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Riyad Bank (1010.SE)**October 08, 2008**

- Riyadh Bank (Riyad) reported a net profit of SAR 2.1 billion in 9M2008, 4.9% below the same period last year. Net profit in 3Q2008 stood at SAR 513 million, reflecting a significant 28% year-on-year drop and a 43% quarter-on-quarter drop.
- According to the bank's press release, the bank's trading portfolio witnessed a 10.7% drop in the first nine months of this year, due to the adverse conditions in global financial markets, to stand at SAR 3.73 billion by the end of September. With the absence of full financial statements, our preliminary calculations reveal that the amount of loss, due to mark to market accounting, could be in the vicinity of SAR 447 million in the first nine months of this year. This could be the primary reason for the sizable drop in the bank's net profit in 3Q2008.
- On a more positive note, the core business of the bank continues to do well. Riyadh's net interest income in 9M2008 grew by 22% compared with 9M2007. This reflects a healthy 20% growth (year-on-year) in 3Q2008. Income from fees and commissions in 9M2008 also grew by 22% compared with 9M2007. This reflects a robust 24% growth (year-on-year) in 3Q2008. Moreover, Riyadh continued to do a good job in controlling its operating expenses, which grew by only 3.4% in 9M2008.
- Lending continued to grow very quickly as the bank deploys the funds collected from the massive SAR 13.1 billion rights issue that was completed in 2Q2008. Loans reached SAR 90 billion by the end of September, growing by a significant 9% in 3Q2008 and 34% YTD. On the other hand, deposit growth was muted for the second quarter in a row, with deposits actually dropping by a slight 1% in 3Q2008.
- Riyadh has announced that the crisis in the mortgage market has no material effect on its financial condition. However, the trading losses are due to the conditions in the global financial markets. With the conclusion of the third quarter, it seems very likely that Riyadh will miss our net profit forecast for the whole year, which stands at SAR 3.5 billion. Nevertheless, we reiterate that the bank's core business seems to be growing at healthy rates.
- For now, we reiterate our "Buy" recommendation on the stock with a long term fair value of SAR 49.5 per share. Nevertheless, once full financial statements are available, we will issue an update report on Riyadh taking into account the recent major developments, especially the performance of the bank's trading portfolio as well as the healthy growth in the bank's core banking business.

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Related Research

- Riyadh Bank Initiation of Coverage - 12 June 2008