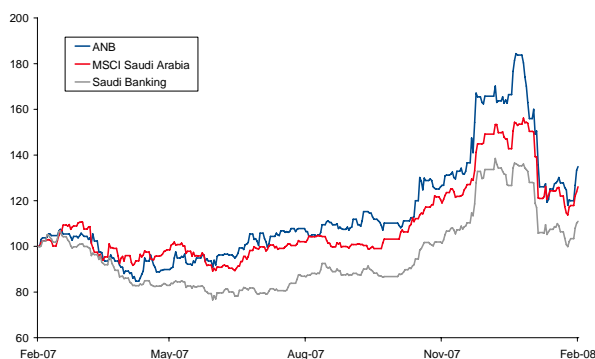


Key Data

Closing Price*	Avg. Value Traded per Day
SAR 100	SAR 9.7 million
52-Week High	Market Cap
SAR 136	SAR 45.5 billion
52-Week Low	Number of Shares Outstanding
SAR 62.5	455 million
Reuters	Bloomberg
1080.SE	ARNB AB
Ownership Structure	
Closely Held: 68%	Public: 32%

Sources: Reuters, Tadawul, and NBK Capital
*As of February 20, 2008

Rebased Performance



Sources: Reuters and NBK Capital

Key Ratios

	2008 f	2009 f	2010 f	2011 f	2012 f
P/B	3.4	2.9	2.5	2.2	1.9
P/E	16.6	14.5	11.7	10.3	9.1
EPS Growth	11.4%	14.8%	23.5%	13.5%	13.4%
RoAE	23.0%	21.9%	23.2%	22.7%	22.1%
RoAA	2.7%	2.8%	3.0%	3.0%	3.0%
Net Interest Margin	3.7%	3.7%	3.7%	3.7%	3.7%
Interest Spread *	3.0%	2.9%	2.9%	2.9%	2.9%
Dividend Payout	35.6%	41.3%	40.2%	35.4%	48.8%
2H2007 IBP a	2H2007 IBP f				
SAR 1,080.8 millions	SAR 1,236.9 millions				
1H2008 IBP f	2H2008 IBP f				
SAR 1522.5 millions	SAR 1383.5 millions				

Sources: Reuters and NBK Capital * Loans & Deposits Only
IBP=Income before Provisions a = actual, f = forecast

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Highlights

12-Month Fair Value: SAR 131.8

Recommendation: Buy – Risk Level: 2**

Reason for Report: Fourth-Quarter 2007 Update

- Our estimate of ANB's 12-month fair value per share stands at SAR 131.8, 32% above the share's official closing price as of February 20. Hence, we maintain our "Buy" recommendation. This estimate is 26% over our previous estimate of SAR 104.4. The main reason for this difference is the drop in interest rates leading to a drop in the cost of equity.
- ANB achieved a net profit of SAR 2.46 billion in 2007, 1.7% below the earnings of 2006. This performance is better than the bank's peers, which incurred a 15% drop in their combined net profit in the same period. ANB's total operating income still managed to increase by 3% during 2007, despite a 21% dip in income from fees and commissions.
- ANB's net profit in 2007 came in 4.4% below our forecast of SAR 2.57 billion, mainly due to a 13% drop in the bank's year-on-year fourth quarter net profit as the bank incurred impairment losses on its investment portfolio.
- ANB's loans and deposits grew by 23% and 19% respectively during 2007, to stand at SAR 61.1 billion and SAR 73.7 billion by December 2007. This is ahead of our forecasts of SAR 57 billion and SAR 68 billion, respectively, following faster than expected growth in the second half of 2007.
- The major change to our forecasts relates to quicker growth in ANB's loans and deposits than initially forecasted, in turn driven by a more rapid growth in the sector as a whole. The lower interest rate environment is one primary reason for that. We now forecast ANB's loans and deposits to grow by a CAGR of 16% and 15% as opposed to our earlier forecasts of 14.6% and 13% during the period 2006-2012. We now forecast operating income and net profit to grow by a CAGR of 13.3% and 12.2% during the same period as opposed to our earlier forecasts of 12.7% and 11.4%.

**Please refer to page 4 for recommendations and risk ratings

VALUATION

Our estimate of ANB's 12-month fair value per share stands at SAR 132, 32% above the share's official closing price as of February 20, 2008, hence we maintain our "Buy" recommendation. This estimate is 26% over our previous estimate of 104, reached upon initiating coverage on September 13, 2007. The main reason for this wide difference is the drop in interest rates leading to a drop in the cost of equity used from 10.5% to 9.5%.

Our 12-month fair value for ANB is SAR 132 per share

Figure 1 Weighted Average Fair Value per Share

Valuation Method	Value (SAR)	Weight (%)
Discounted Equity Cash Flow (DECF)	141.1	60%
Dividend Discount Model (DDM)	119.2	30%
Warranted Equity Valuation (WEV)	114.2	10%
Weighted Average Fair Value *	131.8	100%

Source: NBK Capital

* ANB's board of directors has recommended increasing the bank's capital by 43% through a 3 for 7 stock dividend. If the General Assembly approves this recommendation, the number of issued shares will increase to 650 million, and accordingly the fair value/share will drop to SAR 92.3

2007 PERFORMANCE

ANB achieved a SAR 2.46 billion net profit in 2007, a drop of 1.7% compared with 2006 and 4.4% below our forecast of SAR 2.57 billion. This difference was due to the results of the fourth quarter where ANB witnessed a 13.3% year-on-year drop in its earnings reaching SAR 486 million, as opposed to the 559.8 million achieved in the fourth quarter of 2006. One main reason behind this was impairment losses of around SAR 210 million on the bank's investment portfolio. We believe this is partly related to exposure to structured investment vehicles (SIVs) and collateralized debt obligations (CDOs). Management has indicated that the bank's exposure to these instruments is limited. Nevertheless, this performance is still much better than ANB's competitors in Saudi Arabia, which witnessed a 15% drop in their combined net profit in 2007. Only Riyadh Bank did better than ANB, as it grew its net profit by 3.5% in 2007.

Net interest income in 2007 reached SAR 2.9 billion, 2.5% below our forecast of SAR 2.98 billion, driven especially by quicker than forecasted deposit growth and despite the quicker than forecasted growth in the loan book. Fees reached SAR 776 million, 2% over our SAR 760 forecast and 21% below their level in 2006, on the back of a dip in brokerage commissions due to a 51% drop in total value traded on Tadawul. As previously mentioned, investment income was hit in the fourth quarter. Investment losses excluded, ANB would have logged SAR 2.67 billion in net profit. Costs reached SAR 1.43 billion, 12.6% over their level in 2006 but 4.8% below our forecast of SAR 1.5 billion on the back of lower general and administrative expenses. One reason for this was fewer new branch openings than we had expected.

Figure 2 Second-Half Performance – Income Statement

Income Statement	2007 Change %	Q3 2007 '000 SAR	Q4 2007 '000 SAR	Q3 Y-on-Y Change %	Q4 Y-on-Y Change %
Net Interest Income	15.0%	732,464	755,320	14.7%	9.5%
Income from Fees and Commissions	-21.3%	184,631	164,053	-13.1%	2.0%
Investment Income	-69.7%	5,015	(120,575)	-20.1%	n/m
Total Operating Income	3.2%	972,818	850,216	4.6%	-2.9%
Provisions for Credit Losses	-38.6%	(4,001)	16,615	-63.8%	n/m
Salaries & Employee Related Expenses	9.4%	(208,061)	(231,606)	6.7%	7.2%
General & Administrative Expenses	12.6%	(121,070)	(116,352)	9.3%	-7.4%
Net Profit	-1.7%	607,880	485,560	2.8%	-13.3%

Operating income and net profit dropped in the fourth quarter after growing in the previous quarter

Sources: ANB's financial statements and NBK Capital

In terms of balance sheet growth, ANB outperformed our forecasts as deposits reached SAR 73.7 billion at the end of 2007 compared with our SAR 67.8 billion forecast, while loans reached SAR 61.1 billion compared to our SAR 56.8 billion forecast. Deposit and loan growth picked up significantly in the second half of 2007, reaching 14.7% and 15.7% respectively as opposed to a mere 4% and 6% in the first half of 2007. As expected, consumer lending remained subdued with almost no growth in 2007. On the other hand, growth in the corporate lending book accounted for nearly all the growth, rising by 35% during the year. On the funding side, ANB's focus on promoting non-interest bearing deposits (NIBs) is paying off as those increased by 35%, significantly outgrowing interest-bearing deposits which increased by 12%. Going forward, it will be easier to promote the growth of NIBs in the current lower interest rate environment.

Figure 3 Growth in the Balance Sheet

Balance Sheet (SAR Thousands)	Jun-07	Second Half Change %	Dec-07	2007 Change %
Cash and balances with SAMA	5,081,759	61.9%	8,228,376	155.9%
Due from Banks	3,129,346	-58.7%	1,293,967	-72.1%
Net Investments	19,263,847	11.0%	21,380,660	15.9%
Net Loans and Advances	52,826,791	15.7%	61,121,911	22.9%
Net Fixed Assets	691,179	11.9%	773,664	32.0%
Total Assets	82,511,264	14.5%	94,467,561	21.1%
Due to Banks	3,705,455	20.0%	4,447,174	43.5%
Deposits	64,235,181	14.7%	73,692,139	19.3%
Shareholders' Equity	9,248,124	13.8%	10,524,597	31.9%

Growth in loans and deposits picked up in the second half after registering slow growth in the first half

Sources: ANB's financial statements and NBK Capital

OUTLOOK AND FORECASTS

The major change we made to our forecasts relates to quicker growth in the loan book of ANB, primarily driven by quicker growth in the sector as a whole. The lower interest rate environment is the primary reason for that. We forecast ANB's loan book to grow by a CAGR of 16.1% between 2006 and 2012 compared with our original forecast of 14.6%. We also increase our forecast for ANB's deposit growth to help fund its growing loan book, especially with the current situation in the global credit markets and hence the difficulty in raising wholesale funding at favorable terms.

Figure 4 Forecasts – Old and New

We increase our forecast for loan, deposit, operating income, and net profit growth

	2008 Forecasts ('000 SAR)			2006 - 2012 CAGR %	
	Old	New	Change %	Old	New
Net Loans and Advances	66,709,878	72,785,974	9.1%	14.6%	16.1%
Deposits	78,832,986	87,458,691	10.9%	13.0%	15.1%
Net Interest Income	3,398,424	3,416,489	0.5%	13.3%	13.8%
Income from Fees and Commissions	939,138	953,313	1.5%	9.3%	9.9%
Total Operating Income	4,776,833	4,551,499	-4.7%	12.7%	13.3%
Total Operating Expenses	(1,942,331)	(1,810,642)	-6.8%	14.9%	14.8%
Net Profit	2,854,474	2,740,856	-4.0%	11.4%	12.2%

Source: NBK Capital

We believe the drop in interest rates will have a positive impact on spreads in the short term, as rates on loans are stickier than on deposits in a falling interest rate environment. This is especially the case in the current environment, where SAMA as well as other GCC central banks are being forced to cut their deposit rates but at the same time trying not to cut their lending rates to prevent further inflationary pressures. In this regard, SAMA has also increased the reserve requirement (pertaining to demand deposits) twice recently from 7% to 9% and up to 10% to lessen the growth in credit. Nevertheless, the slightly widening spreads in the short term are not to be confused with slightly deteriorating net interest margin due to the availability of a significant amount of NIB deposits in the overall funding base. We did not implement any major change in our forecasts for fees and operating expenses resulting in a 2006-2012 CAGR of 13.3% and 12.2% for operating income and net profit respectively, compared with the original forecasts of 12.7% and 11.4%. To cement the already strong capital base of the bank in anticipation of future growth, ANB's board of directors did not propose any cash dividends for 2007, but proposed a 3 for 7 stock dividend.

Recommendation	Upside (Downside) Potential	Risk Level*				
		1	2	3	4	5
Buy	more than 20%					
Accumulate	between 10% and 20%					
Hold	between -5% and 10%					
Reduce	between -10% and -5%					
Sell	less than -10%					

* 1 being least risky

FINANCIAL STATEMENTS

Balance Sheet (SAR Thousands)		Historical					Forecast			
Fiscal Year Ends December	2005	2006	2007	2008	2009	2010	2011	2012	2013	
ASSETS										
Cash and balances with SAMA	2,495,186	3,216,007	8,228,376	9,276,626	9,122,521	11,590,571	14,203,286	17,232,605	19,783,025	
Due from Banks	3,933,675	4,633,337	1,293,967	2,147,878	2,726,384	3,609,707	4,580,862	5,647,502	6,817,901	
Net Investments	20,581,515	18,446,685	21,380,660	22,068,217	24,101,794	26,378,823	29,051,938	32,205,876	35,946,871	
Net Loans and Advances	38,778,556	49,747,224	61,121,911	72,785,974	81,147,428	93,395,061	106,820,509	121,521,020	137,601,269	
Net Fixed Assets	418,108	586,251	773,664	858,096	916,461	981,271	1,053,340	1,133,594	1,223,084	
Other Assets	1,285,039	1,405,879	1,668,983	1,736,364	1,903,968	2,133,833	2,404,327	2,704,147	3,032,560	
TOTAL ASSETS	67,492,079	78,035,383	94,467,561	108,873,155	119,918,557	138,089,267	158,114,262	180,444,744	204,404,710	

LIABILITIES & EQUITY									
Due to Banks	8,376,934	3,098,603	4,447,174	3,436,606	2,862,703	3,790,193	4,809,905	5,929,877	7,158,796
Customer Deposits	48,832,464	61,773,494	73,692,139	87,458,691	96,611,877	110,820,934	126,468,193	143,679,943	162,592,738
Other Purchased Funds	1,312,500	3,187,500	3,187,500	1,875,000	1,875,000	1,875,000	1,875,000	1,875,000	1,875,000
Other Liabilities	2,633,502	1,995,648	2,616,151	2,837,406	3,132,521	3,581,721	4,090,109	4,649,355	5,263,901
Total Liabilities	61,155,400	70,055,245	83,942,964	95,607,702	104,482,101	120,067,848	137,243,207	156,134,175	176,890,435
Total Shareholders' Equity	6,336,679	7,980,138	10,524,597	13,265,453	15,436,455	18,021,419	20,871,055	24,310,570	27,514,275
TOTAL LIABILITIES AND EQUITY	67,492,079	78,035,383	94,467,561	108,873,155	119,918,557	138,089,267	158,114,262	180,444,744	204,404,710

Income Statement (SAR Thousands)		Historical					Forecast			
Fiscal Year Ends December	2005	2006	2007	2008	2009	2010	2011	2012	2013	
Special Commission Income	3,445,180	4,659,311	5,416,757	5,151,639	5,699,620	6,400,676	7,287,679	8,282,195	9,372,946	
Special Commission Expense	(1,256,051)	(2,134,354)	(2,512,838)	(1,735,150)	(1,908,166)	(2,135,138)	(2,449,053)	(2,794,485)	(3,174,191)	
Net Special Commission Income	2,189,129	2,524,957	2,903,919	3,416,489	3,791,454	4,265,538	4,838,626	5,487,710	6,198,755	
Income from Fees and Commissions	693,915	986,501	776,361	953,313	1,143,482	1,365,370	1,540,993	1,733,967	1,945,885	
Other Operating Income	229,376	290,823	245,498	181,696	241,747	627,007	713,373	812,870	930,177	
Total Operating Income	3,112,420	3,802,281	3,925,778	4,551,499	5,176,683	6,257,915	7,092,992	8,034,548	9,074,817	
Provisions for Credit Losses	(220,539)	(60,354)	(37,072)	(165,136)	(135,440)	(223,482)	(244,974)	(268,240)	(293,416)	
Salaries and Employee Related Expenses	(657,689)	(770,468)	(843,076)	(969,537)	(1,114,968)	(1,248,764)	(1,398,616)	(1,566,450)	(1,754,424)	
General and Administrative Expenses	(313,485)	(413,086)	(465,034)	(538,487)	(623,543)	(722,033)	(836,080)	(968,141)	(1,121,062)	
Depreciation	(75,544)	(84,107)	(119,813)	(137,482)	(156,729)	(178,672)	(203,686)	(232,202)	(264,710)	
Other Operating Expenses	(18,750)	-	-	-	-	-	-	-	-	
Total Operating Expenses	(1,286,007)	(1,328,015)	(1,464,995)	(1,810,642)	(2,030,681)	(2,372,951)	(2,683,356)	(3,035,033)	(3,433,612)	
Net Operating Profit	1,826,413	2,474,266	2,460,783	2,740,856	3,146,002	3,884,963	4,409,636	4,999,515	5,641,205	
Other Income / (Expenses)	1,219	30,459	419	-	-	-	-	-	-	
Income Taxes	-	-	-	-	-	-	-	-	-	
Net Profit	1,827,632	2,504,725	2,461,202	2,740,856	3,146,002	3,884,963	4,409,636	4,999,515	5,641,205	

Key Ratios		Historical					Forecast			
Fiscal Year Ends December	2005	2006	2007	2008	2009	2010	2011	2012	2013	
Growth in Loans	35.8%	28.3%	22.9%	19.1%	11.5%	15.1%	14.4%	13.8%	13.2%	
Growth in Deposits	5.4%	26.5%	19.3%	18.7%	10.5%	14.7%	14.1%	13.6%	13.2%	
Growth in Net Profit	56.6%	37.0%	-1.7%	11.4%	14.8%	23.5%	13.5%	13.4%	12.8%	
Growth in Operating Income	28.4%	22.2%	3.2%	15.9%	13.7%	20.9%	13.3%	13.3%	12.9%	
Loans-to-Assets	57.5%	63.7%	64.7%	66.9%	67.7%	67.6%	67.6%	67.3%	67.3%	
Loans-to-Deposits	79.4%	80.5%	82.9%	83.2%	84.0%	84.3%	84.5%	84.6%	84.6%	
NPLs-to-Gross Loans	2.1%	0.7%	0.5%	0.6%	0.6%	0.7%	0.7%	0.8%	0.8%	
NPL Coverage	200.6%	320.5%	354.0%	310.8%	282.9%	262.9%	245.5%	230.2%	216.7%	
Capital Adequacy	15.8%	17.1%	17.8%	16.6%	17.0%	16.9%	16.8%	16.9%	16.7%	
Growth in Non Interest Expense	2.3%	3.3%	10.3%	23.6%	12.2%	16.9%	13.1%	13.1%	13.1%	
Non Interest Expense-to-Average Assets	2.0%	1.8%	1.7%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	
Cost-to-Income	33.6%	33.3%	36.4%	36.2%	36.6%	34.3%	34.4%	34.4%	34.6%	
Non Interest Income-to-Operating Income	29.7%	33.6%	26.0%	24.9%	26.8%	31.8%	31.8%	31.7%	31.7%	
Dividend Payout	30.0%	15.5%	0.0%	35.6%	41.3%	40.2%	35.4%	48.8%	43.2%	
Net Interest Margin	3.6%	3.8%	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%	3.6%	
Net Interest Spread (Loans & Deposits Only)	4.6%	4.5%	2.8%	3.0%	2.9%	2.9%	2.9%	2.9%	2.9%	
RoAE	32.3%	35.0%	26.6%	23.0%	21.9%	23.2%	22.7%	22.1%	21.8%	
RoAA	2.8%	3.4%	2.9%	2.7%	2.8%	3.0%	3.0%	3.0%	2.9%	



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