

UAE Banking Sector

UAE Banking

- UAE banking profits (adjusted) seen soaring at 22%YoY in 2012
- Banks are nearing end of the NPL cycle but risks remain
- ADCB & ENBD are most susceptible to capping of interest on credit cards
- Top pick: FGB, UNB

UAE banking profits to rise 22%YoY in 2012

After a tough year in 2011, aggregate profits of our banking universe rose 30%YoY due to one-off gains but remained stagnant otherwise. The current year is expected to bear sweeter fruit, with one-off adjusted profits rising 22%YoY. Bottom-line growth is anticipated to be driven by drop in provisions (down 13%YoY) while top-line slows down to 3 – 5% due to pressure on spreads and dampened volumes.

Banks are nearing the end of the NPL cycle but risks remain

Aggregate figures reveal that NPL formation has slowed down considerably with NPLs growing by 4%YoY in 2011, assisted by de-recognition of exposures that were restructured and categorized as performing. With the worst seemingly over, NPL formation is expected to take a breather. Our discussions with banks have led us to believe that banks' NPLs are nearing the end of the current cycle. Albeit, NPL ratio is expected to touch peak in 2012 for most banks and in 2013 for others, NPL formation will decelerate significantly for all. Banks seem to be at ease regarding their consumer portfolio, credit issues with which have already stabilized. While the corporate segment will continue to be the impairment churner, banks do not expect big names (read large exposures) in the likes of DW and DH to be the source, going forward.

ADCB and ENBD could be most susceptible to capping credit card rates

Recently there have been some reports in newspapers regarding CBUAE mulling capping the interest rates that banks charge on their credit cards. The figure quoted in the news is 18% and is almost half of what banks have been charging on outstanding credit card loans from their customers. Notwithstanding the possibility of error, our analysis reveals that NBAD is least impacted by such a regulatory change due to its trivial exposure to the credit card segment. The impact on the top-lines of the remaining banks ranged from 1% to 5% while the impact on the bottom-line is more profound due to continuation of heavy provisioning in 2012, thereby reducing the net income and consequently magnifying the impact.

Recommendation: Strong BUY: FGB, UNB and BUY: NBAD, ADCB, ENBD

We have slashed our fair value for ENBD and UNB by 11% and 6% respectively and increased NBAD's by 6%. While all banks under coverage still offer good upsides, FGB returns as our favourite; it offers the highest ROE for 2012 and for the average over the forecast period. After a recent rally, the price of the bank has shored up considerably but is still quite shy of its actual worth. Expectations of heavy dividends for 2012 cannot be ruled out and will keep the stock in limelight.

Global Research - UAE Banking

	CMP	Mkt. Cap	P/E	P/BV	ROE	Target	Upside	Rating
	AED	AED mn	2012e	2012e	2012e	Price	Potential	
Abu Dhabi Commercial Bank	3.26	18,242	8.9	1.0	11.8%	3.73	14.4%	BUY
Emirates NBD	2.86	15,895	7.0	0.5	7.2%	3.42	19.7%	BUY
First Gulf Bank	9.60	28,800	7.3	1.3	17.8%	12.40	29.1%	STRONG BUY
National Bank of Abu Dhabi	8.73	33,825	8.4	1.3	16.6%	9.92	13.6%	BUY
Union National Bank	3.05	7,612	4.8	0.6	13.7%	4.64	52.1%	STRONG BUY

CMP as of closing price on ADX/DFM on April 08, 2012

Source: Global Research

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Valuation & Recommendation

Valuation methodology

For arriving at the fair value of our banks, we have used a blend of two valuation methods:

1. Combination of Cash flow approach represented by the Dividend Discounting Model and Justified P/BV multiple approach using an adaptation of the Gordon Growth Model.
2. Relative valuation using peer group P/BV multiple

Dividend Discount Model - DDM

The DDM is based on a 4-year forecast of dividends as cash flows (2012-15). The terminal is calculated using the multiples approach. Long-term justified P/BV multiple is derived on the basis of an adaptation of the Gordon Growth Model. This method uses the sustainable return on average equity (ROAE), cost of equity (COE) and expected growth in earnings (g) to calculate the target P/BV of the bank using the formula:

$$P/BV = (ROE - g) / (COE - g)$$

The dividends for the forecasted period and the terminal value are then discounted back at the cost of equity to arrive at the total net present value (NPV) of the company.

Cost of Equity is derived using the Buildup Method as the summation of the following:

1. US 10 Year Treasury Yield currently taken as 2.20%
2. US Risk Premium currently taken as 8.40%
3. UAE risk premium over US Risk Premium as 2% for Abu Dhabi, 3% for Dubai
4. Add/subtract bank specific premium or discount

Relative valuation using weighted P/BV multiple of the peer group

In order to incorporate the impact of market forces into our valuation we have introduced the use of weighted P/BV multiple of a peer group as an indicator for price movement. We have selected two peer groups, one local and the other consisting of like-ROE GCC banks under our coverage. A weight of 80/20 has been applied to the local/GCC banks P/BV multiple. This weighted P/BV is then multiplied with the BV/share of the bank at the next year end, in our case the BV/share at December 31, 2012 to arrive at the fair value of the bank over a medium term investment horizon.

Blended Price

The blended price is then calculated after applying weight of 80% to the value from DDM and 20% to the value from Relative valuation method.

Valuations

AED	ADCB	ENBD	FGB	NBAD	UNB
Rating	BUY	BUY	STRONG BUY	BUY	STRONG BUY
Upside Potential/(Downside)	14.4%	19.7%	29.1%	13.6%	52.1%
Fair Value:	3.73	3.42	12.40	9.92	4.64
Fair Value - DDM (weight: 80%)	3.9	3.2	13.7	10.8	4.7
Fair Value - Relative Valuation (weight: 20%)	3.0	4.5	7.3	6.3	4.5
Current Price (April 08, 2012)	3.26	2.86	9.60	8.73	3.05

Source: Global Research

Valuations

AED mn	ADCB	ENBD	FGB	NBAD	UNB
DDM					
PV of dividends & Terminal	21,794	17,588	41,013	41,870	11,665
Yr 1	762	988	1,793	916	355
Yr 2	898	945	1,828	1,247	450
Yr 3	986	893	2,087	1,238	484
Yr 4	1,041	911	1,884	1,214	521
Terminal	18,109	13,852	33,420	37,255	9,856
Terminal Assumptions:					
LT - ROE	16.0%	13.0%	20.0%	18.4%	14.0%
COE	13.6%	17.6%*	13.3%	13.3%	14.6%
Perpetual growth rate (g)	3.0%	3.0%	3.0%	3.0%	3.0%
LT- P/BV Multiple (x)	1.23x	0.68x	1.65x	1.50x	0.95x

Relative Valuation: P/BV

Peer Group P/BV multiple (x)	1.0	1.0	1.0	1.0	1.0
BV/share - 2012	3.2	4.7	7.3	6.7	4.7

*ENBD has been assigned a higher than normal company specific premium on account of higher perceived earnings risk

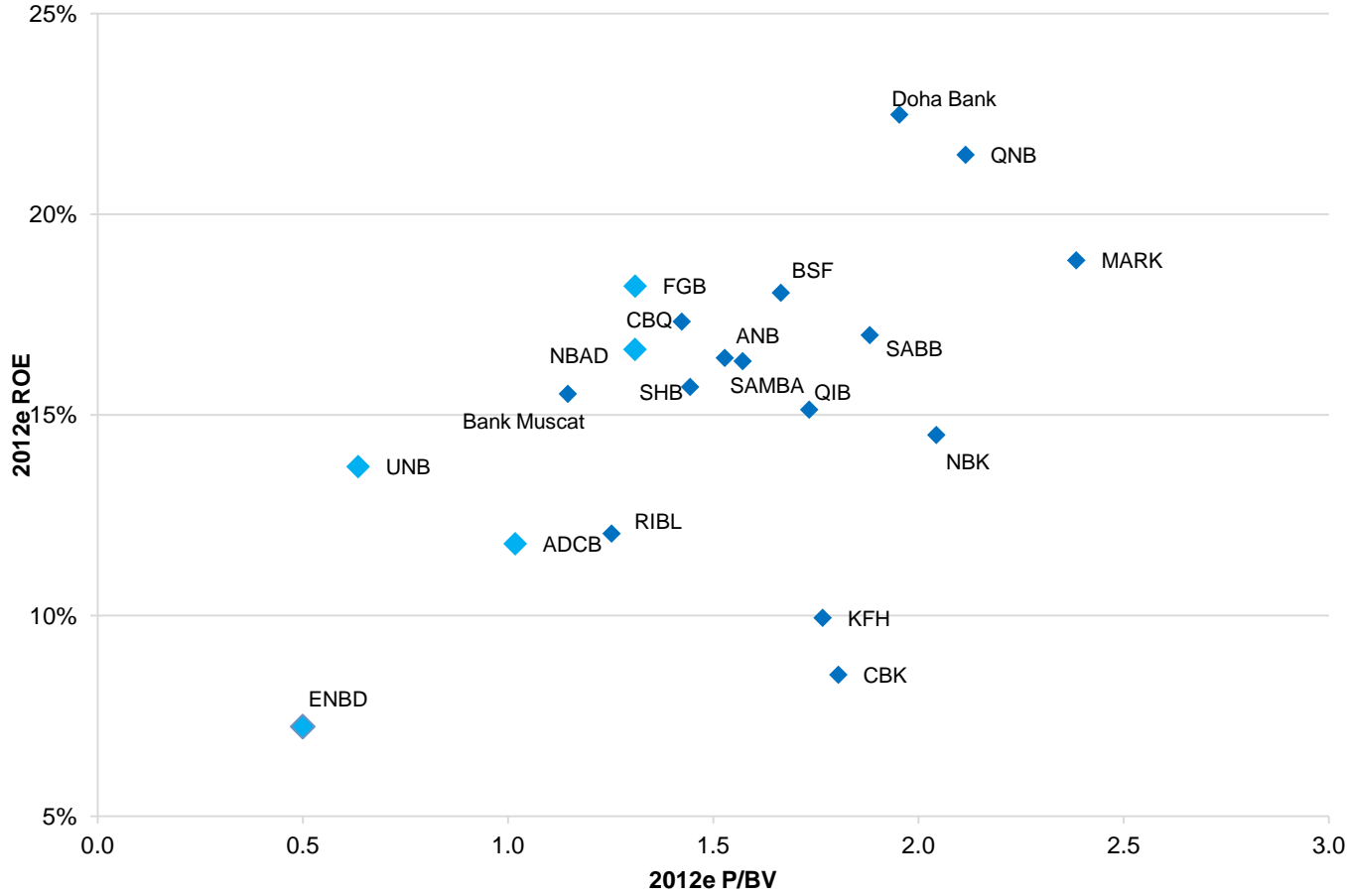
Source: Global Research

Peer Group

AED mn	Market Cap	Equity 2012e	Profit 2012e	ROE 2012e	P/BV 2012e	P/E 2012e
Abu Dhabi Commercial Bank	18,242	17,929	2,057	11.8%	1.0	8.9
Emirates NBD	15,895	31,814	2,270	7.2%	0.5	7.0
First Gulf Bank	28,800	23,027	3,928	17.8%	1.3	7.3
National Bank of Abu Dhabi	33,825	25,834	4,011	16.6%	1.3	8.4
Union National Bank	7,612	11,993	1,572	13.7%	0.6	4.8
UAE Coverage				13.1%	0.95	7.54

Source: Global Research

Relative Valuation – Global GCC Banking Universe



Source: Global Research

Sensitivity Analysis

Terminal growth vs. COE ROE vs. COE

ADCB

		g				
		1.5%	2.0%	3.0%	4.0%	4.5%
COE	11.6%	4.4	4.5	4.6	4.7	4.8
	12.6%	4.0	4.0	4.1	4.2	4.3
	13.6%	3.7	3.7	3.7	3.8	3.8
	14.6%	3.4	3.4	3.4	3.4	3.5
	15.6%	3.2	3.2	3.2	3.2	3.2

		ROE				
		14.0%	15.0%	16.0%	17.0%	18.0%
COE	11.6%	3.8	4.1	4.3	4.6	4.8
	12.6%	3.6	3.8	4.0	4.2	4.4
	13.6%	3.3	3.5	3.7	3.9	4.1
	14.6%	3.1	3.3	3.5	3.7	3.9
	15.6%	3.0	3.2	3.3	3.5	3.7

ENBD

		g				
		1.5%	2.0%	3.0%	4.0%	4.5%
COE	15.6%	4.0	4.0	3.9	3.9	3.8
	16.6%	3.7	3.7	3.6	3.6	3.5
	17.6%	3.5	3.5	3.4	3.4	3.3
	18.6%	3.3	3.3	3.2	3.2	3.1
	19.6%	3.1	3.1	3.1	3.0	2.9

		ROE				
		11.0%	12.0%	13.0%	14.0%	15.0%
COE	15.6%	3.4	3.7	3.9	4.2	4.4
	16.6%	3.2	3.4	3.6	3.9	4.1
	17.6%	3.0	3.2	3.4	3.6	3.8
	18.6%	2.9	3.1	3.2	3.4	3.6
	19.6%	2.7	2.9	3.1	3.2	3.4

FGB

		g				
		1.5%	2.0%	3.0%	4.0%	4.5%
COE	11.3%	14.5	14.7	15.4	16.2	16.7
	12.3%	13.1	13.3	13.7	14.3	14.6
	13.3%	11.9	12.1	12.4	12.8	13.0
	14.3%	11.0	11.1	11.3	11.6	11.7
	15.3%	10.2	10.3	10.4	10.6	10.7

		ROE				
		11.0%	12.0%	20.0%	14.0%	15.0%
COE	11.3%	9.1	9.8	15.4	11.2	11.9
	12.3%	8.3	8.9	13.7	10.1	10.7
	13.3%	7.7	8.2	12.4	9.2	9.8
	14.3%	7.1	7.6	11.3	8.5	9.0
	15.3%	6.7	7.1	10.4	7.9	8.3

NBAD

		g				
		1.5%	2.0%	3.0%	4.0%	4.5%
COE	11.3%	11.8	12.0	12.5	13.1	13.5
	12.3%	10.6	10.7	11.1	11.5	11.7
	13.3%	9.6	9.7	9.9	10.2	10.4
	14.3%	8.8	8.8	9.0	9.2	9.3
	15.3%	8.1	8.1	8.2	8.3	8.4

		ROE				
		16.4%	17.4%	18.4%	19.4%	20.4%
COE	9.9%	13.4	14.2	15.1	15.9	16.7
	10.9%	11.7	12.4	13.1	13.8	14.5
	13.3%	8.9	9.4	9.9	10.4	10.9
	12.9%	9.3	9.8	10.3	10.8	11.4
	13.9%	8.4	8.8	9.3	9.8	10.2

UNB

		g				
		1.5%	2.0%	3.0%	4.0%	4.5%
COE	12.6%	5.5	5.5	5.6	5.6	5.7
	13.6%	5.1	5.1	5.1	5.1	5.1
	14.6%	4.7	4.7	4.6	4.6	4.6
	15.6%	4.3	4.3	4.3	4.3	4.2
	16.6%	4.0	4.0	4.0	3.9	3.9

		ROE				
		12.0%	13.0%	14.0%	15.0%	16.0%
COE	12.6%	4.8	5.2	5.6	6.0	6.3
	13.6%	4.4	4.7	5.1	5.4	5.7
	14.6%	4.1	4.4	4.6	4.9	5.2
	15.6%	3.8	4.0	4.3	4.5	4.8
	16.6%	3.5	3.8	4.0	4.2	4.4

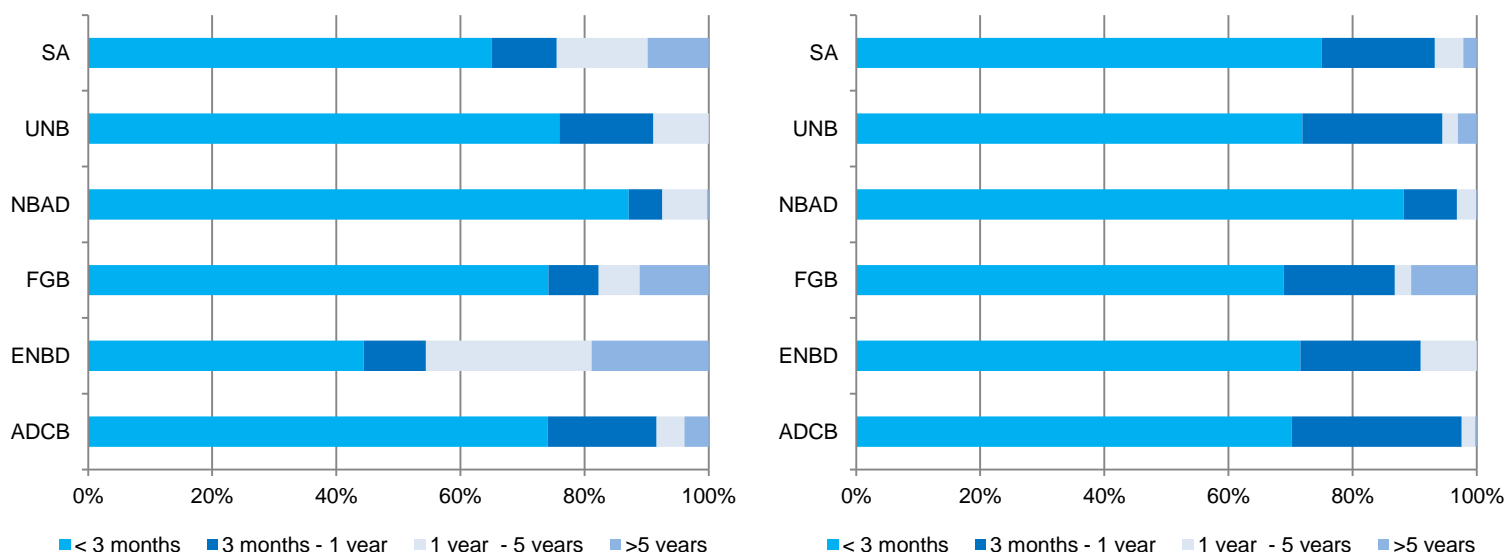
Source: Global Research

UAE Banking: Challenges & Opportunities...

UAE banks fat-tailed on short-maturity deposits, FGB's maturities better distributed

In 2008, 24% of the deposits with our UAE banks (under coverage) had maturities of over 1 year; the figure stands at just 7% as of 2011. What has remained constant is the overwhelming contribution of low maturity deposits in the total mix; contribution of less-than-three-months category in fact increased from 65% in 2008 to 75% in 2011. This seems to be an outcome of two things, firstly, anticipating low loans distribution and a low interest rate scenario banks have shed high-cost deposits which is usually synonymous with higher maturity deposits and increased focus on mobilizing low-cost deposits which come in the shape of low-maturities. It should be noted that at times, CASA (low cost deposits) may actually behave as longer maturity deposits but this behavior cannot be predicted as against fixed term deposits where maturity is known before hand. Secondly, given the low interest rate returns and volatile market conditions, depositors have been ever more reluctant to lock their deposits in for longer periods.

Maturity Profile of Deposits - Shift from 2008 (LHS) to 2011 (RHS)



SA: Sample Average

Source: Company Accounts

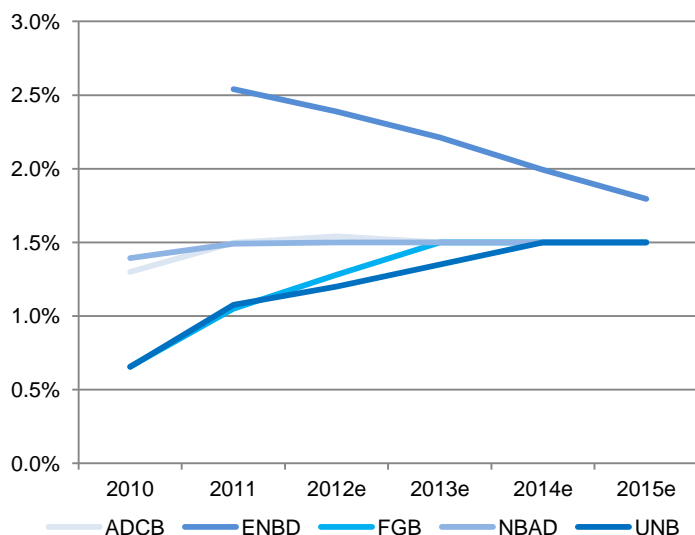
In a nutshell, the coupling effect from changes in both the demand side and supply side have been responsible for this shift. Amongst banks under our coverage, FGB stands out as the only bank that has a very well distributed maturity profile, with deposits having maturities over-5-years forming 11% of the total and those with maturities over 1 year forming 13% of the mix. The accomplishment is only magnified when we observe that FGB has done so while keeping its cost of funds at one of the lowest within our UAE coverage. UAE banks have nevertheless deployed their EMTN programs and other long term debt raising facilities to extend the life of their source of funds. This however comes at an additional cost to the top-line, since interest rates on these facilities are likely to be higher than those paid on deposits currently. FGB is therefore least expected to face pressure on its spreads on account of wholesale borrowing. On the other hand ENBD being a Dubai based bank where risk perception and therefore wholesale borrowing rates are high, and because of heavy maturities in 2012, is anticipated to see substantial pressure on its spreads. It should however be noted that cost of long term deposits may not differ from that of wholesale funding in all cases and banks may opt for expensive deposits just the same.

Some bank already meet the collective provisions requirements, others are not far off

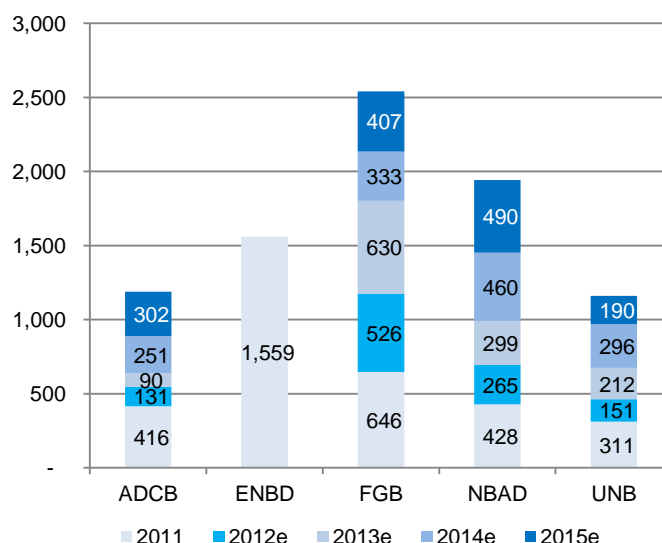
All banks within our coverage, with the exception of FGB and UNB already meet the CBUAE's regulation regarding collective provisions which needs to be maintained at 1.5% of credit risk weighted assets (CRWA) by 2014. ENBD, the largest bank within UAE however has over-provided for the same, with its ratio at 2.5%. As per our calculations, assuming that our credit growth expectations are not exceeded, that composition of loans does not vary vastly and that ENBD does not opt for a reversal, the bank has enough collective provisions to last at least till the end of our forecast horizon. Even if ENBD does not take any additional collective provisions, we do not see its ratio going below 1.8% by 2015.

As for FGB and UNB, the ratios of which were reported at around 1.05% in 2011, a gradual movement is likely to be seen in the ratio over the years with FGB expected to reach the target by 2013 and UNB by 2014. As per our projections, FGB is like to see the highest absolute rise in collective provisions over our forecast period as against its counterparts, owing to its sheer size, relatively higher loans growth expectations, current shortfall in ratio and simply because it has a larger exposure to real estate loans than its peers. NBAD is anticipated to be next in line, with addition of AED1.5bn over the next 4 years since we expect it to project the highest loans growth within the lot.

Collective Provisions / Credit RWA



Additional Collective Provision Expense



Source: Company Accounts, Global Research

Banks are nearing the end of the NPL cycle but risks remain

Collective impaired loans of UAE banks under our coverage jumped by almost 6 times between 2008 and 2010. This was on the back of defaults and/or restructuring of Sa'ad & Algosaihi, Dubai World and then Dubai Holding (partially even) amongst other names, while retail loans also played a major role. Come 2011, aggregate figures reveal that NPL formation has slowed down considerably with NPLs growing by 4%YoY. A slow-down in NPLs was also assisted greatly by de-recognition of certain exposures that were restructured and subsequently deemed and categorized as performing. These exposures include but are not limited to Dubai World and Dubai Holding; it is important to note that exposure to DW & DH have been treated inconsistently by banks, for example while DW is shown as impaired on ENBD's books, UNB, FGB and ADCB have derecognized it.

AEDmn	ADCB	ENBD	FGB	NBAD*	UNB**
Starting NPLs: 2011	14,278	20,425	4,567	3,249	2,492
Ending NPLs: 2011	6,025	29,714	4,302	4,839	2,187
Change in NPLs	(8,253)	9,289	(265)	1,590	(306)
Explanation:					
Add: Transferred to performing	6,749	2,500	880	-	1,684
Add: Write-offs	2,487	14	1,133	186	235
Add: Change in NPLs	(8,253)	9,289	(265)	1,590	(306)
New NPLs formed	984	11,804	1,748	1,776	1,613
Total visible change in NPLs	2,056				
Total calculated change in NPLs	17,787				

* Transfer to performing details not available

** Assuming that UNB's DW exposure was also upgraded similar to most of its peers

Source: Company Accounts, Global Research

Write-offs also played an important part in reducing the optical change in NPLs; AED4,056mn worth of loans were written off during the year, which translates into 0.6% of gross loans. After adjusting for transfers and write-offs, the growth in NPLs is calculated to be 39%YoY, much higher than the initial assessment; but a slow down nevertheless.

The name of Zabeel Investments seems to be ripe nowadays with regard to restructuring. The investment company is in talk with banks over an exposure to USD1.6bn, as per news sources and the banks within our coverage could be affected. While there is little information in the market at the moment, FGB is likely to have limited exposure to this Dubai based investment company as against its peers and ENBD is likely to be on the opposite end of the stick for the same reason.

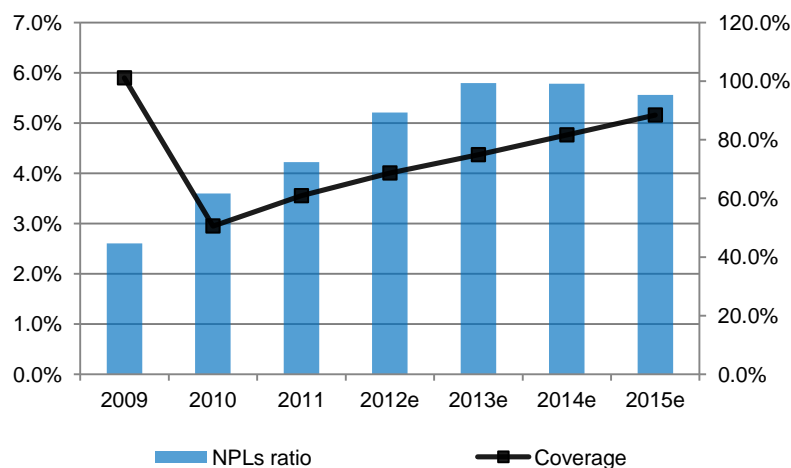
Cost of Risk

	2011	2012e	2013e	2014e	2015e
ADCB	160	141	101	65	49
ENBD	225	176	160	100	61
FGB	150	134	107	72	53
NBAD	88	89	66	36	28
UNB	102	105	88	64	39

Source: Company Accounts, Global Research

JAFZA is another name in the limelight with USD2bn in debt (sukuk) maturing in November 2012, with news sources indicating that the entity will need to refinance. The GRE is currently weighing options to issue new debt matching the maturity in size in order to repay it. If JAFZA is unable to carry out this issuance, we could see a serious impact at least on our Dubai based banks, though Abu Dhabi based cannot be ruled out as being immune with surety.

Asset Quality



Source: Financial Accounts & Global Research

With the worst seemingly over, NPL formation is expected to take a breather. Our discussions with banks have led us to believe that banks' NPLs are nearing the end of the current cycle. Albeit, NPL ratio is expected to touch peak in 2012 for most banks and in 2013 for others, NPL formation will decelerate significantly for all. Banks seem to be at ease regarding their consumer portfolio, credit issues with which have already stabilized. While the corporate segment will continue to be the impairment churner, banks do not expect big names (read large exposures) in the likes of DW and DH to be the source, going forward.

Capping interest rates on credit cards can have serious ramifications on banking profits

Recently there has been some news lately regarding CBUAE mulling capping the interest rates that banks charge on their credit cards. The figure quoted in the news is 18% and is almost half of what banks have been charging on outstanding credit card loans from their customers; this ranges from 24% to 37% from bank to bank and from one credit card variant to another based on annualized figures rather than monthly compounding which banks usually practice, for simplicity. Since credit card loans are possibly the highest yielding product (credit card loans are unsecured i.e. not backed by collateral) that they have, banks with larger exposure to this segment have the most to lose.

Impact of Cap on Interest Rates Charged on Credit Cards

	Rates per month	Rates annualized	Exposure AEDmn	Int. Inc.* AEDmn	Int. Inc @ 18%* AEDmn	Difference AEDmn	Impact on Nil 2012	Impact on Profit 2012
ADCB	3.09%	37.08%	2,609	484	235	249	5%	12%
ENBD	2.19% to 2.99%	26.28% to 35.88%	3,900	606	351	255	4%	11%
FGB	3.09%	37.08%	2,300	426	207	219	4%	6%
NBAD	2.00% to 2.99%	24.00% to 35.88%	650	97	59	39	1%	1%
UNB	2.69% to 2.99%	32.28% to 35.88%	1,184	202	107	95	4%	6%

* Notional/calculated, rounded off and averaged for banks with a interest rate ranges, assuming only 50% of exposure earns interest

Note: Credit card exposure for ADCB and UNB has been assumed at 2% of loan book, derived from avg. exposure of segment-active peers

Source: Schedule of fees from respective banks' websites, Company Accounts, Global Research

Our analysis is based on actual credit card exposure for 2011 for all banks with the exception of ADCB and UNB, for which we have assumed an exposure of 2% of gross loans, assuming that they are as active in this segment as FGB (2.4% of gross loans) and ENBD (1.8% of gross loans). Our interest income calculations are purely notional and may vary from actual figures earned by the bank. It is pertinent to note that in mid March 2012, FGB announced introduction of reduced interest rate credit cards for UAE nationals (which form over 85% of its customer base) charging 12%pa with salary assignment and 18% without it. Notwithstanding the possibility of error, our analysis reveals NBAD is least impacted by such a regulatory change due to its trivial exposure to the credit card segment. The impact on the top-lines of the remaining banks ranged from 1% to 5% while the impact on the bottom-line is more profound due to continuation of heavy provisioning in 2012, thereby reducing the net income and consequently magnifying the impact.

Valuations for ENBD and UNB slashed, NBAD's raised fairly

ADCB: We have increased our net profit expectations for 2012 by 9% on account of decrease in our forecast related to provision expense. This comes despite revising down our estimates related to operating income. Reduced forecast related to top-line emanates from our expectations of pressure on spreads and slower volumetric growth. We have nevertheless raised our fair value for the stock by 3%. We have revised our fair value from AED3.62/share to **AED3.73/share**. At the closing price of AED3.26 (April 08, 2012), the banking stock still offers an upside of 14.4%. Given the sizeable run up, the stock has witnessed since our last report (Investment Strategy 2012) thereby reducing upside potential, we reduce our recommendation to **BUY**.

ENBD: The bank's top-line is expected to feel the brunt of continued muted growth in loans and pressure on spreads, persuading us to revise down our expectations for 2012 by 2% which translates into a top-line reduction of 7%YoY. This decline is likely to be absorbed by a 3% increase in non-interest income, driven by improvement in investment income; we do not see the repetition of AED250mn in losses from investments (financial and property). We continue to expect high provisions during 2012, inching up our projections by a slight 2% but decrease our forecast for operating expenses due to news regarding retrenchment of 15% (roughly 700 people) of the workforce during 2012. We have increased our profit expectations for ENBD by 19%; profitability is expected to decline by 10%YoY but that is due to 2011 figures bloated by extraordinary gain. We have slashed our target price on the banking stock by 10% on increased risk perception for Dubai especially since major Dubai government maturities are expected in 2012. ENBD's exposure to GREs and other prominent UAE family based businesses is an additional concern. Our new fair value stands at **AED3.42/share** offering an upside potential of 19.7%. We therefore downgrade our recommendation from STRONG BUY to **BUY**.

Changes to Valuation

AED	ADCB	ENBD	FGB	NBAD	UNB
Old Fair Value	3.62	3.83	12.28	9.36	4.95
New Fair Value	3.73	3.43	12.38	9.93	4.64
Change in Fair Value	3.1%	-10.4%	0.8%	6.1%	-6.2%
Old Recommendation	STRONG BUY	STRONG BUY	STRONG BUY	BUY	STRONG BUY
New Recommendation	BUY	BUY	STRONG BUY	BUY	STRONG BUY

Source: Global Research

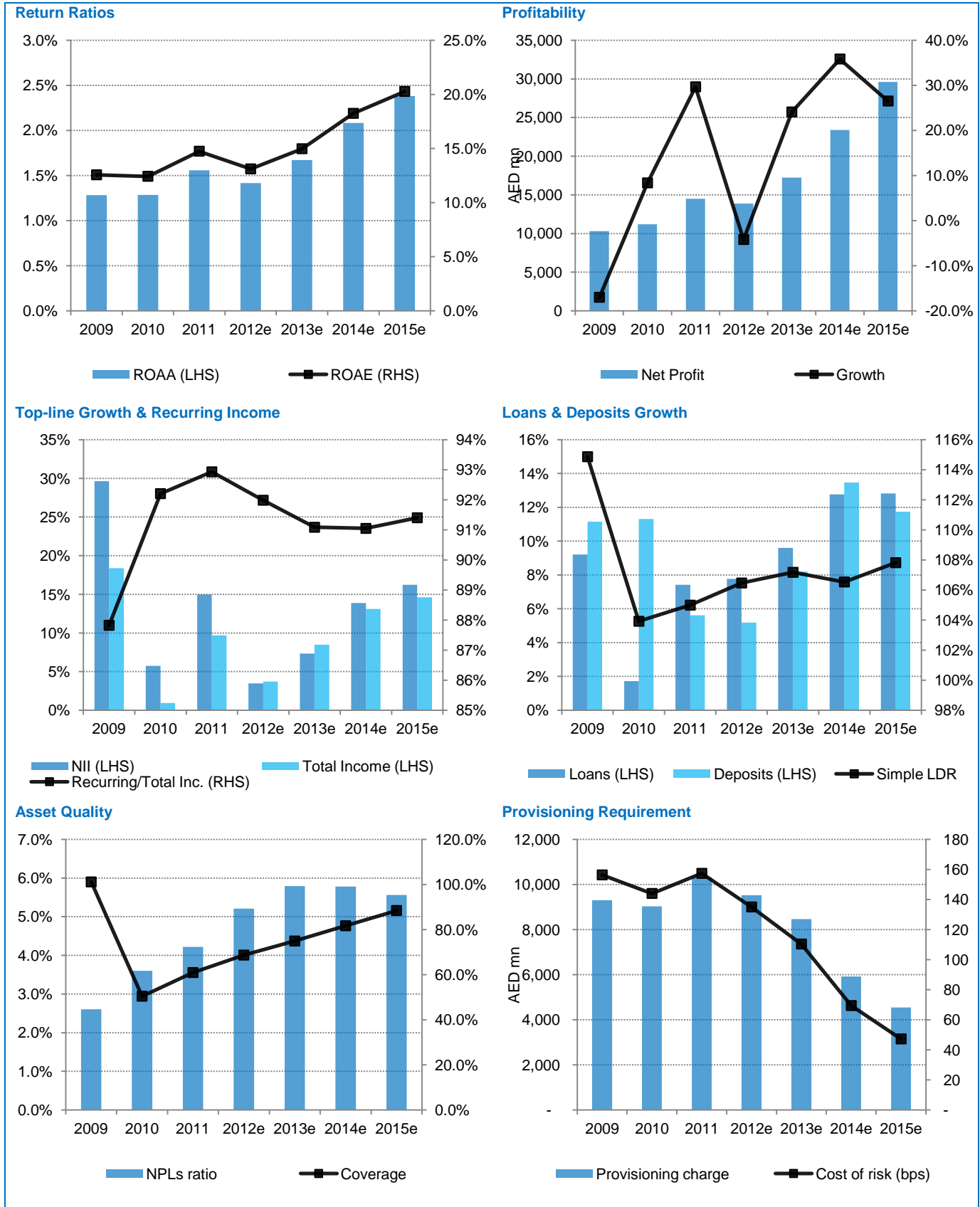
FGB: We expect a slight pressure on FGB's spreads in 2012, owing to the full impact of the re-pricing of its assets due to a decline in benchmark interest rates in 2011. Net interest income may decelerate but still grow 5%YoY, on good volumes, averaging between 12 – 14%. Fee income will remain subdued since the new retail regulation which was enforced in May 2011, will have a full year impact in 2012. NPLs are expected to rise slightly in 2012 and then drop in years following as restructuring commences and loans growth accelerates. We do not see provisions dropping in 2012 driven by both general provisions, which the bank needs to take in order to move towards the CBAUE target. FGB offers the highest ROE for 2012 and the highest average ROE over the forecast period amongst all banks in our UAE banking universe. After a recent rally, the price of the bank

has shored up considerably but is still quite shy of its actual worth; up 27% since our last call on the stock through our Investment Strategy in Jan-2012. FGB's shares are currently trading at a premium to the sector P/BV multiple but that is justifiable given its greater-than-sector-average expected ROE. Post actualization for 2011 and rolling over the forecast period to 2012, we have raised our fair value for the stock by a trivial 1% to **AED12.40/share**. At the current closing price, the stock offers an upside potential of 29.1% and positioning itself to be maintained at **STRONG BUY**.

NBAD: We have inched up our 2012 profit forecast a tad bit on greater than previously anticipated improvement in the top-line on account of good volumes, albeit spreads may retreat a few bps. Expectations for provisions have also been increased, but the overall impact is calculated to be positive. Consequently, we have raised our fair value for the bank from AED9.36/share (ex-bonus) to **AED9.92/share** which translates into a rise of 6%. At the current market price, the stock offers an upside of 13.6%. We have maintained our recommendation on the stock at **BUY**.

UNB: We have decreased our profit expectations for the bank over the forecast period due to our understanding that the bank will need to take higher provisions than previously anticipated. Our conservative stance take due cue from UNB's expected exposure to some large groups for which it is likely to take provisions. Moreover, the shortfall in the bank's collective provisions will also take a toll on its earnings. Resultantly, we have decreased our fair value for the stock by 6%, valuating it at **AED4.64/share**. Interestingly the banking stock is trading below its book value despite a decent 2012e ROE of 13.7%. At the current market price, the bank still offers an upside of 52.1%; we maintain our recommendation on UNB at **STRONG BUY**.

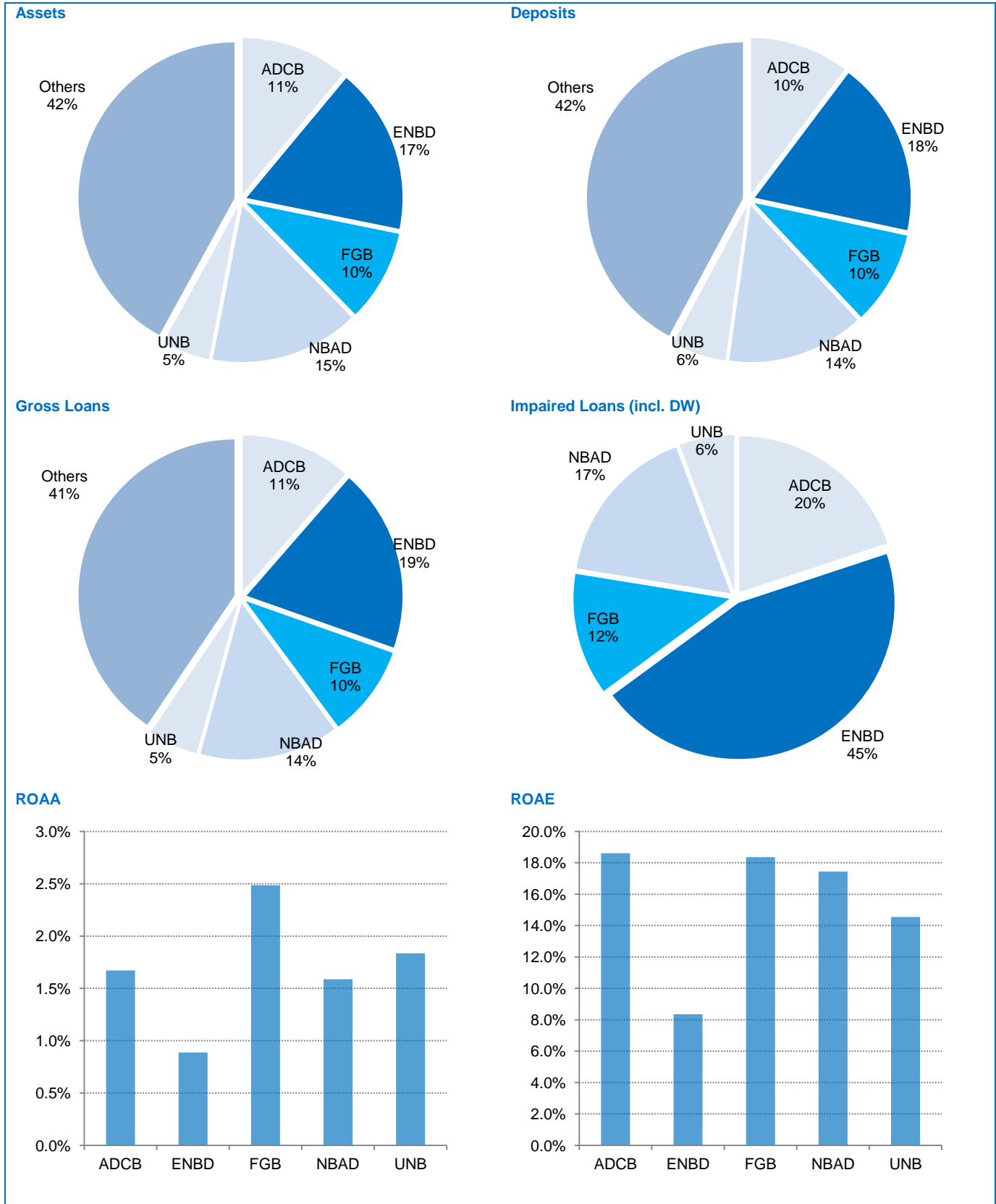
UAE Conventional Banking Universe – Aggregate Forecast



Source: Company Accounts, Global Research

Comparative Charts

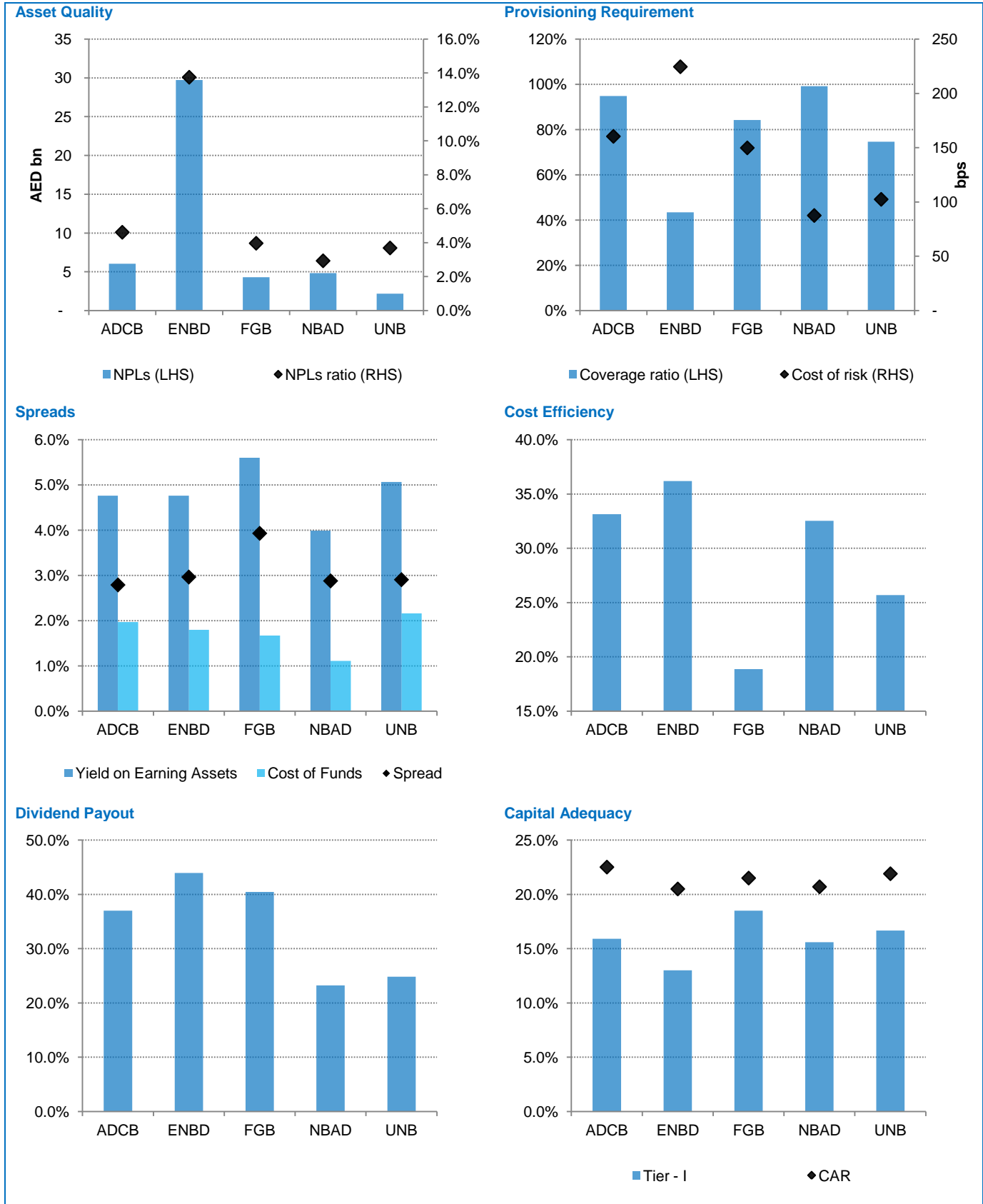
Peer Group



Source: Company Accounts, Global Research

Figures are for 2011

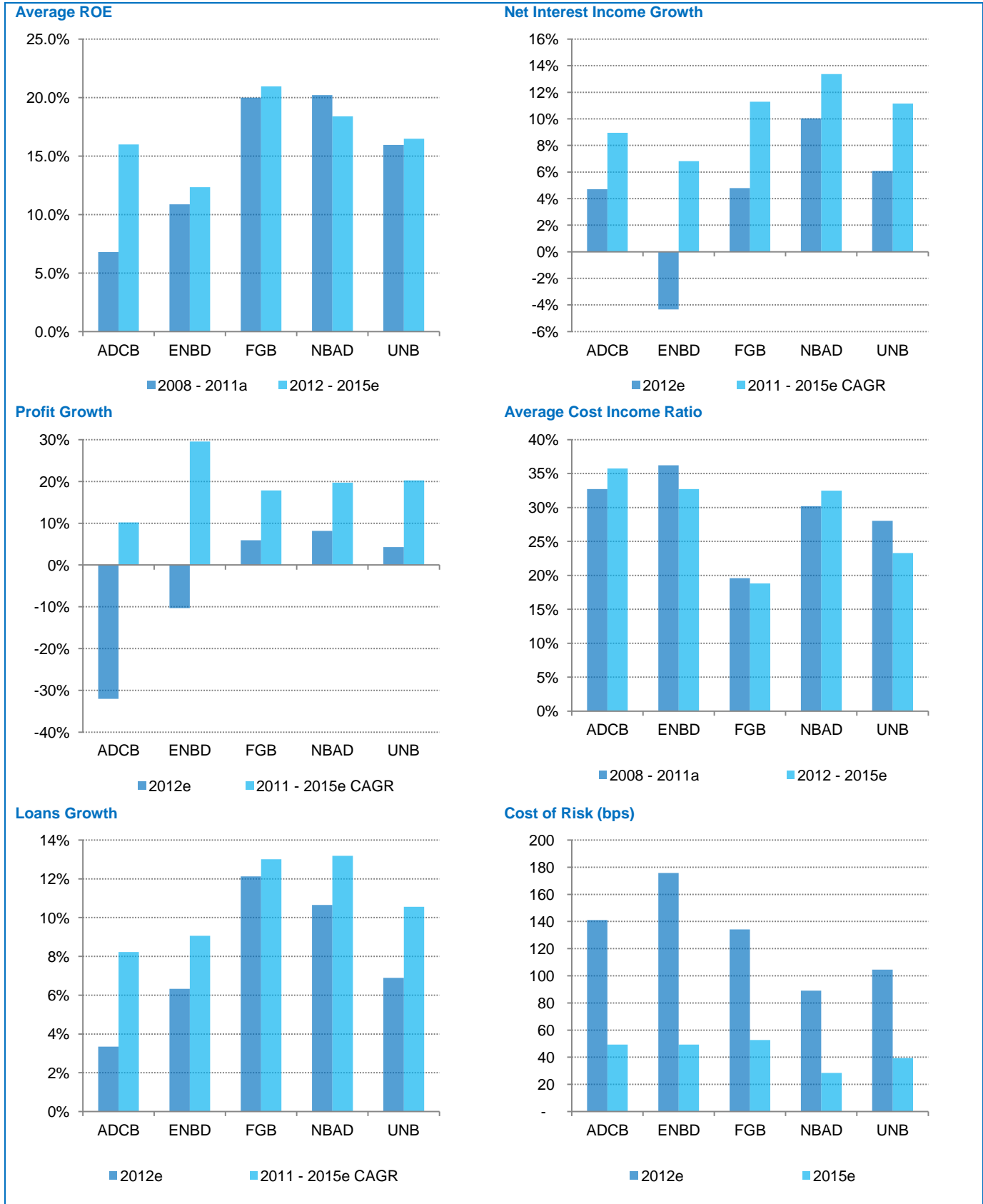
Peer Group



Source: Company Accounts, Global Research

Figures are for 2011

Forecast Comparison



Source: Company Accounts, Global Research

Company Profiles

Abu Dhabi Commercial Bank (ADCB)

Buy
Target Price
AED 3.73

Market Data

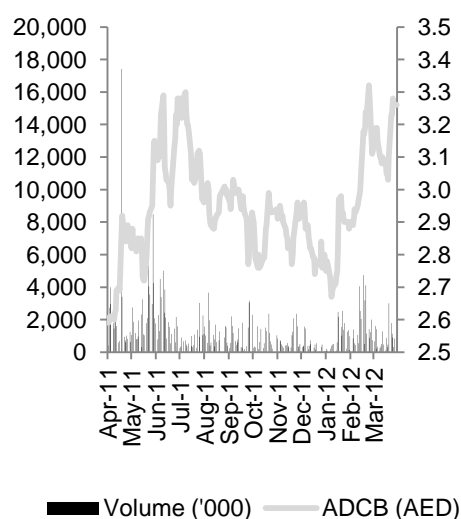
Bloomberg Code:	ADCB UH
Reuters Code:	ADCB.AD
CMP (08 April 2012):	AED3.26
O/S (mn)	5,595.6
Market Cap (AED mn):	18,241.6
Market Cap (USD mn):	4,966.4
P/E 2012e (x):	8.9
P/BV 2012e (x):	1.0

Price Performance 1-Yr

High (AED):	3.32
Low (AED):	2.59
Average Volume: (000)	1,266.7

	1m	3m	12m
Absolute (%)	4.8	17.7	26.9
Relative (%)	5.0	9.3	28.4

Price Volume Performance



- **Solid operating performance garners confidence**
- **Toxic investments have been provided for, net exposure limited**
- **Continuation of dividends will be taken positively by investors**
- **Fair value upgraded**

Handsome regular income solidifies confidence in the bank

ADCB reported 2011 profit of AED3,026mn for 2011, 8% lower than our estimates though exhibiting a growth 7 times over 2010. Profit included AED1,314mn in one-off gains on account of sale of its Malaysian associate RHB; profit exclusive of one-off was great nevertheless, jumping over 3 times over 2010. Stellar top-line growth and a marked decline in provisions can be attributed with this recovery. Variance from our estimates was due to lower non-interest income and slightly higher provisions as against expectations.

Operating income boosted by thrust in net interest income

ADCB's total operating income rose 17%YoY driven primarily by net interest income which rose 27%YoY. Growth in the NII was purely spread driven, as loans remained relatively unchanged (just 1%YoY) while spreads increased by 43bps during the year, as per our calculations. The bank seems to have managed its liabilities well, bringing down the cost of funds drastically to average at 2.0% for the year; calculations show that cost of funds for 4Q11 was just 1.7%, down from 2.7% in 1Q11 i.e. the start of the year. Deposits underwent effective cost optimization with low cost CASA accounts growing 15%YoY and expensive time deposits dropping 4%YoY; overall deposit growth was 4%YoY.

Non-interest income (including profit from associates) however, did not do very well for the year and was down by 7%YoY (12% lower than our expectations). Albeit, the change in lending regulations in May 2011 did have the negative impact on fee income, the actual reason was the decline in share of profits from associates; an outcome of the sale of RHB Capital Berhad. Improvement in returns from financial investments and drastic reduction in revaluation loss from investment properties, as against 2010 added favourably to movement in the non-interest income.

Limited room for further provisions from financial investments

ADCB took provision amounting to AED316mn (down 26%YoY) against its exposure to investment in financial instruments which include FRN, CDO and CDS. After these provisions, the bank's remaining exposure to these instruments stands immensely curtailed and hence leaves little room for further provisions. As of December 2011, net exposure to FRN & CDO stands at AED44mn while that to CDS is also low and estimated at 0 - 0.5% of tangible equity.

Investment Indicators

	2011	2012e	2013e	2014e	2015e
Net Profit Growth	694.2%	-32.0%	33.9%	29.8%	24.7%
NII Growth	27.3%	4.7%	4.7%	9.0%	17.9%
Loan Growth	1.1%	3.3%	6.9%	11.0%	11.9%
Deposits Growth	3.5%	3.1%	6.0%	11.0%	11.0%
Adjusted EPS (AED)	0.54	0.37	0.49	0.64	0.80
Adjusted BVPS (AED)	3.0	3.2	3.5	3.8	4.3
ROE	18.6%	11.8%	14.8%	17.6%	19.8%
Dividend Yield	7.2%	4.6%	6.1%	7.7%	9.2%
P/E Ratio (x)*	5.1	8.9	6.6	5.1	4.1
P/BV Ratio (x)*	0.9	1.0	0.9	0.9	0.8

Source: Company Reports & Global Research

* Market price for 2012 and subsequent years as per closing prices on ADX on 08 April 2012

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Improvement in asset quality caused by upgrading renegotiated loans, write-offs

ADCB reported a decline of AED8,253mn in its non-performing loans which stood at AED14,27mn in 2010. This was largely due to the transfer of AED6,749mn worth of loans to the performing category after adequate performance post restructuring, almost all of which seems to be the exposure to Dubai World. The bank also wrote-off loans to the tune of AED2,487mn during the year, which amounts to 1.9% of the loan book and therefore aided in the decline of impaired loans. Adjusting to these, we believe that ADCB's NPLs saw an addition of AED983mn to impaired loans which amount to a rise of 75bps in the NPL ratio during the year.

Change in NPLs

AEDmn

Starting NPLs: 2011	14,278.2
Ending NPLs: 2011	6,025.3
Change in NPLs	(8,252.9)

Explanation:

Transferred to performing category	6,749.0
Write-offs	2,487.5
New NPLs formed	983.6

Source: Global Research

Provisions ease off considerably during 2011, trajectory likely to continue in 2012

ADCB's provision expense declined by 27%YoY during 2011, down for the second consecutive year after touching peak in 2009. Most of the provisions were specific in nature as the bank with over AED400mn taken as general provisions spiking up the bank's collective provisions to CRWA ratio to 1.59%, slightly above the 1.5% requirement that is required to be met by 2014. As a result, ADCB's specific coverage increased from 33% in 2010 to 61% in 2011 and overall coverage now stands at a very comfortable 95%, up from 44% in 2010.

We expect the bank's cost of risk to slide down further to around 140bps in 2012, leading to a 15%YoY drop in provisions. Further, we expect the decline in provisions to continue throughout our forecast period, as the bank seems to have seen the worst and dealt with it adequately. We forecast the NPL coverage to reach 113% in 2012 and rise up to 134% by the end of 2015. Despite the decline, provisions are expected to remain high at least in 2012 and 2013, on account of Al Jaber Group to which the bank is expected to have significant exposure to, amongst other names.

We increase our 2012 profits on softening provisioning requirements

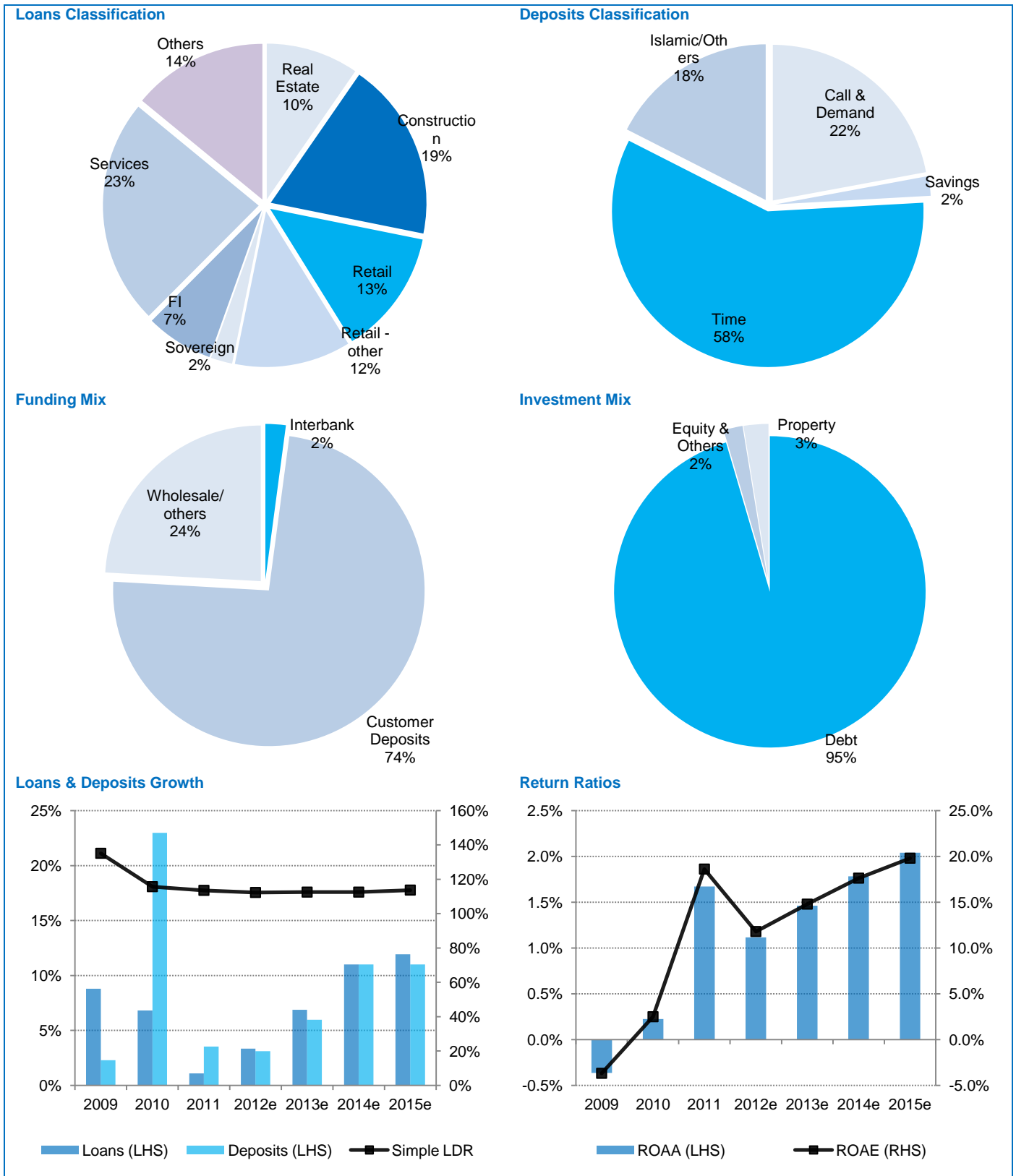
We have increased our net profit expectations for 2012 by 9% on account of decrease in our forecast related to provision expense. This comes despite revising down our estimates related to operating income. Reduced forecast related to top-line emanates from our expectations of pressure on spreads and slower volumetric growth. We have nevertheless raised our fair value for the stock by 3%. We have revised our fair value from AED3.62/share to **AED3.73/share**. At the closing price of AED3.26 (April 08, 2012), the banking stock still offers an upside of 14.4%. Given the sizeable run up, the stock has witnessed since our last report (Investment Strategy 2012) thereby reducing upside potential, we reduce our recommendation to BUY.

Variance of 2011 results from expectations and revision of estimates

	2011a	2012e	2013e	2014e
Net Interest/Financing Income	1%	-6%	-8%	-10%
Total Non-Interest/Financing Income	-12%	-15%	-19%	-18%
Total Operating Income	-3%	-8%	-11%	-12%
Provisions expense	6%	-22%	-17%	-38%
Operating Expenses	-2%	-7%	-10%	-11%
Net Profit	-8%	9%	-8%	-1%
Gross Loans & Financings	-2%	-4%	-4%	-2%
Total Assets	2%	1%	-2%	-2%
Deposits from Customers	1%	-2%	-6%	-7%

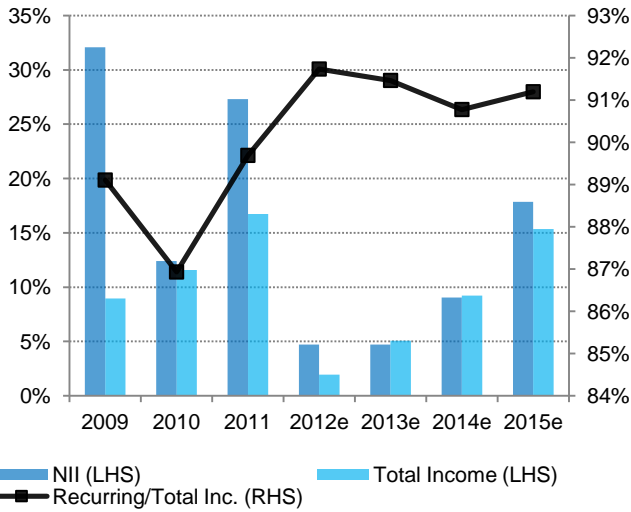
Source: Company Accounts, Global Research

ADCB in Charts

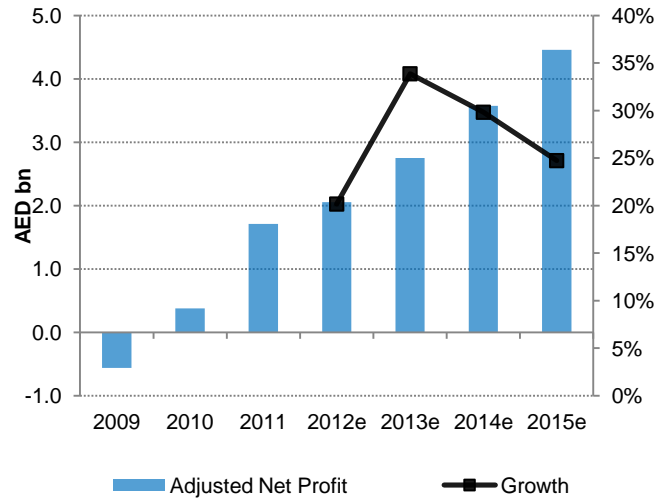


Source: Company Accounts, Global Research

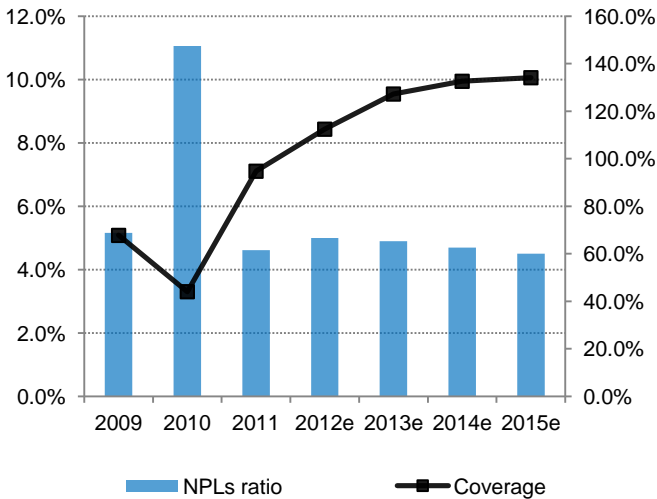
Top-line Growth & Recurring Income



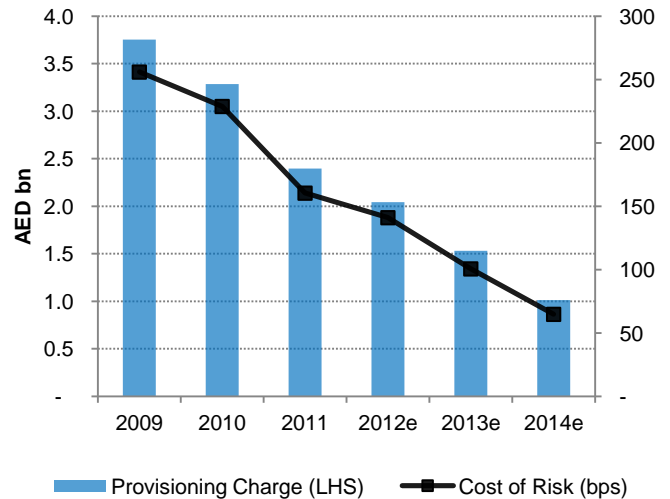
Profitability



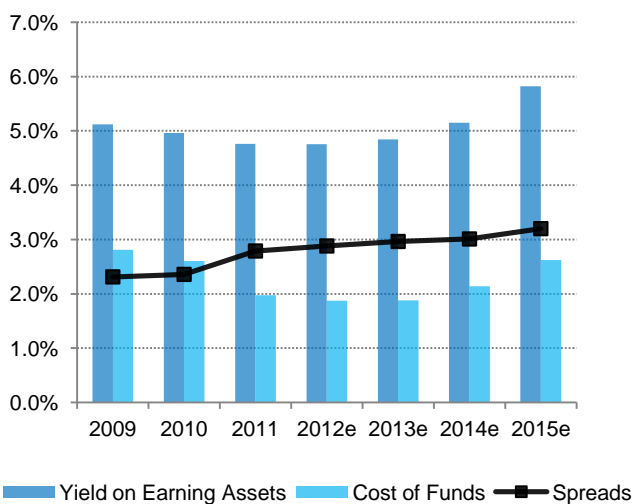
Asset Quality



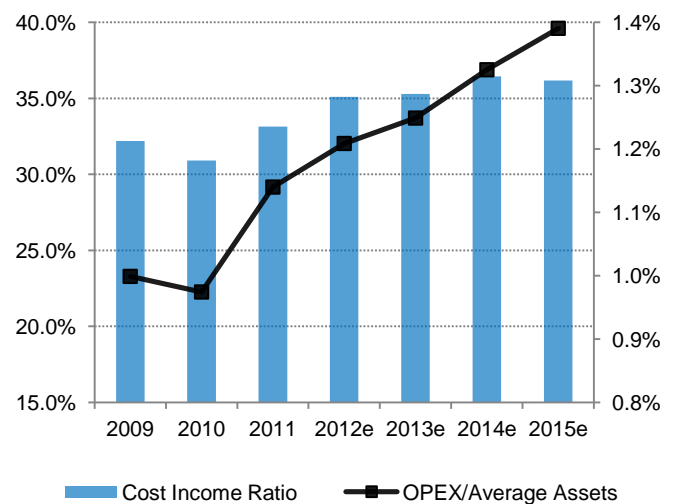
Provisioning



Spreads



Cost Efficiency



Source: Company Accounts, Global Research

Financial Statements

	(AED mn)	2009	2010	2011	2012e	2013e	2014e	2015e
Income Statement	Interest/Financing Income	6,898	7,376	7,716	7,649	7,964	9,010	11,126
	Interest Expense/Payment to Depositors	(3,622)	(3,694)	(3,028)	(2,741)	(2,824)	(3,407)	(4,522)
	Net Interest/Financing Income	3,276	3,682	4,688	4,908	5,139	5,603	6,604
	Fee & Commission Income	986	956	898	916	962	1,010	1,061
	Investment Income	(11)	(121)	24	33	33	83	91
	Other Income	532	818	618	492	536	590	649
	Total Non-Interest/Financing Income	1,507	1,654	1,540	1,441	1,531	1,682	1,800
	Total Operating Income	4,783	5,336	6,228	6,349	6,670	7,285	8,404
	Provisions expense	(3,753)	(3,287)	(2,398)	(2,042)	(1,530)	(1,012)	(853)
	Operating Expenses	(1,539)	(1,649)	(2,063)	(2,228)	(2,353)	(2,655)	(3,039)
Profit Before Taxation	(510)	400	1,767	2,080	2,787	3,618	4,513	
Sale of associate (net)	-	-	1,314	-	-	-	-	
Taxation & Minority Interest	(50)	(19)	(55)	(23)	(33)	(43)	(54)	
Net Profit Attributable to Parent	(559)	381	3,026	2,057	2,753	3,575	4,459	
Balance Sheet	Cash Balances	4,139	5,888	6,630	7,633	8,572	10,069	11,892
	Deposits with Banks & FIs	18,349	18,398	20,840	16,672	12,337	11,474	9,638
	Investment Securities	4,459	8,263	15,068	17,598	20,103	21,118	22,196
	Gross Loans & Financings	120,843	129,068	130,467	134,829	144,094	159,944	179,018
	Loan Loss Reserve	(4,232)	(6,296)	(5,712)	(7,583)	(8,987)	(9,973)	(10,808)
	Net Loans & Financings	116,610	122,772	124,755	127,245	135,106	149,971	168,210
	Investment in Associates	4,583	5,358	82	87	95	105	115
	Investment Properties	549	289	397	467	495	548	607
	Net Fixed Assets	792	1,070	965	942	939	955	987
	Other Assets	10,727	16,233	14,990	14,240	14,383	14,527	14,672
Total Assets	160,209	178,271	183,726	184,884	192,031	208,766	228,316	
Deposits from Banks & FIs	4,738	4,842	3,138	3,515	3,585	3,657	3,730	
Deposits from Customers	86,300	106,134	109,887	113,301	120,078	133,287	147,948	
Other Borrowings	37,541	29,926	31,897	30,563	29,315	28,490	28,126	
Other Liabilities	12,539	17,796	17,844	15,555	15,692	18,009	20,613	
Paid-up Capital	4,810	4,810	5,596	5,596	5,596	5,596	5,596	
Retained Earnings	1,468	1,524	2,589	3,154	3,993	5,211	7,141	
Other Reserves	8,743	9,231	8,768	9,180	9,730	10,445	11,054	
Shareholders' Equity	15,021	15,565	16,953	17,929	19,319	21,252	23,791	
Minority Interest	69	9	6	20	42	71	107	
Total Equity & Liability	156,209	174,271	179,726	180,884	188,031	204,766	224,316	
Ratio Analysis	Return on Average Assets	-0.4%	0.2%	1.7%	1.1%	1.5%	1.8%	2.0%
	Return on Average Equity	-3.7%	2.5%	18.6%	11.8%	14.8%	17.6%	19.8%
	Fee Income Yield	0.8%	0.8%	0.7%	0.7%	0.7%	0.7%	0.6%
	Recurring Income/Operating Income	89.1%	86.9%	89.7%	91.7%	91.5%	90.8%	91.2%
	Interest Earning/Financing Assets Yield	5.1%	5.0%	4.8%	4.8%	4.8%	5.2%	5.8%
	Cost of Funds	2.8%	2.6%	2.0%	1.9%	1.9%	2.1%	2.6%
	Net Spread	2.3%	2.4%	2.8%	2.9%	3.0%	3.0%	3.2%
	Cost to Income Ratio	32.2%	30.9%	33.1%	35.1%	35.3%	36.4%	36.2%
	Net Loans to Customer Deposits	135.1%	115.7%	113.5%	112.3%	112.5%	112.5%	113.7%
	Non Performing Loans	6,241.7	14,278.2	6,025.3	6,741.4	7,060.6	7,517.4	8,055.8
	Loan Loss Reserve	4,232.3	6,296.4	5,711.9	7,583.3	8,987.4	9,972.8	10,807.6
	NPLs to Gross Loans	5.2%	11.1%	4.6%	5.0%	4.9%	4.7%	4.5%
	NPL Coverage	67.8%	44.1%	94.8%	112.5%	127.3%	132.7%	134.2%
	Provisions/Total Income	78.5%	61.6%	38.5%	32.2%	22.9%	13.9%	10.1%
	Cost of Risk (bps)	256.0	228.8	160.5	141.1	100.7	64.8	49.3
	Equity to Gross Loans	12.4%	12.1%	13.0%	13.3%	13.4%	13.3%	13.3%
	Equity to Total Assets	9.4%	8.7%	9.2%	9.7%	10.1%	10.2%	10.4%
	Dividend Payout Ratio	0.0%	0.0%	37.0%	40.7%	40.7%	39.1%	37.6%
	Adjusted EPS (AED)	(0.1)	0.1	0.5	0.4	0.5	0.6	0.8
	Adjusted BVPS (AED)	2.7	2.8	3.0	3.2	3.5	3.8	4.3
Market Price (AED) *	1.6	2.1	2.8	3.3	3.3	3.3	3.3	
Dividend Yield	0.0%	0.0%	7.2%	4.6%	6.1%	7.7%	9.2%	
P/E Ratio (x)	nm	26.1	5.1	8.9	6.6	5.1	4.1	
P/BV Ratio (x)	0.5	0.6	0.9	1.0	0.9	0.9	0.8	

Source: Company Reports & Global Research

* Market price for 2012 and subsequent years as per closing prices on ADX on April 08, 2012

Emirates NBD (ENBD)

BUY

Target Price
AED 3.42

Market Data

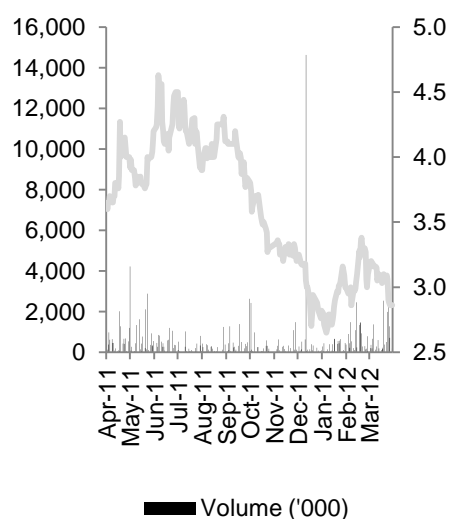
Bloomberg Code:	Emirates UH
Reuters Code:	ENBD.DU
CMP (08 April 2012):	AED2.86
O/S (mn)	5,557.8
Market Cap (AED mn):	15,895.2
Market Cap (USD mn):	4,327.6
P/E 2012e (x):	7.0
P/BV 2012e (x):	0.5

Price Performance 1-Yr

High (AED):	4.63
Low (AED):	2.65
Average Volume: (000)	511.4

	1m	3m	12m
Absolute (%)	-7.7	1.4	-17.6
Relative (%)	-11.4	-23.5	-24.9

Price Volume Performance



- Union Properties written down below market value, risk mitigated
- Ease off in provisions seen going forward
- Heavy debt maturities in 2012 but manageable
- Stock still offers good upside despite reduction in our fair value

Profit growth derived from improvement in operating performance

ENBD reported a net profit of AED2,531mn for 2011, projecting a growth of 8%YoY. Extraordinary gains of AED1.8bn made from sale of Network International, during the year was offset by record high provisions; an increase of AED2.1bn or 59%YoY over 2011. Pre-provision net operating income was up by 7.5%YoY indicating that growth in the bottom-line was driven by the bank's operations rather than one-off gains.

Top-line regains composure, grows 7%YoY

After shrinking in 2010, ENBD's net interest income grew 7% driven largely by the net interest spread, which increased by 21bps during the year. Loans grew by 5%YoY, an improvement from a larger contraction in the previous year and also added positively towards net interest income growth. The bank's net interest spread was affected positively by the drop in cost of funds, which came about by a shift in the composition of deposits towards low-cost demand and call accounts; demand/call deposits rose 28%YoY while time deposits fell 18%YoY, leading to an increase in contribution of low-cost demand deposits from 26% in 2010 to 34% in 2011. Overall deposits shrank by 3%YoY during the year and the LTD ratio saw a manageable rise to 105% from 98% in 2010.

Union Properties written down further

ENBD owns 47.6% of Union Properties (UP) which has seen significant losses and significant share price reduction in the down-market. In succession from the previous year, ENBD wrote-down its investment in UP by AED676mn during 2011 in 2 successive steps in 1Q11 and in 4Q11. The investment has been written down to AED0.33/share from AED0.8/share in 2010 as against a market price of AED0.43/share (as of the writing of this report). The carrying value of UP in ENBD's book has been slashed from AED1,282mn in 2010 to AED532mn leaving limited room for further downgrade.

Going forward, with adequate provisions taken, and the fact that UP is trading 30% above the carrying value, and that consensus estimates see UP returning to profits in 2012, we believe that there is little reason why we should see this investment affecting the bottom-line negatively.

Investment Indicators

	2011	2012e	2013e	2014e	2015e
Net Profit Growth	8.2%	-10.3%	39.1%	63.9%	37.7%
NII Growth	6.8%	-4.3%	7.1%	12.0%	13.5%
Loan Growth	5.3%	6.3%	8.0%	11.0%	11.0%
Deposits Growth	-3.3%	3.4%	8.0%	11.0%	11.0%
Adjusted EPS (AED)	0.46	0.41	0.57	0.93	1.28
Adjusted BVPS (AED)	5.6	5.7	6.0	6.7	7.7
ROE	8.4%	7.2%	9.7%	14.6%	17.8%
Dividend Yield	6.8%	6.9%	7.8%	8.7%	10.4%
P/E Ratio (x)*	6.5	7.0	5.0	3.1	2.2
P/BV Ratio (x)*	0.5	0.5	0.5	0.4	0.4

Source: Company Reports & Global Research

* Market price for 2012 and subsequent years as per closing prices on DFM on 08 April 2012

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NPL ratio saw an augmentation of 380bps during 2011, in line with guidance received

ENBD's NPL ratio reached 13.8% in 2011, inclusive of Dubai World (AED9.0bn) and one of the two entities of Dubai Holding (AED4.8bn), while the second entity of DH (AED2.5bn) was derecognized in 2Q11. Almost half (46%) the NPLs are derived from the 2 GREs, the exclusion of which reduces the NPL ratio to 7.2%. During 2011, 100bps to the NPL ratio were added by the underlying portfolio while the remaining 280bps came from exposure to the GREs. At the end of the year, ENBD's NPLs were in line with the guidance provided earlier in the year, however, the coverage ratio is still short of the 55 – 60% coverage guidance given for 2013; coverage ratio stood at 43% for the overall portfolio and 72% exclusive of the GREs.

On the other hand, ENBD seems to have over provided for its general provisions which stands at 2.54% of CRWA as against the requirement of 1.5%. Due to this conservatism, an extra AED1,536mn stands held up, which if released could add significantly to the bottom-line; every AED200mn addition to the bottom-line would result in an 8% addition to YoY growth in 2012. However, as per our discussion with the bank, it is highly unlikely to reverse the amount, at least for the near future.

As per the bank's guidelines, NPL ratio is expected to rise by 1% every year for the next 2 years reaching somewhere between 15 – 16% by 2013. We believe that NPL ratio will reach 14.8% in 2012 and touch peak in 2013 at 15.6% before sliding down as negotiated loans get upgraded and the quality down cycle reaches its climax. High NPL formation along with increase in NPL coverage towards the 55 - 60% target will keep loan provisions between 3.5 – 4.0bn for at least the next 2 years.

Heavy debt maturities in 2012, refinancing will come at additional cost

ENBD is expected to see heavy debt maturities in 2012, amounting to AED8.5bn (USD2.3bn) which constitutes 54% of its wholesale debt. During the current year, ENBD has been able to raise debt amounting to USD1.9bn through 4 issues which will easily refinance the debt maturing during the year. Firstly, the USD500mn sukuk launched by its wholly owned subsidiary, EIB which will mature in 2017 and was priced at approximately 4.718% (USD 5-yr mid-swaps + 350bps). Secondly, CNY1bn (USD160mn) Dim Sum bond which will mature in 2015, was priced at 4.875%. Then a USD1bn bond followed by private placements of USD250mn.

The interest rate paid by ENBD on its debt averaged at 1.6% in 2011 and in 2010, much lower than the newly acquired debt replacing part of it. Since the debt maturing in 2012 forms 3.8% of the total interest bearing liabilities, an increase of 300 – 350bps in its cost is expected to raise the cost of funds by 10 – 15bps and translates into an additional interest expense AED250 – 300mn in 2012.

Valuation update – Downgraded to BUY on company specific risk

ENBD's top-line is expected to feel the brunt of continued muted growth in loans and pressure on spreads, persuading us to revise down our expectations for 2012 by 2% which translates into a top-line reduction of 7%YoY. This decline is likely to be absorbed by a 3% increase in non-interest income, driven by improvement in investment income; we do not see the repetition of AED250mn in losses from investments (financial and property). We continue to expect high provisions during 2012, inching up our projections by a slight 2% but decrease our forecast for operating expenses due to news regarding retrenchment of 15% (roughly 700 people) of the workforce during 2012. The full impact of this improvement in costs is likely to come in 2013. Despite the upward revision, provisions are set to ease off in 2012; we see a decline of 23%. We have increased our profit expectations for ENBD by 19%; profitability is expected to decline by 10%YoY but that is due to 2011 figures bloated by extraordinary gain.

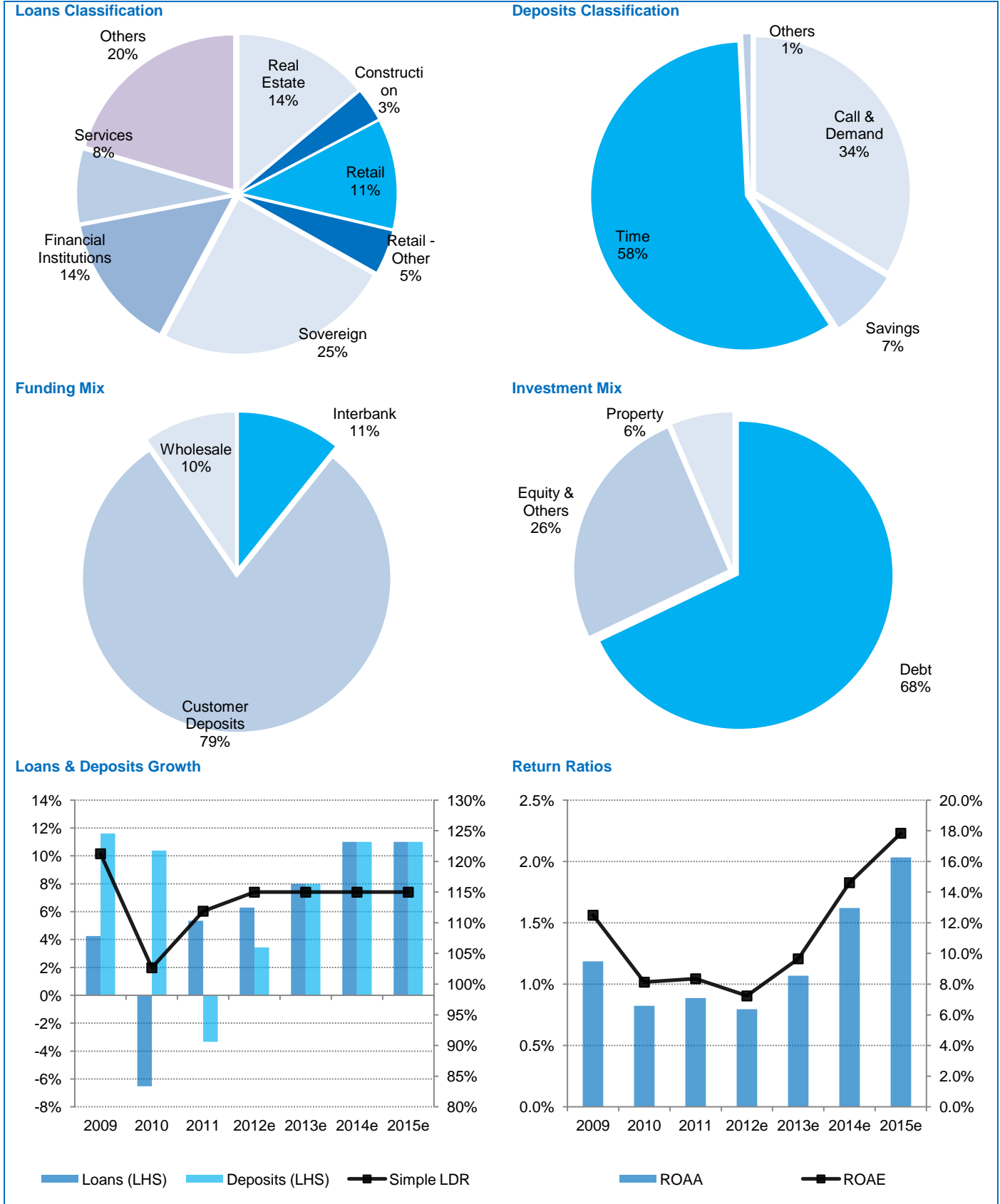
Variance of 2011 results from expectations and revision of estimates

	2011a	2012e	2013e	2014e
Net Interest/Financing Income	2%	-2%	-2%	-4%
Total Non-Interest/Financing Income	5%	3%	-3%	-3%
Total Operating Income	3%	-1%	-2%	-4%
Provisions expense	6%	2%	11%	-8%
Operating Expenses	-1%	-14%	-10%	-11%
Net Profit	-7%	19%	-8%	5%
Gross Loans & Financings	1%	4%	7%	8%
Total Assets	4%	4%	5%	7%
Deposits from Customers	4%	3%	5%	7%

Source: Company Accounts, Global Research

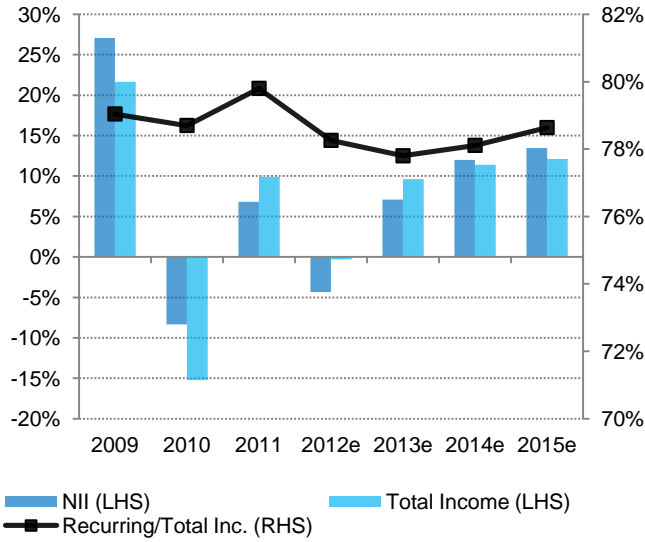
We have slashed our target price on the banking stock by 11% on increased risk perception for Dubai especially since major Dubai government maturities are expected in 2012. ENBD's exposure to GREs and other prominent UAE family based businesses is an additional concern. Our new fair value stands at **AED3.42/share** offering an upside potential of 19.7%. We therefore downgrade our recommendation from STRONG BUY to **BUY**.

ENBD in Charts

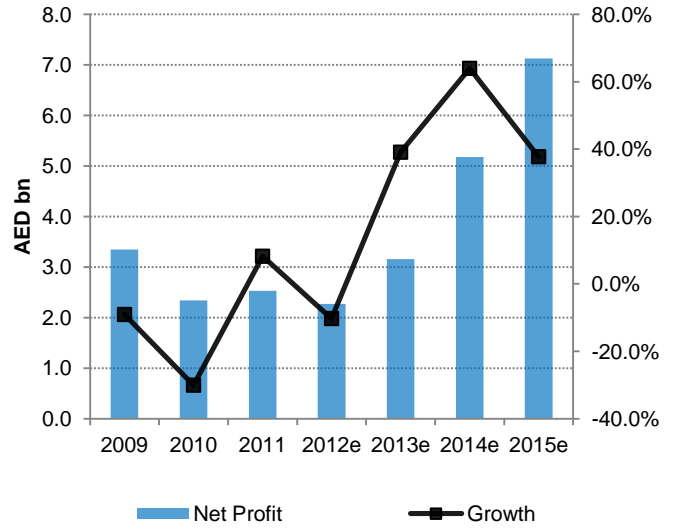


Source: Company Accounts, Global Research

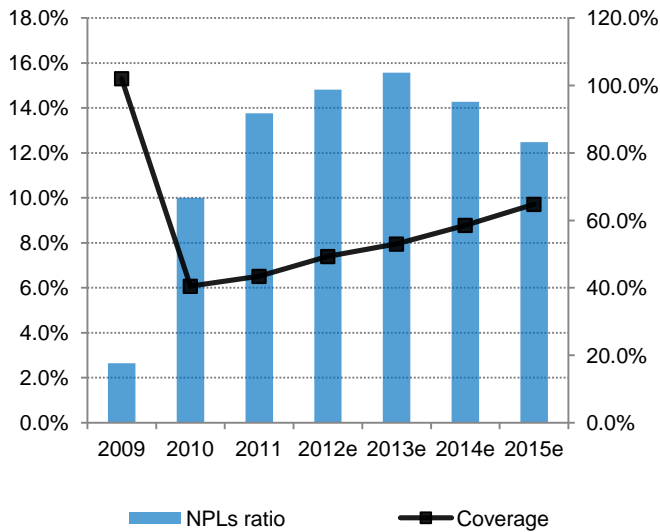
Top-line Growth & Recurring Income



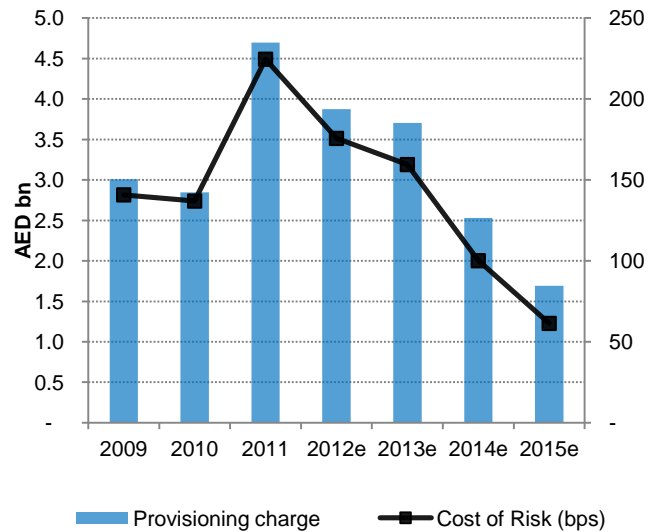
Profitability



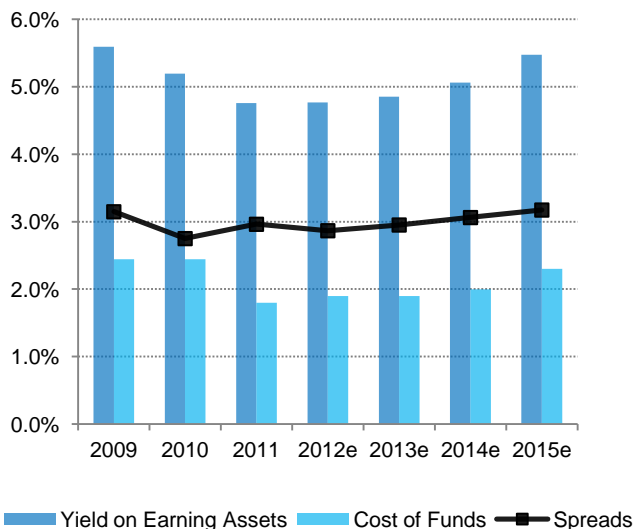
Asset Quality



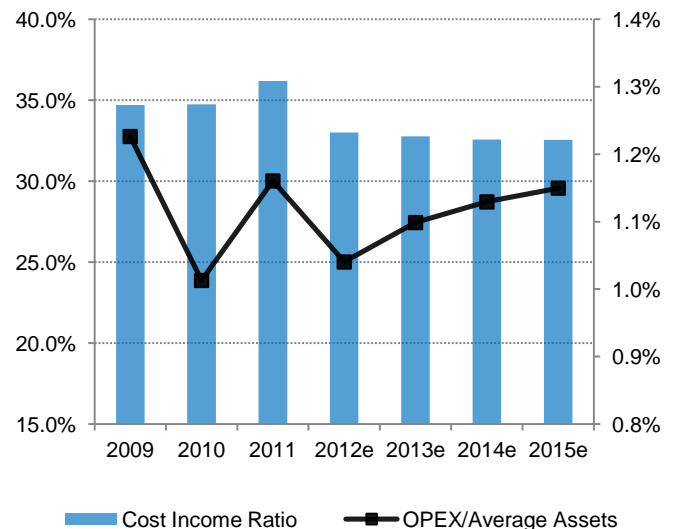
Provisioning



Spreads



Cost Efficiency



Source: Company Accounts, Global Research

Financial Statements

	(AED mn)	2009	2010	2011	2012e	2013e	2014e	2015e
Income Statement	Interest/Financing Income	13,324	12,667	11,565	11,480	12,129	13,679	16,208
	Interest Expense/Payment to Depositors	(5,912)	(5,872)	(4,307)	(4,537)	(4,693)	(5,350)	(6,757)
	Net Interest/Financing Income	7,412	6,795	7,258	6,943	7,436	8,329	9,451
	Fee & Commission Income	1,965	1,839	1,837	1,929	2,122	2,334	2,567
	Investment Income	265	55	(250)	6	148	164	175
	Other Income	1,044	368	1,107	1,043	1,170	1,289	1,392
	Total Non-Interest/Financing Income	3,274	2,262	2,694	2,977	3,440	3,787	4,135
	Total Operating Income	10,686	9,057	9,952	9,921	10,876	12,116	13,586
	Provisions expense	(3,635)	(3,550)	(5,654)	(4,341)	(4,110)	(2,940)	(1,950)
	Operating Expenses	(3,709)	(3,147)	(3,602)	(3,274)	(3,565)	(3,946)	(4,423)
Profit Before Taxation	3,343	2,360	697	2,306	3,201	5,230	7,213	
Sale of subsidiary	-	-	1,813	-	-	-	-	
Taxation & Minority Interest	3	(21)	22	(36)	(43)	(53)	(83)	
Net Profit Attributable to Parent	3,346	2,340	2,531	2,270	3,157	5,176	7,129	
Balance Sheet	Cash Balances	19,671	37,683	21,526	22,557	21,261	25,898	28,700
	Deposits with Banks & FIs	10,047	13,850	19,852	12,335	15,144	12,232	12,844
	Investment Securities	16,764	14,961	16,472	14,002	14,589	15,944	15,532
	Gross Loans & Financings	221,247	205,995	216,825	230,540	248,983	276,371	306,772
	Loan Loss Reserve	(6,633)	(8,899)	(13,685)	(17,544)	(21,309)	(23,931)	(25,723)
	Net Loans & Financings	214,614	197,096	203,140	212,997	227,674	252,440	281,049
	Investment in Associates	2,445	1,412	2,041	2,246	2,470	2,717	2,989
	Investment Properties	1,708	1,907	1,131	1,267	1,419	1,589	1,780
	Net Fixed Assets	2,301	2,337	2,577	2,823	3,138	3,526	3,973
	Other Assets	14,028	16,970	17,874	18,262	18,982	19,774	20,644
	Total Assets	281,576	286,216	284,613	286,488	304,677	334,121	367,510
	Deposits from Banks & FIs	29,995	18,857	26,105	27,410	23,299	24,464	25,687
	Deposits from Customers	181,162	199,972	193,314	199,948	215,944	239,698	266,064
	Other Borrowings	32,955	25,575	23,396	15,904	19,867	20,136	19,831
	Other Liabilities	9,494	12,062	10,817	11,358	11,926	12,522	13,149
	Paid-up Capital	5,558	5,558	5,558	5,558	5,558	5,558	5,558
	Retained Earnings	5,990	6,700	7,588	8,240	9,906	13,553	19,014
	Other Reserves	16,329	17,398	17,789	18,017	18,117	18,117	18,117
	Shareholders' Equity	27,876	29,656	30,935	31,814	33,581	37,228	42,688
	Minority Interest	94	94	46	52	60	73	91
Total Equity & Liability	281,576	286,216	284,613	286,488	304,677	334,121	367,510	
Ratio Analysis	Return on Average Assets	1.2%	0.8%	0.9%	0.8%	1.1%	1.6%	2.0%
	Return on Average Equity	12.5%	8.1%	8.4%	7.2%	9.7%	14.6%	17.8%
	Fee Income Yield	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%
	Recurring Income/Operating Income	87.8%	95.3%	91.4%	89.4%	87.9%	88.0%	88.5%
	Interest Earning/Financing Assets Yield	5.6%	5.2%	4.8%	4.8%	4.9%	5.1%	5.5%
	Cost of Funds	2.4%	2.4%	1.8%	1.9%	1.9%	2.0%	2.3%
	Net Spread	3.1%	2.8%	3.0%	2.9%	3.0%	3.1%	3.2%
	Cost to Income Ratio	34.7%	34.7%	36.2%	33.0%	32.8%	32.6%	32.6%
	Net Loans to Customer Deposits	118.5%	98.6%	105.1%	106.5%	105.4%	105.3%	105.6%
	Non Performing Loans	5,830.6	20,424.8	29,713.9	34,022.0	38,641.0	39,308.0	38,136.6
	Loan Loss Reserve	5,948.3	8,322.1	12,897.0	16,770.9	20,474.8	23,004.8	24,695.3
	NPLs to Gross Loans	2.6%	9.9%	13.8%	14.8%	15.6%	14.3%	12.5%
	NPL Coverage	102.0%	40.7%	43.4%	49.3%	53.0%	58.5%	64.8%
	Provisions/Total Income	34.0%	39.2%	56.8%	43.8%	37.8%	24.3%	14.4%
	Cost of Risk (bps)	140.8	137.0	224.6	175.7	159.5	100.1	61.4
	Equity to Gross Loans	12.6%	14.4%	14.3%	13.8%	13.5%	13.5%	13.9%
	Equity to Total Assets	9.9%	10.4%	10.9%	11.1%	11.0%	11.1%	11.6%
	Dividend Payout Ratio	33.2%	47.5%	43.9%	49.0%	39.6%	26.8%	23.4%
	Adjusted EPS (AED)	0.6	0.4	0.5	0.4	0.6	0.9	1.3
	Adjusted BVPS (AED)	5.0	5.3	5.6	5.7	6.0	6.7	7.7
Market Price (AED) *	3.0	2.8	2.9	2.9	2.9	2.9	2.9	
Dividend Yield	6.8%	7.2%	6.8%	7.0%	7.9%	8.7%	10.5%	
P/E Ratio (x)	4.9	6.6	6.5	7.0	5.0	3.1	2.2	
P/BV Ratio (x)	0.6	0.5	0.5	0.5	0.5	0.4	0.4	

Source: Company Reports & Global Research

* Market price for 2012 and subsequent years as per closing prices on DFM on April 08, 2012

First Gulf Bank (FGB)

Strong Buy
Target Price
AED 12.40

Market Data

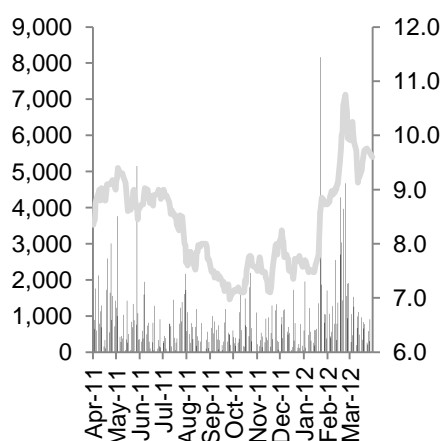
Bloomberg Code:	FGB UH
Reuters Code:	FGB.AD
CMP (08 April 2012):	AED 9.60
O/S (mn)	3,000.0
Market Cap (AED mn):	28,800.0
Market Cap (USD mn):	7,841.0
P/E 2012e (x):	7.3
P/BV 2012e (x):	1.3

Price Performance 1-Yr

High (AED):	10.75
Low (AED):	6.98
Average Volume: (000)	848.0

	1m	3m	12m
Absolute (%)	-3.3	26.7	16.7
Relative (%)	-3.2	18.4	18.2

Price Volume Performance



■ Volume ('000) — FGB (AED)

- Exposure to troubled groups is not as significant as perceived earlier
- Repetition of herculean dividends in 2012 cannot be ruled out
- Top-line growth seen despite pressure on NIM
- Despite recent run up in price, stock has quite some room to grow

Profit rose 8%YoY in 2011, adjusted profit up 5%YoY

FGB posted net profit of AED3,707mn for 2011, portraying a rise of 8%YoY. The result was slightly higher than our expectations of AED3,573mn, depicting a variance of 4%. Since, net interest income, non-interest income and profit before tax were all in line with our expectations, minority interest can be singled out as reason behind the deviation. FGB posted a reversal of AED2mn in its minority interest during 2011 against our expectations of an expense of AED140mn.

Net interest income jumps 19%YoY on robust spreads

The bank's net interest income was driven by both volumes and robust spreads. FGB's loans increased by 10%YoY during 2011, accelerating from growth witnessed in 2010 and outpaced deposits which grew by 5%YoY leading to a 'profitable' shift in the LTD (from 97% in 2010 to 101% in 2011). Spreads which saw a 32bps rise during the year, were driven by the bank's drive to a lower-cost deposit base. As a result, in the declining interest rate environment, the cost of funds outpaced the yield on assets in a southbound trajectory. The phenomenon was not unique to FGB and was witnessed by almost all banks in our coverage, with different magnitudes dependent on their capacity to decrease the cost of funds.

Non-interest income drops by 31%, wipes out gains made by top-line

FGB's total income rose just 3%YoY in 2011 despite a 19% rise in the net interest income. The jump in the top-line was almost completely eroded by a decline in non-interest income; non-interest income growth saw impediments coming in from new retail banking regulation which led to a steep fall in fee and commission income – down 18%YoY. Investment income remained diminished as well, with loss on revaluation of investment properties offsetting a 41%YoY rise in financial investment. The impact was more profound since FGB recorded an income of AED128mn under the same head in 2010 and a loss of AED56mn in 2011. Other income also fell drastically on losses from derivatives and a 57% decline in rental income, which according to the bank was due to a split in properties between FGB and its partner. Consequently FGB was required to carry out some expenditure on the properties and since rental income is net of expenses, a one-time drop in rental fee was seen. FGB expects non-interest income to return to normal levels in 2012.

Investment Indicators

	2011	2012e	2013e	2014e	2015e
Net Profit Growth	8.4%	6.0%	15.5%	29.4%	21.8%
NII Growth	19.3%	4.8%	7.6%	16.9%	16.4%
Loan Growth	9.5%	12.1%	13.0%	12.9%	14.0%
Deposits Growth	4.8%	9.0%	11.2%	13.1%	13.1%
Adjusted EPS (AED)	1.2	1.3	1.5	2.0	2.4
Adjusted BVPS (AED)	7.1	7.7	8.4	9.4	10.8
ROE	18.4%	17.8%	18.8%	22.0%	23.6%
Dividend Yield	6.5%	6.8%	7.9%	10.2%	10.4%
P/E Ratio (x)*	6.2	7.3	6.3	4.9	4.0
P/BV Ratio (x)*	2.2	1.3	1.1	1.0	0.9

Source: Company Reports & Global Research

* Market price for 2012 and subsequent years as per closing prices on ADX on 08 April 2012

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Asset quality issues remain manageable, improvement expected post 2012

On the face of it, FGB did not see any additional NPL formation during the quarter with the NPL ratio (exclusive of Dubai World and Dubai Holding) declining from 3.7% in 2010 to 3.4% in 2011; write-offs in the vicinity of AED1,133mn had a lot to do with that rather than the overall improvement of the asset base. These write-offs that grew 34%YoY constituted around 1.0% of the gross loans and were mostly related to the bank's exposure to certain corporate and to the bank's unsecured credit card exposure. Inclusive of the AED880mn related to DW (which was restructured and subsequently upgraded to performing loans) and AED621mn related to DH (only that portion which is currently under restructuring and does not form part of impaired loans as per the bank's statements; another AED200mn is already restructures and performing), the NPL ratio was up 16bps from 2010 after the net effect of the write-off and inclusion of exposure to DH during 2011. The bank has already taken provisions approximating 9 – 10% of the relevant exposures, amounting to AED82mn for DW and AED62mn for DH and the reported coverage ratio currently stands at 98% (exclusive of DW & DH).

Asset Quality 2011

	incl. DW & DH	excl. DW & DH	Reported
NPLs (AEDmn)	5,182	3,681	3,681
NPL ratio	4.8%	3.4%	3.4%
Loan Loss Reserve (AEDmn)	3,622	3,478	3,622
Coverage	69.9%	94.5%	98.4%

Source: Company Accounts, Global Research

General provisions add considerably to provisions expense

FGB continued to build up its general provisions during 2011, in an effort to reach the 1.5% of CRWA mark stipulated by the CBUAE; it currently stands at 1.05% as against 0.66% in 2010. As a result, AED646mn (or 42%) out of the total provisions taken by the bank came from general provisions. The reserve for specific provisions declined by AED319mn during the year despite an addition of AED907 due to write-offs amounting to AED1,133mn. Moreover, provisions were distributed evenly between those from retail and corporate, signifying that corporate lending is not as infected as previously assumed; this analysis is however subject to the level of write-offs that distorted one-segment or the other. Albeit, continuation of high provisions from the retail segment is still disconcerting, some relief can be garnered from the fact that provisions against retail exposure declined by 16%YoY.

Calculated movement in provisions

AEDmn	
Total provisions taken	1,553
Minus: general provisions taken	646
Estimated specific provisions taken	907
Minus: Written-off	1,133
Approx. change in specific prov. reserve	(226)
Add: Actual notional interest	(93)
Calculated/reported change in specific prov. reserve	(319)

Source: Company Accounts, Global Research

As per the guidance received from the bank, we could see the general provisions to CRWA ratio between 1.2% and 1.3% in 2012 and at 1.5% in 2013 which could mean addition of approximately AED600mn to general provisions every year in 2012 and 2013, post incorporation of a circa 10% rise in assets and therefore the CRWA each year.

Exposure to troubled groups is not as significant as previously expected

FGB was expected to have considerable exposure to DH, which is currently under restructuring. The bank announced recently, that its exposure was limited to AED621mn (0.6% of loan book) for which it has already taken a provision of AED62mn (10% of exposure). Albeit, the bank is satisfied with the current level of provisioning against this exposure, even if needs to be increased to 20%, as was the case in ENBD which prudently took provisions amounting to 20% against its exposure to an entity of DH, an addition of AED62mn to provisions will have trivial bearing on the bank's profitability in 2012.

Even being overly conservative, we do not see FGB's NPL ratio rising by more than 40bps in 2012. Provisions are expected to remain at levels seen in 2012, on pressure from general provisions, along with specific ones from the retail segment. We do however see a sharp improvement in asset quality and a drop in provisions coming in 2013 and 2014 adding considerably to bottom-line growth.

FGB's real estate portfolio currently stands at AED7.5bn which constitutes 5% of the asset base. Risks associated with this investment is however mitigated by the fact that 86% of real estate assets are either located in Abu Dhabi or are used for rental income generation. While Abu Dhabi's real estate market saw softening, the strong impact on the bank's profitability which was

being expected, did not materialized. FGB did take provisions related to revaluation of its property investments amounting to AED56mn, but that constitutes less than 1% of the investment properties and is therefore trivial.

Record dividends for 2011, high dividends cannot be ruled out for 2012

FGB distributed a 100% cash dividend which was augmented by another 100% bonus distribution for 2011. The move was cheered on by investors which saw its share price rise considerably. In its analyst conference, the bank stated that it was looking forward to reducing its CAR which stands at 21.5% currently to somewhere around 15% which would mean releasing of AED7.4bn of capital from current levels after accounting for AED1.5bn of dividend outflow for 2011. The announcement needs to be analyzed in two dimensions; that there will be high dividends, perhaps another 100% cash payout but then cash dividends are capped at 50% of net income by the CBUAE as per our discussion with banks. After the bonus issue of 100% in 2011, share capital is now at AED3bn and another 100% cash dividend means a payout amounting to AED3bn which is more than 50% of the expected AED3.9bn profit for 2012. It is safe to assume that even though 100% cash dividend is not possible for 2012 or even 2013 for that matter, the bank can consider paying as much as 65% if actual income matches our forecast, which is high nevertheless. Continuation of high dividends for the next 2 – 4 years cannot be ruled out.

A decrease in the CAR can also be achieved by the return of AED4bn in capital noted from the government, which would reduce the CAR by 3% from current levels. However, even with that going through, the bank will be left with just enough capital to payout another 2 – 3 extraordinary dividend and still maintain the CAR at 15% and that does not even take into account the profits (the change in retained earnings and therefore capital) made during 2012. Another option that the bank may exercise is looking at acquisitions, but we believe that the likelihood of such is low.

Valuation update – Maintained at STRONG BUY, fair value raised marginally

FGB is expected to feel a slight pressure on its spreads in 2012, owing to the full impact of the re-pricing of its assets due to a decline in benchmark interest rates in 2011. Net interest income may decelerate but still grow 5%YoY, on good volumes, averaging between 12 – 14%. Fee income will remain subdued since the new retail regulation which was enforced in May 2011, will have a full year impact in 2012. NPLs are expected to rise slightly in 2012 and then drop in years following as restructuring commences and loans growth accelerates. We do not see provisions dropping in 2012 driven by both general provisions, which the bank needs to take in order to move towards the CBAUE target, and specific provisions related more to corporate than the retail segment. Albeit, we see provisions becoming less burdensome starting 2013, we have raised provision levels from our earlier forecast.

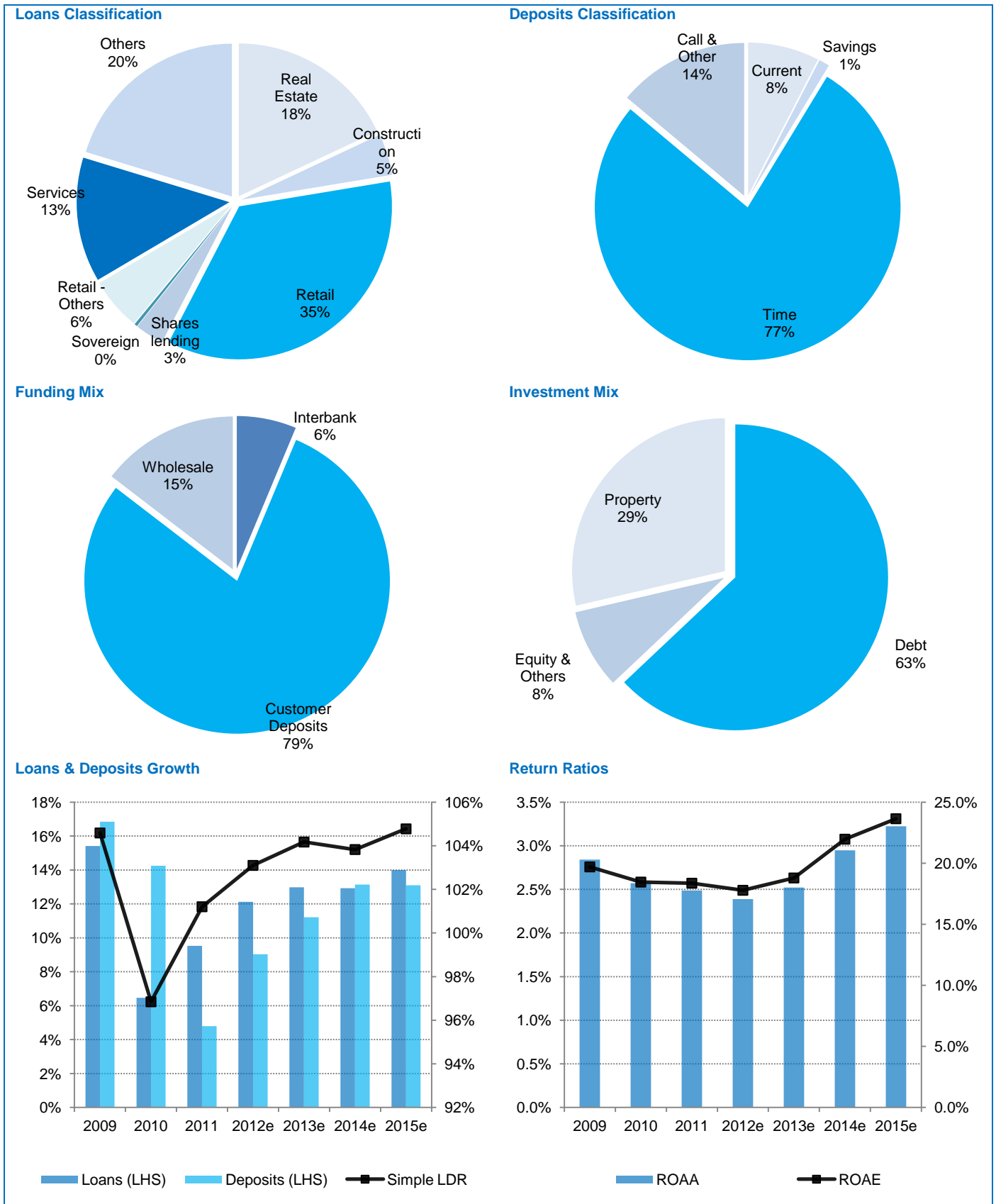
Variance of 2011 results from expectations and revisions of estimates

	2011a	2012e	2013e	2014e
Net Interest/Financing Income	-1%	-1%	2%	5%
Total Non-Interest/Financing Income	1%	1%	-11%	-8%
Total Operating Income	0%	-1%	-1%	2%
Provisions expense	-2%	2%	3%	44%
Operating Expenses	1%	-1%	-1%	1%
Net Profit	4%	2%	1%	0%
Gross Loans & Financings	0%	4%	8%	10%
Total Assets	-1%	7%	9%	10%
Deposits from Customers	5%	8%	11%	13%

Source: Company Accounts, Global Research

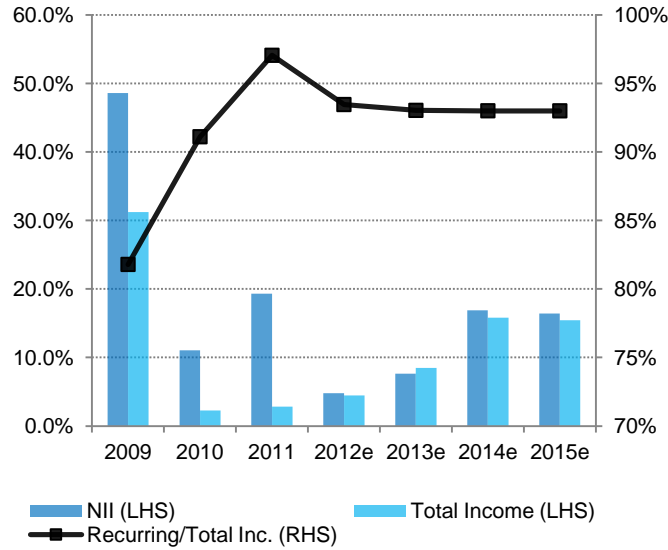
FGB offers the highest ROE for 2012 and the highest average ROE over the forecast period amongst all banks in our UAE banking universe. After a recent rally, the price of the bank has shored up considerably but still quite shy of its actual worth; up 27% since our last call on the stock through our Investment Strategy in Jan-2012. FGB's shares are currently trading at a premium to the sector P/BV multiple but that is justifiable given its greater-than-sector-average expected ROE. Post actualization for 2011 and rolling over the forecast period to 2012, we have raised our fair value for the stock by a trivial 1% to **AED12.40/share**. At the current closing price, the stock offers an upside potential of 29.1% and positioning itself to be maintained at **STRONG BUY**.

FGB in Charts

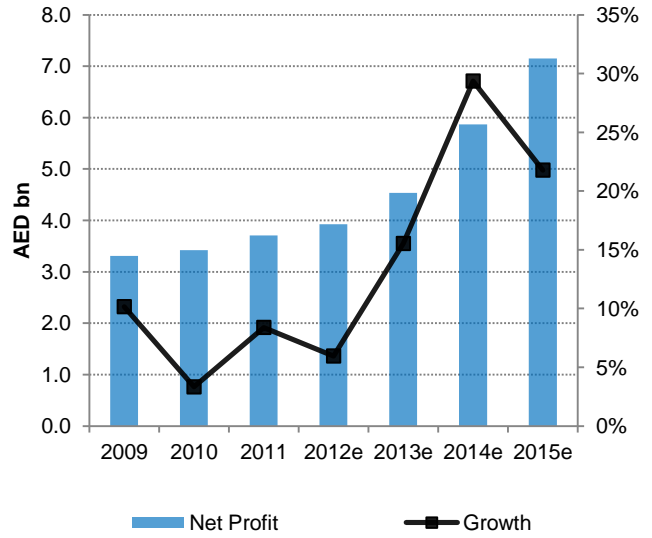


Source: Company Accounts, Global Research

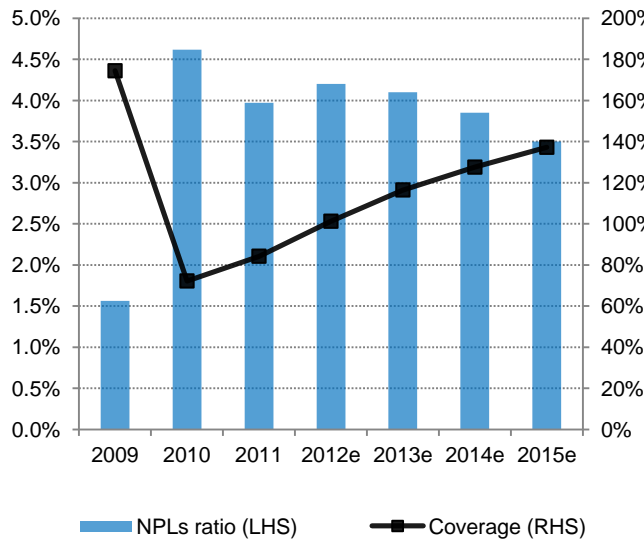
Top-line Growth & Recurring Income



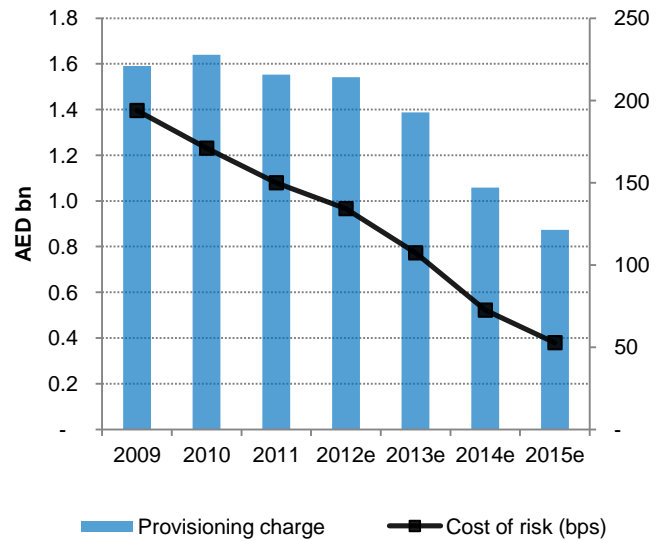
Profitability



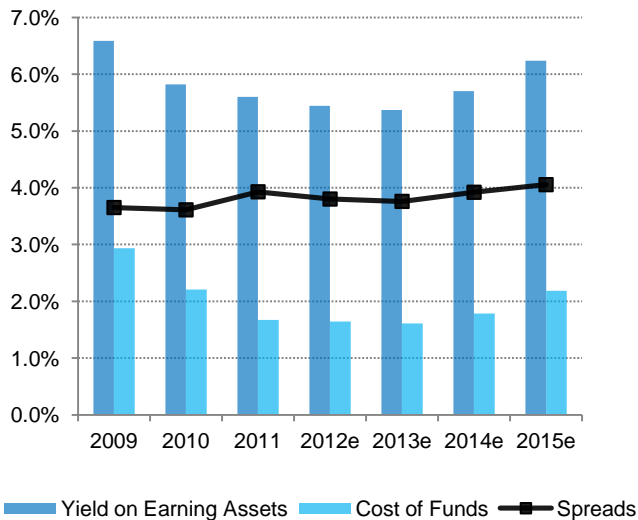
Asset Quality



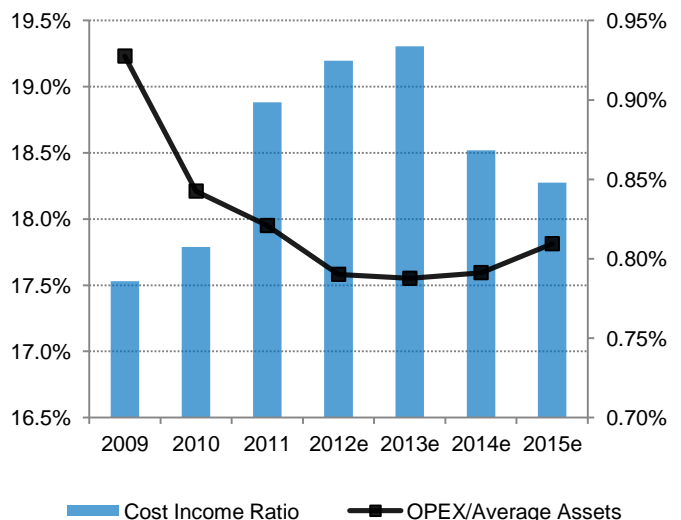
Provisioning



Spreads



Cost Efficiency



Source: Company Accounts, Global Research

Financial Statements

	(AED mn)	2009	2010	2011	2012e	2013e	2014e	2015e
Income Statement	Interest/Financing Income	6,490	6,579	7,073	7,499	8,071	9,570	11,719
	Interest Expense/Payment to Depositors	(2,656)	(2,322)	(1,994)	(2,177)	(2,343)	(2,876)	(3,927)
	Net Interest/Financing Income	3,834	4,257	5,079	5,322	5,728	6,694	7,793
	Fee & Commission Income	1,207	1,487	1,212	1,006	1,107	1,217	1,339
	Investment Income	737	351	21	205	226	252	275
	Other Income	386	210	171	239	287	344	413
	Total Non-Interest/Financing Income	2,330	2,048	1,404	1,450	1,619	1,813	2,028
	Total Operating Income	6,164	6,305	6,483	6,772	7,347	8,508	9,820
	Provisions expense	(1,770)	(1,639)	(1,553)	(1,541)	(1,388)	(1,058)	(873)
	Operating Expenses	(1,081)	(1,122)	(1,224)	(1,300)	(1,418)	(1,576)	(1,795)
Profit Before Taxation	3,313	3,544	3,706	3,931	4,541	5,874	7,152	
Taxation & Minority Interest	(3)	(124)	2	(3)	(3)	(3)	(4)	
Net Profit Attributable to Parent	3,310	3,420	3,707	3,928	4,538	5,870	7,149	
Balance Sheet	Cash Balances	5,547	8,526	9,587	14,717	14,378	15,476	16,835
	Deposits with Banks & FIs	4,627	10,268	12,225	11,614	12,775	14,053	12,788
	Investment Securities	13,482	14,988	18,789	16,133	16,938	18,453	20,869
	Gross Loans & Financings	92,916	98,923	108,341	121,480	137,248	154,985	176,679
	Loan Loss Reserve	(2,530)	(3,295)	(3,622)	(5,163)	(6,551)	(7,609)	(8,482)
	Net Loans & Financings	90,386	95,628	104,720	116,316	130,698	147,376	168,196
	Investment in Associates	561	517	444	488	537	591	650
	Investment Properties	6,000	7,049	7,538	8,669	9,969	10,467	10,991
	Net Fixed Assets	639	626	620	648	678	712	749
	Other Assets	4,231	3,156	3,557	3,023	2,570	2,596	2,648
	Total Assets	125,473	140,758	157,480	171,609	188,543	209,723	233,726
	Deposits from Banks & FIs	1,941	1,527	8,247	8,660	9,093	10,002	11,002
	Deposits from Customers	86,422	98,742	103,474	112,820	125,465	141,944	160,530
	Other Borrowings	13,820	15,724	19,082	20,915	22,016	22,016	22,016
	Other Liabilities	5,064	5,034	5,410	6,069	6,580	7,461	7,755
	Paid-up Capital	1,375	1,375	1,500	3,000	3,000	3,000	3,000
	Retained Earnings	6,835	8,955	8,257	9,799	11,780	14,687	18,806
	Other Reserves/Convertible Bonds	9,631	8,896	11,395	10,228	10,488	10,488	10,488
	Shareholders' Equity	17,841	19,226	21,151	23,027	25,268	28,175	32,294
	Minority Interest	385	505	116	118	121	125	129
Total Equity & Liability	125,473	140,758	157,480	171,609	188,543	209,723	233,726	
Ratio Analysis	Return on Average Assets	2.8%	2.6%	2.5%	2.4%	2.5%	2.9%	3.2%
	Return on Average Equity	19.7%	18.5%	18.4%	17.8%	18.8%	22.0%	23.6%
	Fee Income Yield	1.4%	1.5%	1.2%	0.9%	0.9%	0.8%	0.8%
	Recurring Income/Operating Income	81.8%	91.1%	97.0%	93.4%	93.0%	93.0%	93.0%
	Interest Earning/Financing Assets Yield	6.6%	5.8%	5.6%	5.4%	5.4%	5.7%	6.2%
	Cost of Funds	2.9%	2.2%	1.7%	1.6%	1.6%	1.8%	2.2%
	Net Spread	3.7%	3.6%	3.9%	3.8%	3.8%	3.9%	4.1%
	Cost to Income Ratio	17.5%	17.8%	18.9%	19.2%	19.3%	18.5%	18.3%
	Net Loans to Customer Deposits	104.6%	96.8%	101.2%	103.1%	104.2%	103.8%	104.8%
	Non Performing Loans	1,450.8	4,566.8	4,301.9	5,102.1	5,627.2	5,966.9	6,183.8
	Loan Loss Reserve	2,529.8	3,294.8	3,621.7	5,163.1	6,550.7	7,609.1	8,482.3
	NPLs to Gross Loans	1.6%	4.6%	4.0%	4.2%	4.1%	3.9%	3.5%
	NPL Coverage	174.4%	72.1%	84.2%	101.2%	116.4%	127.5%	137.2%
	Provisions/Total Income	28.7%	26.0%	24.0%	22.8%	18.9%	12.4%	8.9%
	Cost of Risk (bps)	193.8	170.9	149.9	134.1	107.3	72.4	52.7
	Equity to Gross Loans	19.2%	19.4%	19.5%	19.0%	18.4%	18.2%	18.3%
	Equity to Total Assets	14.2%	13.7%	13.4%	13.4%	13.4%	13.4%	13.8%
	Dividend Payout Ratio	20.5%	26.3%	40.5%	50.0%	50.0%	50.0%	42.0%
	Adjusted EPS (AED)	1.1	1.1	1.2	1.3	1.5	2.0	2.4
Adjusted BVPS (AED)	5.9	6.4	7.1	7.7	8.4	9.4	10.8	
Market Price (AED) *	16.1	18.3	15.4	9.6	9.6	9.6	9.6	
Dividend Yield	3.1%	3.6%	6.5%	6.8%	7.9%	10.2%	10.4%	
P/E Ratio (x)	6.7	7.3	6.2	7.3	6.3	4.9	4.0	
P/BV Ratio (x)	2.7	2.8	2.2	1.3	1.1	1.0	0.9	

Source: Company Reports & Global Research

* Market price for 2012 and subsequent years as per closing prices on ADX on April 08, 2012

National Bank of Abu Dhabi (NBAD)

BUY

Target Price
AED 9.92

Market Data

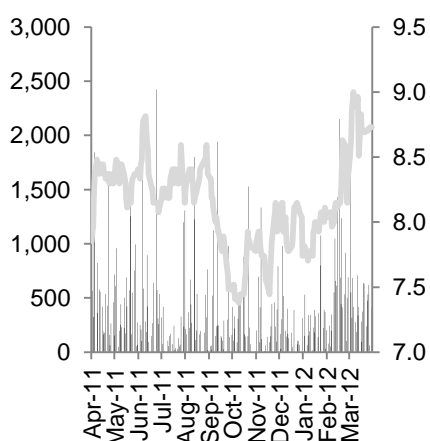
Bloomberg Code:	NBAD UH
Reuters Code:	NBAD.AD
CMP (08 April 2012):	AED8.73
O/S (mn)	3,874.6
Market Cap (AED mn):	33,824.9
Market Cap (USD mn):	9,209.1
P/E 2012e (x):	8.4
P/BV 2012e (x):	1.3

Price Performance 1-Yr

High (AED):	9.00
Low (AED):	7.38
Average Volume: (000)	415.8

	1m	3m	12m
Absolute (%)	4.8	12.8	12.8
Relative (%)	4.9	4.4	14.3

Price Volume Performance



■ Volume ('000) — NBAD (AED)

- **Least vulnerable to cap on interest rate for credit cards**
- **Collective provisions meet CBUAE target of 1.5%**
- **Higher trading multiple justified by high expected ROE**
- **Maintained at BUY, fair value raised by 6%**

Stagnancy in profits on lower investment gains, higher provisions

NBAD posted net profit of AED3,708mn for 2011 which signifies a rise of 1%YoY. The result was largely in line with our expectations for the year with a downward variance of 4%. The variance and the actual stagnancy in profits were both driven by lower investment income and higher provisions taken by the bank during the year.

Net interest income demonstrates strength, rises 11%YoY

NBAD's total income rose 10%YoY during the year, attributable to the bank's top-line which continued to show improvement. Since interest spread remained unchanged over 2010, growth can be ascribed to volumes; loans grew 17%YoY during the year far higher than the sector average or any other individual bank within our UAE coverage. Deposits out-paced loans, growing 23%YoY after a very dull year in 2010 and brought down the LDR to 105% in 2011 from 111%. Government deposits form the largest portion of the bank's deposit base and contributed the most to the increase during the year; fluctuation in deposits is very typical to the bank for the same reason. The bank managed to keep its cost of funds under tight leash despite the substantial rise in time deposits; however the proportion of the same remained unchanged over 2010.

NBAD's investment income fell 69%YoY. Albeit the bank does not depend heavily on such non-recurring income, the magnitude of the change was large enough to partially though significantly offset the gains made by NII. Fortunately, the bank was able to generate considerable income from its forex operations to counter this effect. We however believe that the income from forex operations in future years to return to slightly lower levels.

Asset quality deterioration was expected, remained within guidance

In continuation from 2010, NBAD witnessed an addition of AED1,590mn to its impaired loans during the year, attributable largely to the corporate segment, which translates into a rise of 50%YoY and adds 63bps to its NPL ratio. Driven by heavy loan impairment, the bank continued to take high provisions, bulk of which was specific in nature; total provisions jumped 24%YoY after taking a slight breather in 2010. While net charge on specific provisions remained similar to what it was in 2010, collective provisions jumped 49%YoY with the bank meeting the 1.5% of CRWA limit specified by the CBUAE ahead of the 2014 deadline.

Investment Indicators

	2011	2012e	2013e	2014e	2015e
Net Profit Growth	0.7%	8.2%	19.0%	29.3%	23.3%
NII Growth	10.6%	10.0%	9.0%	16.5%	18.2%
Loan Growth	17.0%	10.6%	11.6%	16.0%	14.7%
Deposits Growth	23.3%	6.0%	8.0%	19.5%	12.4%
Adjusted EPS (AED)	1.3	1.0	1.2	1.6	2.0
Adjusted BVPS (AED)	7.8	6.7	7.7	8.8	10.3
ROE	17.4%	16.6%	17.2%	19.3%	20.6%
Dividend Yield	4.9%	5.3%	8.2%	9.2%	10.2%
P/E Ratio (x)*	6.3	8.4	7.1	5.5	4.4
P/BV Ratio (x)*	1.0	1.3	1.1	1.0	0.8

Source: Company Reports & Global Research

* Market price for 2012 and subsequent years as per closing prices on ADX on 08 April 2012

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Overall provisions also swelled due to the addition of AED159mn on account of impairment in property held by the bank for its own use. NBAD's NPL coverage fell from 113% in 2010 to 99% in 2011, but still remained at comfortable levels. The bank has stated that it may see its NPL ratio peaking at around 3.5% - 3.75%, which means the addition of AED1.5 – 2.0bn in additional provisions during 2012. We believe that the bank will see provisions in the range of AED200 – 250mn being taken to maintain the collective provisioning limit set by the CBUAE in 2012 and something in the vicinity of AED1.3bn as specific provisions. Overall, provisions may be seen heading north for another year, around 10%YoY as per our expectations translating into a cost of risk in the vicinity of 89bps, for 2012. We might see a small drop in the NPL coverage as the bank increases its specific provisions coverage but the contribution of collective provisions eases off. Coverage may nevertheless remain within very comfortable levels, above 90% in 2012 and recoup to 100% by 2013.

Fee income escapes impact of changes in retail lending regulation

Retail lending forms around 16% of the bank's lending book which is low compared to the bank's counterparts within UAE. Having a low penetration in the credit card segment has shielded NBAD from the changes in retail regulation implemented by the CBUAE which impacted the retail fee generation capability of banks like FGB and ADCB significantly. NBAD's fee income grew 8%YoY in 2011 led largely by the retail/corporate lending fees.

We inch up our 2012 profits despite increased provisioning expectations, fair value raised by 6%

We have inched up our 2012 profit forecast a tad bit on greater than previously anticipated improvement in the top-line on account of good volumes, albeit spreads may retreat a few bps. Expectations for provisions have also been increased, but the overall impact is calculated to be positive.

Variance of 2011 results from expectations and revisions of estimates

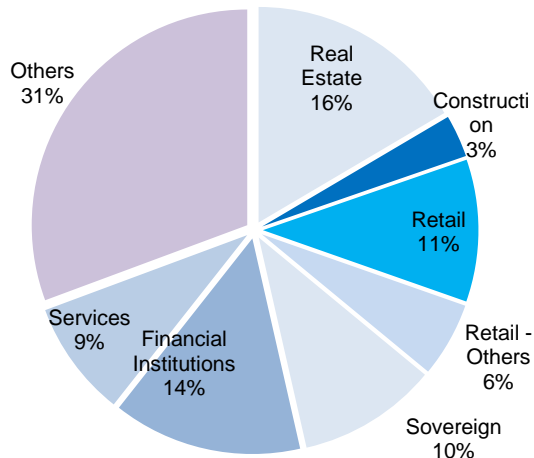
	2011a	2012e	2013e	2014e
Net Interest/Financing Income	-1%	4%	3%	6%
Total Non-Interest/Financing Income	-1%	-1%	-1%	-1%
Total Operating Income	-1%	3%	2%	4%
Provisions expense	-4%	5%	11%	-12%
Operating Expenses	5%	2%	1%	-1%
Net Profit	-4%	3%	0%	10%
Gross Loans & Financings	2%	6%	9%	14%
Total Assets	4%	4%	4%	8%
Deposits from Customers	5%	5%	3%	11%

Source: Company Accounts, Global Research

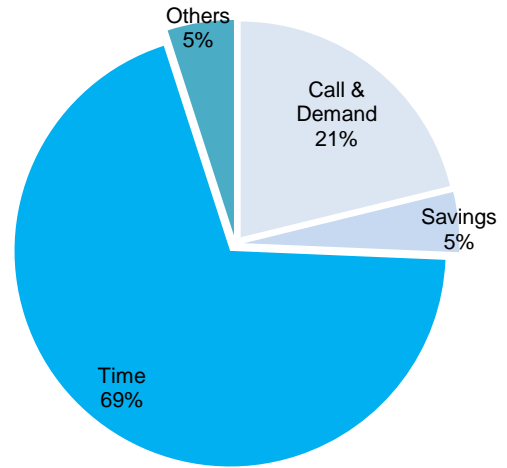
Consequently, we have raised our fair value for the bank from AED9.36/share (ex-bonus) to **AED9.92/share** which translates into a rise of 6%. At the current market price, the stock offers an upside of 13.6%. We have maintained our recommendation on the stock at **BUY**.

NBAD in Charts

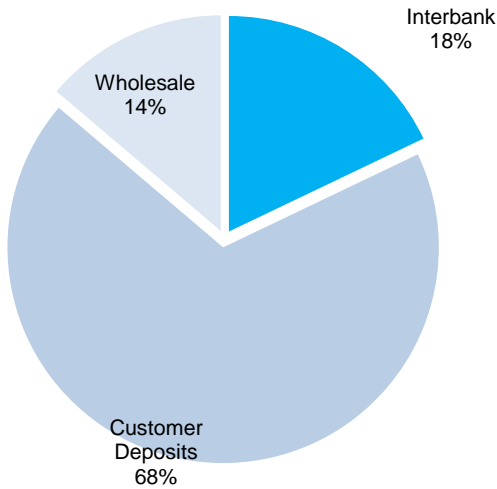
Loans Classification



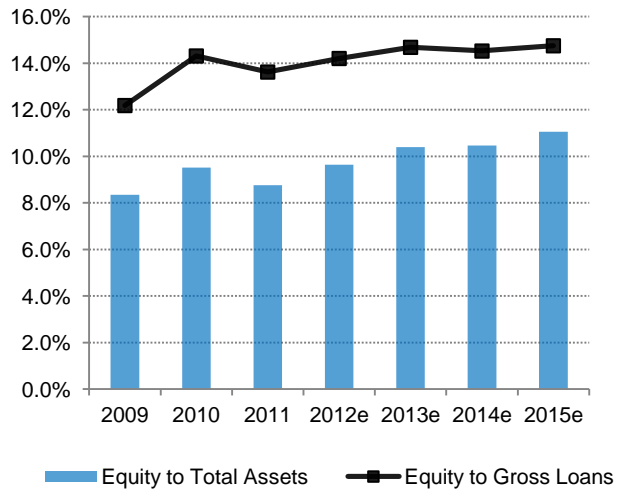
Deposits Classification



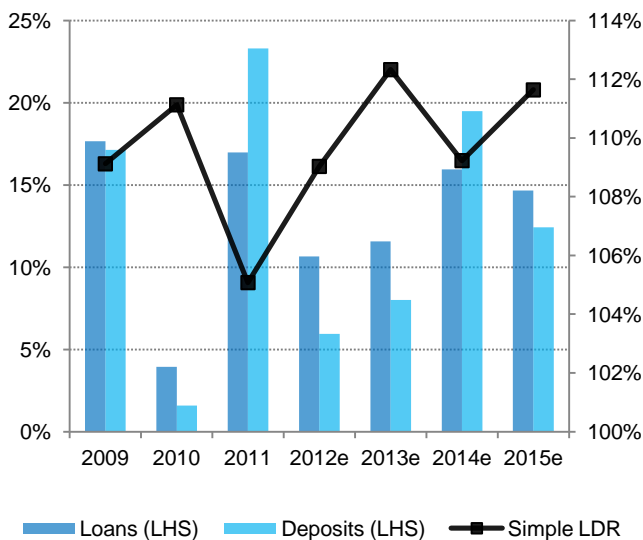
Funding Mix



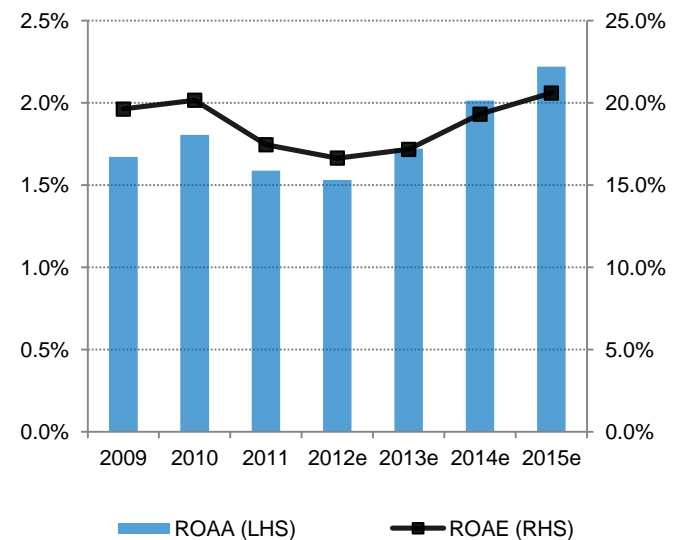
Capital Adequacy



Loans & Deposits Growth

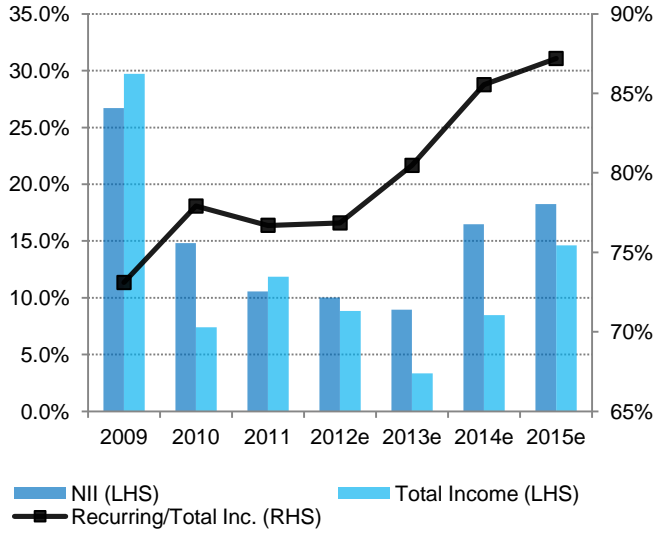


Return Ratios

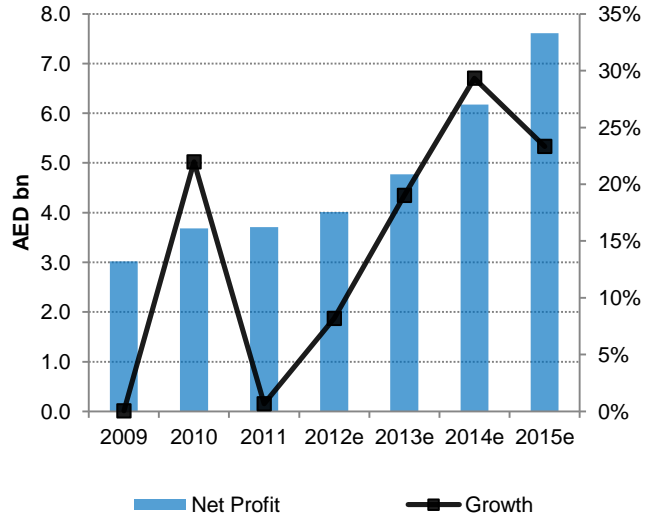


Source: Company Accounts, Global Research

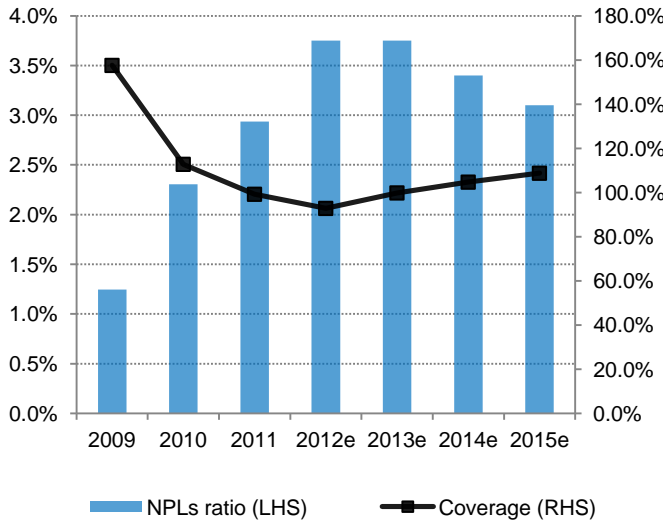
Top-line Growth & Recurring Income



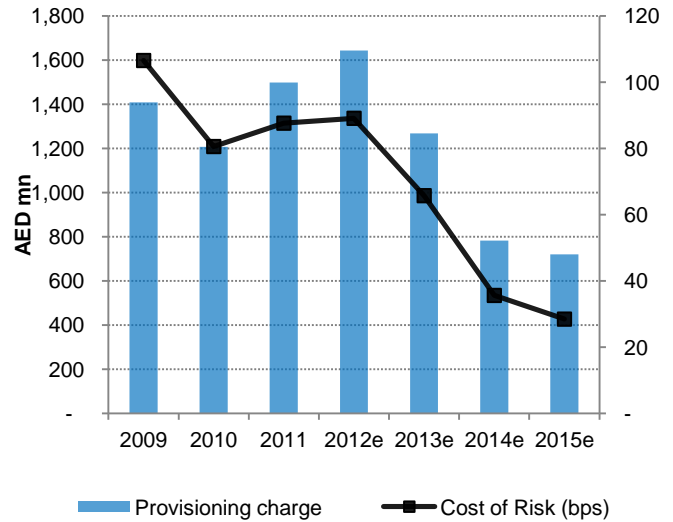
Profitability



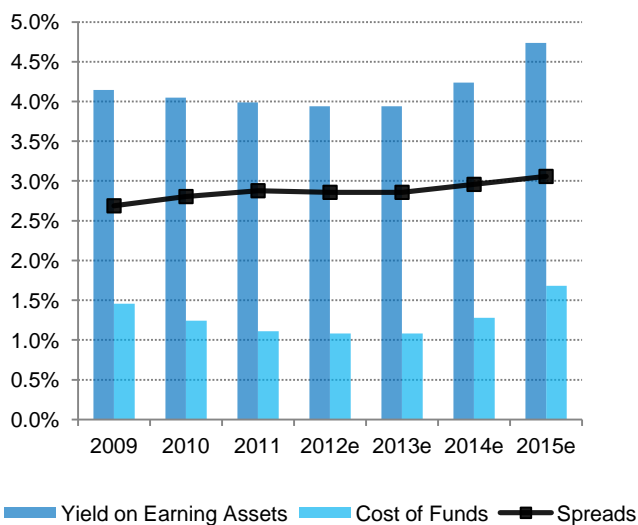
Asset Quality



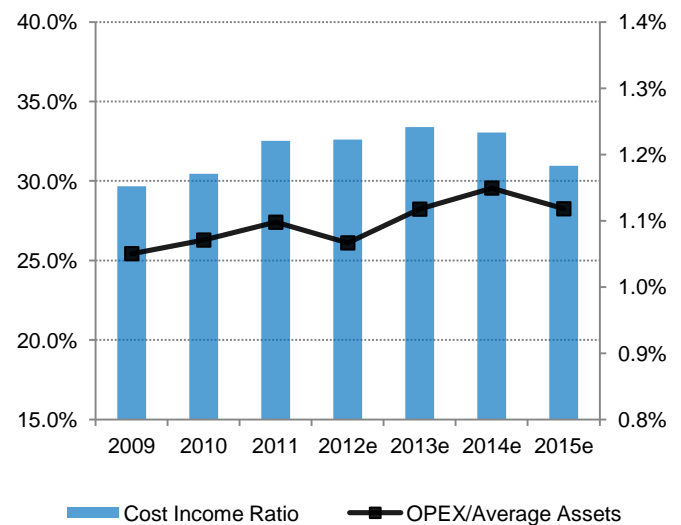
Provisioning



Spreads



Cost Efficiency



Source: Company Accounts, Global Research

Financial Statements

	(AED mn)	2009	2010	2011	2012e	2013e	2014e	2015e
Income Statement	Interest/Financing Income	6,877	7,430	8,015	8,790	9,483	11,410	14,442
	Interest Expense/Payment to Depositors	(2,306)	(2,181)	(2,212)	(2,405)	(2,526)	(3,306)	(4,859)
	Net Interest/Financing Income	4,571	5,249	5,803	6,385	6,957	8,104	9,583
	Fee & Commission Income	1,136	1,284	1,391	1,460	1,533	1,687	1,855
	Investment Income	223	301	94	250	342	384	412
	Other Income	469	344	594	472	452	489	548
	Total Non-Interest/Financing Income	1,828	1,930	2,078	2,182	2,327	2,560	2,816
	Total Operating Income	6,399	7,179	7,881	8,567	9,284	10,664	12,399
	Provisions expense	(1,408)	(1,207)	(1,499)	(1,642)	(1,268)	(782)	(720)
	Operating Expenses	(1,898)	(2,186)	(2,564)	(2,794)	(3,100)	(3,524)	(3,837)
Profit Before Taxation	3,093	3,786	3,819	4,131	4,916	6,358	7,841	
Taxation & Minority Interest	(73)	(103)	(111)	(120)	(143)	(185)	(228)	
Net Profit Attributable to Parent	3,020	3,683	3,708	4,011	4,773	6,174	7,613	
Balance Sheet	Cash Balances	18,057	18,430	24,469	14,394	10,816	12,309	4,031
	Deposits with Banks & FIs	19,521	14,163	15,167	16,987	15,458	15,613	15,769
	Investment Securities	20,049	22,689	28,180	32,327	35,240	40,963	47,632
	Gross Loans & Financings	134,916	140,498	164,323	181,821	202,844	235,206	269,731
	Loan Loss Reserve	(2,658)	(3,664)	(4,801)	(6,443)	(7,711)	(8,492)	(9,213)
	Net Loans & Financings	132,258	136,833	159,522	175,378	195,133	226,713	260,518
	Investment in Associates	-	-	-	-	-	-	-
	Investment Properties	-	-	-	-	-	-	-
	Net Fixed Assets	2,085	2,211	2,216	2,375	2,583	2,812	3,063
	Other Assets	4,875	17,101	26,114	26,767	27,436	28,122	28,825
	Total Assets	196,845	211,427	255,668	268,228	286,665	326,531	359,838
	Deposits from Banks & FIs	30,777	31,551	39,796	41,785	43,875	46,068	48,372
	Deposits from Customers	121,205	123,131	151,817	160,852	173,720	207,559	233,364
	Other Borrowings	22,835	29,349	30,652	28,192	27,137	25,984	24,921
	Other Liabilities	5,588	7,283	11,013	11,564	12,142	12,749	13,387
	Paid-up Capital	2,174	2,392	2,870	3,875	3,875	3,875	3,875
	Retained Earnings	3,168	4,180	4,386	7,290	10,813	15,192	20,816
	Other Reserves	11,098	13,542	15,134	14,670	15,104	15,104	15,104
	Shareholders' Equity	16,441	20,113	22,389	25,834	29,792	34,170	39,794
	Minority Interest	-	-	-	-	-	-	-
Total Equity & Liability	196,845	211,427	255,668	268,228	286,665	326,531	359,838	
Ratio Analysis	Return on Average Assets	1.7%	1.8%	1.6%	1.5%	1.7%	2.0%	2.2%
	Return on Average Equity	19.6%	20.2%	17.4%	16.6%	17.2%	19.3%	20.6%
	Fee Income Yield	0.9%	0.9%	0.9%	0.8%	0.8%	0.8%	0.7%
	Recurring Income/Operating Income	89.2%	91.0%	91.3%	91.6%	91.5%	91.8%	92.3%
	Interest Earning/Financing Assets Yield	4.1%	4.0%	4.0%	3.9%	3.9%	4.2%	4.7%
	Cost of Funds	1.5%	1.2%	1.1%	1.1%	1.1%	1.3%	1.7%
	Net Spread	2.7%	2.8%	2.9%	2.9%	2.9%	3.0%	3.1%
	Cost to Income Ratio	29.7%	30.5%	32.5%	32.6%	33.4%	33.0%	30.9%
	Net Loans to Customer Deposits	109.1%	111.1%	105.1%	109.0%	112.3%	109.2%	111.6%
	Non Performing Loans	1,686.7	3,249.1	4,839.3	6,839.0	7,629.4	8,019.7	8,384.5
	Loan Loss Reserve	2,657.5	3,664.1	4,800.7	6,347.1	7,614.7	8,396.5	9,116.7
	NPLs to Gross Loans	1.2%	2.3%	2.9%	3.8%	3.8%	3.4%	3.1%
	NPL Coverage	157.6%	112.8%	99.2%	92.8%	99.8%	104.7%	108.7%
	Provisions/Total Income	22.0%	16.8%	19.0%	19.2%	13.7%	7.3%	5.8%
	Cost of Risk (bps)	106.5	80.5	87.6	89.1	65.7	35.6	28.4
	Equity to Gross Loans	12.2%	14.3%	13.6%	14.2%	14.7%	14.5%	14.8%
	Equity to Total Assets	8.4%	9.5%	8.8%	9.6%	10.4%	10.5%	11.1%
	Dividend Payout Ratio	7.2%	19.5%	23.2%	25.0%	32.5%	28.2%	25.4%
	Adjusted EPS (AED)	1.4	1.5	1.3	1.0	1.2	1.6	2.0
	Adjusted BVPS (AED)	7.6	8.4	7.8	6.7	7.7	8.8	10.3
Market Price (AED) *	12.4	11.4	8.1	8.7	8.7	8.7	8.7	
Dividend Yield	1.6%	2.9%	4.9%	5.3%	8.2%	9.2%	10.2%	
P/E Ratio (x)	8.9	7.4	6.3	8.4	7.1	5.5	4.4	
P/BV Ratio (x)	1.6	1.4	1.0	1.3	1.1	1.0	0.8	

Source: Company Reports & Global Research

* Market price for 2012 and subsequent years as per closing prices on ADX on April 08, 2012

Union National Bank (UNB)

Strong Buy
Target Price
AED 4.64

Market Data

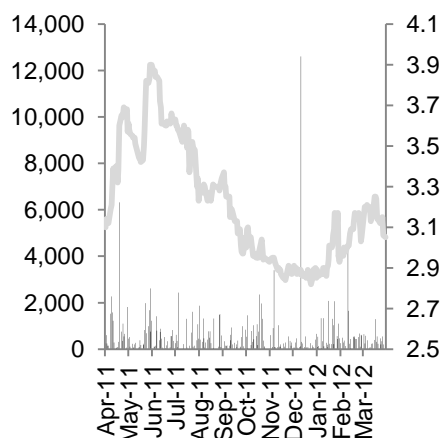
Bloomberg Code:	UNB UH
Reuters Code:	UNB.AD
CMP (08 April 2012):	AED3.05
O/S (mn)	2,495.6
Market Cap (AED mn):	7,611.7
Market Cap (USD mn):	2,072.3
P/E 2012e (x):	4.8
P/BV 2012e (x):	0.6

Price Performance 1-Yr

High (AED):	3.90
Low (AED):	2.82
Average Volume: (000)	602.3

	1m	3m	12m
Absolute (%)	0.0	7.0	-1.3
Relative (%)	0.1	-1.3	0.2

Price Volume Performance



■ Volume ('000) — UNB (AED)

- Ability to withstand pressure on spreads due to high cost of funds
- Asset quality issue remain but slowdown in NPL formation expected
- Still to meet general provisioning requirement
- Earnings estimates for 2012 trimmed

Robust net interest income propels bottom-line forward

UNB reported a net profit of AED1,572mn for 2011, translating into a growth of 11%YoY which was driven largely by the top-line. Results were lower than our expectations by 17% on account of higher investment losses and provisions which diluted the strides made by the net interest income.

Operating income held back by decline in non-interest income

UNB's total income rose by 11%YoY on account of a robust growth in net interest income; NII jumped 22%YoY despite weak market conditions. This was driven by spreads which gained strength during the year as the bank managed to reign in its cost of funds; as per our calculations spreads rose by 45bps while volumes remained dampened (up by 3%YoY). Since UNB holds the highest cost of funds amongst UAE banks under our coverage, the ability to reduce the same pre-existed and therefore expected. UNB's non-interest income however fell 26%YoY on a decline in fee & commission income, down 17%YoY due to implementation of the new retail regulation in May 2011. This was further exacerbated by an increase in investment losses led by that emanating from revaluation of investment properties to the tune of AED98mn.

Credit deterioration worsens in 4Q11, AED1.6bn added to NPLs

UNB's NPL ratio was reported at 3.7% in 2011 as compared to 4.3% in 2010 which leads us to the initial observation that impaired loans were reduced in 2011 especially since gross loans barely moved during the year. Analyzing figures on a quarterly basis reveals however that the NPL ratio got worse every successive quarter during the year, with the largest NPL formation seen in 4Q11. To note, as per the bank's MDA for June-2011, DW's exposure (of AED1,684mn) "is being treated accordingly as per its current restructures status", which means that it has been pulled out of the NPL category. Assuming that subsequent to 4Q10, all NPL figures quoted by UNB have been ex-DW, 4Q11 saw an addition of AED1.2bn to this category which translates into a rise of 200bps in the NPL ratio over 3Q11; 230bps or AED1.4bn were added during the full year. These figures do not include AED235mn written off during the year, forming 0.4% of gross loans. The bank has stated that this addition is on account of some entities that are part of Dubai Holding Group and certain other credit exposures. It is very likely that these other exposures include Al Jaber Group to which the bank is expected to have heavy exposure to and Egypt operations.

Investment Indicators

	2011	2012e	2013e	2014e	2015e
Net Profit Growth	10.9%	4.3%	23.9%	29.8%	24.8%
NII Growth	22.5%	6.1%	8.4%	15.2%	15.2%
Loan Growth	2.5%	6.9%	9.1%	13.2%	13.2%
Deposits Growth	4.1%	6.0%	8.0%	11.0%	11.0%
Adjusted EPS (AED)	0.60	0.63	0.78	1.01	1.26
Adjusted BVPS (AED)	4.4	4.8	5.4	6.1	7.0
ROE	14.6%	13.7%	15.3%	17.6%	19.2%
Dividend Yield	5.2%	5.2%	7.5%	9.2%	11.4%
P/E Ratio (x)*	4.8	4.8	3.9	3.0	2.4
P/BV Ratio (x)*	0.7	0.6	0.6	0.5	0.4

Source: Company Reports & Global Research

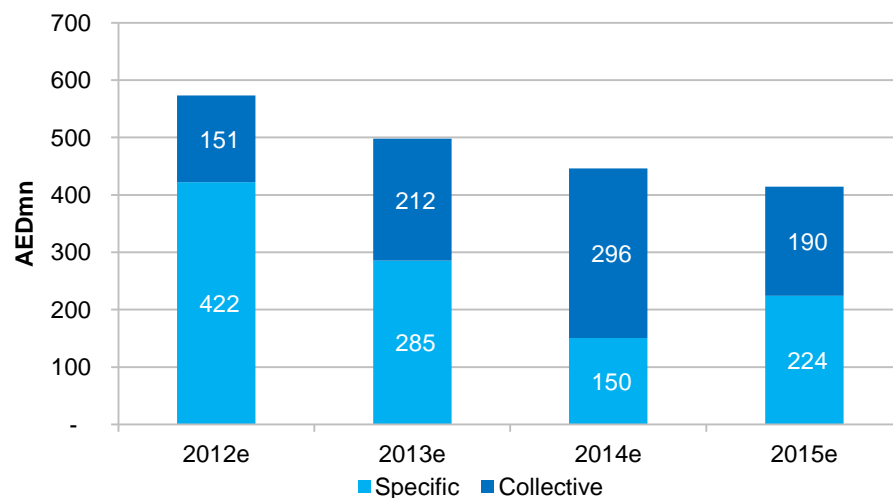
* Market price for 2012 and subsequent years as per closing prices on ADX on 08 April 2012

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Provisions jump 23%YoY but peak is still to be seen

UNB saw a sizeable jump in its provisions, which burgeoned up by 23%YoY largely due to due collective provisions been taken towards meeting the 1.5% of CRWA requirement of the CBUAE; AED311mn of the AED449mn increase in Loan Loss Provisions came from general/collective provisions. As a result, the bank managed to increase its collective provisions to CRWA ratio by 42bps to 1.07%. The bank's NPL coverage increased from 47% to 75% during the year and specific provisions coverage increased from 29% to 39%. A bulk of provisions were taken in 4Q11, which led to provisions varying by 53% from our expectations for 2011; and hence pre-provision operating income which was largely in line with our projections turned into a net profit variance of 17%.

Build up of Provisions



Source: Company Accounts, Global Research

We believe that UNB's NPL ratio will rise another 35 – 40bps in 2012, reaching its peak during the year. While most of the provisioning is projected to be specific in nature in 2012, collective provisions will be continue to be dependent on how quickly the bank plans to close the gap between the current level and the figure stipulated by the CBUAE. We believe that the bank will provide to collective provisions in successive steps till the deadline in 2014.

We reiterate that UNB's exposure to troubled groups is very likely to be large

Similar to other banks under our coverage, UNB is also believed to have exposure to Dubai Holding and Al Jaber Group; the presence of UNB on the restructuring committee of both groups (or that of related entities) further substantiates the notion of a large exposure to both. While its exposure to either entity has not been disclosed, news in the market states that its exposure to Al Jaber Group could be in the range of AED700 – 900mn. Provisions for Dubai Holding, the exposure to which now forms part of the NPLs, were expected in 2012, an early realization of which does raise our hopes for slight ease off in provisions expense; although most likely that it did, it is still difficult to say if the bank took all necessary provisions against Dubai Holding in 2011.

As of end of 2011, UNB has AED2.9bn in its watch-list category, nearly twice of what it was in 2010. But the actual threat comes from the AED1.4bn in the over-90-days category within the ageing analysis of past-due-but-not-impaired loans a portion of which could very well trickle down into the impaired category in 2012. Moreover, UNB also has an property investment exposure of AED1.4bn. the bank took an impairment of AED98mn owing to revaluation in 2011. Given expectations of a further softening in Abu Dhabi's real estate market, UNB is susceptible to property write-downs in 2012 and possibly in 2013. However, given that these investments form less than 2% of the assets, the bank is capable of absorbing the losses without a significant impact to the bottom-line ceteris paribus.

Valuation update – Fair value slashed by 6% but STRONG BUY maintained

We have decreased our profit expectations for the bank over the forecast period due to our understanding that the bank will need to take higher provisions that previously anticipated. This comes despite the 4% increase in our forecast for the top-line. Our conservative stance take due cue from UNB's expected exposure to some large groups for which it is likely to take provisions. Moreover, the shortfall in the bank's collective provisions will also take a toll on its earnings.

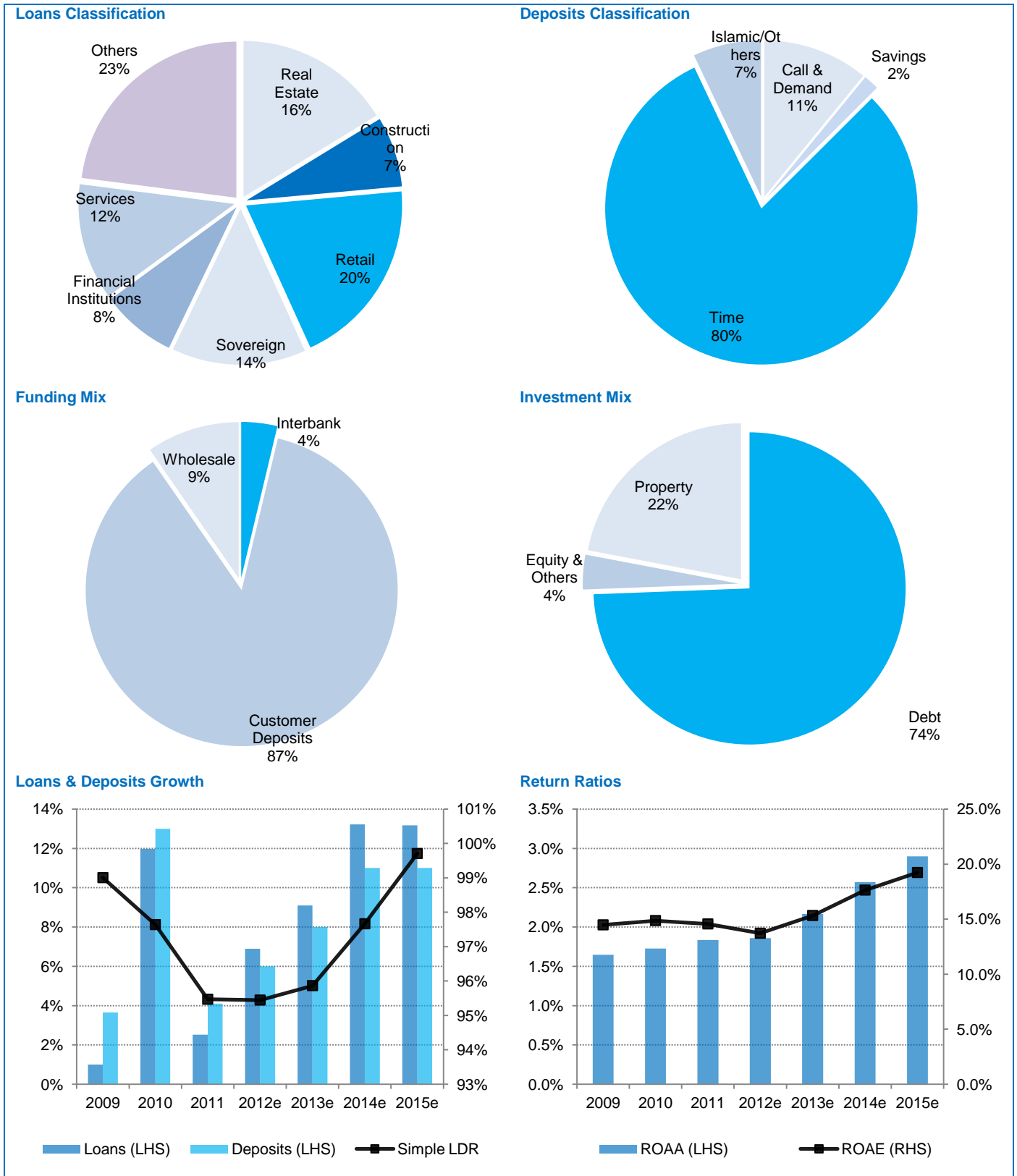
Variance of 2011 results from expectations and revisions of estimates

	2011a	2012e	2013e	2014e
Net Interest/Financing Income	0%	4%	6%	7%
Total Non-Interest/Financing Income	-19%	-21%	-12%	-8%
Total Operating Income	-4%	-1%	2%	4%
Provisions expense	53%	62%	136%	81%
Operating Expenses	1%	1%	1%	1%
Net Profit	-17%	-15%	-11%	-2%
Gross Loans & Financings	2%	5%	7%	9%
Total Assets	8%	10%	12%	13%
Deposits from Customers	12%	14%	16%	17%

Source: Company Accounts, Global Research

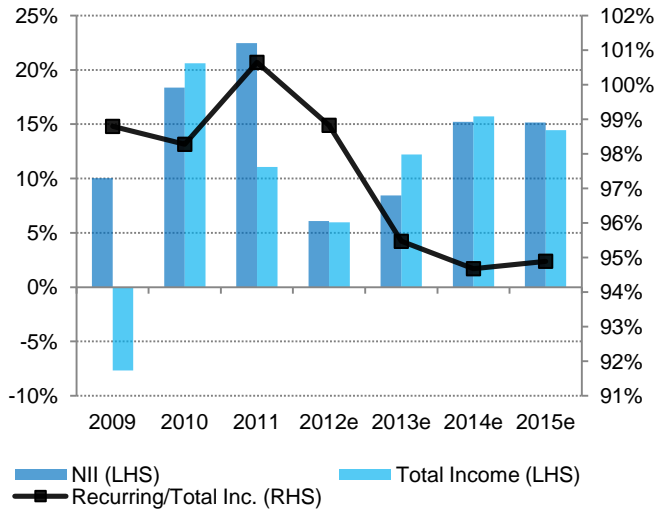
Resultantly, we have decreased our fair value for the stock by 6%, valuing it at **AED4.64/share**. Interestingly the banking stock is trading below its book value despite a decent 2012e ROE of 13.7%. At the current market price, the bank still offers an upside of 52.1%; we maintain our recommendation on UNB at **STRONG BUY**.

UNB in Charts

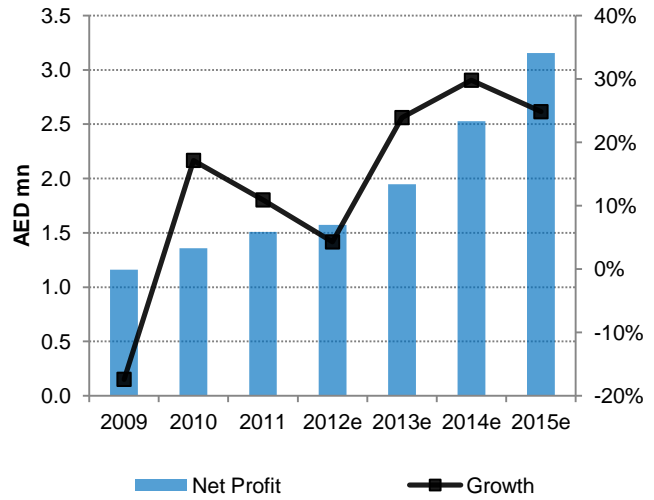


Source: Company Accounts, Global Research

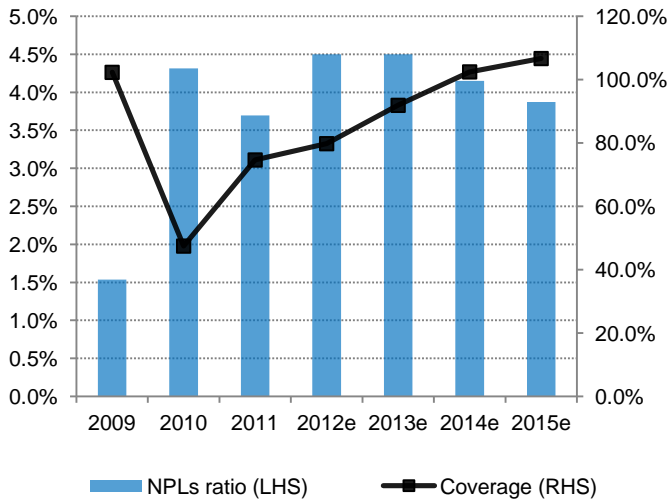
Top-line Growth & Recurring Income



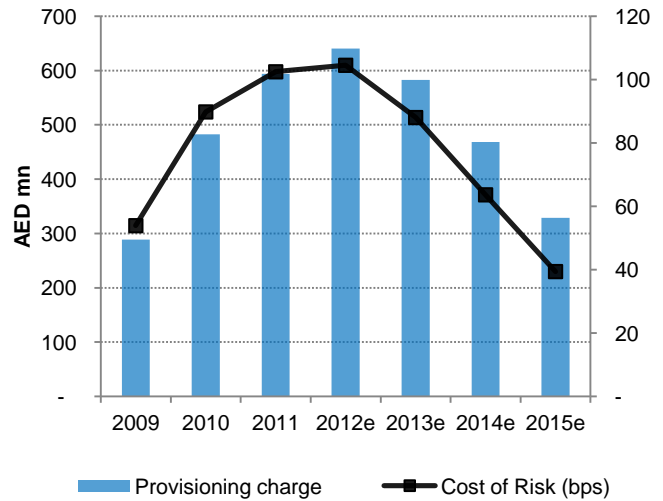
Profitability



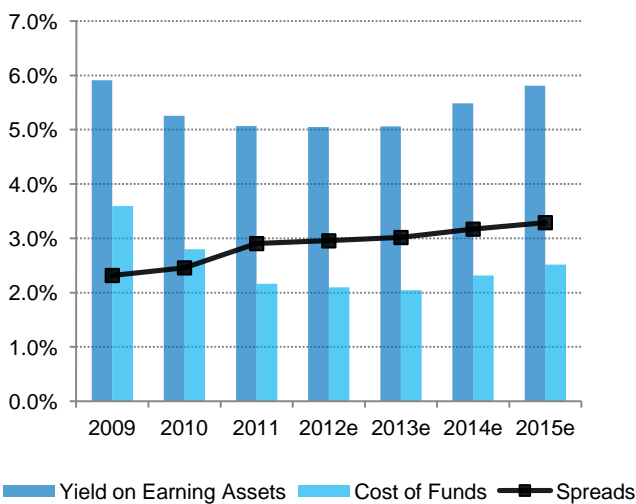
Asset Quality



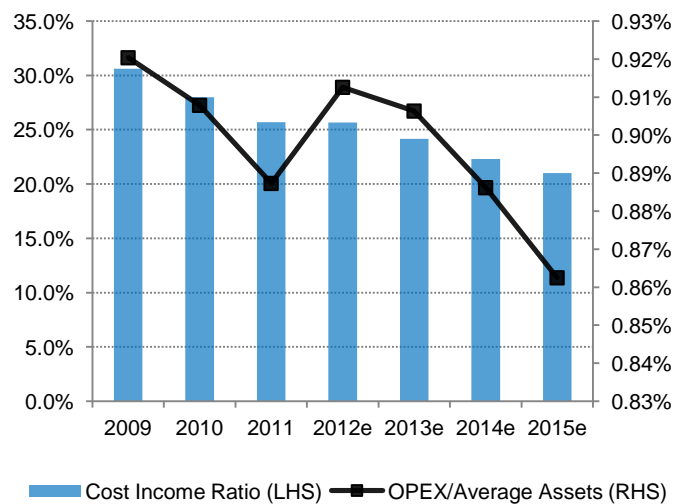
Provisioning



Spreads



Cost Efficiency



Source: Company Accounts, Global Research

Financial Statements

	(AED mn)	2009	2010	2011	2012e	2013e	2014e	2015e
Income Statement	Interest/Financing Income	3,781	3,786	3,856	3,982	4,246	5,015	5,861
	Interest Expense/Payment to Depositors	(2,133)	(1,835)	(1,466)	(1,448)	(1,497)	(1,848)	(2,214)
	Net Interest/Financing Income	1,648	1,951	2,389	2,535	2,748	3,167	3,647
	Fee & Commission Income	445	560	467	437	473	530	595
	Investment Income	(90)	(70)	(106)	(60)	49	72	76
	Other Income	115	114	88	95	104	136	152
	Total Non-Interest/Financing Income	470	604	448	473	626	738	823
	Total Operating Income	2,118	2,555	2,838	3,007	3,375	3,905	4,470
	Provisions expense	(288)	(482)	(594)	(640)	(583)	(469)	(329)
	Operating Expenses	(649)	(715)	(729)	(772)	(816)	(871)	(939)
Profit Before Taxation	1,181	1,357	1,515	1,595	1,977	2,566	3,202	
Taxation & Minority Interest	21	(2)	8	24	30	38	48	
Net Profit Attributable to Parent	1,160	1,359	1,507	1,572	1,947	2,527	3,154	
Balance Sheet	Cash Balances	7,477	5,973	1,823	1,915	2,089	2,325	2,702
	Deposits with Banks & FIs	9,336	11,364	14,465	14,385	14,845	14,716	14,207
	Investment Securities	4,572	4,333	5,038	5,818	6,421	6,898	7,657
	Gross Loans & Financings	51,580	57,756	59,214	63,294	69,048	78,176	88,477
	Loan Loss Reserve	(812)	(1,183)	(1,633)	(2,273)	(2,855)	(3,324)	(3,653)
	Net Loans & Financings	50,769	56,573	57,581	61,021	66,193	74,852	84,825
	Investment in Associates	-	-	-	-	-	-	-
	Investment Properties	579	1,463	1,423	1,494	1,568	1,882	2,259
	Net Fixed Assets	373	366	358	403	460	534	617
	Other Assets	2,621	1,708	1,781	1,583	1,759	2,003	2,197
	Total Assets	75,726	81,780	82,469	86,619	93,336	103,210	114,463
	Deposits from Banks & FIs	3,197	3,229	2,599	1,918	2,071	2,299	2,552
	Deposits from Customers	51,279	57,941	60,315	63,934	69,048	76,644	85,074
	Other Borrowings	10,511	8,909	6,705	6,705	6,705	6,705	6,705
	Other Liabilities	2,071	1,770	1,782	1,918	1,933	2,146	2,382
	Paid-up Capital	2,063	2,269	2,496	2,496	2,496	2,496	2,496
	Retained Earnings	4,139	5,169	6,096	7,142	8,552	10,357	12,653
	Other Reserves/Convertible Bonds	2,302	2,344	2,333	2,356	2,370	2,389	2,412
	Shareholders' Equity	8,504	9,781	10,925	11,993	13,417	15,242	17,560
	Minority Interest	163	150	143	151	161	173	189
Total Equity & Liability	75,726	81,780	82,469	86,619	93,336	103,210	114,463	
Ratio Analysis	Return on Average Assets	1.6%	1.7%	1.8%	1.9%	2.2%	2.6%	2.9%
	Return on Average Equity	14.5%	14.9%	14.6%	13.7%	15.3%	17.6%	19.2%
	Fee Income Yield	0.9%	1.0%	0.8%	0.7%	0.7%	0.7%	0.7%
	Recurring Income/Operating Income	98.8%	98.3%	100.6%	98.8%	95.5%	94.7%	94.9%
	Interest Earning/Financing Assets Yield	5.9%	5.3%	5.1%	5.1%	5.1%	5.5%	5.8%
	Cost of Funds	3.6%	2.8%	2.2%	2.1%	2.0%	2.3%	2.5%
	Net Spread	2.3%	2.5%	2.9%	3.0%	3.0%	3.2%	3.3%
	Cost to Income Ratio	30.6%	28.0%	25.7%	25.7%	24.2%	22.3%	21.0%
	Net Loans to Customer Deposits	99.0%	97.6%	95.5%	95.4%	95.9%	97.7%	99.7%
	Non Performing Loans	793.2	2,492.4	2,186.7	2,848.2	3,107.2	3,244.3	3,424.1
	Loan Loss Reserve	811.6	1,183.3	1,632.5	2,272.9	2,855.5	3,324.1	3,652.6
	NPLs to Gross Loans	1.5%	4.3%	3.7%	4.5%	4.5%	4.2%	3.9%
	NPL Coverage	102.3%	47.5%	74.7%	79.8%	91.9%	102.5%	106.7%
	Provisions/Total Income	13.6%	18.9%	20.9%	21.3%	17.3%	12.0%	7.4%
	Cost of Risk (bps)	53.9	90	102	104.5	88.0	63.7	39.4
	Equity to Gross Loans	16.5%	16.9%	18.5%	18.9%	19.4%	19.5%	19.8%
	Equity to Total Assets	11.2%	12.0%	13.2%	13.8%	14.4%	14.8%	15.3%
	Dividend Payout Ratio	0.0%	16.7%	24.8%	25.0%	29.3%	27.8%	27.5%
	Adjusted EPS (AED)	0.5	0.5	0.6	0.6	0.8	1.0	1.3
	Adjusted BVPS (AED)	3.4	3.9	4.4	4.8	5.4	6.1	7.0
Market Price (AED) *	3.2	3.3	2.9	3.1	3.1	3.1	3.1	
Dividend Yield	3.1%	3.0%	5.2%	5.2%	7.5%	9.2%	11.4%	
P/E Ratio (x)	5.7	5.5	4.8	4.8	3.9	3.0	2.4	
P/BV Ratio (x)	0.8	0.8	0.7	0.6	0.6	0.5	0.4	

Source: Company Reports & Global Research

* Market price for 2012 and subsequent years as per closing prices on ADX on April 08, 2012

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Company	Recommendation	Bloomberg Ticker	Reuters Ticker	Price	Disclosure
Abu Dhabi Commercial Bank	BUY	ADCB.UH	ADCB.AD	AED 3.26	1,10
Emirates NBD	BUY	Emirates.UH	ENBD.DU	AED 2.86	1,10
First Gulf Bank	STRONG BUY	FGB.UH	FGB.AD	AED 9.60	1,10
National Bank of Abu Dhabi	BUY	NBAD.UH	NBAD.AD	AED 8.73	1,10
Union National Bank	STRONG BUY	UNB.UH	UNB.AD	AED 3.05	1,10

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HOLD	Fair value of the stock is between +10% and -10% from the current market price
SELL	Fair value of the stock is < -10% from the current market price

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