

Saudi Hollandi Bank 2009 Annual Report

Business Review

Economic and Business Environment

The Saudi economy felt the impact of the global recession throughout 2009. This was particularly evident during the first half of the year whilst towards the end of the year there were clear signs of sustainable recovery.

Financial market sentiment for much of the year was dominated by concern as to the creditworthiness of elements of the Saudi corporate sector, a significant increase in loan-loss provisioning by the banks and a sharp contraction in new credit.

Inflation, which had reached 12% in 2008, declined markedly in 2009 as external factors which had caused prior year inflation went into reverse. However, given the rise in commodity prices and continuing US Dollar weakness, analysts do not, for the time being, expect inflation in the Kingdom to fall much lower than its current level of around 4.5%.

The Saudi Government's fiscal stimulus package launched in response to the global economic crisis was the largest relative to GDP among the G20 countries, and viewed by the IMF as "appropriately focused on capital spending" and a contribution to both "diversified domestic growth and the global recovery." As anticipated, the Kingdom experienced its first budget deficit since 2002, albeit at a lower level (of 45 million Saudi riyal) than originally anticipated. The deficit was due to a fall in oil revenues combined with an expansionary fiscal stance.

The challenging economic environment impacted the financial performance of the Kingdom's listed companies. Earnings per share for the first half of the year were 24.3 per cent lower than for the same period in 2008. The Government's fiscal stimulus package and increased spending - particularly on infrastructure projects - provided a boost to local contractors, who might otherwise have suffered in the downturn. This in turn trickled through to other parts of the Saudi economy. At the end of 2009, the Saudi economy appeared to have entered a period of consolidation, with business confidence increasing. Another recent report from the IMF concludes that the Kingdom's economy remains robust and its banks appear to have weathered the global financial and economic crisis.

After a slow start, the Saudi Stock Market, Tadawul, made gains in 2009 though these were trimmed towards the end of the year by a loss in investor confidence brought on by concerns over the situation in Dubai. The index rose 27% over the year.

SHB Business Overview

Following 2008's record profitability, SHB faced a more challenging year in 2009, due to the headwinds in the local economy resulting from the global economic crisis and, in common with its competitors, significant corporate provisioning. Corporate lending growth slowed as credit quality came under particular scrutiny.

Despite the challenging market conditions, SHB Treasury had another strong year, again exceeding USD 100 million in operating revenues.

During 2009, the Bank's management continued to focus attention on reducing operating costs and efficiency gains. The size of the bank's workforce was reduced from 1721 to 1579 permanent staff during 2009, a reduction of 142, or 8.3%, whilst increasing the Saudisation ratio from 87% to 87.5%.

2009 was the first full year of operations for Saudi Hollandi Capital (SHC) and, despite less than favourable local and regional markets, SHC was able to execute some important transactions. Encouraging signs were seen in all parts of SHC's business which augur well for the future.

**This is an excerpt from the Business Review.
The full text is available on Saudi Hollandi Bank's website www.shb.com.sa**