudi banking sector is the second largest in the GCC in terms of assets, right behind the United Arab Emirates one. Total banking assets in Saudi Arabia reached USD 326 billion at the end of June 2008. When compared to the size of the underlying economy, however, the Saudi sector is one of the smallest, with lower commercial banking penetration rates than the other GCC countries, with the exception of Oman (Figure 6). This relatively under-banked status of the economy naturally translates into growth potential for the banking sector.

Low commercial banking penetration rates indicate ample room for Saudi banking sector growth

Figure 6 Banking Penetration Rates - December 2007



Sources: GCC central banks and NBK Capital

The Saudi sector comprises 18 commercial banks, seven of which are branches of foreign banks operating in the country. SAMA is gradually opening up the sector to foreign banks. In addition to the banks currently operating, it has licensed a few others that have not yet opened for business. Furthermore, the SAR 10.5 billion initial public offering (IPO) of Inmaa Bank, a new Saudi bank, took place in April, which will increase the number of banks operating in the country to 19.

The banking sector operates in the midst of a very supportive operating environment where the economy has been growing robustly, driven by high oil prices, government spending, and high investment. Nominal GDP doubled in the five years ending in 2007 with an even higher growth in the money supply (as measured by M2), which increased by 115% during the same period. The foreign trade surplus and budget surplus were a staggering SAR 148 billion and SAR 179 billion, respectively, in 2007. Projects worth at least USD 350 billion

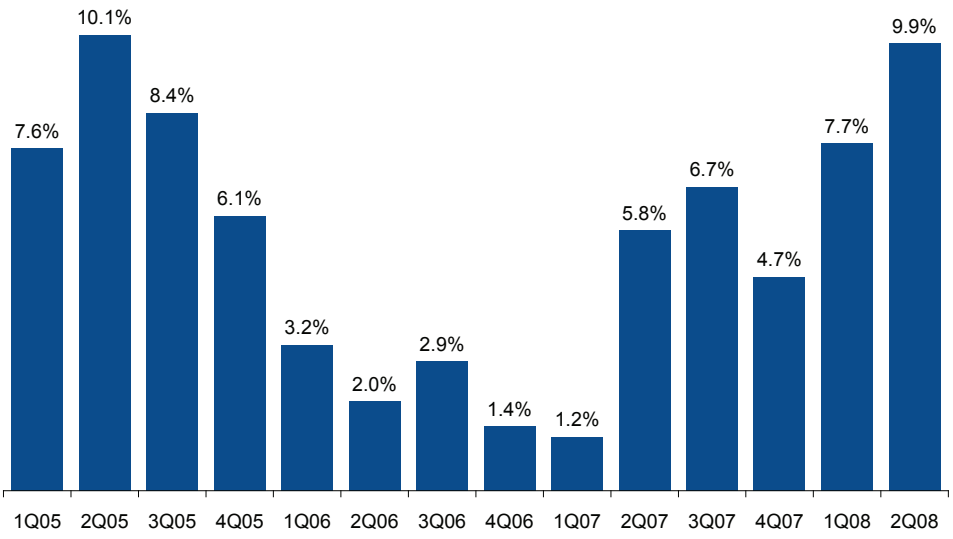
are currently underway or planned for the near future, providing enormous potential for the banking sector. Growth in the non-oil private sector is at the forefront of the economic boom, actually surpassing growth in the oil sector in 2006 and 2007. The International Monetary Fund (IMF) is forecasting nominal GDP to grow at a CAGR of 11% in the six years ending in 2013. With oil prices at previously unthinkable levels of over USD 110 per barrel, the future looks bright for the Saudi economy, and hence the banking sector.

Lending

Lending growth has picked up again since 2Q2007 after five quarters of weak growth, which was triggered by SAMA's tightening regulations for consumer lending (Figure 7).

Lending has picked up since 2Q2007

Figure 7 Growth in Lending - Quarter-on-Quarter

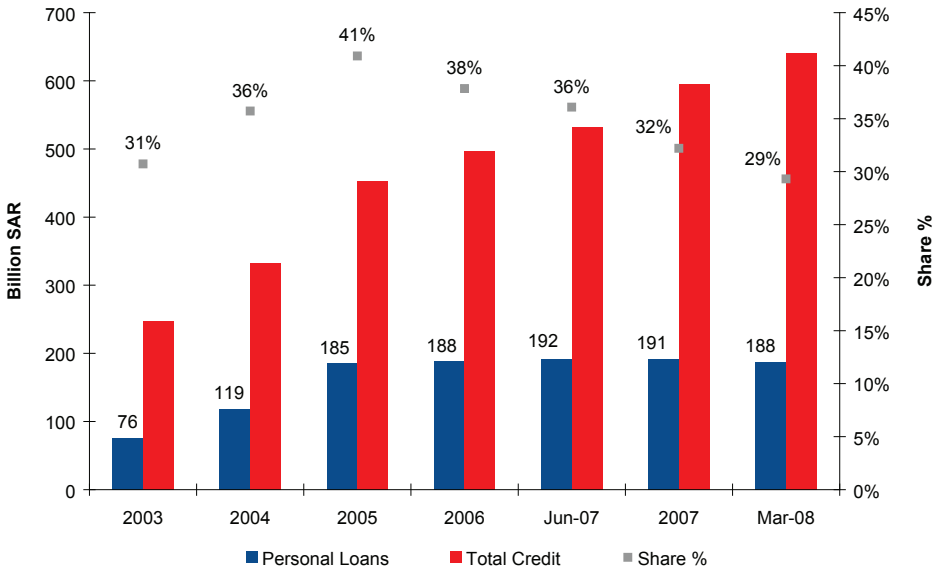


Sources: SAMA and NBK Capital

The transport and communication, manufacturing, and services sectors have been the main drivers of this growth in lending. Since SAMA's regulations, personal lending growth has reached a standstill and personal loans as a share of total loans have continued to drop, standing at 29% in March 2008, down from a 41% high as of the end of 2005 (Figure 8).

Personal lending has been flat since early 2006

Figure 8 Personal Lending versus Total Credit



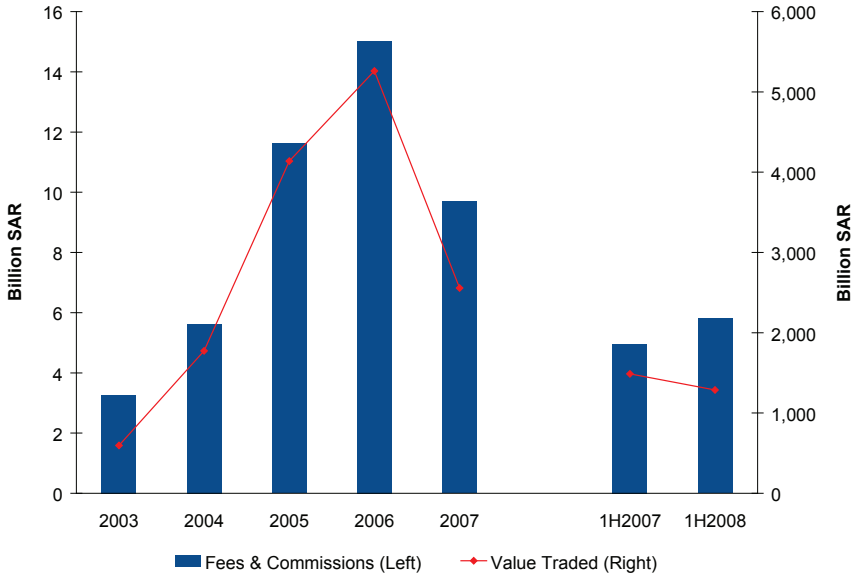
Sources: SAMA and NBK Capital

PROFITABILITY

The 51% drop in total traded value on the Saudi Stock Exchange (Tadawul) has painfully impacted banks' earnings in 2007. Saudi banks' income from fees and commissions dropped by 36% in 2007, which was the primary reason for the 14% drop in their combined net profit in the same year (Figure 9). Total value traded on Tadawul in 1H2008 was 14% lower than in 1H2007, but 20% over total traded value in 2H2007. Nevertheless, total income from fees and commissions increased by 17% in 1H2008, driven by robust growth in fees derived from core banking operations.

Income from fees and commissions increased in 1H2008 compared with 1H2007, despite the drop in trading on Tadawul

Figure 9 Value Traded on Tadawul and Earnings from Fees and Commissions

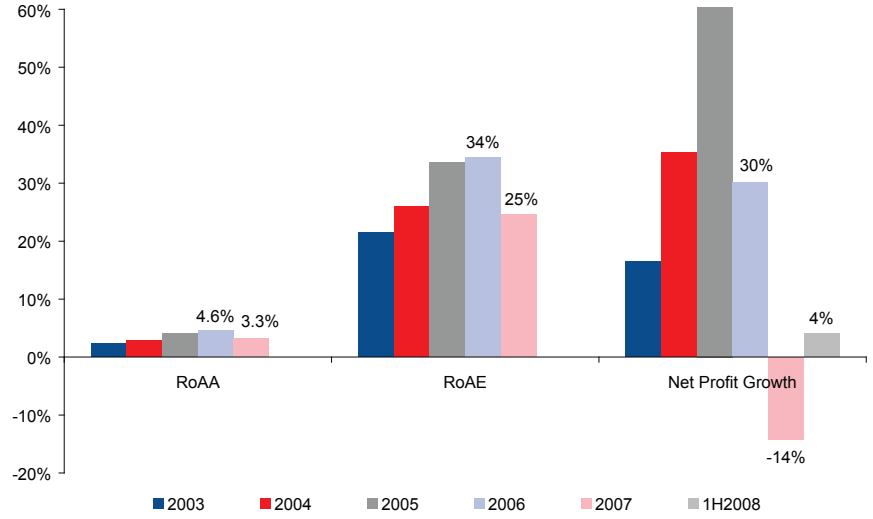


Sources: Tadawul and NBK Capital

Strong growth in core banking operations safeguarded the return on average equity (RoAE) at a still robust 25% in 2007, dropping from around 34% in the previous two years. The return on average assets (RoAA) stood at 3.3% in 2007, compared with a whopping 4.6% in 2006 (Figure 10). Steady growth in net interest income and fees from core banking operations led to a 4% growth in the combined net profit of Saudi banks in 1H2008, as compared with 1H2007.

Despite a 14% drop in the combined net profit of Saudi banks in 2007, RoAE was a still robust 25%

Figure 10 Returns and Net Profit Growth: Ten Largest Saudi Banks



Sources: Banks' financial statements and NBK Capital

Capital Market Activities Spin-off

As per the Saudi Capital Market Authority (CMA) regulations, commercial banks have spun off their capital market activities into separate licensed entities, though that might not have an effect on the banks' bottom lines. However, the segregation of capital market activities from core commercial banking activities will drive the management of each business activity to focus wholly on its core operations, which should be value-adding in the long term. Samba's subsidiary, Sambacapital, is fully operational, having been launched in January of this year.

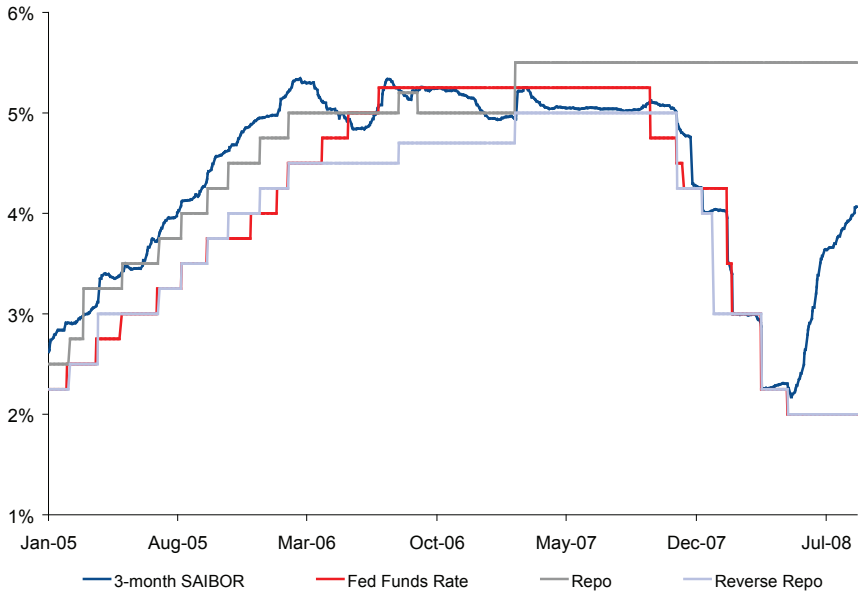
Capital market activities have potential for very strong growth in the years to come. Investment banking, for example, despite strong growth recently, is still in its infancy in Saudi Arabia. The small number of listed companies on Tadawul (122 at the end of June 2008) in relation to the size of the Saudi economy (GDP of USD 376 billion in 2007) and the very low debt levels that Saudi companies generally have are only two simple indicators of the potential for investment banking growth in Saudi Arabia. Nevertheless, competition for investment banking business is very strong in Saudi Arabia, exerting pressure on profitability from this business line. As for asset management, there is significant wealth to be invested, especially with the price of oil forecasted to remain high, at least in the medium term. Moreover, the value of domestic shares held by the investment funds of Saudi banks makes up a small share of the total market capitalization of Tadawul, reflecting significant potential for the expansion of assets under management of commercial banks, and hence fees to be earned.

Movement in Interest Rates

The collapse of the subprime mortgage market and the ongoing trouble in the housing market in the USA have led to a severe "credit crunch" and to billions of dollars in write-downs by the largest multinational financial institutions. With the specter of recession looming, the US Federal Reserve (Fed) has responded by cutting the federal funds rate by 3.25% since September 2007, initiating one of the most aggressive interest rate cutting sprees in the history of the Fed. With the Saudi riyal pegged to the USD, SAMA has generally followed the Fed and cut its reverse repurchase rate, the rate it pays for deposits, by 3%. Nevertheless, SAMA did not move its repurchase rate, the rate at which it lends banks, keeping it firm at 5.5%, thus trying to limit the growth in credit. Accordingly, Saudi interbank rates dropped by more than 3% in the period from September 2007 to April 2008. Nevertheless, interbank rates started rising in early May and have already risen by a significant 2% from their lowest level, reached in early May 2008 (Figure 11).

Saudi interbank rates started rising rapidly since early May, after falling sharply since September 2007

Figure 11 Interest Rates



Sources: Reuters, SAMA, and NBK Capital

The increase in interbank rates will have a short-term negative impact on margins, as rates on deposits re-price more quickly than rates on loans. However, in the longer term, the Saudi banking sector benefits from an increase in interest rates due to an abundance of non-interest-bearing (NIB) deposits in the total deposit base. Demand deposits, which can be used as a rough approximation of NIB deposits, stood at 45% of total sector deposits at the end of June 2008.

In addition, SAMA has changed the reserve requirement pertaining to demand deposits four times in the past few months, increasing it from 7% to 13% to try to limit the growth in credit for fear of inflation. More recently, SAMA has also increased the reserve requirement pertaining to saving and time deposits from 2% to 4%.

Mortgage Lending

The Saudi Shoura Council passed the long-awaited mortgage law in early July. The law still has to be approved by the Saudi government before coming into effect. The lack of such a law is one reason for the almost non-existent mortgage market in Saudi Arabia. Mortgage lending is severely under-penetrated in the country and hence, is one of the major growth drivers for bank lending going forward. Mortgage lending provided by Saudi banks was a slim SAR 15.6 billion at the end of 2007, representing only 1% of GDP and 2.5% of total credit. Another reason to be bullish on the growth of mortgage lending is the large Saudi population (estimated at 24 million in 2007). In addition, this population is “young”, with nearly 70% below the age of 35, as per 2006 data. Another important growth driver is the fact that the share of Saudis who own houses is not high, roughly estimated at between 20% and 35%. Finally, it is worth mentioning that real estate mortgage loans, although considered consumer loans, are excluded from SAMA’s consumer-lending regulations which cap total debt payments at a third of a borrower’s salary.

BANK OVERVIEW

Bank Background

Samba is the second largest bank in Saudi Arabia, with a 15% share of the country's total banking assets as of June 2008. The Saudi government indirectly holds 44% of Samba's capital through several government agencies. Samba had previously been involved with Citibank (Citi) which held a significant stake in the bank between 1980 and 2004. Citi had also entered into a technical management agreement (that expired in 2003) with Samba which enabled the latter to benefit immensely on many fronts. Samba is a universal bank, offering both conventional and Shari'a compliant products and services. The bank's business operations can be broadly broken down into four major segments: consumer banking, corporate banking, investment banking, and treasury, accounting for 43%, 37%, 14%, and 6%, respectively, of the bank's total operating income in 1H2008. The bank has 65 branches operating in Saudi Arabia, in addition to 457 ATMs. Additionally, Samba has one branch in London and has recently launched a branch in Dubai. In 2007, Samba acquired a 68.4% stake in Crescent Commercial Bank Limited (CCBL), a Pakistani bank. Samba employed 3,127 staff at the end of December 2007. Samba is rated by the main international rating agencies, Standard and Poor's, Moody's, and Fitch, as A, A1, and A+, respectively.

Strategy

Samba is a well-managed and efficient bank. It has an especially strong corporate banking franchise with high penetration of the biggest Saudi companies. Samba also enjoys a strong franchise in high-end consumer banking. Some of the bank's current focus areas include credit cards, SMEs, project financing, investment banking, and mortgages.

Samba had always been a domestic player with almost no presence abroad. Nevertheless, Samba has been trying lately to expand beyond the Saudi borders in an effort to geographically diversify its earning stream. In March 2007, Samba paid USD 100 million for a 68.4% stake in CCBL, a listed Pakistani commercial bank, as previously mentioned. The number of CCBL branches increased by 10 in the period between March 2007 and December 2007, to stand at 28 at the end of 2007. Samba plans to increase the number of branches to approximately 60 in the coming 2-3 years. Samba believes that there is strong potential for growth in Pakistan, which has a large population (estimated at 158 million in 2007). In addition, the commercial banking penetration rate in Pakistan (as measured by the loans-to-GDP) is relatively low, standing at approximately 30% at the end of 2007. CCBL incurred a loss in 2007, but Samba expects the bank to break even in 2-3 years. Finally, management indicated that CCBL will be rebranded as Samba during 2008.

Samba was one of the bidders for a stake in Egypt's Banque du Caire. Winning the Banque du Caire deal was very important for Samba, as it probably was the last serious possibility of entering the lucrative Egyptian market. However, the Egyptian government cancelled the sale in late June, stating that the submitted offers were not high enough.

As for expansion in the GCC, Samba opened a branch in Dubai in 1Q2008, making it the first Saudi bank to operate in the UAE, and has already applied for a license to open a branch in the Qatar Financial Centre. Samba also wants to establish a presence in

Southeast Asia. The bottom line is that Samba is very keen on expanding outside Saudi Arabia and is constantly exploring viable opportunities.

Domestically, Samba has a different strategy than most other Saudi banks. Although Samba is the second largest bank in the country, it has a much smaller branch network than its peers, with 65 branches at the end of June 2008. Its peers, Rajhi and National Commercial Bank for example, have 418 branches and 268 branches, respectively.

Samba makes up for this difference with a strong focus on technology, and extensive use of alternative delivery channels, such as Internet banking, phone banking, and ATMs. According to management, only 3% of all transactions are executed in the branches, while the rest are executed via alternative delivery channels. This is a primary reason why Samba has one of the best efficiency indicators in the Saudi banking sector.

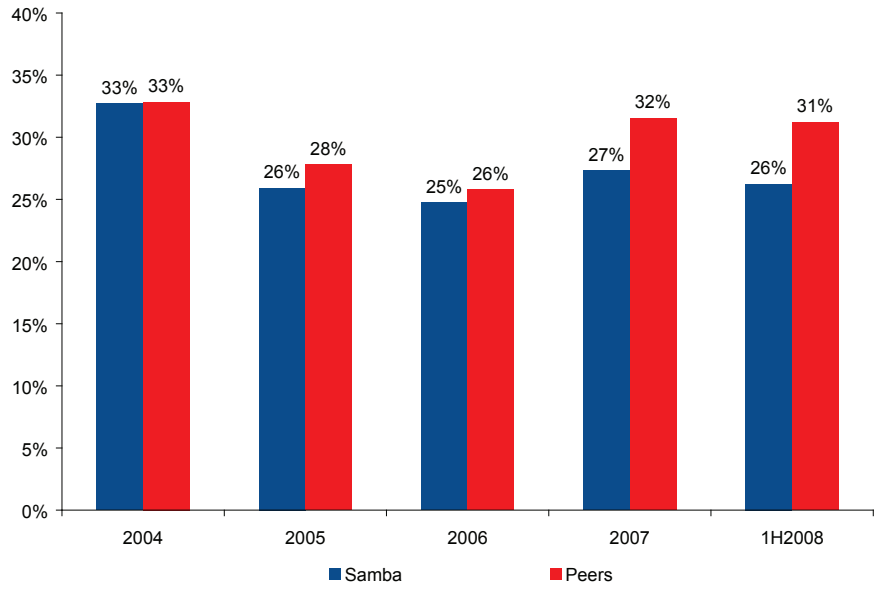
Banks in Saudi Arabia have been required to spin-off their capital market activities into separate licensed entities. To this end, Sambacapital, Samba's wholly owned subsidiary, commenced operations in January of this year. Sambacapital is now the market leader in Saudi Arabia's investment banking business. It has the lion's share of the Saudi IPO business, having participated in most mega-scale IPOs in the Kingdom. Samba had SAR 29 billion in assets under management at the end of 2007, and has 27 mutual funds under Sambacapital's umbrella. According to management, Samba's market share of the brokerage business in Saudi Arabia is around 9%.

Outperformance in terms of Productivity and Cost Efficiency

Samba has one of the lowest cost-to-income ratios in the Saudi banking sector, standing at 27% in 2007 compared to 32% for its peers (Figure 12). In fact, Samba has grown its operating income faster than its peers in the past four years. In addition, Samba did a better job in controlling the expansion of costs.

Samba exhibited a lower cost-to-income ratio than its peers in the past four years

Figure 12 Cost-to-Income Ratio: Samba versus Peers



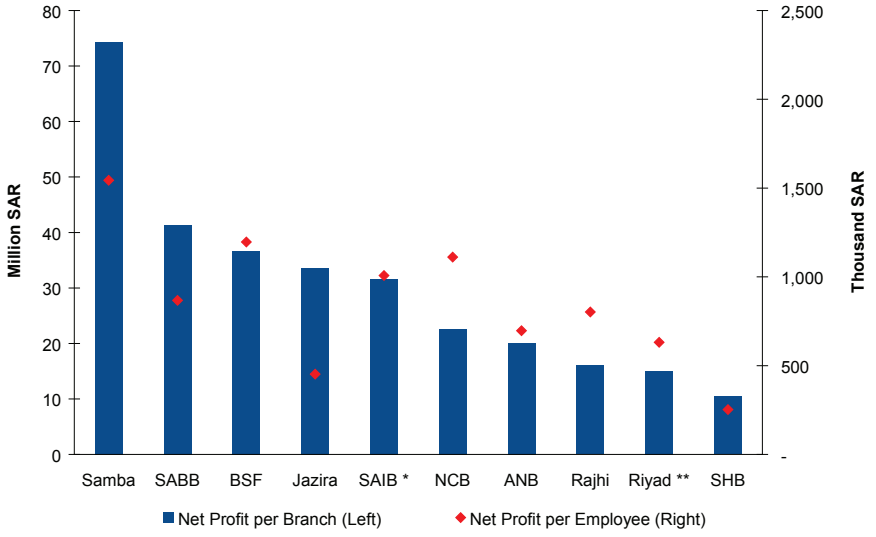
Sources: Banks' financial statements and NBK Capital

Samba's cost-to-income ratio dropped in 2005 and 2006, despite a 15% and 20% expansion in costs, respectively. The deterioration in that ratio in 2007 was driven by a nearly flat operating income growth during that year, while costs expanded by a small 9%.

In Figure 13, we plot the net profit per branch and net profit per employee for the sample of Saudi banks. Samba has the highest indicators among its peers, corroborating our view that productivity and cost-efficiency are better at Samba than at the other Saudi banks.

Samba's higher net profit per branch and net profit per employee indicate that the bank is generally more efficient than its peers

Figure 13 Net Profit per Branch and Net Profit per Employee - 2007



** As of December 2006, ** As of September 2007, Sources: Banks' financial statements and NBK Capital*

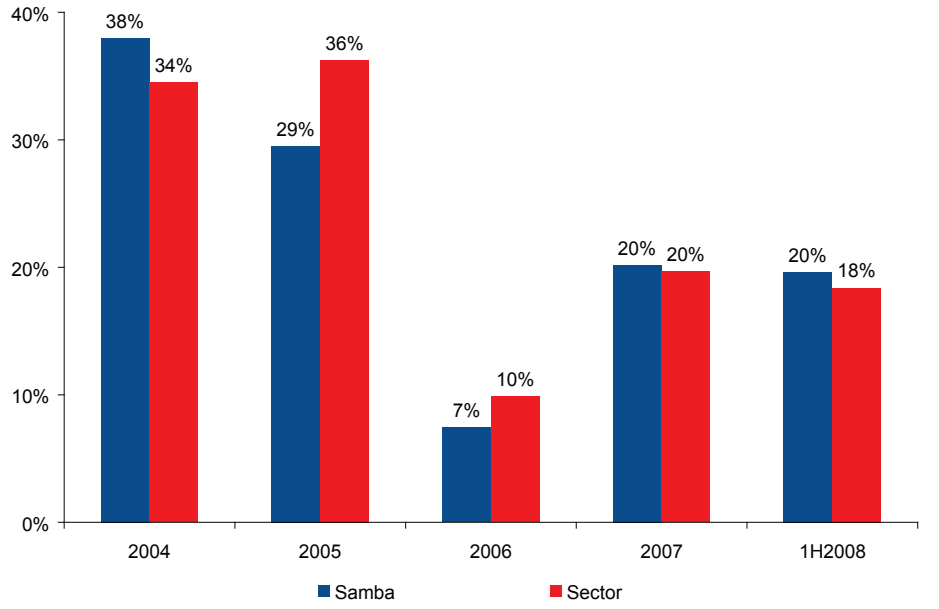
FINANCIAL OVERVIEW AND FORECASTS

LENDING

Samba's net loans rose in line with the sector's in the past year and a half (Figure 14). Lending growth was rapid in 2004 and 2005, driven by the surge in consumer lending. Toward the end of 2005, SAMA issued guidelines aiming to curb the excessive growth in consumer lending, as previously mentioned. The regulations had an immediate effect, and consumer lending growth has since reached a standstill. The relatively weak growth in overall lending in 2006 was mainly attributed to those regulations. Nevertheless, since 2Q2007, lending in the overall sector, including Samba, picked up again, driven by the corporate book.

After weak lending growth was registered in the Saudi sector in 2006, lending picked up again and sector loans in the past year and a half increased by 42%, a rate similar to that achieved by Samba

Figure 14 Loan Growth: Samba versus Sector

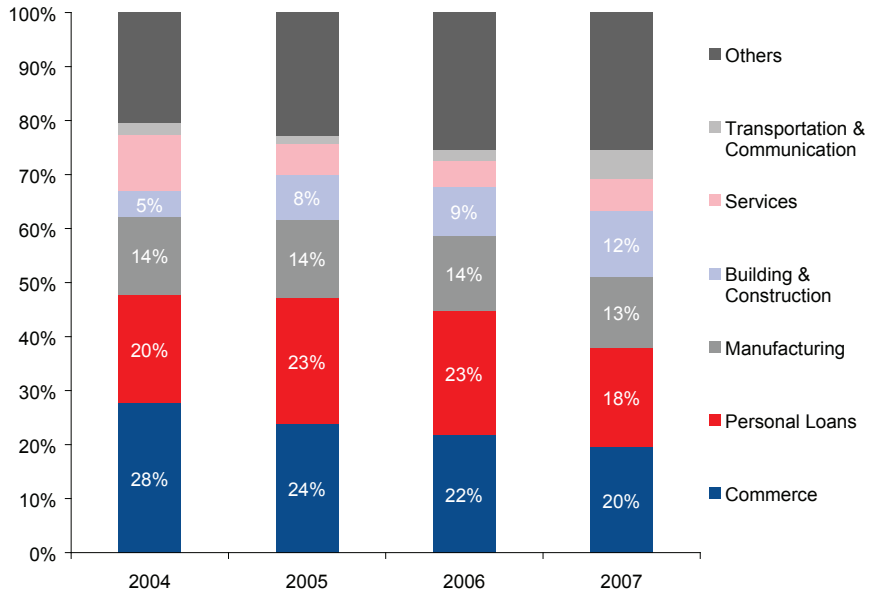


Sources: Samba's financial statements, SAMA, and NBK Capital

Figure 15 shows the breakdown of Samba's lending portfolio during the past four years. In line with the overall sector, Samba's personal loans dropped as a share of the total lending book in 2006 and 2007. In fact, personal loans as a share of total loans is much smaller for Samba (18% at the end of 2007) than it is in the overall sector (32% at the end of 2007). This is related to Samba's smaller branch network and the bank's traditional focus on corporate banking. In 2007, three lending categories, namely, Transportation and Communication, Building and Construction, and the "Other" credit category, accounted for 75% of Samba's total increase in loans. The "Other" credit category mainly includes private banking loans to high-net-worth individuals. Lending to the Transportation and Communication sector was the fastest growing in 2006 and 2007 at 45% and 220%, respectively, driving up its share of total loans from a negligible share in 2005 to more than 5% in 2007. Loans to the commerce sector gradually dropped as a share of total loans, but still represented the biggest chunk of total loans (20%) at the end of 2007.

The corporate book is driving lending growth, with three sectors representing 75% of the total increase in lending in 2007

Figure 15 Breakdown of Samba's Lending Book

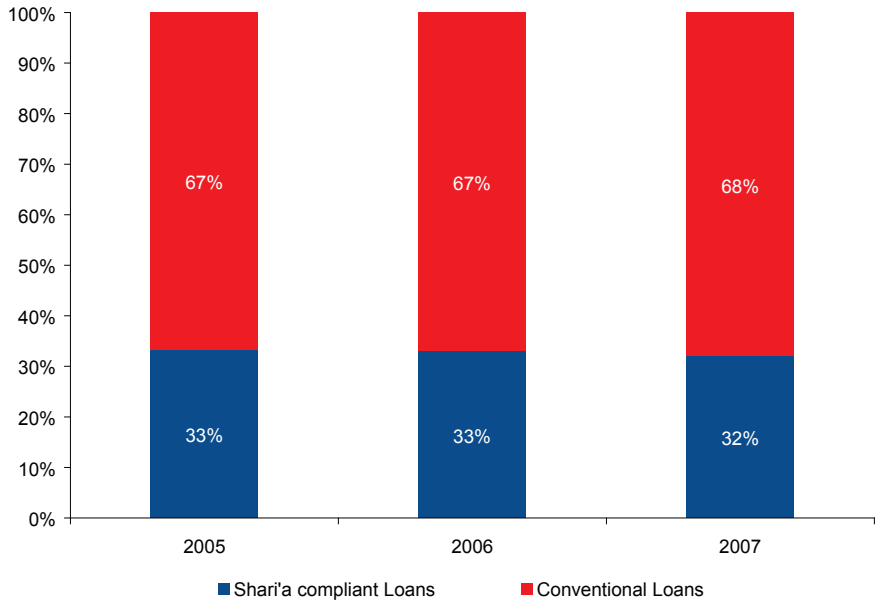


Sources: Samba's financial statements and NBK Capital

It is worth noting that Samba's Shari'a compliant loans have been growing at a similar rate to that of conventional loans in the past two years, hence maintaining their share in the total lending book at approximately 32% (Figure 16).

Shari'a compliant lending has maintained its share of total lending in the past two years

Figure 16 Shari'a Compliant Loans versus Conventional Loans

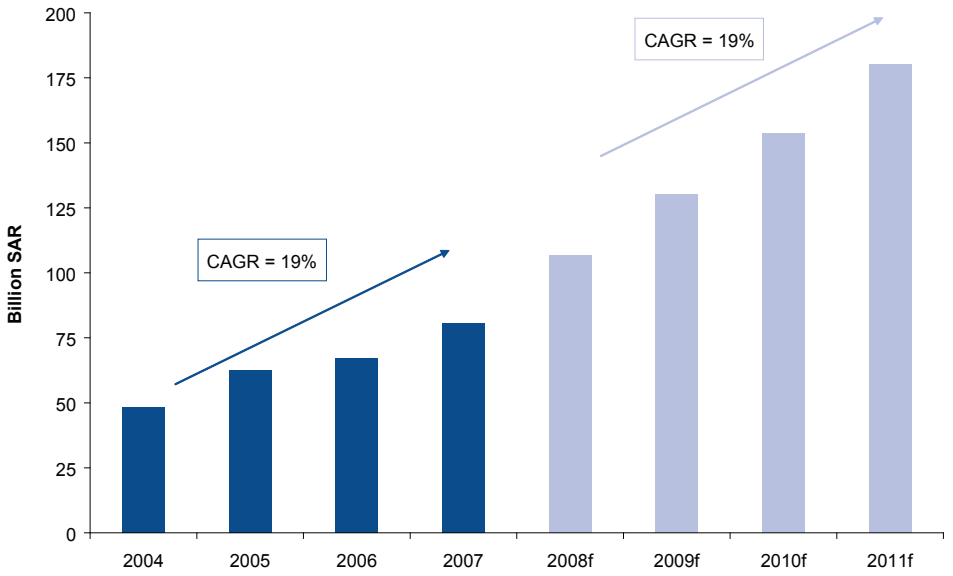


Sources: Samba's financial statements and NBK Capital

Commercial banking penetration rates (as measured by loans-to-GDP, for example) have been increasing in Saudi Arabia. Nevertheless, with a low loans-to-GDP ratio of 42%, there is still significant room for growth. We expect the corporate book to continue to drive overall lending, as growth in consumer lending will remain subdued. However, if SAMA relaxes its regulations, consumer lending will grow again. Samba will continue to benefit from the robust operating environment in Saudi Arabia, where project financing and infrastructure lending will provide significant potential for Samba's corporate business. Moreover, Samba's lending growth will also be driven by the SME sector, which is a main focus area for Samba. Finally, mortgage lending, which is another focus area for Samba, will also contribute to lending growth, especially after the draft mortgage law is approved by the Saudi government. We forecast Samba's loan book to reach SAR 107 billion by the end of 2008, and to grow in line with the sector at a CAGR of 19% in the coming three years (Figure 17).

We forecast Samba's net loans to grow by a CAGR of 19% in the three years ending in 2011

Figure 17 Samba's Net Loans



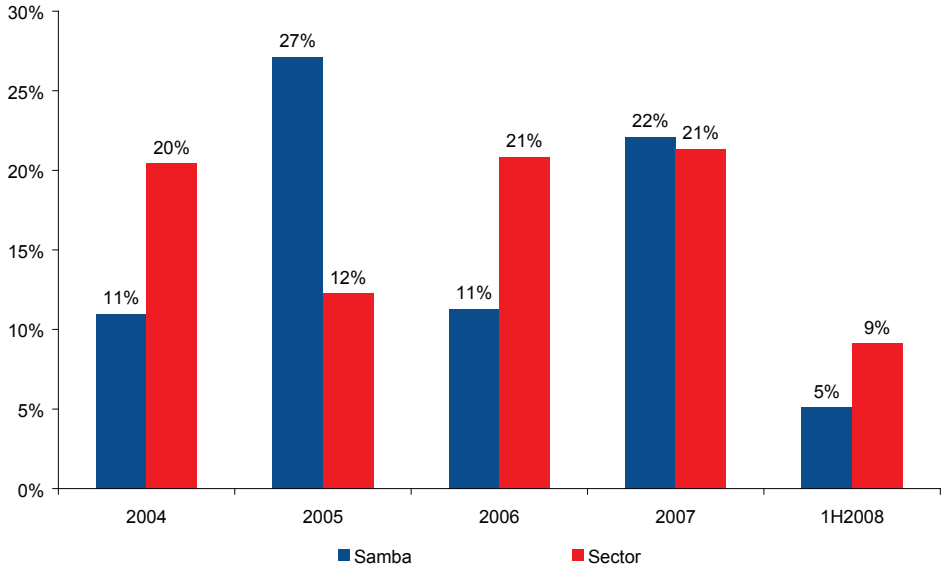
Sources: Samba's financial statements and NBK Capital

Deposit Accumulation

Samba's deposits rose less rapidly than the sector's in 1H2008, after growing in line with them in 2007 (Figure 18).

Samba underperformed the sector in terms of deposit accumulation in 1H2008

Figure 18 Deposit Growth: Samba versus Sector

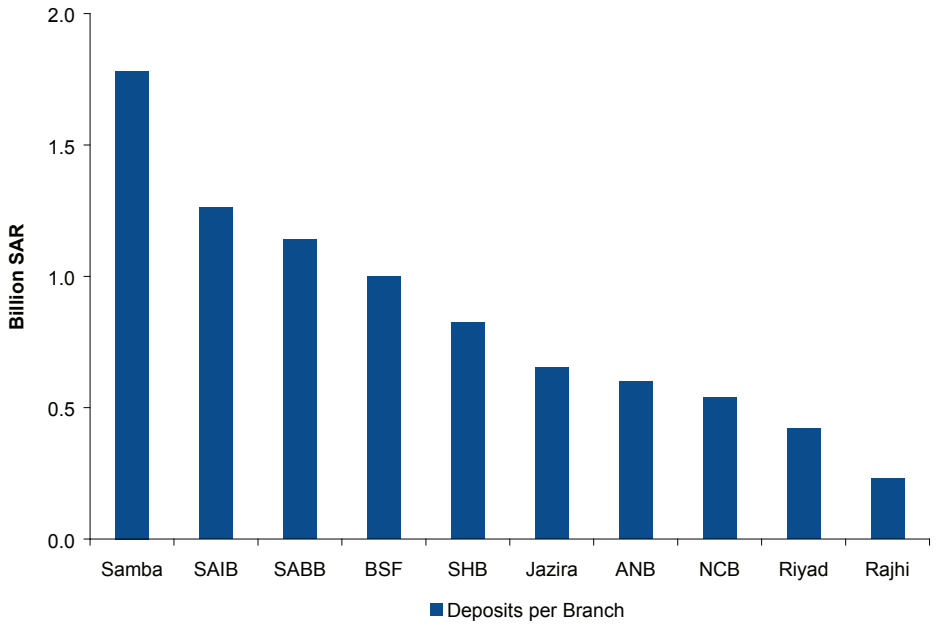


Sources: Samba's financial statements, SAMA, and NBK Capital

Samba ranks second in the Saudi banking sector in terms of deposits, and has succeeded in defending its market share at around 15% to 17%, despite its much smaller branch network. Looking at the deposits per branch, Samba significantly outperforms its peers, as seen in Figure 19.

Deposits per branch are much higher for Samba than its peers

Figure 19 Deposits per Branch



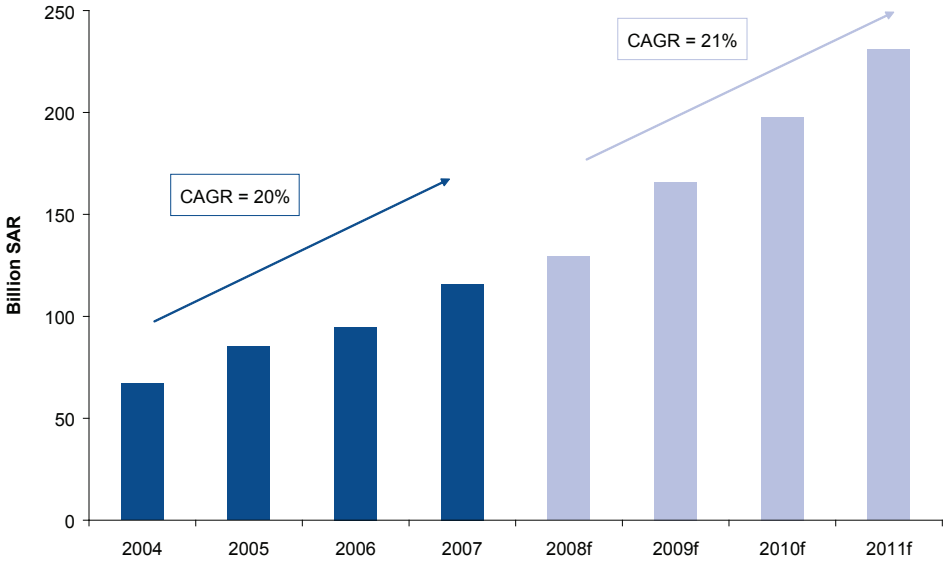
Source: NBK Capital

Samba's extensive reliance on alternative delivery channels is one reason why the bank was able to safeguard its market share of total deposits. Another reason is Samba's high brand recognition in the Saudi sector, which enables it to capitalize on its name in attracting deposits. It is worth mentioning that Samba's interest bearing deposits grew faster than its non-interest bearing (NIB) deposits in each of the past three years, thus increasing their share of total deposits from 53% in 2004 to 61% in 2007. The rising interest rate environment during that period was one reason for this. Nevertheless, Samba and the overall Saudi banking sector still benefit from a big share of NIB deposits in total deposits, enabling the sector as a whole to earn relatively high margins.

SAMA has a "soft rule" limiting banks' loans to 85% of their deposits. This will force banks to increase their deposits to keep their loans-to-deposits ratios in check. Samba's loans-to-deposits ratio has hovered between 70% and 76% in the past two years. While it stood at 70% at the end of 2007, the quick growth in lending in the first half of this year increased the loans-to-deposits ratio to 79% by June 2008. We expect a slight increase in the loans-to-deposits ratio to 82% by the end of 2008, and for it to hover in the 77%-79% range during our forecast period. Accordingly, we forecast deposits to reach SAR 129 billion at the end of this year and to grow by a CAGR of 21% in the coming three years (Figure 20).

We forecast Samba's deposits to grow by a CAGR of 21% in the three years ending in 2011

Figure 20 Samba's Deposits



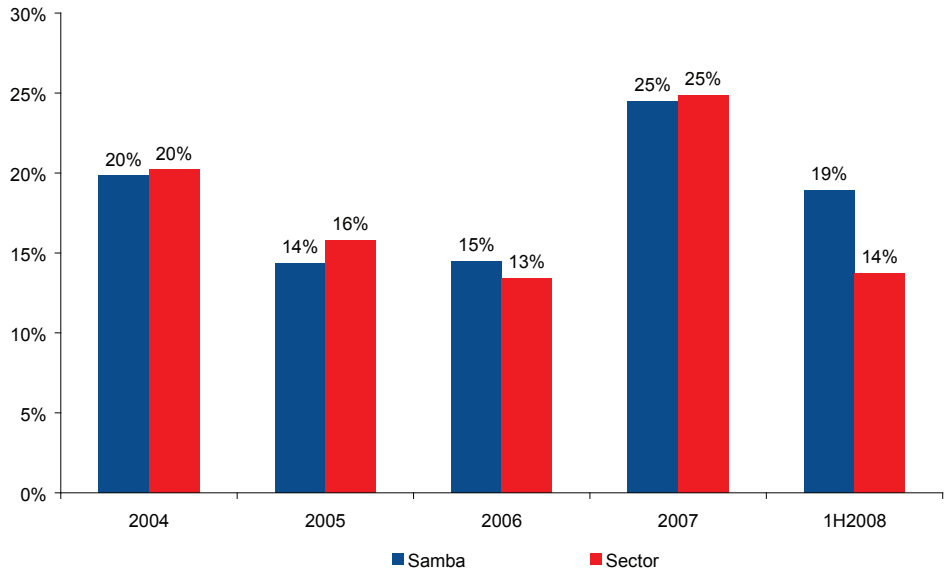
Sources: Samba's financial statements and NBK Capital

Total Balance Sheet Growth and Uses of Funds

In terms of total balance sheet growth, Samba grew in line with the overall sector in the last four years, but outperformed it in 1H2008 (Figure 21).

Samba outgrew the sector in terms of balance sheet growth in 1H2008, after growing in line with it in the past four years

Figure 21 Asset Growth: Samba versus Sector



Sources: Samba's financial statements, SAMA, and NBK Capital

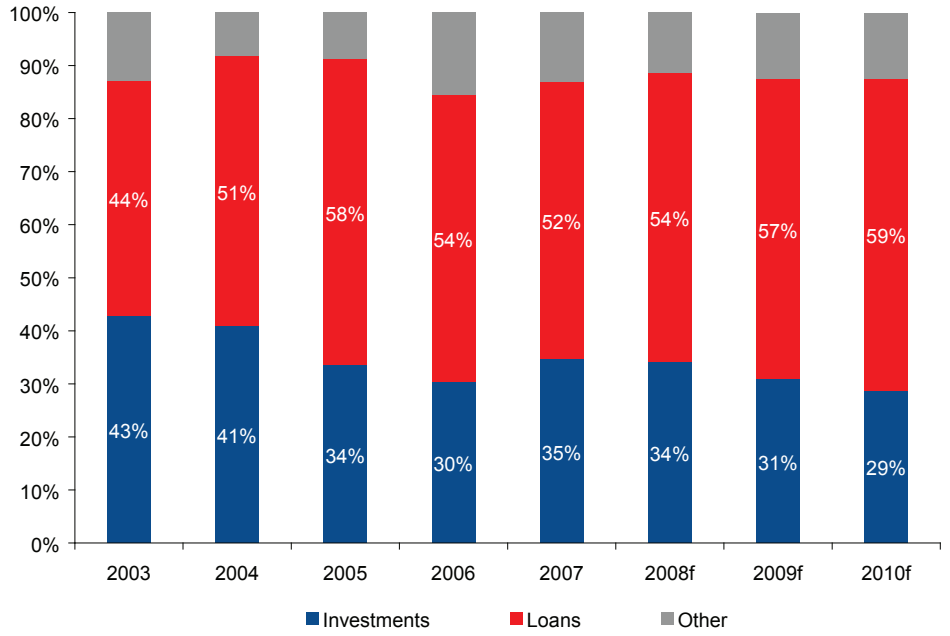
A closer look shows that most of the 1H2008 growth in Samba's balance sheet occurred in 1Q2008 when total assets soared by 16%, driven by a 13% increase in loans and a 25% surge in investments, which was largely funded by the interbank market.

Investments had gradually dropped as a share of total assets in the years before 2007, as seen in Figure 22. In fact, the composition of the investment portfolio changed drastically in the past few years. In 2004, 75% of the investment portfolio was in domestic assets, primarily Saudi government bonds and notes. This share gradually dropped to 43% by the end of 2007. One reason for this was less availability of Saudi government bonds as the Saudi government repays its debt. Total holdings of Saudi government bonds by all banks in Saudi Arabia dropped from SAR 150.5 billion in 2003 to SAR 114.1 billion in 2006. The drop in Samba's domestic investment book was replaced by fixed income securities issued in the US and Europe.

As previously mentioned, Samba's investments soared by 24% in 1H2008, driven by the Saudi government's issuance of treasury bills. Total treasury bills held by commercial banks in Saudi Arabia increased from SAR 3 billion in September 2007 to SAR 17 billion by December 2007, and rocketed to SAR 62 billion by June 2008. The explanation for this trend is that the Saudi government is issuing more bills to reduce excess liquidity in the sector, hence decreasing lending growth, with the aim of eventually controlling the soaring inflation.

We forecast an increase in the share of loans in total assets, growing from 52% in 2007 to 59% in 2010

Figure 22 Samba's Asset Breakdown



Sources: Samba's financial statements and NBK Capital

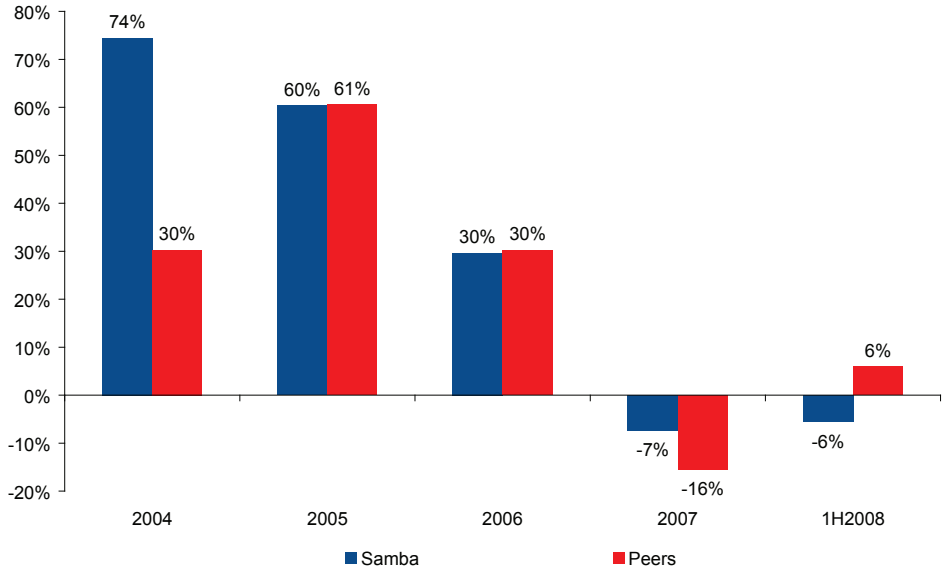
On the other hand, the share of loans in total assets has been more constant, hovering between 50% and 60% in the past two years. We forecast an increase in the share of loans in total assets, growing from 52% in 2007 to 59% in 2010.

Profitability

Samba's net profit dropped by 7% in 2007 and by a further 6% in 1H2008 (Figure 23). The decrease in Samba's net profit in 2007 was primarily driven by a 33% drop in the bank's fees and commissions, on the back of a 47% dip in brokerage commissions, asset management fees, and corporate finance fees. Another reason for the decrease in net profit in 2007 was a 34% drop in investment earnings in addition to a SAR 111 million provision for impairment of investments. Still, this drop in net profit was lower than the 16% dip in the combined net profit of Samba's peers. Net profit growth remained in negative territory in 1H2008, dropping by 6% compared with 1H2007, and despite a 7% increase in both net interest income and income from fees and commissions. One reason behind the drop in net profit in 1H2008 was the ongoing fall in brokerage commissions. A second reason was a fall in total net investment earnings from SAR 336 million in 1H2007 to a mere SAR 15 million in 1H2008. Another equally important reason was the incurring of SAR 189 million in provision for impairment of investments during 1H2008. We believe this provision is related to Samba's exposure to structured finance instruments that were negatively affected by the meltdown in the US subprime mortgage market and the ensuing liquidity crisis. Samba's management has indicated that the likelihood of further losses is minimal as most of the exposure has been either written-off or provided for.

Despite growth in core banking operations, Samba's net profit declined by 6% in 1H2008 on the back of investment losses and provisions

Figure 23 Net Profit Growth: Samba versus Peers

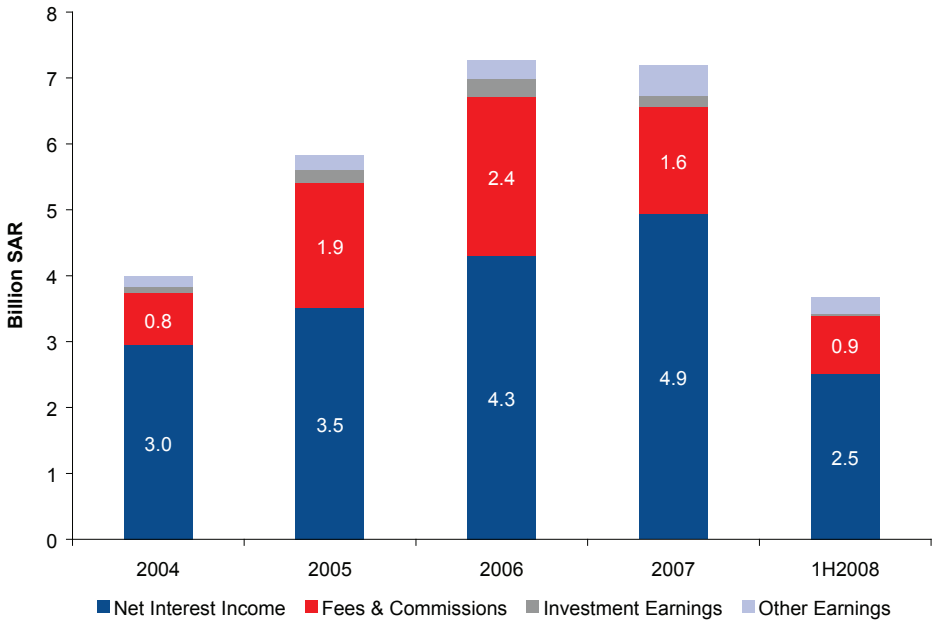


Sources: Banks' financial statements and NBK Capital

In Figure 24, we plot the components of Samba's operating income in the past four years.

Unlike income from fees and commissions, net interest income increased steadily, accounting for approximately 69% of operating income in 2007 and 1H2008

Figure 24 Components of Samba's Operating Income



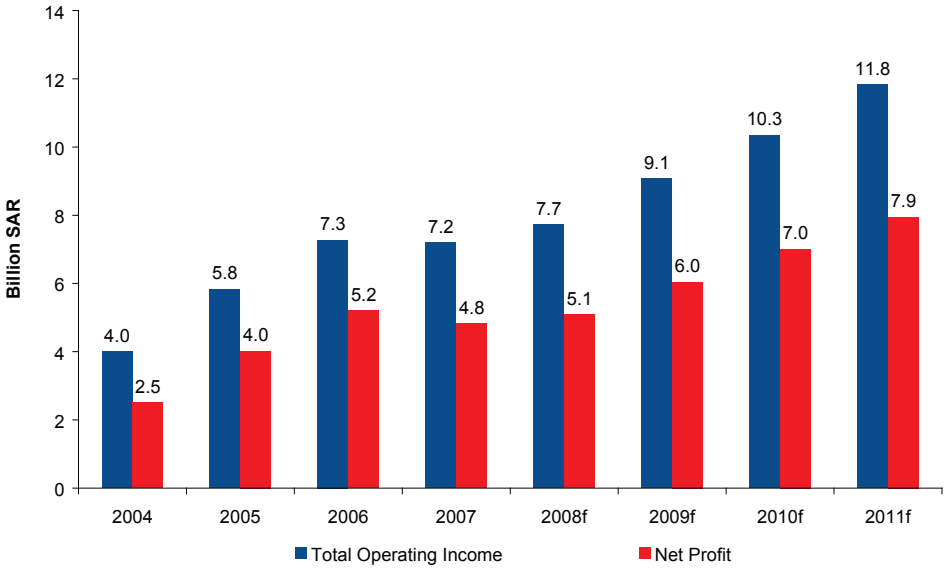
Sources: Samba's financial statements and NBK Capital

Going forward, we expect net interest income to remain the major income component, accounting for around 72% of operating income in our forecast horizon. Saudi banks have maintained high margins and spreads and defended them well in the face of movements in interest rates. Nevertheless, we expect spreads and margins to drop in the long term, driven by stronger competition and a continuous drop in the share of high-margin consumer lending in total lending. We also forecast income from fees and commissions to grow by a CAGR of 12% in the coming five years, driven by both core and non-core banking operations, especially through corporate finance fees, brokerage commissions, and asset management fees.

As for cost dynamics, we believe Samba will continue to do a good job in controlling its cost growth, thus maintaining the cost-efficiency advantage it has over its Saudi peers. Nevertheless, we expect a slight increase in the cost-to-income ratio, from 27% in 2007 to 30% at the end of our forecast horizon. We forecast Samba's total operating income to grow by a CAGR of 13% in the four years ending in 2011, reaching SAR 11.8 billion, and net profit to grow by 13% in the same period to reach SAR 7.9 billion (Figure 25).

We forecast Samba's net profit to grow by a CAGR of 13% in the four years ending in 2011

Figure 25 Samba's Total Operating Income and Net Profit

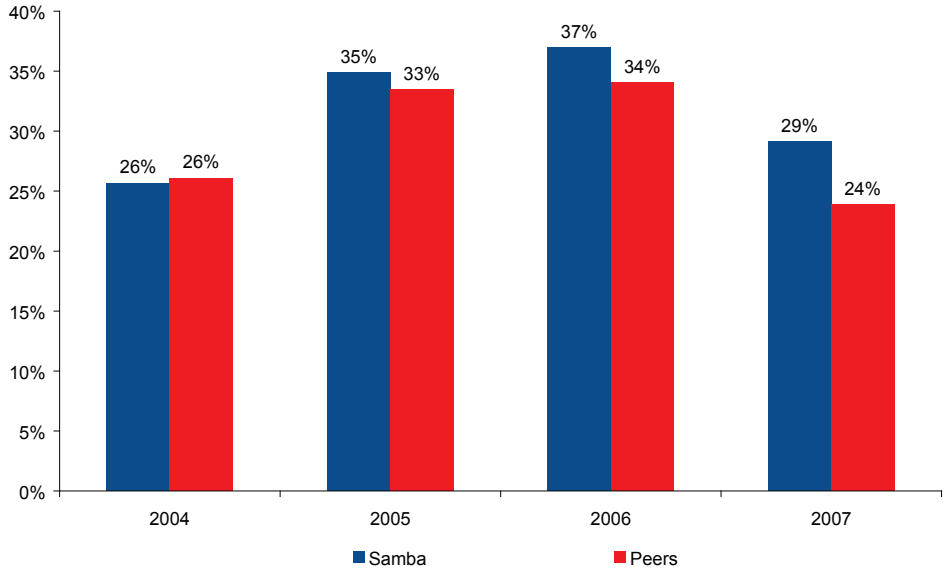


Sources: Samba's financial statements and NBK Capital

In terms of return on capital, Samba has logged a higher RoAE than its peers in the past three years. However, this is partly due to Samba having a lower equity-to-assets ratio in the past three years as compared with its peers.

Samba has outperformed its peers in terms of RoAE since 2005

Figure 26 RoAE: Samba versus Peers



Sources: Banks' financial statements and NBK Capital

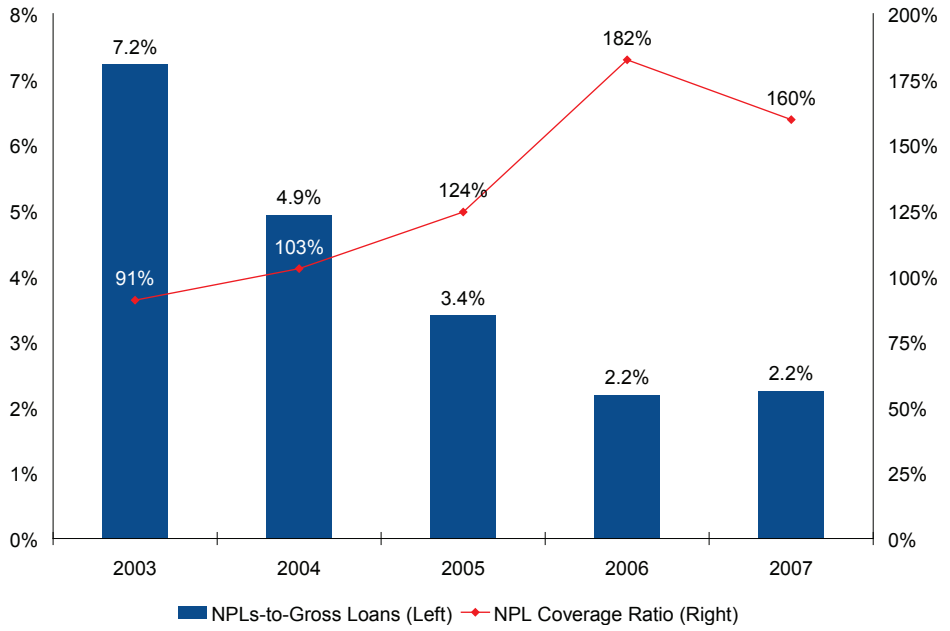
We expect RoAE to drop to 27% in 2008 and to remain over 22% in our forecast horizon.

Asset Quality

Samba's asset quality indicators steadily improved in the years before 2007, but slightly worsened during that year, partly due to the first-time consolidation of CCBL. The NPLs-to-gross loans ratio had decreased from 7.2% in 2003 to 2.2% in 2006, as the absolute level of NPLs dropped by 43% during that period. The NPL coverage ratio increased from 91% in 2003 to 182% in 2006 (Figure 27). The former high level of NPLs was related to the merger with United Saudi Bank in 1999. According to management, fully-provided legacy NPLs related to that merger still represent around 60% of total NPLs. Hence, the NPLs-to-gross loans ratio would have been around 1.3% at the end of 2007, had those legacy NPLs been excluded. We expect the NPLs-to-gross loans ratio to stay below 2.2% in our forecast horizon, while the NPL coverage ratio is forecasted to remain over the 100% mark.

Asset quality indicators have steadily improved in the past few years

Figure 27 Samba's Asset Quality Indicators



Sources: Samba's financial statements and NBK Capital

As of December 2007, 49% of the investment portfolio had an investment-grade credit quality, 3% was non-investment grade, and 13% was unrated. The remaining 35% were Saudi government bonds. According to management, the bank is already in full compliance with Basel II regulations, and therefore has met the January 2008 deadline imposed by SAMA. Samba, like all Saudi banks, has implemented the Standardized Approach for credit risk, market risk, and operational risk. Basel II implementation was a major reason behind the drop in the capital adequacy ratio from 16.5% in December 2007 to 12.5% in June 2008, mainly due to the additional operational risk and Pillar II risks capital charges. The strong lending growth (+20% in 1H2008) was another reason for the drop in capital adequacy. Going forward, we expect a drop in dividend payout to counter the fall in capital adequacy, which we expect will remain over 12% during our forecast horizon.

FINANCIAL STATEMENTS

Balance Sheet (SAR Thousands)			Forecast					
Fiscal Year Ends December	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
ASSETS								
Cash and balances with central banks	10,256,525	11,097,630	10,335,696	15,634,867	18,567,326	21,270,558	24,579,412	28,072,576
Due from Banks	5,144,826	2,312,434	4,848,329	5,580,495	6,217,325	6,878,855	7,627,415	8,473,312
Net Investments	37,700,991	53,602,917	66,854,680	70,778,808	74,985,011	79,497,083	90,029,609	102,003,246
Net Loans and Advances	67,027,647	80,553,307	106,584,593	130,283,347	153,612,556	180,073,907	210,042,220	243,934,411
Net Fixed Assets	713,385	832,987	900,317	1,061,360	1,244,949	1,454,240	1,692,832	1,964,827
Other Assets	3,171,439	6,014,699	6,078,124	6,248,606	6,382,117	6,553,377	6,777,353	7,043,326
Total Assets	**124,014,813**	**154,413,974**	**195,601,739**	**229,587,482**	**261,009,283**	**295,728,020**	**340,748,840**	**391,491,698**
LIABILITIES & EQUITY								
Due to Banks	5,785,310	11,424,999	35,150,387	26,507,353	20,206,307	17,197,138	17,161,684	16,946,624
Customer Deposits	94,855,852	115,811,279	129,361,887	165,970,191	197,811,682	230,888,182	268,316,177	310,611,017
Other Purchased Funds	4,275,160	2,038,958	1,883,672	1,883,672	1,883,672	-	-	-
Other Liabilities	3,798,873	7,163,175	9,093,794	9,614,808	10,101,032	10,660,253	11,282,106	11,970,240
Total Liabilities	**108,715,195**	**136,438,411**	**175,489,740**	**203,976,023**	**230,002,693**	**258,745,573**	**296,759,966**	**339,527,880**
Minority Interest	**-**	**130,615**	**382,440**	**379,501**	**384,015**	**390,787**	**400,944**	**416,180**
Total Shareholders' Equity	**15,299,618**	**17,844,948**	**19,729,559**	**25,231,958**	**30,622,575**	**36,591,660**	**43,587,930**	**51,547,638**
TOTAL LIABILITIES & EQUITY	**124,014,813**	**154,413,974**	**195,601,739**	**229,587,482**	**261,009,283**	**295,728,020**	**340,748,840**	**391,491,698**

Income Statement (SAR Thousands)			Forecast					
Fiscal Year Ends December	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Net Special Commission Income *	4,300,962	4,944,392	5,336,256	6,416,538	7,383,877	8,485,581	9,900,210	11,522,170
Income from Fees and Commissions	2,419,986	1,618,145	1,835,408	1,970,293	2,187,032	2,478,279	2,815,181	3,205,524
Other Operating Income	551,774	633,501	550,473	681,505	772,396	867,207	980,991	1,114,054
Total Operating Income	**7,272,722**	**7,196,038**	**7,722,137**	**9,068,337**	**10,343,305**	**11,831,068**	**13,696,381**	**15,841,748**
Provisions for Credit Losses	(263,676)	(311,503)	(209,930)	(383,877)	(377,891)	(428,626)	(485,433)	(548,992)
Salaries and Employee Related Expenses	(1,185,572)	(1,288,619)	(1,417,481)	(1,658,453)	(1,940,390)	(2,270,256)	(2,656,199)	(3,107,753)
General and Administrative Expenses	(502,321)	(554,520)	(609,972)	(713,667)	(834,991)	(976,939)	(1,143,019)	(1,337,332)
Depreciation	(110,783)	(122,686)	(136,869)	(153,424)	(174,903)	(199,389)	(227,304)	(259,126)
Other Provisions	-	(111,078)	(268,469)	(119,456)	-	-	-	-
Total Operating Expenses	**(2,062,352)**	**(2,388,406)**	**(2,642,721)**	**(3,028,876)**	**(3,328,174)**	**(3,875,211)**	**(4,511,955)**	**(5,253,204)**
Net Operating Profit	**5,210,370**	**4,807,632**	**5,079,417**	**6,039,460**	**7,015,131**	**7,955,857**	**9,184,427**	**10,588,544**
Other Income / (Expenses)	-	-	-	-	-	-	-	-
Minority Interest	-	20,638	5,878	2,939	(4,514)	(6,771)	(10,157)	(15,236)
Net Profit	**5,210,370**	**4,828,270**	**5,085,295**	**6,042,399**	**7,010,617**	**7,949,086**	**9,174,270**	**10,573,308**

Key Ratios			Forecast					
Fiscal Year Ends December	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Growth in Loans	7.4%	20.2%	32.3%	22.2%	17.9%	17.2%	16.6%	16.1%
Growth in Deposits	11.3%	22.1%	11.7%	28.3%	19.2%	16.7%	16.2%	15.8%
Growth in Net Profit	29.7%	-7.3%	5.3%	18.8%	16.0%	13.4%	15.4%	15.2%
Growth in Operating Income	24.8%	-1.1%	7.3%	17.4%	14.1%	14.4%	15.8%	15.7%
Loans-to-Assets	54.0%	52.2%	54.5%	56.7%	58.9%	60.9%	61.6%	62.3%
Loans-to-Deposits	70.7%	69.6%	82.4%	78.5%	77.7%	78.0%	78.3%	78.5%
NPLs-to-Gross Loans	2.2%	2.2%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%
NPL Coverage	182.4%	159.6%	139.2%	127.8%	120.0%	113.6%	108.3%	103.8%
Capital Adequacy	17.7%	16.5%	12.4%	13.3%	13.9%	14.4%	14.8%	15.2%
Growth in Costs	19.8%	9.3%	10.1%	16.7%	16.8%	16.8%	16.8%	16.8%
Non Interest Expense-to-Average Assets	1.8%	1.7%	1.5%	1.4%	1.4%	1.4%	1.4%	1.4%
Cost-to-Income	24.7%	27.3%	28.0%	27.9%	28.5%	29.1%	29.4%	29.7%
Non Interest Income-to-Operating Income	40.9%	31.3%	30.9%	29.2%	28.6%	28.3%	27.7%	27.3%
Dividend Payout	41.7%	36.1%	27.8%	26.8%	28.2%	27.4%	28.5%	25.7%
Net Interest Margin	4.0%	3.9%	3.3%	3.3%	3.3%	3.3%	3.4%	3.4%
RoAE	36.9%	29.1%	27.1%	26.9%	25.1%	23.7%	22.9%	22.2%
RoAA	4.5%	3.5%	2.9%	2.8%	2.9%	2.9%	2.9%	2.9%

** Equivalent to net interest income. Sources: Samba's financial statements and NBK Capital*

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Risk and Recommendation Guide

Recommendation	Upside (Downside) Potential
Buy	more than 20%
Accumulate	between 10% and 20%
Hold	between -5% and 10%
Reduce	between -10% and -5%
Sell	less than -10%

Risk Level				
1	2	3	4	5
Low Risk				High Risk

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