

## Union National Bank (UNB.AD)

Country: United Arab Emirates

Exchange: Abu Dhabi Securities Market

Sector: Commercial Banking

Local Ticker: UNB

Reuters Code: UNB.AD

Investment Opinion: NEUTRAL

Last traded Price: AED 8.03 (as on October 16, 2007)

Fair Value: AED 8.67

Products & Services: Corporate, retail, commercial, financial institutions, treasury, private banking, capital markets and real estate services.

- Union National Bank (UNB), owned jointly by the governments of Abu Dhabi and Dubai, is the seventh largest bank in the UAE and third largest in Abu Dhabi.
- The UAE's massive investment in the non-oil sector, such as large infrastructure and petrochemical projects, is providing abundant growth opportunities for banks.
- In spite of a solid growth in net interest income and an 82.2% fall in provisioning charges, UNB's net profit declined 14.2% in 1H 2007, impacted by a severe drop in non-interest income.
- The bank declared a 35% cash dividend amounting to AED 546.88 million.
- Competition resulting from liberalization and the entry of new players are threatening UNB's market position. The bank's price war to counter this phenomenon may further dent its margins.
- We revise our 12-month price target to AED 8.67 from AED 11.96. We also revise our earlier investment opinion to NEUTRAL from OVERWEIGHT on the stock

Current Market Price (AED)			8.03
YTD Stock Performance %			14.4%
Outstanding Shares (In million)			1,562.50
Market Cap (AED Million)			12,546.88
Annualized Adj. EPS, 1H 2007 (AED)	0.69	P/E	11.66
BVPS (1H 2007) (AED)	3.79	P/B	2.12
Dividend (AED)	0.35	Dividend Yield (%)	4.4
52-week High (AED)	8.80	52-week Low (AED)	5.75

Source: Abu Dhabi Securities Market, Zawya.com

### Share Price Movement UNB vs. ADSM Index



## Background

*UNB – the seventh largest bank in the UAE.*

Union National Bank (UNB), the seventh largest bank in the UAE and third largest in Abu Dhabi, was established in November 1982 as a Public Joint Stock Company. One of the fastest growing domestic banks in the UAE, it has the unique distinction of being the only company in the country owned by two governments – that of Abu Dhabi and of Dubai. Headquartered in Abu Dhabi and listed on the Abu Dhabi Securities Market, UNB has a wide array of offerings for both corporate and retail clients, which include lending, deposits, treasury services, investment services, e-banking, and investment banking services. These services are provided through an extensive network of 47 branches and over 100 ATMs throughout the UAE.

The bank has three subsidiaries: Union Brokerage Company (UBC), Al Wifaq Finance Company, and Alexandria Commercial and Maritime Bank (ACMB). UBC is one of the oldest brokerage firms in the UAE to provide investment services, while Al Wifaq offers Sharia compliant financial, commercial and investing services. UNB acquired a 94.8% stake in ACMB in the third quarter of 2006. The acquisition gives UNB an edge in commercial banking operations with nine branches in Egypt.

In 2005, the share capital of UNB increased to AED 1.25 billion from AED 904 million in two phases. Initially, through a bonus issue of AED 95.6 million and then by an AED 250 million rights issue offered at a premium of AED 7 per share. On March 5, 2005, the bank's share of AED 10 was split into 10 shares of AED 1 each. Thereafter, in the first quarter of 2006, UNB once again increased its share capital through another 25% bonus issue. The bank's share capital currently stands at AED 1.56 billion.

*A number of accolades.*

In August 2007, UNB was ranked as the fastest moving bank in the region based on its Tier 1 capital, by Banker's Magazine. In May 2007, AMRB's survey, a leading independent market research company, rated UNB as one of the leading banks for "fulfilling customer commitments" and "transparency". The bank also received a high overall satisfaction rating of 88% according to the survey. In September 2006, UNB was ranked as the 'Number One Bank in the UAE' by Forbes Arabia magazine in terms of performance. In addition, it won the prestigious Dubai Quality Award in March 2006, the Sheikh Khalifa Excellence Award Gold award in 2005 and the SKEA in 2002. In the same year, UNB became the first bank of its size in the region to be certified ISO 9001:2000 for all its operations and branches in the UAE. It was re-certified in 2005.

In May 2007, the bank acted as one of the main sponsors of 'Tawdheef 2007', through which it has undertaken to nationalize its manpower. During 2006, it successfully recruited national graduates exceeding 6.5% of its total work force and made them productive through rigorous training programs. UNB is keen on doubling this figure by year end.

*Innovative, customer-friendly products.*

In order to meet the unique need of individual customers, UNB has launched several new innovative products and services. A notable offering includes the first-of-its-kind Hadiya Gift Card, a prepaid card designed to be given as gift; an Easy Pay Car Loan and a short tenor 'Triple Guarantee Deposit' product among others.

Fitch Ratings (Fitch) has assigned UNB a long-term issuer default rating of 'A+' and a short-term rating of 'F1', with an individual rating of 'C' and a support rating of '1'. Similarly, Capital Intelligence (CI) has given the bank a long-term foreign currency rating of 'A+', a short-term foreign currency rating of 'A1', a financial strength rating of 'A+', and a support rating of '1'. Further, Moody's Investors Service has assigned UNB a long-term foreign currency rating of 'A1', a short-term foreign currency rating of 'Prime-1', and a financial strength rating of 'D+'. All the rating agencies maintain a 'Stable' outlook.

UNB has market share in terms of total assets, which stand at 4.8%; deposits (excluding inter-bank deposits) at 5.8%; and net loans and advances (excluding loans to banks, provisions, and interest in suspense) at 5.5%. It is also seeking to expand its banking operations into the GCC, Asian and Arab markets, apart from launching a representative office in booming China.

*Unimpressive performance in 1H 2007.*

For the half-year ended June 2007, UNB posted a net profit of AED 538.06 million compared to AED 627.34 million for the same period last year; a decrease of AED 89.28 million (14.2%). Consequently, earnings per share (EPS) decreased to AED 0.34 as against AED 0.40.

**Chaired by  
H. H. Sh. Nahayan Mabarak  
Al Nahayan.**

### Board of Directors

UNB's board of directors consists of nine members. The Chairman of the company is H.H. Sh. Nahayan Mabarak Al Nahayan, and Mr. Mohammad Nasr Abdeen is the Chief Executive Officer. The rest of the board members are as follows:

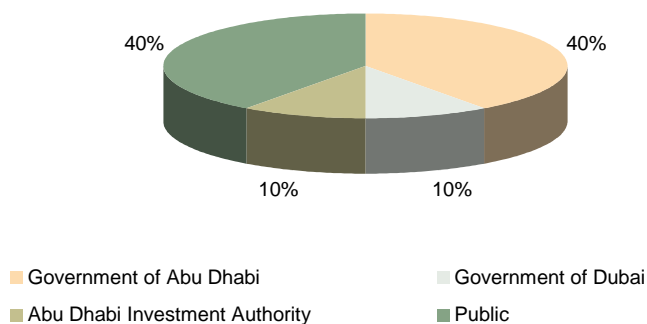
Name	Designation
H.E. Ahmed Saeed Al Badi	Member
H.E. Mohammad Ahmed Al Bowardi	Member
H.E. Rashid Darwish Al Ketbi	Member
H.E. Sami Dhaen Al Qamzi	Member
H.E. Mohammed Bin Rashid Bin Ahmed Al Nassari	Member
H.E. Ahmed Yousuf Abdullah Al Sayegh	Member
H.E. Buti Saeed Al Ghandi	Member

### Major Shareholders and Affiliates

**Dual ownership.**

The Governments of Abu Dhabi and Dubai respectively hold 40% and 10% of UNB's outstanding shares. The Abu Dhabi Investment Council, a UAE Govt. arm, owns another 10% while the remaining 40% is controlled by the general public. Foreign ownership is restricted to a 40% of the share capital and is open to both GCC as well as foreign investors

**Shareholding Pattern**



UNB in turn, has invested in several subsidiaries. Some of them are as follows:

SUBSIDIARIES	COUNTRY	% SHARE
Union Brokerage Company	UAE	99.00%
Alexandria Commercial and Maritime Bank	Egypt	94.90%
Al Wifaq Finance company	UAE	79.60%

**A host of banks crowd the sector.**

## The Industry Scenario

Among the GCC countries, the UAE has the second highest number of banks after Bahrain. These primarily comprise national (local) banks and foreign banks, with the latter being restricted from operating more than eight branches. Currently, 46 banks operate in the country, including branches and offices of foreign banks. The 21 national banks are listed on either the Abu Dhabi Securities Market (ADSM) or the Dubai Financial Market (DFM). On July 31, 2006, the Central Bank of UAE granted Saudi American Bank (SAMBA) and Qatar's Doha Bank licenses to open a commercial banking branch each. With these two branches, national banks from all the GCC countries will be represented in the UAE.

In the last few years, the banking sector in the UAE has witnessed robust growth with some banks posting more than 100% increase in profits. A buoyant economy coupled with an inherently strong banking sector was largely responsible for this augmentation in balance sheets. In 2006, the total assets of the UAE's banking industry grew by 34.7% to AED 859.57 billion from AED 638.01 billion in 2005. Total deposits and bank credit also showed the same trend with a growth rate of 26.6% and 38.7%, respectively.

**Galloping competition.**

During 2006, the UAE's nominal GDP grew by 23.4% to reach AED 599.23 billion, while in real terms the economy is projected to achieve 9.7% growth rate in 2007. A large part of the liquidity is finding its way into infrastructure projects - the UAE accounts for the bulk of ongoing and planned infrastructure projects in the GCC countries, amounting to an estimated USD 1.3 trillion of investments over the 2007- 2012 period. Abu Dhabi alone has confirmed projects underway amounting to AED 1 trillion. The consequent rising demand for loans is tempting UAE banks to tap foreign markets for funds, which in turn will further increase the competition in the UAE banking sector. However, a mounting mismatch in their asset-liabilities structure is forcing banks to come up with innovative instruments in the domestic market itself. Foreign liabilities of UAE banks grew by 108.52% to AED 177.69 billion in 2006 from AED 85.22 billion in the previous year.

### Snapshot of the UAE Banking Industry

(AED millions)	31 Dec 06	31 Dec '05	% Chg
Total Assets	859,574	638,012	34.7
Deposits *	518,806	409,669	26.6
Bank Credit ( Net) **	502,963	362,631	38.7
Foreign Assets	231,938	175,028	32.5
Foreign Liabilities	177,688	85,215	108.5

\* Excluding Inter-Bank Deposits \*\* Excluding Loans to Banks, Provisions and Interest in Suspense

**Merger of EBI, NBD to create a giant.**

In March 2007, Emirates Bank International (EBI) and National Bank of Dubai (NBD) agreed to merge to create the largest financial institution in the emirates with total assets exceeding AED 165 billion. The new entity would overtake the National Bank of Abu Dhabi as the largest lender in the country and will participate in developing the country's economy. Further, with the UAE in negotiations with the USA and the EU, many new foreign banks are expected to enter the market. The merger will prepare the country's banking sector to brace up to the competition by creating a huge financial services institution.

**Costs to hit UAE banks.**

In March 2007, the UAE Central Bank, the country's banking industry regulator, approved a regulation allowing banks to establish real estate subsidiaries to finance and manage real estate projects exclusively. Housing finance companies that are jointly owned by banks can now conduct purchase, sale, development, financing, and management of real-estate projects, provided that general shareholders own at least 60% of the company. The Central Bank also announced plans to implement Basel II norms, whereby banks are expected to be compliant with the Standardized Approach for Credit Risk by December 31, 2007, and adopt Internal Ratings Based Approach for Credit Risk by 2011. However, the implementation of Basel II, inflation, and the expansion of branch network are likely to impact cost-income ratios. This in turn will hit the financial performance of the UAE's banks.

**The Central Bank lowers interest rates.**

On September 19, 2007, the Central bank lowered interest rates on Certificates of Deposit, after the US Federal Reserve lowered its benchmark interest rate to 4.75% from 5.25%. This interest rate cut is expected to increase credit growth and money supply in the GCC. As a result, mortgages in the UAE are set to become cheaper. However, car loans, fixed rate personal loans, and credit card interest rates are unlikely to change.

**Peer Analysis**

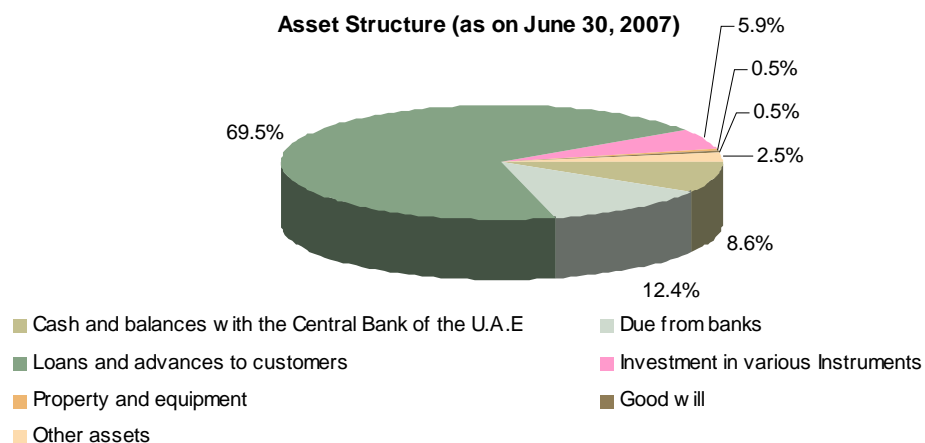
In AED '000	NBAD	EBI	NBD	MASQ	UNB
Total Assets	100,965,986	95,878,141	69,276,170	56,745,115	41,539,054
Total Equity	9,005,264	8,876,481	6,043,635	7,377,568	5,927,072
Total liabilities	91,960,722	87,000,094	63,232,535	48,796,152	35,509,714
Deposit	70,737,899	40,887,052	45,408,116	33,908,235	30,046,079
Loans & Advances	57,485,714	59,278,208	43,218,217	28,572,233	27,493,904
Net profit	2,105,885	1,888,092	1,106,347	1,570,640	1,007,782
Loan market share	11.4%	11.8%	8.6%	5.7%	5.5%
Deposit market share	13.6%	7.9%	8.8%	6.5%	5.8%
CD ratio	85.1%	147.0%	95.9%	87.0%	93.3%
ROA	2.1%	2.0%	1.6%	2.8%	2.4%
ROE	23.4%	21.3%	18.3%	21.3%	17.0%

**Asset Structure**

For the half-year ended June 30, 2007, UNB's total assets grew a healthy 33.9% to AED 45.27 billion from AED 33.82 billion in the corresponding year period. The improvement in total assets was driven mainly by the bank's loans & advances, which dominated the asset structure. For the half-year, loans & advances to customers surged 41.5% to AED 31.47 billion from AED 22.25 billion in 1H 2006, while its contribution to total assets also improved to 69.5% from 65.8%. Cash & balance with the Central Bank grew 24.9% to AED 3.90 billion and due from banks rose 7.2% to reach AED 5.63 billion. During the first half, property & equipment climbed 52.9% to AED 239.27 million, and trading investment grew 30.7% to reach AED 135.59 million. In August 2006, the bank acquired a controlling stake (94.8%) in ACMB as a result of which goodwill amounted to AED 225.92 million.

**Total assets grew 33.9%.**

UNB divides its operations into two segments: commercial banking and treasury & investments. Assets allocated to the commercial banking segment comprise a higher portion of total assets at 61.0%, as against 39.0% apportioned for treasury & investments.



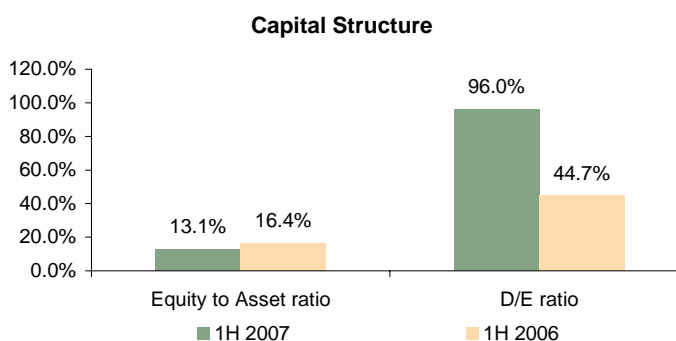
As at the end of 2006, UNB's total asset-base improved significantly by 18.9% year-on-year to AED 41.54 billion, from AED 34.93 billion. This is mainly on account of a surge in net loans & advances (32.8%), property & equipment (72.3%) and financial assets held for trading (55.4%).

**Shareholders' equity grows to AED 5.93 billion.**

## Capital Structure

During 1H 2007, UNB's total shareholders' equity registered a growth of 6.9% to AED 5.93 billion from AED 5.55 billion, mainly due to a 21.7% surge in retained earnings. For the period, customer deposits, which provide the main source of funds for UNB's lending activities, grew 31.6% to AED 31.05 billion. Simultaneously, customer deposits, bank borrowings and medium term borrowings accounted for 79.2%, 2.8% and 14.5% of total liabilities. Medium term borrowings of the bank consist of a syndicated loan and Euro medium term note.

Despite growth in shareholders' equity, its ratio to assets decreased to 13.1% from 16.4%, while debt to equity ratio increased to 96.0% from 44.7% in 1H 2006. This indicates that the bank is increasing its medium term borrowings for the purpose of financing. With the demand for project finance in the emirate of Abu Dhabi on the rise, the bank recently increased its Euro Medium Term Program ceiling to USD 3 billion from USD 1.5 billion



**Adequate capital to accomplish Basel II.**

For the year 2006, the bank's capital adequacy ratio (CAR) decreased to 18.2% from 24.3% in 2005. However, UNB maintains a satisfactory CAR, which is well above the minimum requirement of 10% mandated by the UAE Central Bank and 8% by the Basel II norms. Therefore, it is in a comfortable position and can withstand with any impairment to loans and investments, while meeting Basel II challenges.

## Recent Performance

**Lackluster performance.**

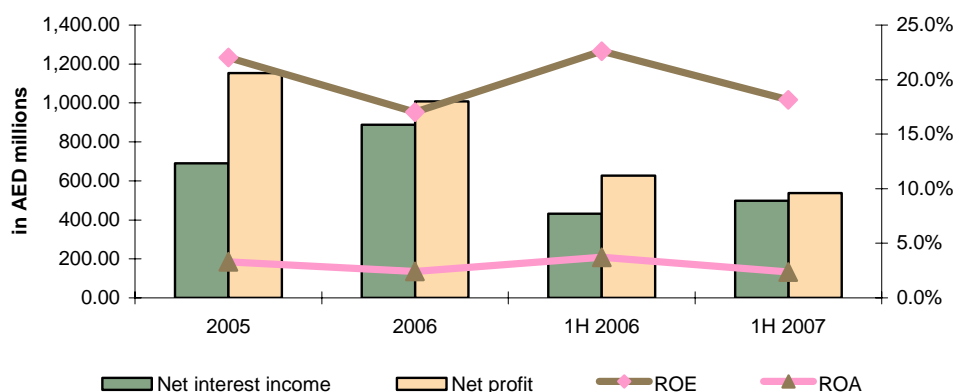
For the first half ended June 30, 2007, UNB recorded a lackluster performance. The bank's net profit attributable to shareholders dropped to AED 538.06 million, mainly due to a decrease in net fees and commission income. Accordingly, annualized earnings per share declined to AED 0.69 from AED 0.80. Meanwhile, both annualized return on equity (ROE) and annualized return on assets (ROA) decreased to 18.2% and 2.4% from 22.6% and 3.7%, respectively, from the corresponding year ago period. In its Annual General Meeting held on March 6, 2007, the bank approved a 35% cash dividend amounting to AED 546.88 million.

For 1H 2007, operating income receded to AED 789.02 million from AED 876.65 million recorded in the same period a year earlier. Net fees and commission income also dropped 56.3% to AED 171.75 million from AED 392.62 million, as IPO related income dried up. However, investment income registered a growth of AED 61.6 million as against a loss of AED 3.24 million in the earlier year period, primarily due to a gain on trading investments of AED 7.94 million as against a loss of AED 35.33 million. Concurrently, UNB's interest income increased to AED 1.36 billion from AED 1.23 billion, up 10.6%, as a result of which net interest income grew by 15.3% reaching AED 497.47 million from the corresponding period a year ago.

**Net profit margin under fire.**

During the first half, UNB's net profit margin declined to 68.2% from 71.6%, as operating cost to income ratio increased to stand at 29.4% as against 20.9% in 1H 2006. The rise in cost can be attributed to the setting up of new business lines, the recent acquisition of a bank in Egypt, and the maintenance of high levels of business activity. However, provision for impairment losses decreased to AED 11.71 million from AED 65.77 million in the year ago period.

### Recent Performance



For the year 2006, UNB's net profit dropped 12.6% to AED 1.01 billion from AED 1.15 billion in the previous year on account of a 93.9% plunge in investment income. While interest income grew by 56.8% to AED 2.44 billion, net interest income rose by only 28.7% to AED 888.62 million, as interest expense soared 79.3%.

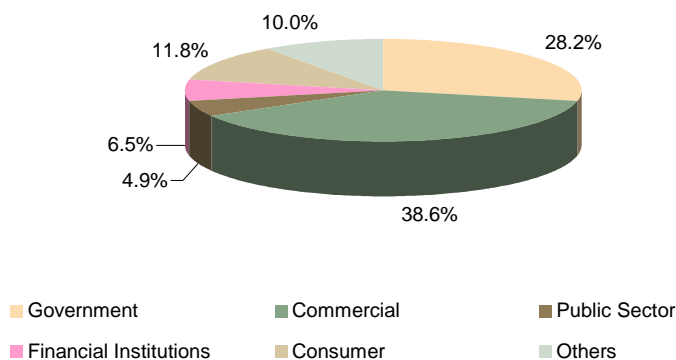
For the period, UNB's total asset-base grew 18.9% year-on-year to AED 41.54 billion, from AED 34.93 billion on the back of surges in net loans & advances, trading investments, property plant & equipment and goodwill. In August 2006, the bank acquired a controlling stake (94.8%) of ACMB, as a result of which goodwill stood at AED 224.22 million. During the period, loans & advances climbed 32.8% and customer deposits grew 16.5% to reach AED 30.05 billion. Despite the growth, the contribution of customer deposits to total assets declined slightly to 72.3% from 73.8%.

During the second half of 2006, the bank started providing Islamic banking products which stood at AED 1.34 billion, comprising 4.5% of total deposits. Simultaneously, time deposits increased to AED 24.05 billion, up 76.7%, accounting for 80.1% of total deposits. This increased the cost of funding, squeezing the bank's net interest margin. Within the total loan portfolio, the corporate sector accounted for 55.1%, the government sector contributed 33.2%, the retail sector comprised around 11.8%, while the industry sector average stood at approximately 25%.

In 2006, UNB's ratio of NPLs to gross loans declined to 1.5% from 2.5% and the coverage ratio dropped to 130.8% from 152.6% in 2006. This shows that the bank's asset quality has significantly improved despite growth in the lending portfolio.

**Low exposure to the retail sector.**

### Loans & Advances



## New Projects and Strategy

### *Spreading wings*

To support its aspiration of becoming a "key player in the region", UNB acquired a 94.8% stake in Alexandria Commercial and Maritime Bank (ACMB) in the third quarter of 2006. In June 2006, it set up Al Wifaq Finance Company with a capital of AED 500 million, to provide Sharia compliant Islamic finance to tap the burgeoning Islamic banking market.

### *Financing several big-ticket projects.*

The bank is also implementing several initiatives to service new markets - both domestic and international. On September 27, 2007, UNB initiated the Escrow Account with the Dubai Land Department (DLD), designed specifically for real estate developers. This service will help property developers manage their project receivables in accordance with the new regulations (Law No.8) pertaining to trust accounts for real estate developments in Dubai. In August 2007, along with Arab Bank, Badr Al-Islami Dubai Bank, Abu Dhabi Commercial Bank, First Gulf Bank, Mashreq, National Bank of Dubai, Tamweel, and Finance House, the bank signed an agreement with ETA Star (UAE) to provide the latter's customers with housing loans. Further, in June 2007, in cooperation with 28 regional and international banks, UNB signed a USD 300 million, three year syndicated loan agreement with Global Investment House (Kuwait) at a margin of LIBOR + 0.8%.

In May 2007, the bank participated in a loan facility worth AED 292 million provided by Emirates Bank International to Emirates Float Glass to finance the latter's plant development in Abu Dhabi. Further, in March 2007, in cooperation with the Samba Financial Group, Mashreq Bank (UAE), Abu Dhabi Commercial Bank (ADCB), Dubai Islamic Bank (DIB) and Commercial Bank International (CBI), UNB signed a AED 2.84 billion (SAR 2.9 billion) Islamic financing contract with the Saudi Binladin Group (SBG) to fund projects to develop Holy Mosques. In December 2006, along with a group of banks including Arab Banking Corporation (Bahrain), Bank of Tokyo-Mitsubishi UFJ Ltd., and Citibank, UNB successfully closed the syndication of a five-year USD 1 billion syndicated term facility with a 0.275% margin. In August 2006, it signed a credit line agreement worth USD 36 million with the Arab Trade Financing Program allowing it to finance UAE's external trade. In the same month, together with DIB, Samba Financial Group, ADCB, Mashreq Bank and CBI, UNB agreed to finance a USD 800 million loan for Saudi Binladen Group to develop and expand the religious facilities in Mecca.

### *A customer-friendly stance.*

In a bid to attract customers, the bank has adopted a customer friendly image. It is creating a range of innovative products to better cater to the needs of existing and potential customers. In September 2007, it introduced the 'Combo Loan' for a period of six months targeting salaried expatriates and UAE nationals. The loan allows customers to take a combination of a Salary Loan with a House Rent or a School Fee Loan at a low rate of interest, of around 0.21% per month. In December 2006, UNB launched a new product under the popular and successful 'Al Awwal' umbrella. The 'Al Awwal Gold Savings Certificate' offers consumers guaranteed 2% returns per annum on their certificates. Further, consumers get a free pre-approved Credit Card and an overdraft facility of up to 90% at low interest rates. In May 2006, the bank introduced the 'Al Itihad Fund', an open-ended investment fund that offers investors long-term capital appreciation through market exposure, both in the UAE and the GCC. The 'Al Maha', is a ladies account designed for flexibility in managing monthly finances. Further, it is offering several awards and prizes linked to a majority of its products. Finally, the bank is extending its presence across the country by opening several new branches over the next two years.

### Positives

- UNB's capitalization is strong with a CAR above the minimum requirement of 10% mandated by the UAE Central Bank and 8% by the Basel II norms.
- The UAE's massive investment in the non-oil sector is providing abundant growth opportunities for banks.

### Negatives

- The bank plans to expand its branch network in the next two years as a result of which cost ratios are likely to remain high.
- Liberalization and the entry of new players are threatening UNB's market position.
- The bank's price war to counter this phenomenon may further dent its margins.

### Valuation: Discounted Cash Flows

We have used the Discounted Cash Flow (DCF) method to determine our fair value estimate. As inputs for our valuation, we have used the unlevered industry Beta for emerging markets' Non-US Commercial Banks of 0.98. We have derived the equity premium by adding the historical premium of US equities over the risk-free rate and the country premium. We estimate a country premium of 0.90% using Moody's long-term country rating (Aa3 for UAE) and estimating a default spread for that rating, based upon the difference in yields for traded country bonds.

As a proxy for the risk-free rate of interest, we have taken the yield on 10-year US treasury notes as the proxy for the risk-free rate of interest. At the time of this report, the 10-year US Treasury bond had a yield of 4.655%.

Based on the inputs and the Capital Asset Pricing Model, we arrive at a Cost of Equity of 12.42%. Considering the long-term debts of UNB, we arrive at the Weighted Average Cost of Capital (WACC) of 10.05%.

### Investment Opinion

Over the past few years, the UAE economy has been demonstrating vibrant vitality. We expect UNB to have abundant growth opportunities, thanks to immense project finance requirements relating to infrastructure projects worth USD 1.3 trillion. With escalating demand for loans for the non-oil sector, the bank can enlarge its assets size rapidly in the next two to three years. Further, UNB's expansion plans in the GCC, Asian, and Arab markets may facilitate to mobilize deposits and position itself as a medium-sized bank.

However, the country's banking sector is over banked and highly competitive. In addition, the merger of NBD and EBI poses the biggest threat to UNB. Moreover, UNB's earnings growth has been partially driven by market related avenues and regulation; as a result of which non-interest income fell by around 55.7% in 1H 2007. In 2006, the bank acquired a majority stake in ACMB (94.8%) and established the Al Wifaq Finance Company, which increased its cost-to-income ratio. Finally, the bank plans to increase its branch network in the next two years. In that event, cost ratios are likely to remain on the higher side. While this may dent the bank's margins in the short run, we expect the bank's strategies will bear fruit in the long run.

Considering the above factors, we revise our Fair Value per share for UNB downwards by 27.5% to AED 8.67 from AED 11.96. The stock exhibits an 8.0% potential upside from its closing price of AED 8.03 (as on October 16, 2007). Therefore, we revise our investment opinion to NEUTRAL from the earlier OVERWEIGHT on the stock.

### Condensed Projections

(in AED' 000)	2007E	2008E	2009E
Total assets	50,352,379	59,085,686	68,965,731
Net interest income	992,919	1,264,747	1,443,997
Net profit	1,002,272	1,165,327	1,330,506
EPS (AED)	0.64	0.75	0.85
BVPS (AED)	3.88	4.03	4.26

**Cost of Equity: 12.42%**  
**WACC: 10.05%**

**Fair Value: AED 8.67**

**Investment Opinion:**  
**NEUTRAL**

## FINANCIAL STATEMENTS

## BALANCE SHEET

As at

In AED' 000	31 Dec' 06	31 Dec' 05	% Chg	30 June' 07	30 June' 06	% Chg
<b>ASSETS</b>						
Cash and balances with the Central Bank of the UAE	2,634,708	2,865,163	-8.0%	3,901,789	3,124,438	24.9%
Due from banks	7,719,097	8,266,960	-6.6%	5,634,239	5,255,796	7.2%
Loans and advances to customers	27,493,904	20,702,915	32.8%	31,468,953	22,245,967	41.5%
Financial assets held for trading	228,052	146,738	55.4%	135,590	103,773	30.7%
Financial assets at fair value through profit or loss	768,797	725,184	6.0%	906,379	841,932	7.7%
Investments held-to-maturity	1,310,091	1,277,513	2.6%	1,411,878	1,306,659	8.1%
Investments available for sale	32,555	0		211,865	0	
Property and equipment	230,256	133,670	72.3%	239,266	156,473	52.9%
Good will	224,216	0		225,919	0	
Other assets	897,378	814,090	10.2%	1,133,106	782,780	44.8%
<b>TOTAL ASSETS</b>	<b>41,539,054</b>	<b>34,932,233</b>	<b>18.9%</b>	<b>45,268,984</b>	<b>33,817,818</b>	<b>33.9%</b>
<b>LIABILITIES AND EQUITY</b>						
<b>LIABILITIES</b>						
Customers' deposits	30,046,079	25,786,686	16.5%	31,052,780	23,592,581	31.6%
Due to banks	522,638	419,096	24.7%	1,101,433	1,261,018	-12.7%
Medium term borrowings	3,855,441	2,479,275	55.5%	5,692,542	2,479,275	129.6%
Other liabilities	1,085,556	1,013,748	7.1%	1,360,576	937,348	45.2%
<b>TOTAL LIABILITIES</b>	<b>35,509,714</b>	<b>29,698,805</b>	<b>19.6%</b>	<b>39,207,331</b>	<b>28,270,222</b>	<b>38.7%</b>
<b>EQUITY</b>						
Share capital	1,562,500	1,250,000	25.0%	1,562,500	1,562,500	0.0%
Legal reserve	2,282,758	2,207,116	3.4%	2,282,758	2,282,116	0.0%
Other reserve	680	75,000	-99.1%	11,140	0	
Retained earnings	2,081,134	1,700,394	22.4%	2,072,321	1,702,735	21.7%
<b>Total equity attributable to equity shareholders</b>	<b>5,927,072</b>	<b>5,232,510</b>	<b>13.3%</b>	<b>5,928,719</b>	<b>5,547,351</b>	<b>6.9%</b>
Minority Interest	102,268	918	11040.3%	132,934	245	54158.8%
<b>TOTAL EQUITY</b>	<b>6,029,340</b>	<b>5,233,428</b>	<b>15.2%</b>	<b>6,061,653</b>	<b>5,547,596</b>	<b>9.3%</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>41,539,054</b>	<b>34,932,233</b>	<b>18.9%</b>	<b>45,268,984</b>	<b>33,817,818</b>	<b>33.9%</b>
COMMITMENTS AND CONTINGENCIES	21,733,326	15,946,648	36.3%	21,356,679	18,249,790	17.0%

**INCOME STATEMENT**  
*For the period ended*

In AED' 000	31 Dec' 06	31 Dec' 05	% Chg	30 June' 07	30 June' 06	% Chg
Interest income	2,444,109	1,558,414	56.8%	1,358,532	1,228,058	10.6%
Interest expense	-1,555,486	-867,746	79.3%	-861,066	-796,701	8.1%
<b>NET INTEREST INCOME</b>	<b>888,623</b>	<b>690,668</b>	<b>28.7%</b>	<b>497,466</b>	<b>431,357</b>	<b>15.3%</b>
Fees and commission income	563,886	709,751	-20.6%	174,886	394,933	-55.7%
Fees and commission expense	-4,771	-3,936	21.2%	-3,133	-2,317	35.2%
Net gains from dealing in foreign currencies	24,924	28,996	-14.0%	18,003	11,946	50.7%
Net trading (losses) /gains on trading financial instruments	-34,575	193,757	-117.8%	7,938	-35,328	-122.5%
Net gains / (losses) on non-trading financial instruments	48,253	32,220	49.8%	53,705	32,088	67.4%
Other operating income	48,800	38,813	25.7%	40,154	43,973	-8.7%
<b>OPERATING INCOME</b>	<b>1,535,140</b>	<b>1,690,269</b>	<b>-9.2%</b>	<b>789,019</b>	<b>876,652</b>	<b>-10.0%</b>
<b>OPERATING EXPENSES</b>						
Staff	-263,258	-211,820	24.3%	-162,148	-132,512	22.4%
Depreciation	-24,184	-18,177	33.0%	-16,927	-10,451	62.0%
Other	-99,422	-67,094	48.2%	-53,289	-40,486	31.6%
<b>OPERATING PROFIT</b>	<b>1,148,276</b>	<b>1,393,178</b>	<b>-17.6%</b>	<b>556,655</b>	<b>693,203</b>	<b>-19.7%</b>
Impairment losses on financial assets (net)	-138,772	-239,147	-42.0%	-11,713	-65,767	-82.2%
<b>PROFIT BEFORE INCOME TAX</b>	<b>1,009,504</b>	<b>1,154,031</b>	<b>-12.5%</b>	<b>544,942</b>	<b>627,436</b>	<b>-13.1%</b>
Income tax expense	0	0		-2,574	0	
<b>PROFIT FOR THE PERIOD</b>	<b>1,009,504</b>	<b>1,154,031</b>	<b>-12.5%</b>	<b>542,368</b>	<b>627,436</b>	<b>-13.6%</b>
<b>Attributable to:</b>						
Equity shareholders of the Bank	1,007,782	1,153,238	-12.6%	538,062	627,341	-14.2%
Minority interest	1,722	793	117.2%	4,306	95	4432.6%
No. of Outstanding Shares (' 000)	1,562,500	1,562,500		1,562,500	1,562,500	
Adjusted EPS (AED)	0.64	0.74	-13.5%	0.69*	0.80*	-13.8%

\*Annualized figures

**KEY RATIOS**

	30 June' 07	31 Dec' 06
Net profit margin	68.7%	65.6%
Cost to income ratio	29.4%	25.2%
Credit to Deposit Ratio	102.8%	93.3%
Shareholders' Equity to Total Assets Ratio	13.1%	14.3%
Debt-Equity (D/E) Ratio	93.9%	63.9%
Adjusted EPS* (AED)	0.69	0.64
ROE*	18.2%	17.0%
ROA*	2.4%	2.4%

\*Annualized figures

**OPINION RATINGS:**

OVERWEIGHT	The stock is expected to perform better than the market index; investors may give the stock more weight in their portfolio, than its weight in the overall market
NEUTRAL	The stock is expected to perform in tandem with the market index; investors may give the stock the same weight in their portfolio as in the overall market.
UNDERWEIGHT	The Stock is not expected to perform in line with the market index; investors may give the stock less weight in their portfolio than its weight in the overall market.

---

Call us on +973 17549495 or email us at [research@taib.com](mailto:research@taib.com)

---

**DISCLAIMER:**

All reasonable care has been taken to ensure that the information contained herein is not misleading or untrue at the time of publication, but we make no representation as to its accuracy or completeness. All information is for the private use of the person to whom it is provided without any liability whatsoever on the part of TAIB Securities WLL, any associated company or the employees thereof. Nothing contained herein should be construed as an offer to buy or sell or a solicitation of an offer to buy or sell. The value of any investment may fall as well as rise. Past performance is no guide to the future. The rate of exchange between currencies may cause the value of the investment to increase or diminish. Consequently, investors may not get back the full value of their original investment