



Dawn of a new era



UAE Banking Sector

April 2007

Dawn of a new era

UAE Banks
April 2007

Background and positioning

UAE banking sector is the second largest in the GCC with asset growth outstripping GDP since 2000. Large domestic banks dominate the market, but foreigners are actively present in retail and investment banking segments. In 2005, banks enjoyed a short-lived stock market-driven boomlet that ended by 1Q 2006. Most hot air revenues from IPOs, margin lending, excessive asset management and brokerage commissions evaporated by then. Asset growth, while decelerating from 48% y-o-y in 2005 to 42% in 2006, is still very impressive. This was funded through issuing MTNs as banks suffered a deposit bottleneck. Margins and non-interest income were less resilient to the shock than volumes. Post-bubble asset quality remained robust, as stocks-related credit was confined to margin lending. Provisioning is also adequate. Banks' overcapitalization was not a function of muted growth. We believe it was prudent, at the time, to maintain some "extra" capital to support the robust RWA growth that banks were experiencing, by then.

Future prospects and growth drivers

The drivers of strong earnings growth are enrooted in the UAE environment in the form of favorable demographics, buoyant economic conditions and under-penetration of key banking products. With mounting foreign competition, growing institutionalization and evaporation of stocks-related revenues, domestic banks started to consider mergers as an option to safeguard their local positioning, complement revenue streams and set up platforms for regional/global expansion. With EBI and NBD pioneering this drive, we might see more banks following their footsteps. Going forward, we believe that domestic banks will continue to benefit from strong (not astronomical) asset growth (+25%) and decent margins (+2%) with a shift in focus toward core service-driven banking fees. UAE banks are not restrained by their capital, but on the contrary, have the room to increase dividend payouts. We also don't see banks exposed to a major provisioning shock, as real-estate lending is capped at a portion of deposits and NPLs are adequately provided for. In a nutshell, we will witness a dawn of a new era.

Valuation and recommendation

We initiate coverage of six banks that constitute 63% of the sector's capitalization. Following the 2006's meltdown of the UAE stock market, banks' valuations started to look attractive with multiples dropping to unprecedented levels, not just vis-à-vis history, but, more interestingly, relative to neighboring non-GCC markets. UAE banks currently trade at 1.5-2.5x BV and deliver a post-bubble RoE of 18-22%. In Egypt, banks trade at 2.6-2.8x BV and deliver almost similar returns. While under-penetration, market size and economic diversity favors Egypt, UAE enjoys one of the most liberal economies in the region. We are bullish on FGB (Buy) and ADCB (Buy) as their interesting stories are not fully discounted yet in their share prices.

Price Performance

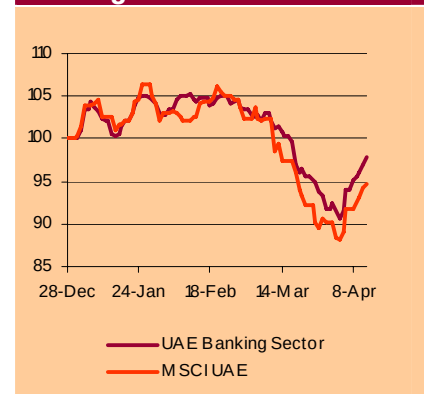
12m absolute

ADCB	-27.0%
DIB	-52.7%
EBI	-35.3%
FGB	-27.6%
NBAD	-44.3%
NBD	-43.4%

12m relative to MSCI - UAE

ADCB	12.3%
DIB	-27.3%
EBI	-0.4%
FGB	11.5%
NBAD	-14.2%
NBD	-12.9%

Banking sector rel. to MSCI



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Valuation Summary

Bank	2007e P/E (x)	2007e P/BV (x)	2007e Div. Yield (%)	Current Price (AED)	Target Price (AED)	Expected total return (%)	Recommendation
ADCB	11.0	2.08	5.8%	6.00	7.00	22.4%	Buy
DIB	13.0	2.36	5.2%	7.54	7.66	6.8%	Hold
EBI	12.9	2.51	3.9%	9.00	9.76	12.3%	Add
FGB	8.3	1.54	8.5%	11.75	16.50	49.0%	Buy
NBAD	13.2	2.87	4.0%	18.85	19.72	8.6%	Hold
NBD	11.6	1.98	4.6%	8.70	9.58	14.7%	Add

Source: Noor Capital

Table of Contents

UAE Banks

April 2007

Section	Page
Valuation and recommendation	1
The Sector	10
Regulatory Framework	14
Operating Environment	16
Peer Group	25
Future Prospects	42
Abu Dhabi Commercial Bank	46
Dubai Islamic Bank	53
Emirates Bank International	60
First Gulf Bank	67
National Bank of Abu Dhabi	74
National Bank of Dubai	81
Recommendation Structure and Disclaimer	88

Valuation and Recommendation

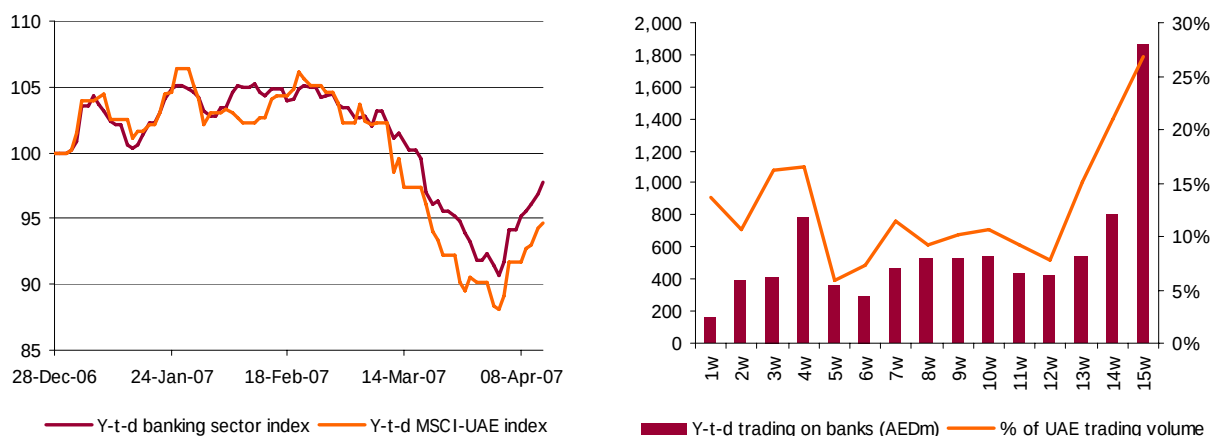
UAE Banks

April 2007

Valuation and Recommendation

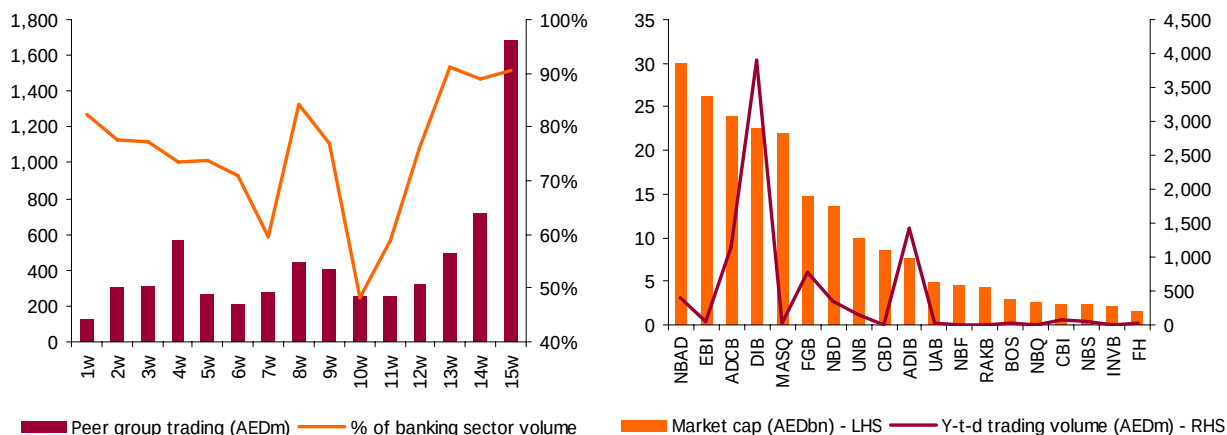
Peer group represents 63% and 78% of banks' capitalization and trading volume, respectively

In this report we initiate coverage of six banks, namely: Abu Dhabi Commercial Bank (ADCB), Emirates Bank International (EBI), Dubai Islamic Bank (DIB), First Gulf Bank (FGB), National Bank of Abu Dhabi (NBAD) and National Bank of Dubai (NDB). We look at the progress of the whole sector, drill down into this peer group and show our forecast assumptions, valuations and recommendations. The peer group was elected based on market capitalization and trading volume. Initially, we would like to shed more light on the banking sector's relative weight in the UAE market, its absolute and relative price performance. With a total market capitalization of AED207.7bn, the 25 listed banks collectively represent 39.8% of the UAE's market. Year-to-date, banks captured 12.7% of the trading volumes on DFM and ADSM. Only 15 of the listed banks are open to foreign ownership. These represent 57.7% and 77.6% of the banking sector's capitalization and y-t-d trading volumes, respectively. Price wise, the banking sector's index was down 2.19% y-t-d, while the MSCI UAE index dropped 5.39%, thus translating to a 3.4% out-performance.



Source: MSCI Barra, Securities and Commodities Authority (SCA), Noor Capital

Our peer group represents 63% of banks' market cap and 78.2% of their y-t-d trading volumes. Despite being ranked 5th (in terms of cap before FGB and NBD), Mashreq Bank was not covered due to its illiquidity.



Source: Securities and Commodities Authority (SCA), Noor Capital

Valuation and Recommendation

UAE Banks

April 2007

We assign equal weights to the valuation techniques due to earnings visibility issues

We used four metrics to value banks. Two of them are multi-period techniques (discounted dividend model and bond pricing model) and the rest are purely spot multiples (relative P/E and P/BV). We have assigned equal weights to the different techniques, despite our natural bias toward spot multiples. In turn, this bias is based on a belief that earnings visibility in far off periods tend to be more flimsy. For instance, who, at the beginning of 2003, expected UAE banks to deliver the results reported in 2005. As long as banks continue to generate the bulk of profits in a commoditized economy that lends itself to a dominant driver (oil prices), it would be difficult to assign higher weights to multi-period techniques. However, as the de-commoditization efforts gain more momentum and/or the banks reduce their asset exposure to the economy (via significant overseas operations), then it becomes more plausible to assign higher weights to these techniques.

DDM-driven values (AED/share)		2007e	2008e	2009e	2010e	2011e	2012e
ADCB	DPS (AED)	0.35	0.44	0.50	0.58	0.75	1.03
	Discount factor (x)	1.10	1.22	1.35	1.49	1.65	1.82
	PV DPS (AED)	0.31	0.36	0.37	0.39	0.45	0.57
	RoE (%)						28.14
	CoE (%)						10.49
	Perpetual growth rate (%)						3.50
	RoE - g / CoE - g (x)						3.53
	BVPS (AED)	2.88	3.06	3.30	3.61	3.84	3.90
	Implied Price (AED)						13.75
	PV of Implied Price (AED)	7.56					
	Total PV DPS (AED)	2.46					
	DDM-driven value (AED/share)	10.01					
DIB	DPS (AED)	0.39	0.45	0.50	0.55	0.60	0.65
	Discount factor (x)	1.10	1.22	1.35	1.49	1.64	1.81
	PV DPS (AED)	0.36	0.37	0.37	0.37	0.37	0.36
	RoE (%)						24.03
	CoE (%)						10.44
	Perpetual growth rate (%)						3.50
	RoE - g / CoE - g (x)						2.96
	BVPS (AED)	3.20	3.43	3.75	4.21	4.71	5.26
	Implied Price (AED)						15.56
	PV of Implied Price (AED)	8.57					
	Total PV DPS (AED)	2.19					
	DDM-driven value (AED/share)	10.77					
EBI	DPS (AED)	0.35	0.40	0.45	0.50	0.55	0.60
	Discount factor (x)	1.10	1.21	1.33	1.47	1.61	1.77
	PV DPS (AED)	0.32	0.33	0.34	0.34	0.34	0.34
	RoE (%)						23.89
	CoE (%)						10.02
	Perpetual growth rate (%)						3.50
	RoE - g / CoE - g (x)						3.13
	BVPS (AED)	3.59	4.02	4.59	5.25	6.01	6.95
	Implied Price (AED)						21.73
	PV of Implied Price (AED)	12.25					
	Total PV DPS (AED)	2.01					
	DDM-driven value (AED/share)	14.26					

Source: Banks, Noor Capital

Valuation and Recommendation

UAE Banks

April 2007

All banks looked attractively cheap from a discounted dividend model (DDM) perspective

We have a simplified dividend discount model (DDM) assuming a perpetual growth rate of 3.5% from 2012. This rate corresponds to what we believe to be a sustainable long-term real GDP growth rate in the UAE. Our cost of equity (CoE) was derived using a simple Capital Asset Pricing Model (CAPM), whereby the UAE's risk free rate was estimated based on the prevailing yield to maturity (YTM) on Qatar's Global Sukuk maturing in 2010 (5.614%) and marked up with a spread (0.386%) to reflect currency risk. Note that the UAE enjoys the same credit rating of Qatar (Aa3 by Moody's). We have applied a market risk premium of 5%, in line with that widely applied by global fund managers for emerging markets, and calculated the individual beta for each bank. The models for the six banks are presented in the table overleaf and hereunder. All banks looked relatively cheap from a DDM perspective. Note that overcapitalization and slower-than-bubble time asset growth could translate into higher dividend payouts.

DDM-driven values (AED/share)		2007e	2008e	2009e	2010e	2011e	2012e
FGB	DPS (AED)	1.00	1.43	1.43	1.54	1.74	1.84
	Discount factor (x)	1.13	1.27	1.43	1.62	1.83	2.06
	PV DPS (AED)	0.89	1.13	1.00	0.95	0.95	0.89
	RoE (%)						24.30
	CoE (%)						12.79
	Perpetual growth rate (%)						3.50
	RoE - g / CoE - g (x)						2.24
	BVPS (AED)	7.61	8.07	8.72	9.57	10.83	12.34
	Implied Price (AED)						27.63
	PV of Implied Price (AED)	13.42					
	Total PV DPS (AED)	5.81					
	DDM-driven value (AED/share)	19.23					
NBAD	DPS (AED)	0.75	1.00	1.25	1.50	1.75	2.00
	Discount factor (x)	1.08	1.16	1.25	1.34	1.44	1.56
	PV DPS (AED)	0.70	0.86	1.00	1.12	1.21	1.29
	RoE (%)						24.15
	CoE (%)						7.64
	Perpetual growth rate (%)						3.50
	RoE - g / CoE - g (x)						4.99
	BVPS (AED)	6.57	7.20	7.70	8.05	8.25	8.24
	Implied Price (AED)						41.11
	PV of Implied Price (AED)	26.43					
	Total PV DPS (AED)	6.18					
	DDM-driven value (AED/share)	32.61					
NBD	DPS (AED)	0.40	0.45	0.50	0.55	0.58	0.59
	Discount factor (x)	1.11	1.23	1.37	1.52	1.69	1.88
	PV DPS (AED)	0.36	0.36	0.36	0.36	0.34	0.32
	RoE (%)						22.11
	CoE (%)						11.11
	Perpetual growth rate (%)						3.50
	RoE - g / CoE - g (x)						2.45
	BVPS (AED)	4.40	4.79	5.26	5.88	6.68	7.67
	Implied Price (AED)						18.76
	PV of Implied Price (AED)	9.97					
	Total PV DPS (AED)	2.11					
	DDM-driven value (AED/share)	12.08					

Source: Banks, Noor Capital

Valuation and Recommendation

UAE Banks

April 2007

DDM-driven targets are more sensitive to changes in discount rate (CoE) than terminal value

We have also worked out some sensitivities to our base case scenarios, whereby we altered the perpetual growth rate and the CoE estimates by 50bps up and down. The outcome of these sensitivities are presented in the following diagram. You would see that the target price is, in general, more sensitive to changes in discount rate (i.e. CoE) than changes in the perpetual growth rate (g). A 50bps change in g translates into a 2-5% change in target price, whereas an equivalent 50bps change in CoE yields a 7-10% change. In that respect, it is safe to deduce that the DDM-driven targets are not highly sensitive to changes in terminal value (i.e. the portion of value generated in the “invisible” forecast horizon).

ADCB

Cost of Equity	Perpetual growth rate		
	3.00	3.50	4.00
	8.89	9.28	9.62
	9.65	10.01	10.43
9.99 10.49 10.99	10.42	10.86	11.37

Source: Noor Capital

DIB

Cost of Equity	Perpetual growth rate		
	3.00	3.50	4.00
	9.63	9.94	10.30
	10.38	10.77	11.21
9.94 10.44 10.94	11.25	11.72	12.27

Source: Noor Capital

EBI

Cost of Equity	Perpetual growth rate		
	3.00	3.50	4.00
	12.57	13.06	13.61
	13.66	14.26	14.95
9.52 10.02 10.52	14.95	15.69	16.56

Source: Noor Capital

FGB

Cost of Equity	Perpetual growth rate		
	3.00	3.50	4.00
	17.80	18.12	18.47
	18.85	19.23	19.65
12.29 12.79 13.29	20.01	20.46	20.97

Source: Noor Capital

NBAD

Cost of Equity	Perpetual growth rate		
	3.00	3.50	4.00
	27.27	29.00	31.14
	30.33	32.61	35.51
7.14 7.64 8.14	34.12	37.19	41.24

Source: Noor Capital

NBD

Cost of Equity	Perpetual growth rate		
	3.00	3.50	4.00
	10.89	11.18	11.52
	11.72	12.08	12.49
10.61 11.11 11.61	12.66	13.11	13.62

Source: Noor Capital

Bond pricing model suggests that NBAD should trade at a premium to its market price

Our second valuation method is quite similar to a bond pricing model, whereby we infer an implied P/BV and compare it to the actual one to detect underlying premiums/discounts. In turn, the implied P/BV is derived from comparing each bank's RoE to its CoE. This is based on a very simple premise stating that companies (banks in our case) delivering a return on invested capital (RoE here) equivalent to their weighted average cost of capital (CoE in this case), should trade at par to their invested capital (BV in case of banks). In other words, neither a premium nor a discount is warranted in this case. We have applied this methodology for the six banks under coverage and took the minimum upside, or the maximum downside prevailing over the forecast horizon (for conservatism) and applied it against the current market price to reach a target. All the banks' actual P/BV in 2007e was higher than their implied ones, except, for NBAD, thanks to its high RoE and low beta. Under this exercise, DIB suffers most due to its lower RoE, but most importantly, due to the last two week's price rally of the bank's stock, which inflated its actual P/BV measure. In 2009e onward, as RoEs grow, the measure will generate a premium across the board.

Valuation and Recommendation

UAE Banks

April 2007

Values driven by Bond Pricing Model (AED/share)		2007e	2008e	2009e	2010e	2011e	2012e
ADCB	RoE (%)	19.59%	20.95%	23.37%	25.82%	26.15%	28.14%
	CoE (%)	10.49%	10.49%	10.49%	10.49%	10.49%	10.49%
	Implied P/BVPS (x)	1.87	2.00	2.23	2.46	2.49	2.68
	Actual P/BVPS (x)	2.08	1.96	1.82	1.66	1.56	1.54
	Upside / Downside (%)	-10%	2%	23%	48%	60%	74%
	Minimum Upside / Downside (%)	-10%					
	Current market price (AED/share)	6.00					
BPM-driven value (AED/share)		5.38					
DIB	RoE (%)	18.88%	20.63%	22.95%	25.28%	24.72%	24.03%
	CoE (%)	10.44%	10.44%	10.44%	10.44%	10.44%	10.44%
	Implied P/BVPS (x)	1.81	1.98	2.20	2.42	2.37	2.30
	Actual P/BVPS (x)	2.36	2.20	2.01	1.79	1.60	1.43
	Upside / Downside (%)	-23%	-10%	9%	35%	48%	61%
	Minimum Upside / Downside (%)	-23%					
	Current market price (AED/share)	7.54					
BPM-driven value (AED/share)		5.78					
EBI	RoE (%)	20.94%	21.84%	23.55%	23.64%	23.17%	23.89%
	CoE (%)	10.02%	10.02%	10.02%	10.02%	10.02%	10.02%
	Implied P/BVPS (x)	2.09	2.18	2.35	2.36	2.31	2.38
	Actual P/BVPS (x)	2.51	2.24	1.96	1.71	1.50	1.29
	Upside / Downside (%)	-17%	-3%	20%	38%	54%	84%
	Minimum Upside / Downside (%)	-17%					
	Current market price (AED/share)	9.00					
BPM-driven value (AED/share)		7.50					
FGB	RoE (%)	19.20%	21.06%	22.35%	22.86%	25.31%	24.30%
	CoE (%)	12.79%	12.79%	12.79%	12.79%	12.79%	12.79%
	Implied P/BVPS (x)	1.50	1.65	1.75	1.79	1.98	1.90
	Actual P/BVPS (x)	1.54	1.46	1.35	1.23	1.09	0.95
	Upside / Downside (%)	-3%	13%	30%	46%	82%	100%
	Minimum Upside / Downside (%)	-3%					
	Current market price (AED/share)	11.75					
BPM-driven value (AED/share)		11.43					
NBAD	RoE (%)	23.41%	23.66%	23.43%	23.58%	23.86%	24.15%
	CoE (%)	7.64%	7.64%	7.64%	7.64%	7.64%	7.64%
	Implied P/BVPS (x)	3.07	3.10	3.07	3.09	3.12	3.16
	Actual P/BVPS (x)	2.87	2.62	2.45	2.34	2.29	2.29
	Upside / Downside (%)	7%	18%	25%	32%	37%	38%
	Minimum Upside / Downside (%)	7%					
	Current market price (AED/share)	18.85					
BPM-driven value (AED/share)		20.14					
NBD	RoE (%)	18.05%	18.27%	19.45%	20.93%	21.96%	22.11%
	CoE (%)	11.11%	11.11%	11.11%	11.11%	11.11%	11.11%
	Implied P/BVPS (x)	1.62	1.64	1.75	1.88	1.98	1.99
	Actual P/BVPS (x)	1.98	1.82	1.65	1.48	1.30	1.13
	Upside / Downside (%)	-18%	-10%	6%	27%	52%	75%
	Minimum Upside / Downside (%)	-18%					
	Current market price (AED/share)	8.70					
BPM-driven value (AED/share)		7.14					

Source: Banks, Noor Capital

Valuation and Recommendation

UAE Banks

April 2007

FGB benefits from P/E-driven methodology thanks to its sub-sector multiples

Our third valuation method is very straight forward. We have taken the weighted average P/E of peer banks (excluding the examined one), multiplied it by the examined bank's future EPS estimates in order to generate P/E-driven values. We then took the simple average of these values to reach a price target. Obviously speaking, banks that currently trade at a discount to sector P/E are set to benefit from this valuation technique. Accordingly, FGB with its unwarranted sub-sector multiples, stands out as a prime beneficiary of this valuation technique.

PE-driven values (AED/share)		2007e	2008e	2009e	2010e	2011e	2012e
ADCB	Average PE of Peer Group (x)	11.83	9.90	8.64	7.51	6.61	5.94
	ADCB P/E (x)	11.01	9.64	8.07	6.72	6.16	5.51
	ADCB EPS (AED)	0.54	0.62	0.74	0.89	0.97	1.09
	P/E-driven values (AED/share)	6.45	6.16	6.42	6.70	6.44	6.46
	Average value (AED/share)	6.44					
DIB	Average PE of Peer Group (x)	11.40	9.61	8.39	7.31	6.45	5.76
	DIB P/E (x)	13.00	11.04	9.15	7.49	6.84	6.30
	DIB EPS (AED)	0.58	0.68	0.82	1.01	1.10	1.20
	P/E-driven values (AED/share)	6.61	6.57	6.91	7.35	7.11	6.89
	Average value (AED/share)	6.91					
EBI	Average PE of Peer Group (x)	11.37	9.61	8.43	7.25	6.42	5.85
	EBI P/E (x)	12.95	10.82	8.88	7.74	6.90	5.81
	EBI EPS (AED)	0.69	0.83	1.01	1.16	1.30	1.55
	P/E-driven values (AED/share)	7.90	8.00	8.55	8.43	8.38	9.06
	Average value (AED/share)	8.39					
FGB	Average PE of Peer Group (x)	12.33	10.66	9.12	7.85	7.13	6.40
	FGB P/E (x)	8.27	7.12	6.26	5.62	4.55	4.17
	FGB EPS (AED)	1.42	1.65	1.88	2.09	2.58	2.82
	P/E-driven values (AED/share)	17.52	17.60	17.11	16.41	18.40	18.01
	Average value (AED/share)	17.51					
NBAD	Average PE of Peer Group (x)	11.26	9.41	8.01	6.78	5.93	5.24
	NBAD P/E (x)	13.16	11.57	10.80	10.15	9.69	9.47
	NBAD EPS (AED)	1.43	1.63	1.75	1.86	1.94	1.99
	P/E-driven values (AED/share)	16.13	15.33	13.98	12.59	11.53	10.44
	Average value (AED/share)	13.33					
NBD	Average PE of Peer Group (x)	11.65	9.77	8.47	7.33	6.53	5.89
	NBD P/E (x)	11.64	10.37	8.90	7.46	6.31	5.48
	NBD EPS (AED)	0.75	0.84	0.98	1.17	1.38	1.59
	P/E-driven values (AED/share)	8.70	8.20	8.28	8.55	9.01	9.34
	Average value (AED/share)	8.68					

Source: Banks, Noor Capital

FGB and NBD look attractive from a P/BV perspective

Our fourth and last valuation method, is similar to the previous one. However, the price target here is derived using the peer group's P/BV and the examined bank's book value per share. Again, FGB and NBD look quite attractive on this screen, thanks to their lower P/BV.

Valuation and Recommendation

UAE Banks

April 2007

PBV-driven values (AED/share)		2007e	2008e	2009e	2010e	2011e	2012e
ADCB	Average PBV of Peer Group (x)	2.28	2.10	1.91	1.73	1.56	1.40
	ADCB P/BV (x)	2.08	1.96	1.82	1.66	1.56	1.54
	ADCB BVPS (AED)	2.88	3.06	3.30	3.61	3.84	3.90
	P/BV-driven values (AED/share)	6.58	6.42	6.32	6.25	5.99	5.46
	Average value (AED /share)	6.17					
DIB	Average PBV of Peer Group (x)	2.22	2.05	1.87	1.70	1.55	1.42
	DIB P/BV (x)	2.36	2.20	2.01	1.79	1.60	1.43
	DIB BVPS (AED)	3.20	3.43	3.75	4.21	4.71	5.26
	P/BV-driven values (AED/share)	7.11	7.02	7.03	7.17	7.31	7.47
	Average value (AED /share)	7.18					
EBI	Average PBV of Peer Group (x)	2.19	2.03	1.88	1.72	1.58	1.46
	EBI P/BV (x)	2.51	2.24	1.96	1.71	1.50	1.29
	EBI BVPS (AED)	3.59	4.02	4.59	5.25	6.01	6.95
	P/BV-driven values (AED/share)	7.86	8.19	8.62	9.03	9.46	10.15
	Average value (AED /share)	8.88					
FGB	Average PBV of Peer Group (x)	2.38	2.19	2.00	1.81	1.65	1.52
	FGB P/BV (x)	1.54	1.46	1.35	1.23	1.09	0.95
	FGB BVPS (AED)	7.61	8.07	8.72	9.57	10.83	12.34
	P/BV-driven values (AED/share)	18.11	17.68	17.41	17.31	17.88	18.73
	Average value (AED /share)	17.85					
NBAD	Average PBV of Peer Group (x)	2.11	1.95	1.78	1.59	1.43	1.28
	NBAD P/BV (x)	2.87	2.62	2.45	2.34	2.29	2.29
	NBAD BVPS (AED)	6.57	7.20	7.70	8.05	8.25	8.24
	P/BV-driven values (AED/share)	13.85	14.05	13.67	12.82	11.75	10.54
	Average value (AED /share)	12.78					
NBD	Average PBV of Peer Group (x)	2.28	2.11	1.93	1.75	1.60	1.47
	NBD P/BV (x)	1.98	1.82	1.65	1.48	1.30	1.13
	NBD BVPS (AED)	4.40	4.79	5.26	5.88	6.68	7.67
	P/BV-driven values (AED/share)	10.03	10.08	10.15	10.29	10.66	11.25
	Average value (AED /share)	10.41					

Source: Banks, Noor Capital

FGB and ADCB are our top picks based on expected total return (ETR) measure

We took the average of all the valuation methods mentioned earlier and arrived at estimates for target prices. These, when compared to market price, should yield a potential capital gain or loss (i.e. upside or downside). Our recommendation is based on an expected total return (ETR) measure, which considers the potential capital gain (loss) and the 2007e dividend yield. By doing so, we cater for value investors, as well.

Summary of valuation techniques	ADCB	DIB	EBI	FGB	NBAD	NBD
DDM-driven value (AED/share)	10.01	10.77	14.26	19.23	32.61	12.08
BPM-driven value (AED/share)	5.38	5.78	7.50	11.43	20.14	7.14
P/E-driven value (AED/share)	6.44	6.91	8.39	17.51	13.33	8.68
P/BV-driven value (AED/share)	6.17	7.18	8.88	17.85	12.78	10.41
Target Price (AED /share)	7.00	7.66	9.76	16.50	19.72	9.58
Current Market Price (AED/share)	6.00	7.54	9.00	11.75	18.85	8.70
Upside / Downside (%)	16.7%	1.6%	8.4%	40.5%	4.6%	10.1%
2007e Dividend yield (%)	5.8%	5.2%	3.9%	8.5%	4.0%	4.6%
Total return (%)	22.4%	6.8%	12.3%	49.0%	8.6%	14.7%
Recommendation	Buy	Hold	Add	Buy	Hold	Add

Source: Banks, Noor Capital

Abu Dhabi Commercial Bank – ETR of 22.4 % (16.7 % upside + 5.8 % 2007e yield) – Buy

ADCB is the most actively traded bank among our peer group in Abu Dhabi. Despite dropping by 27% over the last 12 months, it has managed to outperform the MSCI UAE index by 12.3%. ADCB currently trades at a 9.8% discount to our peer group's 2007e weighted average P/BV despite expectations of a sustainable premium to the group's RoAE. With a 12 month expected total return of 22.4% (16.7% upside potential on current market price + 5.8% 2007e dividend yield), we initiate research coverage on ADCB with a Buy recommendation. We expect the stock to ultimately re-rate, not just based on short-lived merger rumors, but on investors' appreciation of the bank's sound value proposition.

Dubai Islamic Bank – ETR of 6.8 % (1.6 % upside + 5.2 % 2007e yield) – Hold

Allowing for foreign ownership, DIB is the most actively traded bank in the UAE. The stock dropped 52.7% over the past 12 months to under-perform the MSCI UAE index by 27.3%. Nonetheless, the past two weeks' price rally has inflated valuation multiples. The stock now trades at an 18% and 11% premiums to the peer group's weighted average 2007e P/E and P/BV, respectively. We believe this slight premium is warranted given our expectations that DIB's earnings will outpace peer's average. However, with a 12 month expected total return of 6.8% (1.6% upside potential to current market price + 5.2% 2007e dividend yield), we initiate research coverage on DIB with a Hold recommendation. We believe that DIB's strong growth is already priced in.

Emirates Bank International – ETR of 12.3 % (8.4 % upside + 3.9 % 2007e yield) – Add

EBI has the second largest market capitalization among UAE banks with a ban on foreign ownership and a 23% free float. Despite dropping by 35.3% over the last 12 months, it has matched the performance of the MSCI index for the UAE. EBI currently trades at premium to our peer group's 2007e weighted average P/BV and P/E. We tend to ascribe this to two factors: (1) the foreign ownership ban deprives the stock from a chance to instantly re-rate and converge toward sector multiples and (2) retail investors' excitement regarding the merger story. With a 12 month expected pre-deal total return of 12.3% (8.4% upside potential + 3.9% 2007e dividend yield), we initiate research coverage on EBI with an Add rating. We will revisit our expectations, as more merger-related information becomes publicly available.

First Gulf Bank – ETR of 49 % (40.5 % upside + 8.5 % 2007e yield) – Buy

FGB has the smallest market capitalization among our Abu-Dhabi based peer banks. Despite dropping by 27.6% over the last 12 months, it has managed to out-perform the MSCI UAE index by 11.5%. FGB currently trades at a staggering 28% discount to our peer group's 2007e weighted average P/BV despite delivering superior performance. We believe this is due to a wide skepticism among investors regarding the sustainability of the bank's non-interest revenue streams. With a 12 month expected total return of 49% (40.5% upside potential on current market price + 8.5% 2007e dividend yield), we initiate research coverage on FGB with a Buy recommendation. We expect the stock to ultimately re-rate, when the bank starts beating expectations via showing strong sequential growth throughout 2007.

National Bank of Abu Dhabi – ETR of 8.6 % (4.6 % upside + 4 % 2007e yield) – Hold

NBAD has the largest market capitalization of any bank in the UAE with a 25% foreign ownership limit and a 27% free float. NBAD dropped by 44.3% over the last 12 months to under-perform the MSCI UAE index by 14.2%. NBAD currently trades at a 3% premium to our peer group's 2007e weighted average P/BV/RoAE measure. This measure captures, not just the multiple to book, but the quality of book, as well. With a 12 month expected total return of 8.6% (4.6% upside potential + 4.0% 2007e dividend yield), we initiate research coverage on NBAD with a Hold rating. We believe the stock is fairly valued at these price levels, with a possibility of revisiting our expectations should the bank surprise on the upside.

Valuation and Recommendation

UAE Banks

April 2007

National Bank of Dubai – ETR of 14.7% (10.1% upside + 4% 2007e yield) – Add

NBD has the smallest market capitalization among peer group, however, with a sizeable 86% free float that is not reflected in share liquidity. NBD dropped 43.4% over the last 12 months to under-perform the MSCI UAE index by 12.9%. NBD currently trades at par with peer group's 2007e weighted average P/BV and P/E. One thing we like most about NBD is the quality of its non-interest revenue stream. NBD was less exposed to stock-market related revenues than peers. With a 12 month expected pre-deal total return of 14.7% (10.1% upside potential to current market price + 4.6% 2007e dividend yield), we initiate research coverage on NBD with an Add rating. We will revisit our expectations, as more merger-related information becomes publicly available.

Cautionary statement

Potential and current investors, as well as issuers (i.e. banks) need to comprehend and appreciate a simple fact stating that a negative recommendation does not necessarily imply that the analyst is simply expecting the company to deliver an inferior fundamental performance. It could equally mean that the market has pushed up the share price of the underlying company to levels that does not justify buying or even holding the stock. Never forget that valuation is a relationship between price (P) and a fundamental variable (e.g. EPS, BV...etc). While the issuer can have significant control on the fundamentals, it has far less power over its share price.

Realization of target prices requires catalysts

We strongly believe in catalysts. These are market conditions, whose presence help expedite the realization of target prices. A very important catalyst in our view is to sustain the efforts leading to an efficient market, in its wider sense, through enhancing disclosure practices, liquidity, corporate governance and market openness. These measures would attract a different type of investors with distinct risk appetites, maturity profiles and return preferences. By doing so, markets would become less volatile and more fundamentally driven. We would certainly like to see more institutional money pouring into the UAE stock markets. A mix of hedge, mutual and pension funds would be idealistic. In other words, the local markets need more investors who look at cross-border comparisons and do the math, not just momentum buyers. This does not mean that retail investors should be sidelined. On the contrary, their presence is necessary for a proper functioning of the markets, as they provide liquidity.

The dawn of a new era is set to shine

Valuations in the UAE have now dropped to unprecedented levels, not just relative to history, but more surprisingly versus neighboring non-GCC markets. Two years ago, a foreign institutional investor looking at UAE banks would mix a P/BV for a P/E. UAE banks were trading at early teens P/BV in 2005. Nowadays, banks trade at 1.5-2x their BVs and deliver a post-bubble RoAE of 18-22%. In Egypt, for instance, banks trade at 2.6-2.8x book and deliver almost similar returns. Moreover, nominal interest rates in Egypt (+10%) are higher than in the UAE (+6%). While under-penetration, market size and economic diversity favors Egypt, the UAE enjoys one of the most liberal and highly dynamic economies in the region. To recap, we are now witnessing a dawn of a new era, not just in its metaphoric sense, but in reality. The days when local banks can make a quick buck, from the stock market, are largely behind us. With more foreign banks attracted to set up operations in DIFC, we will see a gradual change in the modus operandi of domestic ones. Sector consolidation is inevitable, yet it will happen at a predetermined pace. We believe this is the right time for investors to gain exposure to the sector, particularly that y-o-y net profit growth will be quite strong starting Q3 2007. In Q1 2007, y-o-y growth will misleadingly look muted as Q1 2006 results were heavily loaded with stock market-related revenues.

The Sector

More than 45 banks in the UAE...

There are currently 46 commercial banks operating in the UAE under the supervision of the Central Bank (CBUAE) with a 2005 (latest available figure) network of 564 branches. According to CBUAE's classification, banks fall into two broad categories by inception origin: national and foreign bank. According to law, local networks of foreign banks are restricted to only 8 branches per bank.

There are 21 national banks with a combined asset, loan and deposit market shares of 77.4%, 80.0% and 75.4% respectively. National banks continued to gain market share, as (1) their branch networks are not capped and hence are capable of mobilizing/utilizing funds at more captive rates/terms and (2) they enjoy better access to the UAE government's hefty deposit pool and (3) their assets reflected the 2004-05 stock market euphoria more clearly than their foreign counterparts due to larger market exposure. In other words, there is a revaluation element embedded in the additional market share gained by national banks.

Development of market shares							
	2001	2002	2003	2004	2005	Sep-06	CAGR
Assets (AEDbn)							
Local banks	224.01	255.16	278.60	344.36	499.11	588.00	22.2%
y-o-y growth	n/a	13.9%	9.2%	23.6%	44.9%	17.8%	n/a
Foreign banks	75.66	78.08	88.31	105.66	138.91	171.85	16.4%
y-o-y growth	n/a	3.2%	13.1%	19.7%	31.5%	23.7%	n/a
Asset market share (%)							
Local banks	74.8%	76.6%	75.9%	76.5%	78.2%	77.4%	n/a
y-o-y growth	n/a	1.8%	-0.6%	0.6%	1.7%	-0.8%	n/a
Foreign banks	25.2%	23.4%	24.1%	23.5%	21.8%	22.6%	n/a
y-o-y growth	n/a	-1.8%	0.6%	-0.6%	-1.7%	0.8%	n/a
Loans (AEDbn)							
Local banks	126.77	149.12	177.21	220.64	312.79	392.62	25.3%
y-o-y growth	n/a	17.6%	18.8%	24.5%	41.8%	25.5%	n/a
Foreign banks	40.99	41.80	48.81	66.09	82.10	97.94	19.0%
y-o-y growth	n/a	2.0%	16.8%	35.4%	24.2%	19.3%	n/a
Loan market share (%)							
Local banks	75.6%	78.1%	78.4%	77.0%	79.2%	80.0%	n/a
y-o-y growth	n/a	2.5%	0.3%	-1.5%	2.3%	0.8%	n/a
Foreign banks	24.4%	21.9%	21.6%	23.0%	20.8%	20.0%	n/a
y-o-y growth	n/a	-2.5%	-0.3%	1.5%	-2.3%	-0.8%	n/a
Deposits (AEDbn)							
Local banks	133.69	157.41	177.27	225.01	313.95	358.26	23.8%
y-o-y growth	n/a	17.7%	12.6%	26.9%	39.5%	14.1%	n/a
Foreign banks	49.71	52.68	60.90	72.96	97.17	116.69	18.2%
y-o-y growth	n/a	6.0%	15.6%	19.8%	33.2%	20.1%	n/a
Deposit market share (%)							
Local banks	72.9%	74.9%	74.4%	75.5%	76.4%	75.4%	n/a
y-o-y growth	n/a	2.0%	-0.5%	1.1%	0.8%	-0.9%	n/a
Foreign banks	27.1%	25.1%	25.6%	24.5%	23.6%	24.6%	n/a
y-o-y growth	n/a	-2.0%	0.5%	-1.1%	-0.8%	0.9%	n/a

Source: Central Bank of the UAE, Noor Capital

The following table outlines the expansion of branch networks over the 2001-05 period

Development of branch networks	2001	2002	2003	2004	2005	CAGR
National Banks						
Number	20	21	21	21	21	1.2%
Branches	324	345	367	383	449	8.5%
Foreign Banks						
Number	26	26	25	25	25	-1.0%
Branches	109	112	112	112	115	1.3%
Total						
Banks	46	47	46	46	46	0.0%
Branches	433	457	479	495	564	6.8%

Source: Central Bank of the UAE, Noor Capital

We will examine later, whether the market is over/under or properly banked.

...with the biggest six gaining more market share...

Alike most of the other emerging markets, the banking sector in the UAE is highly concentrated with the biggest six banks (the subject of this report) commanding not only the bulk of market shares among the local segment, but they continue to sideline smaller ones. Larger banks are backed by their lower cost of funds, widely spread branch networks, continuous launch of innovative products, superior IT platforms and distinguished human resources. The combined asset and loan market share of the big six increased from 65.2%, and 65.9% in 2004 to 68.2% and 67.6% in 2006, respectively. The big six comprise the following banks in Abu Dhabi: National Bank of Abu Dhabi, Abu Dhabi Commercial Bank, First Gulf Bank and in Dubai: Dubai Islamic Bank, Emirates Bank International and National Bank of Dubai. We examined the market shares of those big six relative to their category (i.e. national banks).

Market share evolution of the big six	2004	2005	2006
Loan Market Shares	65.2%	67.5%	68.2%
y-o-y change	n/a	2.3%	0.7%
Asset Market Share	65.9%	65.1%	67.6%
y-o-y change	n/a	-0.7%	2.4%

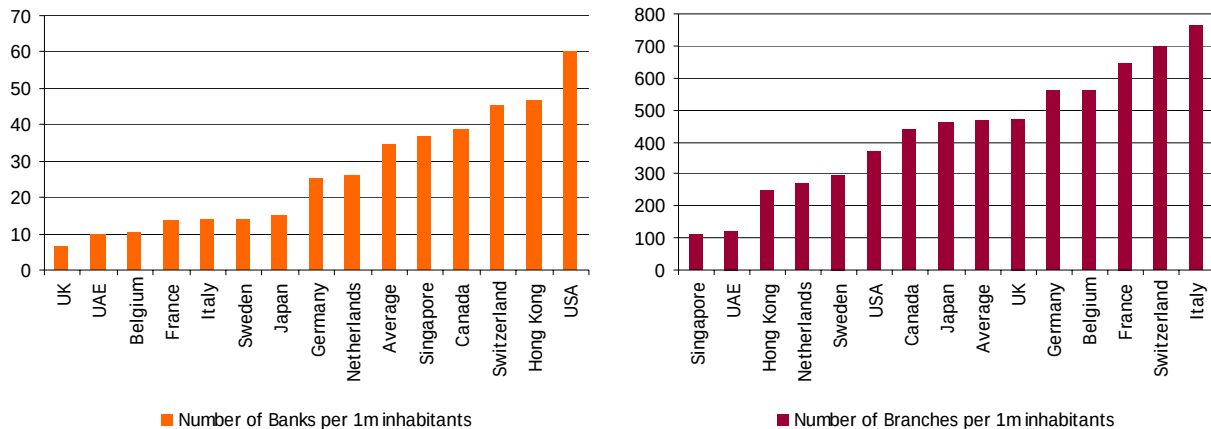
Source: National UAE Banks, Noor Capital

...thus setting a role model for industry consolidation

With a natural tendency to collude through market share acquisition and given some irrational pricing from smaller players, two of the large six announced plans to expedite sector consolidation through an arranged merger exercise. These two are Emirates Bank International and National Bank of Dubai. As of the publication of this report, we lacked information on the specifics of this transaction apart from the joint disclosure released on 7 March 2007, which stated the obvious regarding the need to conduct legal and financial due diligence, seek independent valuation and regulatory approvals and then merge operations. It requires no brainier that merger synergies are immense. They range from cost optimization through eliminating overlapped functions to increasing the combined bank's single obligor limit and hence augmenting its lending power. The last thing a transaction should bring to the table is conflicting cultures and more overcapitalization. We will extensively discuss the overcapitalization issue of UAE banks in a subsequent section of this report.

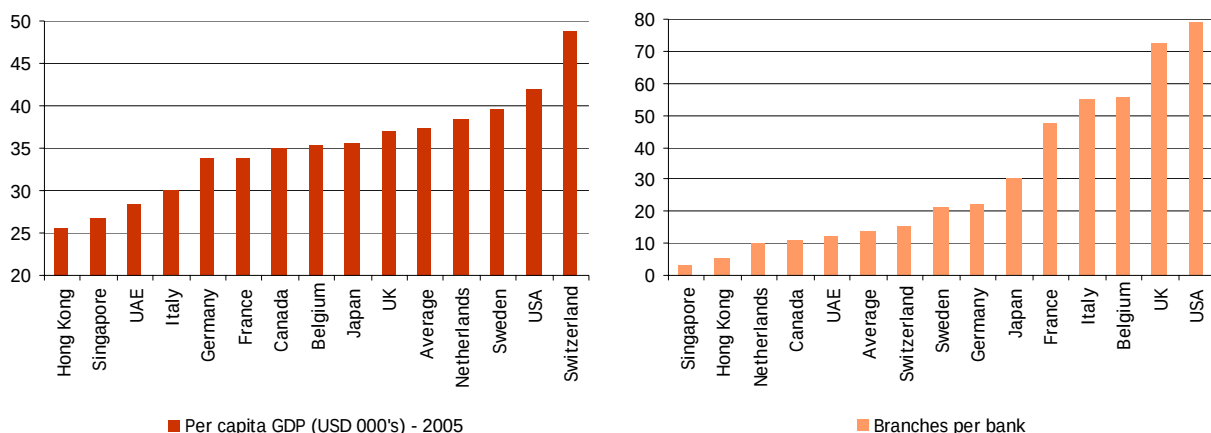
Is it an over-crowded market?

To answer this question, we have examined two ratios; namely the number of banks and the number of branches per 1 million inhabitants. This was compared across a range of countries that has similar per capita GDP as the UAE. Unfortunately the available data pertained to G6 countries, some other industrialized nations and highly developed emerging markets.



Source: World Bank, Central Bank of the UAE, Noor Capital

The above charts highlight two issues: (1) the UAE is still under-banked relative to peers and (2) under-penetration of UAE banks' branch networks is obvious. Nonetheless, these charts fail to exhibit the average size of the underlying banks. We looked at the average number of branches per bank, as a relative measure of size. This chart suggested that national UAE banks are largely local. When the underlying economy becomes more institutionalized and as bank customers consolidate and seek opportunities in overseas markets, national banks will have follow their footsteps (i.e. merge and cross national borders), to chase revenue opportunities and economies of scale. Otherwise, they will loose their customers' business to foreign universal banks that have an edge in terms of balance sheet capability, networks, IT infrastructure, human resources and global expertise. We believe that voluntary consolidation will start among UAE banks, with benefits materializing in the foreseeable future.



Source: World Bank, Central Bank of the UAE, Noor Capital

Islamic banking is also gaining grounds

Four, out of the 21 national banks, are licensed to operate as Islamic banks. These are Abu Dhabi Islamic Bank, Dubai Islamic Bank, Emirates Islamic Bank and Sharjah Islamic Bank. In addition to these, some other conventional banks have separate Islamic operations. Islamic banking is Shari'a compliant, as recognition of fixed interest is impermissible in Islam. Islamic banking products are various and include:

- **Murabaha:** An agreement whereby the bank sells to a customer a commodity or an asset, which the bank has purchased and acquired based on a promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises the cost of the commodity/asset and an agreed profit margin.
- **Istisna'a:** An agreement between the bank and a customer whereby the bank would sell to the customer a developed property according to agreed upon specification. The bank would develop the property either on its own or through a subcontractor and then hand it over to the customer against an agreed price.
- **Ijarah:** An agreement whereby the bank (lessor) purchases or constructs an asset for lease according to the customer's (lessee) request, based on his promise to lease the asset for a specific period and against certain rent installments. Ijarah could end by transferring the ownership of the asset to the lessee.
- **Musharaka:** An agreement between the bank and a customer to contribute to a certain investment enterprise, whether existing or new, or the ownership of a certain property either permanently or according to a diminishing arrangement ending up with the acquisition by the customer of the full ownership. The profit is shared as per the agreement set between both parties while the loss is shared in proportion to their shares of capital in the enterprise.
- **Mudaraba:** An agreement between the bank and a third party whereby one party would provide a certain amount of funds, which the other party (Mudarib) would then invest in a specific enterprise or activity against a specific share in the profit. The Mudarib would bear the loss in case of default, negligence or violation of any of the terms and conditions of the Mudaraba.
- **Wakala:** An agreement whereby the bank provides a certain sum of money to an agent, who invests it according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to return the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala.
- **Sukuk:** This product can be regarded as an Islamic equivalent of bond. However, fixed income, interest bearing bonds are not permissible in Islam. Sukuk are securitized assets and therefore belong to the category of Asset Backed Securities. Unlike conventional ABS structures, Sukuk need to have an underlying tangible asset transaction either in ownership or in a master lease.

The table below shows that the four licensed Islamic banks are constantly gaining market share, as this form of banking is appealing to the mass population.

Market share evolution of the 4 Islamic banks			
	2004	2005	2006
Deposit Market Share	15.9%	17.5%	21.9%
y-o-y change	n/a	1.6%	4.4%
Asset Market Share	14.5%	15.7%	17.5%
y-o-y change	n/a	1.2%	1.8%

Source: National UAE Banks, Noor Capital

Regulatory Framework

Central Bank adopts sound regulatory approach

The banking sector is regulated by the Central Bank of the UAE (CBUAE), which also acts as a currency issuer, director of credit policy, government's advisor on financial and monetary issues, bank of the banks, the state's financial agent with the IMF and the World Bank and the safe keeper of the country's gold and foreign currency reserves. The CBUAE scope of supervisory operations covers commercial and investment banks, representative offices and money changers. There are talks that supervision of investment banks will be handed over to the Securities and Commodities Authority (SCA), but no formal announcement has been made till date. Alike other GCC states, monetary policy is aligned with the US Federal Reserve. The following table highlights some key regulatory requirements imposed on UAE banks by CBUAE.

Key regulatory requirements	
Item	Requirement
Capital Adequacy	Minimum adequacy of 10% is required, which is higher than the 8% stipulated by BIS.
Loan-to-Stable Resources	Minimum ratio of loans & advances to stable resources of 100%. The numerator comprises loans and advances (including inter-bank placements with +3m remaining maturity), while the denominator comprises free capital and reserves, inter-bank deposits received with +6m remaining maturity and 85% of customer deposits.
Personal Loan Limit	Capped at AED250k per borrower, with the exception of credit card loans. Personal loans are defined as those backed by salaries and/or end of service indemnity.
Large Exposure Limit	Set at a maximum 8 times a bank's capital base.
Reserve requirement	14% on current, savings and call accounts, 1% only on time deposits. Banks are also required to keep with the Central Bank 30% of their AED deposits held abroad with non-resident banks (including their head offices and branches, in case of foreign banks). The requirement on local customer deposits apply uniformly to AED and other foreign currencies. Reserve requirement is reported on a 6-day average and at the end of each month.
Swap Arrangements	USD/AED swaps are a mode of injecting AED liquidity in case of a bank's urgent need. Swaps involve an outright FX sale by commercial bank, at spot price, and the injection of equivalent AED liquidity. The FX asset is to be repurchased at a specified future date for periods of one week, one month, or 3 months. Swap facility is only available to those banks which maintained a net long AED position in the previous month.
Overdrafts for Banks	Central Bank can provide banks with advances for up to 7 days without collateral, and for up to 6 months against collateral. The penalty on overdrafts in current accounts is set at a rate equivalent to prevailing 3m inter-bank rate plus 5% p.a., with a minimum of AED250, per day.
Certificates of Deposits	Certificates of Deposit (CDs) are issued by the Central Bank, as a tool for liquidity management. The system is driven by bank's demand with excess liquidity invested in 1w, 1m, 3m, 6m, 9m, 12m and 18m CDs. Banks can discount CDs at the Central Bank. Interest rate on CDs move in tandem with USD's interest rates. CDs are also used as a benchmark by banks to determine both debit and credit interest rates.
Statutory Reserve	UAE Commercial Companies' Law No. 8 of 1984 (as amended) require that 10% of the annual net profit to be transferred to a statutory reserve until it equals 50% of the paid-up capital. The statutory reserve is not available for distribution to shareholders.
Special Reserve	Transfers to this reserve are made in accordance with Union Law No. 10 of 1980, under which no less than 10% of the annual net profit is to be transferred to this reserve until it equals 50% of the paid-up capital. Special reserve is not available for distribution to shareholders.

Source: Central Bank of the UAE, Noor Capital

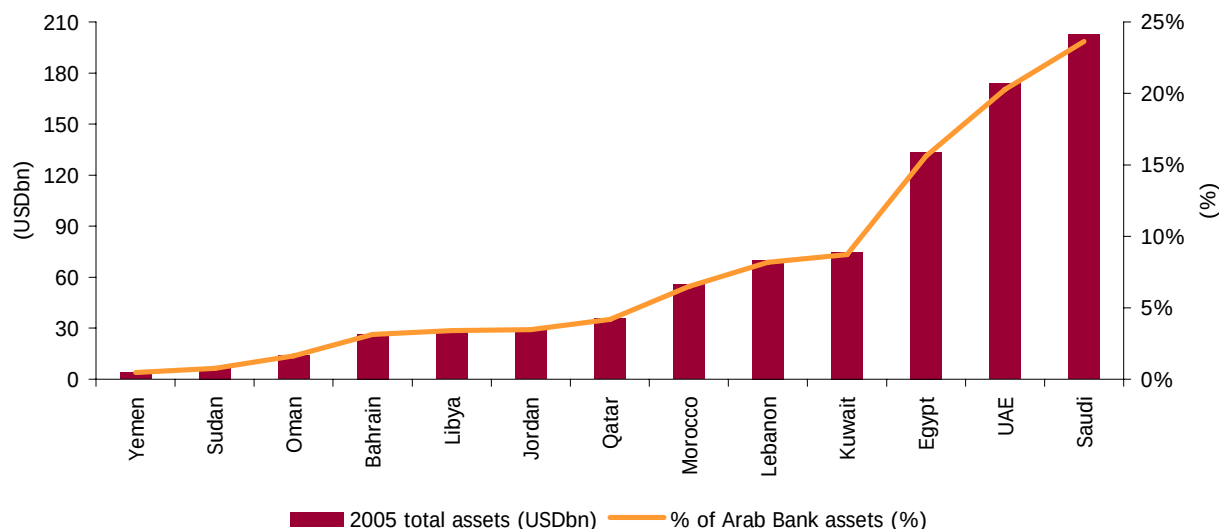
Key regulatory requirements - Continued	
Item	Requirement
Investment Limits	Banks must differentiate between investment in affiliates, held till maturity, available for sale and trading investments. Banks are banned from acquiring corporate securities in excess of 25% of the bank's own funds, unless acquired in settlement of debt, in which case the excess must be sold within two-years.
Real Estate Lending Limits	No bank may grant loans or advances for the purpose of constructing commercial, residential and/or administrative buildings, exceeding in aggregate 20% of its total deposits.
Related Party Transactions	Related parties (i.e. major shareholders, directors and key management) should seek prior approval of the Central Bank's board of directors before transacting with their own banks. Such authorization is renewed annually. Related party transactions should be conducted on arms-length basis.
Anti-money Laundering	Banks are bound by the anti-money laundering articles included in Federal Law No. 3 of 1987 concerning the promulgation of the Penal Code.
Disclosure Requirements	Publicly listed banks are bound by the disclosure requirements included in Federal Law No. 4 of 2000 (as amended) and the circulars of the Securities and Commodities Authority (SCA).
Basel II Accord	Implementation will be phased, with banks expected to be compliant with the Standardized approach for Credit Risk by 31 December 2007. All banks will be expected to be IRB compliant for credit risk by 1 January 2011.
Classification of Loans	The Central Bank advises banks to categorize loans into: classified and unclassified ones. Unclassified loans include: normal risk and medium risk loans. No provisioning is required for unclassified loans. On the other hand, classified loans include, sub-standard, doubtful and lost loans. While sub-standard and doubtful loans require partial provisioning, lost ones require full provisioning.
Margin Lending	Loans extended against pledge of shares of companies which have been in operation for more than five years should not exceed 80% of the market value of these shares.
IPO Finance	Loans extended to subscribers in IPOs of companies under establishment against an undertaking to pledge their allotted shares should not exceed 10% of the nominal value of the subscribed shares, except in case where the receiving bank undertakes to refund excess funds directly to the lending bank. In such case, lending may be extended to maximum five folds the amount contributed by the subscriber for the purchase of IPO shares.

Source: Central Bank of the UAE, Noor Capital

Operating Environment

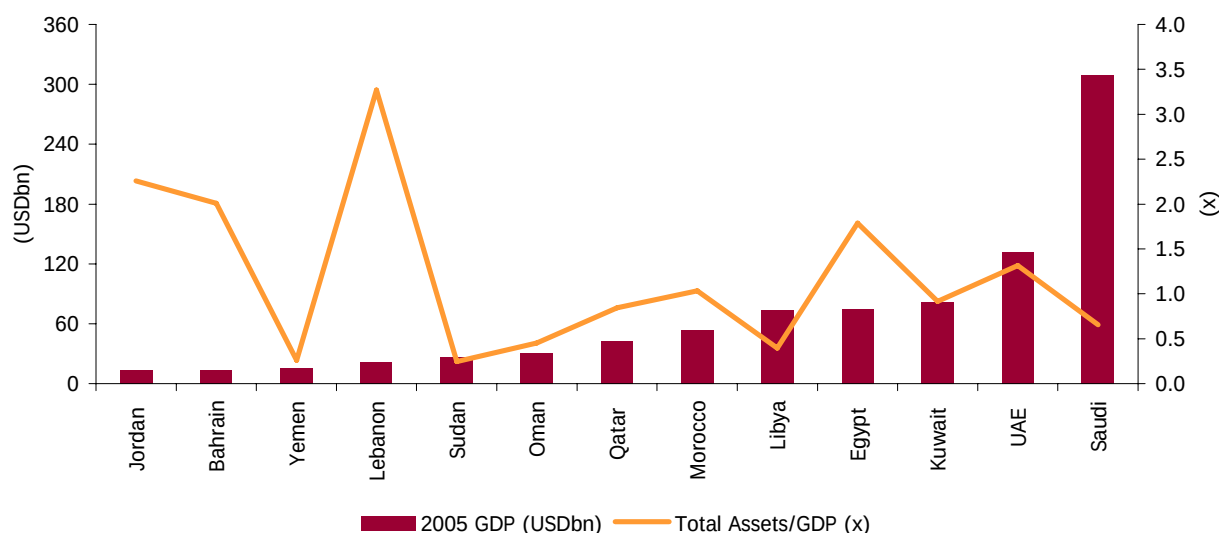
UAE banking sector is the second largest in the GCC...

With total assets of AED638.01bn (USD173.75bn), as of December 31st 2005, the UAE banking sector is ranked second in the GCC region, after Saudi Arabia. Total assets of the UAE banking sector represented 32.9% of the GCC region's total banking assets and around one-fifth of the Arab World's.



Source: Central Banks

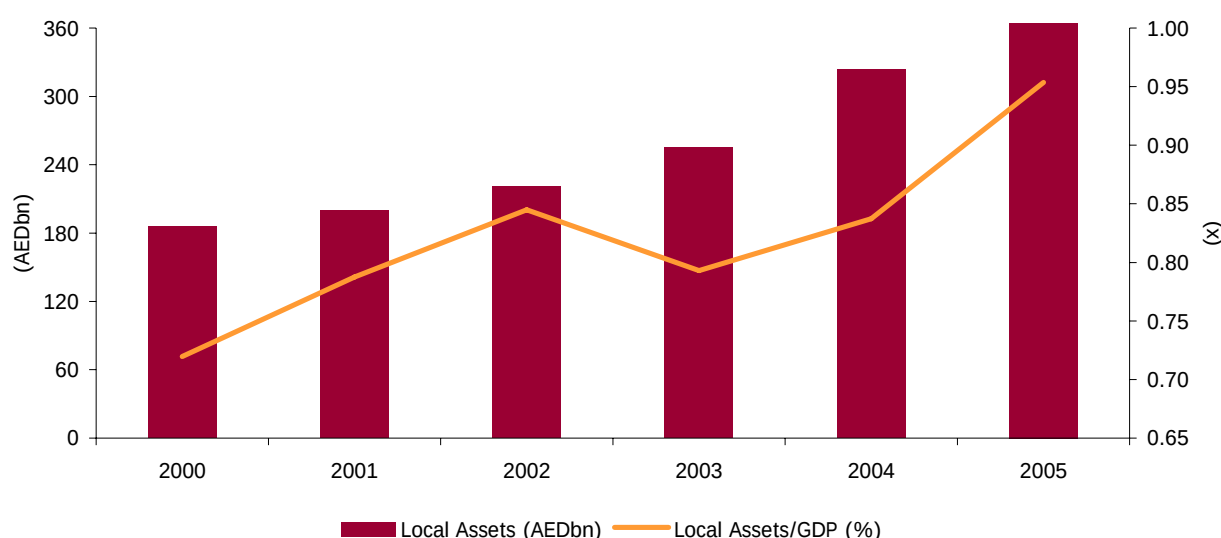
Total assets of the UAE banking sector were equivalent to 1.3x the country's 2005 nominal GDP, which is above the average in the GCC region and among the high end in the Arab world (except for Lebanon which has a peculiar case).



Source: Central Banks, Noor Capital

...with local assets representing 0.95x the country's 2005 GDP

This is not surprising and should not be construed as a hurdle to future asset growth for UAE banks. Further analysis reveals that local assets (i.e. excluding foreign assets) still represented a fraction of GDP. Local assets accounted for 0.95x 2005's GDP. Foreign assets, such as, due from banks abroad, foreign securities held by local banks and credit facilities extended to non-residents, while proportionately diminishing from 33% of total bank assets in December 2000 to 27.4% in December 2005, still accounted for 36.1% of 2005's GDP. It is very normal for an oil-rich country like the UAE, which has experienced affluent budget and current account surpluses over the last five years, to be an exporter of capital, not that it lacks in-land attractive investment opportunities, but it's merely an issue of risk diversification and prudent de-commoditization of the current oil boom's proceeds. On top of that, we believe that the local assets of 2005 were heavily blurred with inflated mark-to-market valuations of securities and real estate investments.



Source: Central Banks of the UAE, Noor Capital

Assets were growing at a multiple of GDP...

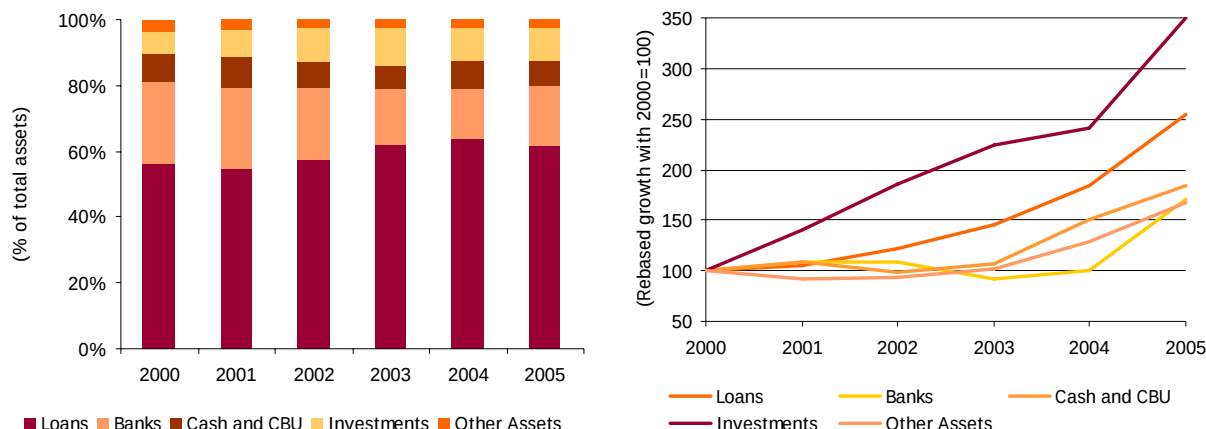
Banks in the UAE enjoyed a prosperous period since the beginning of the decade, thanks to rising oil prices, flourishing real estate sector and, more notably, an emerging stock market, which had a significant impact on banks' earnings and asset growth throughout 2004-2005. Total assets were consistently growing faster than GDP. They represented 1.31x GDP in 2005 up from 1.07x in 2000.

Asset growth relative to GDP growth							
	2000	2001	2002	2003	2004	2005	CAGR
Total Assets (AEDbn)	277.10	299.67	333.24	366.91	450.02	638.01	18.2%
Y-o-y growth (%)	n/a	8.1%	11.2%	10.1%	22.7%	41.8%	n/a
Nominal GDP (AEDbn)	257.98	254.24	261.37	321.75	386.54	485.51	13.5%
Y-o-y growth (%)	n/a	-1.5%	2.8%	23.1%	20.1%	25.6%	n/a
Assets/GDP (x)	1.07	1.18	1.27	1.14	1.16	1.31	1.35
Asset growth/GDP growth (x)	n/a	-5.61	3.99	0.44	1.13	1.63	n/a

Source: Central Bank of the UAE, Noor Capital

...thanks to spiraling credit and investment which...

The main driver of asset growth for UAE banks was loan and investment portfolios, which increased at a 2000-05 CAGR of 20.5% and 28.5% to represent 62% and 10% of 2005's total banking assets, up from 56% and 7% in 2000, respectively. This was achieved at the expense of liquid assets (cash and inter-bank assets) which dropped to represent 26% of 2005's total assets down from 34% in 2000.



Source: Central Banks of the UAE, Noor Capital

...outpaced economic growth, as well

Demand for loans outpaced economic growth, as measured by nominal GDP, since the onset of the second oil boom. Between 2000 and 2005, loans increased at 20.5% CAGR, while nominal GDP grew at an average of 13.5%, translating to a 1+ loan growth to GDP growth multiple. Loans jumped to represent 0.81x 2005's GDP up from 0.60x in 2000.

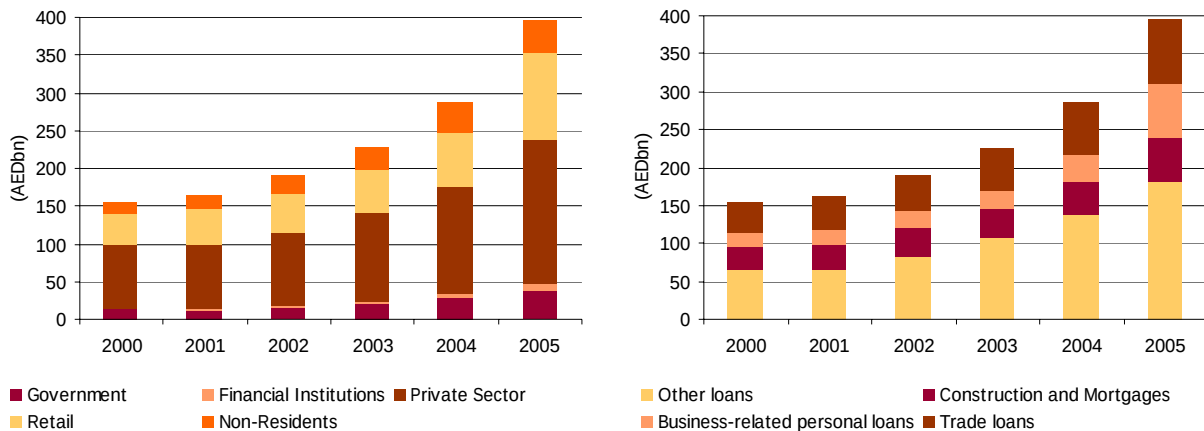
Loan growth relative to GDP growth							
	2000	2001	2002	2003	2004	2005	CAGR
Total Loans (AEDbn)	155.54	163.71	190.92	226.01	286.72	394.89	20.5%
Y-o-y growth (%)	n/a	5.3%	16.6%	18.4%	26.9%	37.7%	n/a
Nominal GDP (AEDbn)	257.98	254.24	261.37	321.75	386.54	485.51	13.5%
Y-o-y growth (%)	n/a	-1.5%	2.8%	23.1%	20.1%	25.6%	n/a
Loans/GDP (x)	0.60	0.64	0.73	0.70	0.74	0.81	1.52
Loan growth/GDP growth (x)	n/a	-3.62	5.92	0.80	1.33	1.47	n/a

Source: Central Bank of the UAE, Noor Capital

Nearly 90% of the increase in the aggregate loan portfolios of UAE banks between 2000 and 2005 stemmed from residents, particularly the private sector, which captured 45% of the growth and the retail segment (32%). In turn, private sector borrowing was mainly directed to trade and construction activities, whereas the bulk of the increase in personal loans was routed to fund activities related to the nascent stock exchange, such as IPO finance, margin lending...etc. Construction (i.e. developer-related) and trade loans collectively represented 26% of the increase in loans, whereas, "business-related personal loans" (i.e. probably stock market-linked) captured another 25%. Competition among banks for retail loans, through continuous launch of retail-tailored products, was very intense, given the higher margin of this business segment vis-à-vis business loans as well as heightened demand. The spread of personal loan rates over business loans' declined from 6% in December 2003 to as low as 3.6% in September 2006.

In a nutshell, banks' credit exposure to the real estate sector through loans extended to developers and real estate mortgages represented 17% of their aggregate loan portfolios, as of September 2006.

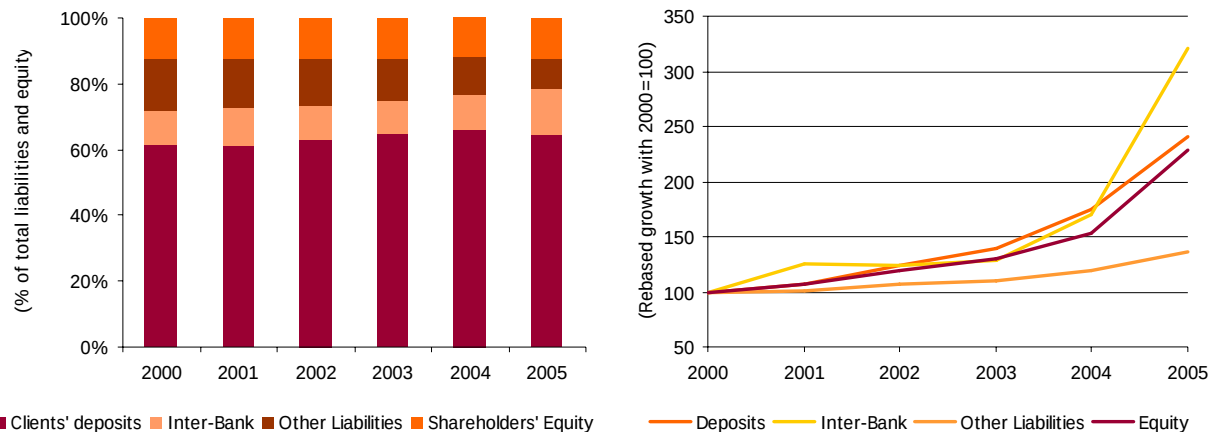
On the other hand, "business-related personal loans" capture another 17% of the banks' aggregate loan portfolio as of the same date. While it is difficult to assess the general quality of banks' loan portfolios in absence of published figure of the sectoral breakdown of non-performing loans (NPLs) and the security/pledges acquired by banks, we feel a bit anxious about the extent of sectoral concentration in loan portfolios, given the anecdotes pointing to a cooling off of the real estate euphoria by 2009.



Source: Central Banks of the UAE, Noor Capital

Deposit growth lagged loans' as rivalry saving vehicles emerged

Loan portfolios were largely funded through rising clients' deposits. Clients' deposits increased at a 19.2% 2000-05 CAGR to represent 64.4% of total assets, up from 61.6% in 2000. Nonetheless, clients' deposits still lagged loans. This is largely attributed to the influx of rival vehicles such as booming equity and real estate markets, which competed for retail savings. The lower deposit growth took place despite rising interest rates, geographically well spread branch networks and creative offerings of retail products.



Source: Central Banks of the UAE, Noor Capital

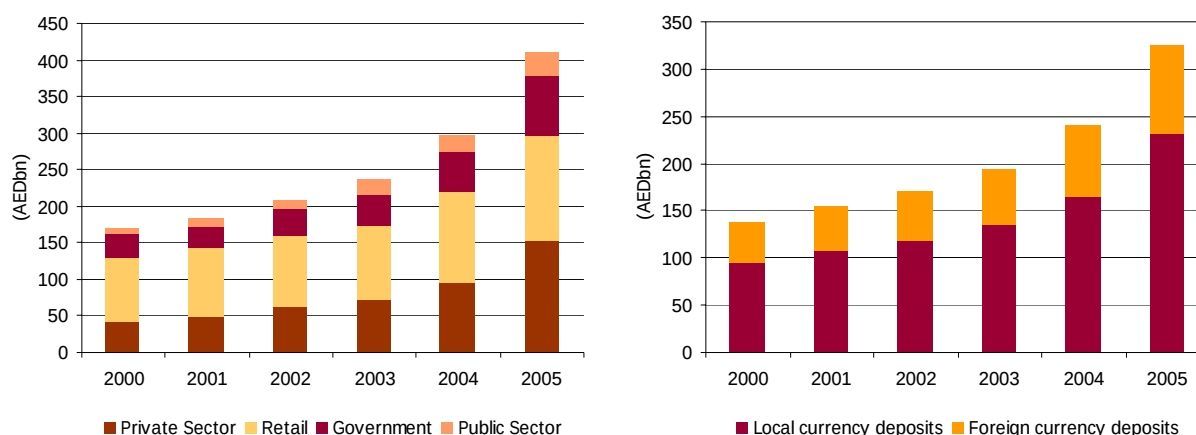
The already high loan to deposit ratio at UAE banks (91.5% in 2000 rising to 96.4% in 2005) induced managements to consider alternative funding sources such as issuing medium term notes (MTNs) and, to a lesser extent, sourcing inter-bank deposits. MTNs helped banks mitigate, if not fully bridge, the asset/liability maturity gap. As of 2006, 10 of the 21 national banks had MTNs with a total size of AED54.1bn (8% of assets). Total MTNs grew at 2003-05 CAGR of 154%. On the other hand, despite the volatile nature of inter-bank deposits, they grew at 2000-05 CAGR of 26.2% to represent 13.8% of 2005's total assets versus 9.9% in 2000. If the inter-bank deposits were to be added to the UAE banks' funding base, the loan to {clients' deposits + inter-bank liabilities} ratio would look more reasonable at 79.1% in 2005. It is clearly the case that UAE banks have suffered from a funding bottleneck. We don't expect this bottleneck to persist. As the real estate boom cools off and the "excessive" stock market returns fade away, some risk averse funds are likely to be channeled back to banks.

Deposit growth relative to GDP growth							
	2000	2001	2002	2003	2004	2005	CAGR
Total Deposits (AEDbn)	170.03	182.89	209.65	237.56	297.18	409.67	19.2%
Y-o-y growth (%)	n/a	7.6%	14.6%	13.3%	25.1%	37.9%	n/a
Nominal GDP (AEDbn)	257.98	254.24	261.37	321.75	386.54	485.51	13.5%
Y-o-y growth (%)	n/a	-1.5%	2.8%	23.1%	20.1%	25.6%	n/a
Deposits/GDP (x)	0.66	0.72	0.80	0.74	0.77	0.84	1.43
Deposit growth/GDP growth (x)	n/a	-5.21	5.21	0.58	1.25	1.48	n/a
Loan / Deposit (%)	91.5%	89.5%	91.1%	95.1%	96.5%	96.4%	n/a

Source: Central Bank of the UAE, Noor Capital

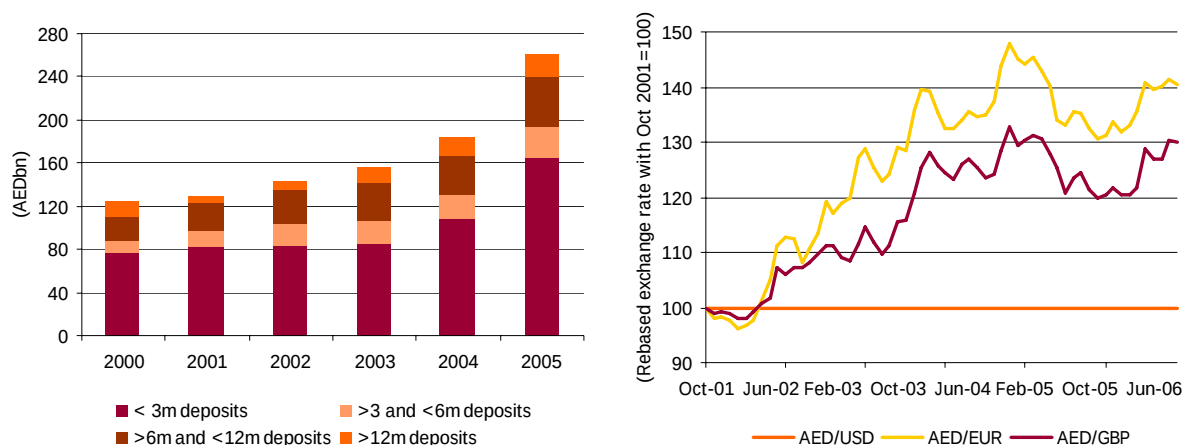
Short-term local currency retail deposits dominated UAE banks' funding base

While retail and private sector depositors continued to provide the bulk of deposits (72% in 2005), the share of retail deposits proportionately shrunk from 53% of total deposits in 2000 to 35% in 2005. This proportionate retreat cropped up, as retail were channeling funds to the buzzing stock exchange. Moreover, circa 70% of the deposits were kept in UAE Dirhams (AED), despite a growing expatriate population, thanks to the UAE's free exchange rate market. We tend to believe that, had it not been for the implied depreciation of the AED versus the euro (EUR) and the sterling (GBP), the volume of foreign currency-denominated deposits would have remained unchanged. Alternatively speaking, since FX deposits are reported in AED equivalent, the increase in their value could well be related to currency translation.



Source: Central Banks of the UAE, Noor Capital

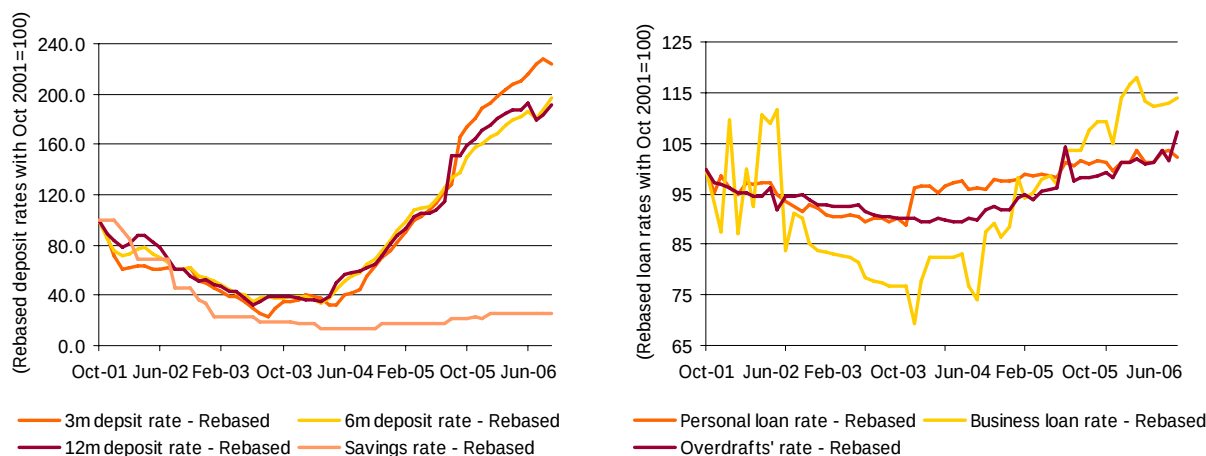
Moreover, we weren't surprised to see a reshuffle of deposit composition toward short-term maturities, whereby the share of 3m deposits grew from 54% of 2003's total deposits to 63% in 2005. This reconfirms our judgment that depositors were shortening their maturity profiles in anticipation of a "lucrative" investment opportunity that might arise elsewhere (i.e. stock market and/or real estate). By doing so, they would minimize any forgone potential interest, had they wanted to suddenly liquidate those deposits.



Source: Central Banks of the UAE, Noor Capital

Rising interest rates and competition among banks...

As the UAE Dirham is pegged to the US Dollar, the monetary policy adopted by the Central Bank of the UAE closely follows that of the US Federal Reserve. Interest rates on the US Dollar started to rise in mid 2004, with the rates on AED-denominated deposits and loans following suit; however, at different paces. Competition among banks, on one side, and between banks and alternative saving vehicles (i.e. stock exchange and real estate) on another side, forced banks to bring up deposit rates at a faster pace and a stronger magnitude than the rise in lending rates. Given the funding bottleneck discussed earlier, deposit rates moved up faster than lending rates.



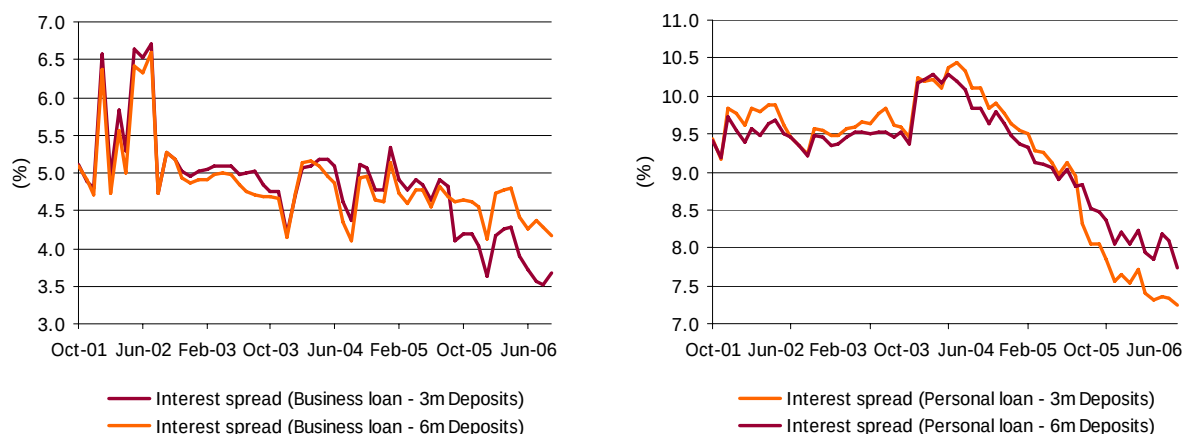
Source: Central Banks of the UAE, Noor Capital

Going forward, when the interest rate on the USD stabilizes and as the local stock and real-estate markets cool down, interest rates on the AED-denominated funds should also trend downwards, with deposit rates, also leading loan rates on the downturn.

...narrowed interest rate spreads for the whole sector

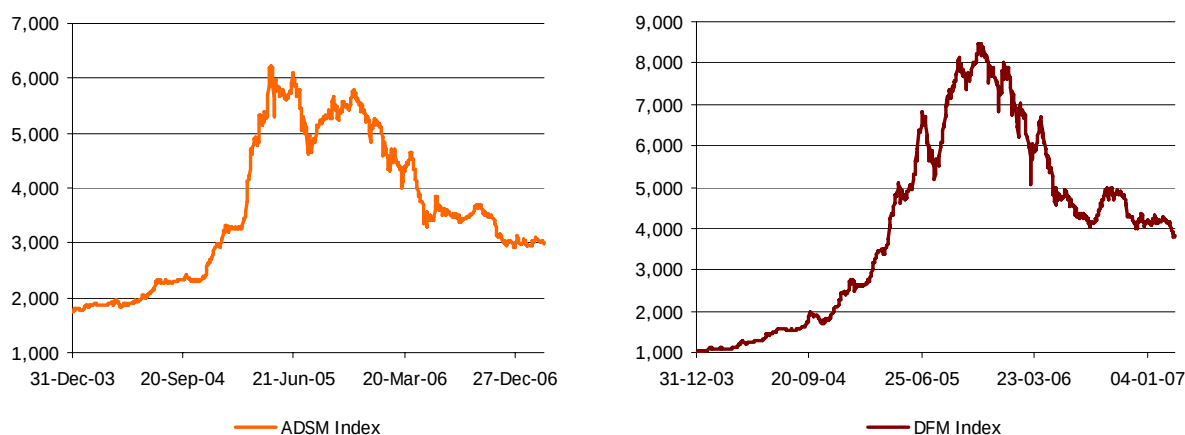
Disproportionate increase in lending and deposit rates produced narrower interest rate spreads for the whole sector. The pace and magnitude of shrinkage in spreads were faster and more severe in the lucrative, higher-margin segment (i.e. retail). Despite this shrinkage, personal loans still generated double the spreads of business/corporate loans.

In a nutshell, we believe that banks were relaxed seeing interest rate spreads being squeezed, as they were generating a good deal of volume business. Going forward, we expect banks to be somehow more selective in extending loans when the downward pressure on spreads eases. This should not be interpreted as a dry up of volume business for banks, but rather the end of “easy” volume business.



Source: Central Banks of the UAE, Noor Capital

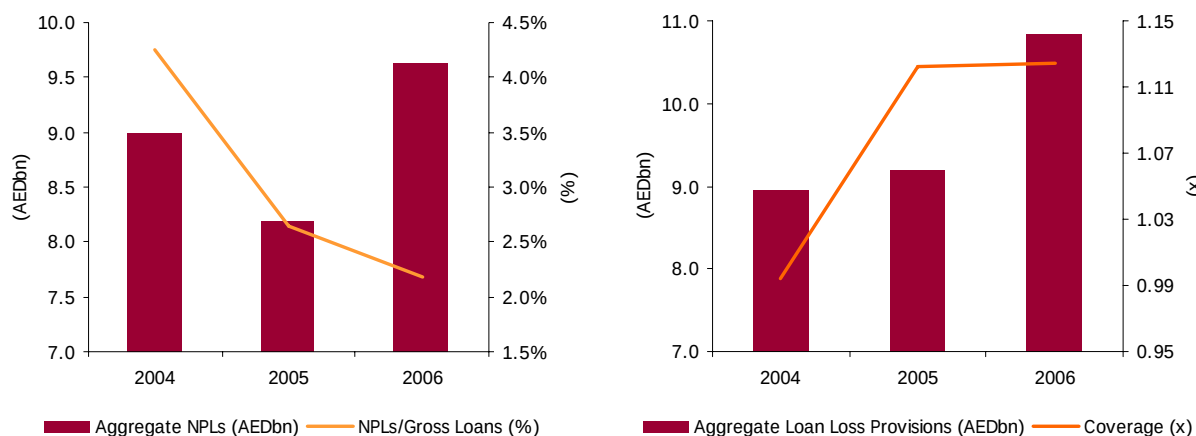
NPLs dropped proportionately whereas coverage improved



Source: Reuters, Noor Capital

In such a tight operating environment that has just emerged from a stock exchange shock, one would expect banks to endure growing levels of stock-market related non-performing loans (NPLs) while simultaneously failing to promptly cover for those NPLs through raising provisioning, as top-line revenues (interest and non-interest income) are set to shrink following the burst of the bubble. Note that ADSM and DFM are down 51.7% and 55.4% from their all-time-high of May and November 2005, respectively.

Although it might still be quite early to judge the quality of UAE banks' aggregate loan portfolio with full confidence, we were reasonably satisfied to see the proportionate level of NPLs (as a percentage of gross loans) declining from an aggregate of 4.3% in 2004 to 2.2% in 2006. This is due to only a 3.5% 2004-06 NPLs CAGR at domestic banks. What is even more heartening is that aggregate coverage at national UAE banks (i.e. loan loss provision / NPLs) has improved from 0.99x in 2003 to 1.12x in 2006.



Source: National UAE Banks, Noor Capital

Obviously speaking, margin lending is “marginally” safer than other forms of credit because the bank can liquidate the underlying security/guarantee, in most cases, ahead of the loss and hence avoid booking an NPL. We tend to believe that excessive leverage was one of the factors that contributed to the decline of the UAE stock exchanges. Since we lack any sectoral breakdown of the aggregate banking sector's NPLs, it remains to be seen whether real-estate loans will generate growing levels of NPLs over the coming two to three years, when the sector cools off and prices come down. On the plus side, as real-estate prices become more affordable, this could drive further demand for properties and hence present a lucrative lending opportunity for banks, particularly that real-estate mortgage lending is still nascent in the UAE.

Net interest income slowed down in 2006 while non-interest income retreated

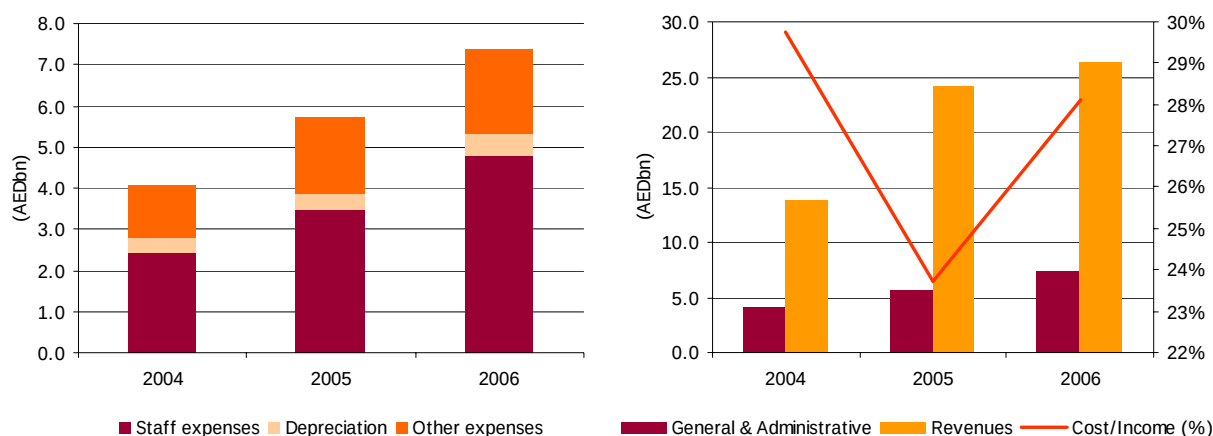
Slackening loan growth in 2006 (compared to 2005 with its IPO influx and margin lending extravaganza) coupled with tighter interest spreads translated into a slower net interest income growth for the whole sector. National UAE banks reported a y-o-y net interest income growth of 31% in 2006 (AED14.9bn) versus 53% in 2005 (AED11.4bn). This does not mean that the 31% growth is muted or disappointing, but it simply imply that the 53% growth is unsustainable.

On the other side, non-interest income declined in absolute terms (down 10.8% y-o-y) and as a percentage of total income at national banks from AED12.7bn and 52.6% in 2005 to AED11.3bn and 43.0% in 2006. To put things into perspective, one should never forget that, in 2004, non-interest income amounted to AED6.3bn and 45.9% of total income. With that in mind, it becomes clear that 2005 is a highly irregular year for UAE banks in terms on non-interest income generation. Examining the breakdown of non-interest income for the banks under coverage, we found out that 2005 figures were inflated with

stock-market related revenues such as IPO and asset management fees, brokerage commissions, revaluations and capital gains. All of these had fallen substantially by the second half of 2006 leaving banks exposed to their destiny of having to generate service-related non-interest income streams from core business operations.

Rising general and administrative expenses squeezed cost / income ratios

UAE banks' aggregate figure of general and administrative expenses continued to rise in 2006 increasing 29.3% y-o-y on the back of mounting investments in IT platforms, expanding branch networks, launching marketing and advertising campaigns and most notably investing in human capital through expensive new hires and annual salary adjustments. Staff-related expenses increased by 39.0% y-o-y in 2006 to represent 64.9% of general and administrative expenses, up from 60.4% in 2005 and 59.4% in 2004.



Source: National UAE Banks, Noor Capital

As banking revenues (interest + non-interest income) increased by only 9.1% y-o-y in 2006, for the reasons mentioned earlier, and given the 29.3% rise in general and administrative expenses, aggregate cost to income ratio for national banks worsened from 23.7% in 2005 to 28.1% in 2006. Going forward, the 2006's ratio seems more sustainable as (1) it is largely aligned with the 2004's pre-bubble level of 29.7% and (2) we don't expect banks to report a staggering top-line growth rate, similar to that of 2005, any time soon.

Slower top-line growth + higher expense base = slimmer profitability in 2006

The story of UAE banks in 2006 becomes complete now, with slower revenue growth and a higher cost/income ratio, all profitability measures (RoE and RoA) declined. Investors need to understand that the 2005's performance is unlikely to recur, hence they need to remove it out of their own radars.

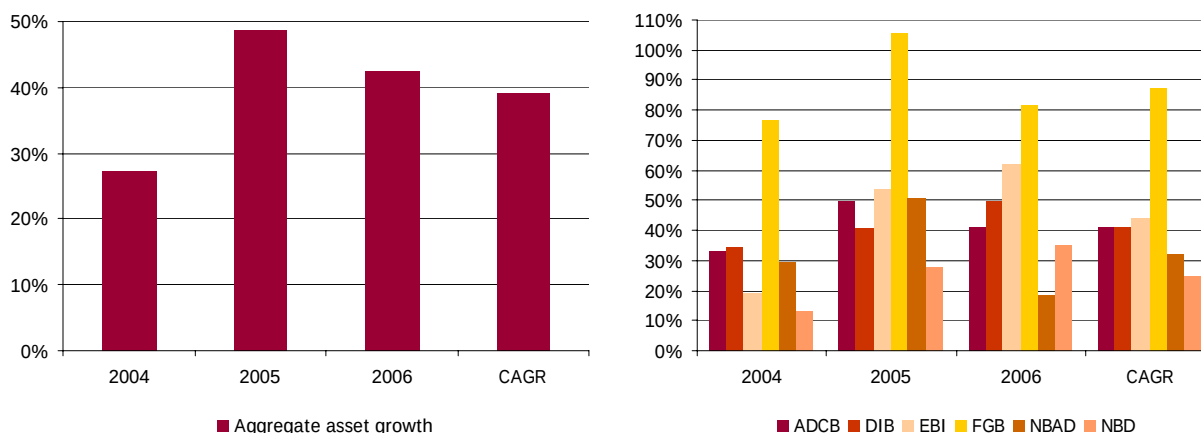
Profitability measures				
	2004	2005	2006	CAGR
Net Profit (AEDbn)	7.18	15.89	15.84	48.5%
Shareholders' Equity (AEDbn)	42.92	70.79	86.87	42.3%
Total Assets (AEDbn)	321.76	479.87	679.86	45.4%
RoE (%)	16.7%	22.4%	18.2%	n/a
RoA (%)	2.23%	3.31%	2.33%	n/a

Source: National UAE Banks, Noor Capital

Peer Group

Peer group's asset growth surpassed the sector thanks to FGB...

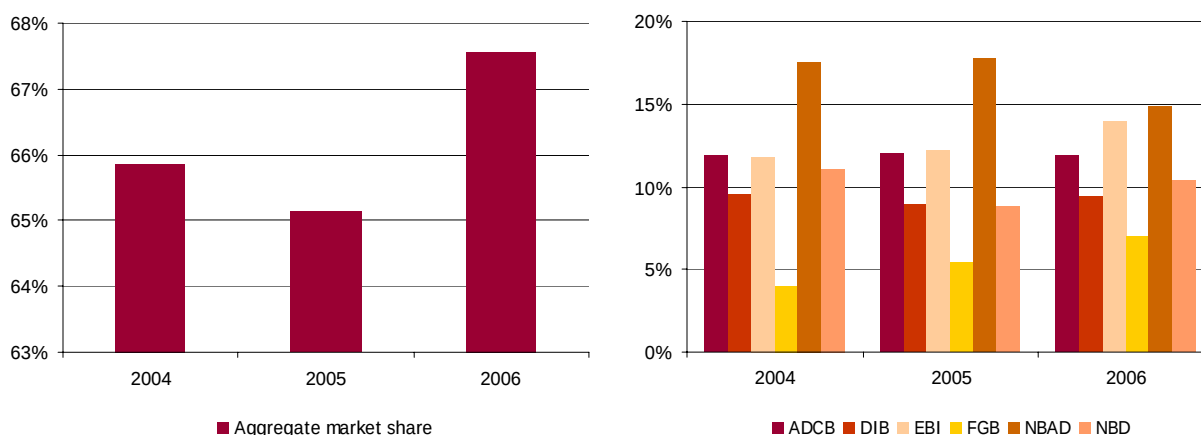
In this section, we will thoroughly examine the performance of the banks in our peer group, on an aggregate bases as well as individually. While the six banks' aggregate asset growth surpassed the sector's between 2003 and 2006, variations among them reflect how forceful they were in pursuing market share. FGB seemed to be the most aggressive with a 2003-06 asset CAGR of 87.6%, followed by ADCB, DIB and EBI 41-43% with NBD lagging at 24.8%.



Source: Banks, Noor Capital

... thus grabbing more collective market share

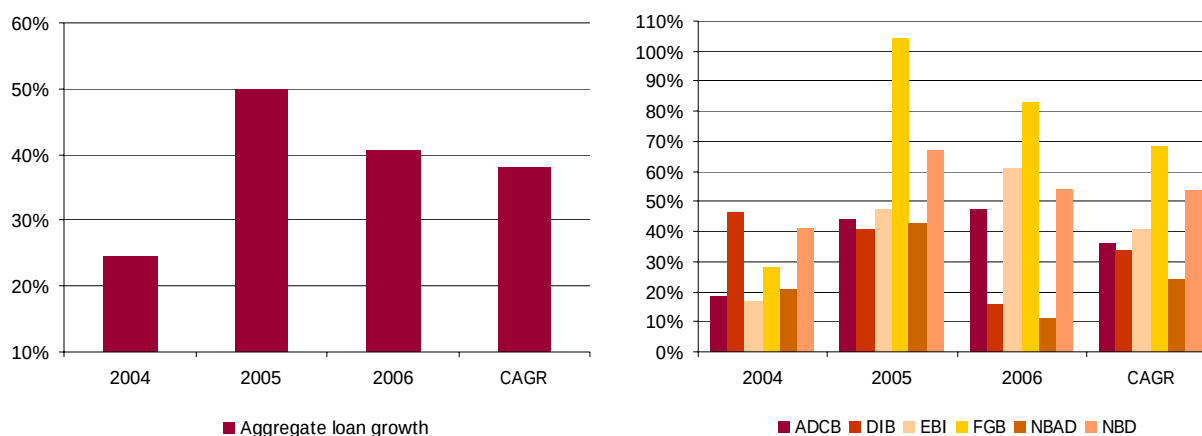
Faster growth pushed the peer group's collective asset market share up from 65.9% in 2004 to 67.6% in 2006. Again, FGB drove this growth, with its asset market share climbing to 7% in 2006 up from 4% in 2004; EBI managed to add 2 percentage points to reach 14% in 2006. The rest of the peer group had relatively stable market shares, apart from NBAD which retreated to 14.9% in 2006 down from 17.5% in 2004. While the extent of retreat is not worrying, the fact it has happened, is far more alarming.



Source: Banks, Noor Capital. Note: Market share is calculated relative to local UAE banks

Loan growth surpassed assets' thus...

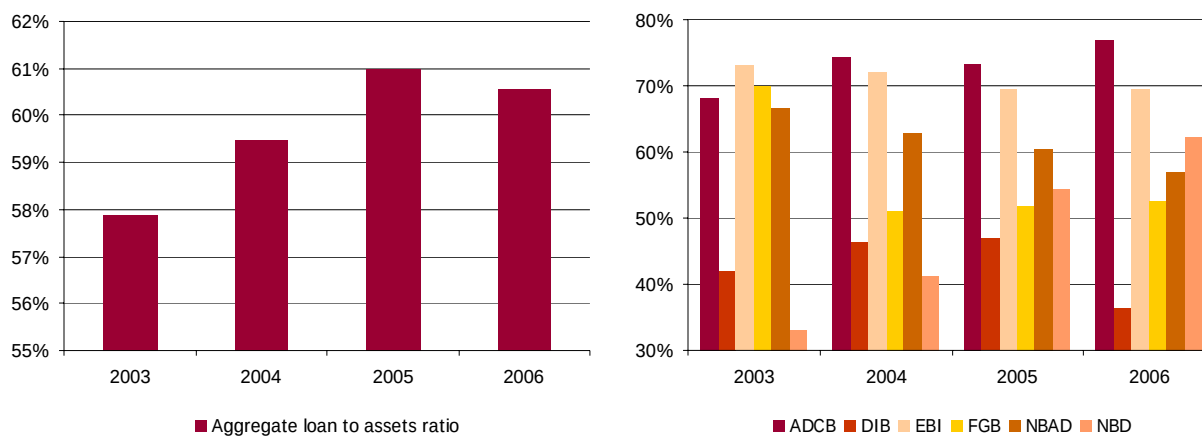
Loans, growing at a 2003-06 CAGR of 38%, drove the peer group's balance sheet growth. The best year for banks was 2005. As the UAE stock market tumbled in 2006, the peer group's loan growth decelerated to 40% y-o-y. To a foreign observer, a 40% growth is still remarkable, as long as inflation is in the single digit-early teens range. FGB, with its insightful management, preemptively realized the erratic nature of deposits in the market and hence, pursued a series of capital increases to furnish a more stable funding/lending base for the bank. As such and backed by a wide range of corporate and retail products, FGB's loan portfolio growth surpassed the peer group's, growing at a 2003-06 CAGR of 68.5%, with NBD following at 53.7%. However, for NBD, it was more of a change in asset mix than asset growth.



Source: Banks, Noor Capital

...effecting a reshuffle toward the more lucrative utilizations

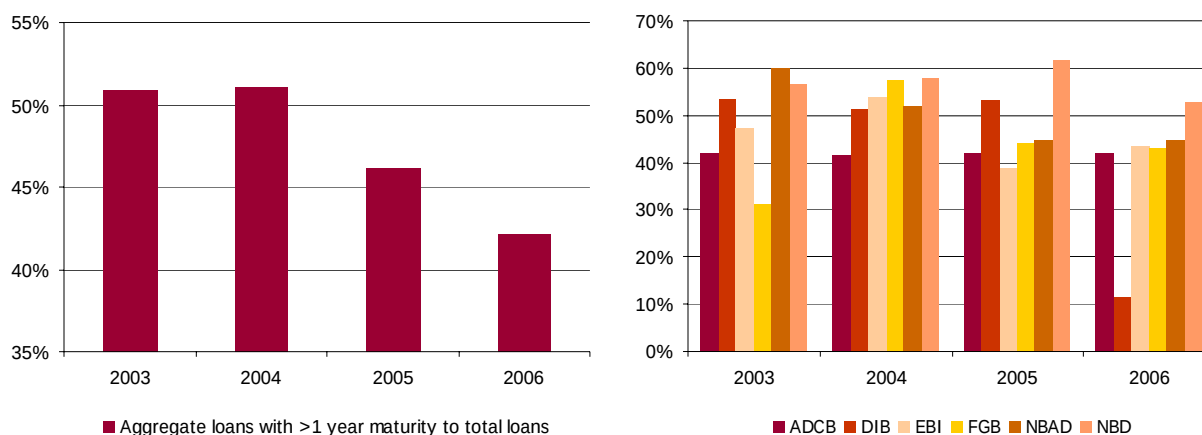
Accelerating loan growth was reflected in the loans/total asset ratio, which climbed from 57.9% in 2003 to 61% in 2005, then trivially slipping to 60.6% in 2006. On an individual basis, while four banks of the peer group experienced declining loan/asset ratios, with FGB being the most notable, due to spiraling balance sheet liquidity, ADCB and NBD managed to grow their loan/asset ratios from 68.1% and 33% in 2003 to 77% and 62.4% in 2006, respectively.



Source: Banks, Noor Capital

Loan tenors shortened, except at FGB

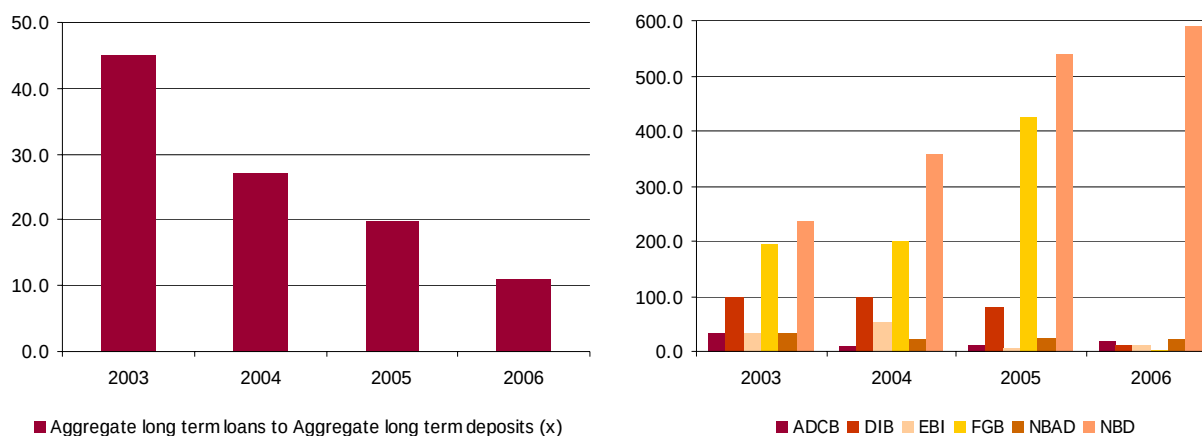
As the environment for the corporates/retail to which the banks were lending changed, our peer group altered their lending tenors, shifting the focus from long-term financing of sophisticated transactions to short-term lending, particularly to retail borrowers. This shift was triggered by the stock market outbreak. Loans with a maturity of more than one year represented 50.9% of the peer group's total loans in 2003 vs. 42.1% in 2006. Unlike other banks in the peer group which floated with the short-term wave, like DIB and NBAD, FGB shifted its loan portfolio toward longer term maturities and succeeded in grabbing a niche segment that was "abandoned" by other banks for "quick wins".



Source: Banks, Noor Capital

Loan/deposit tenor mismatch was gradually ratified

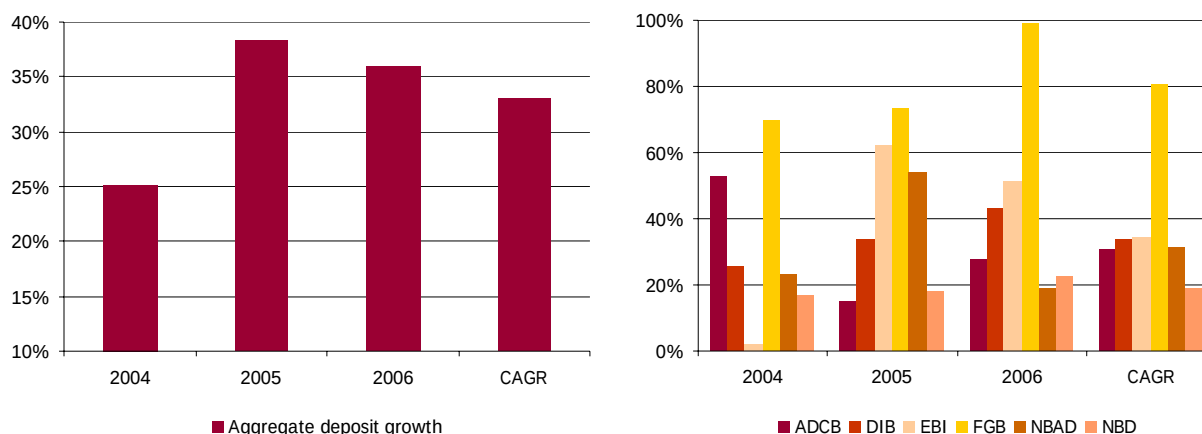
Banks' extension of long-term loans originally created a maturity mismatch problem, whereby long-term loans were 45 times long term deposits in 2003. As long-term deposits outpaced long-term loans, in our peer group, the problem was eased, with the ratio declining to only 11x in 2006. Banks were active in marketing long-term saving products and securing government deposits. Among our peer group, NBD was the most to suffer of an escalating tenor mismatch. Other banks managed to partially ratify this dilemma by 2006. MTNs should also be considered when examining issues related to maturity mismatch at UAE banks.



Source: Banks, Noor Capital

FGB grew its deposit base faster than peers and...

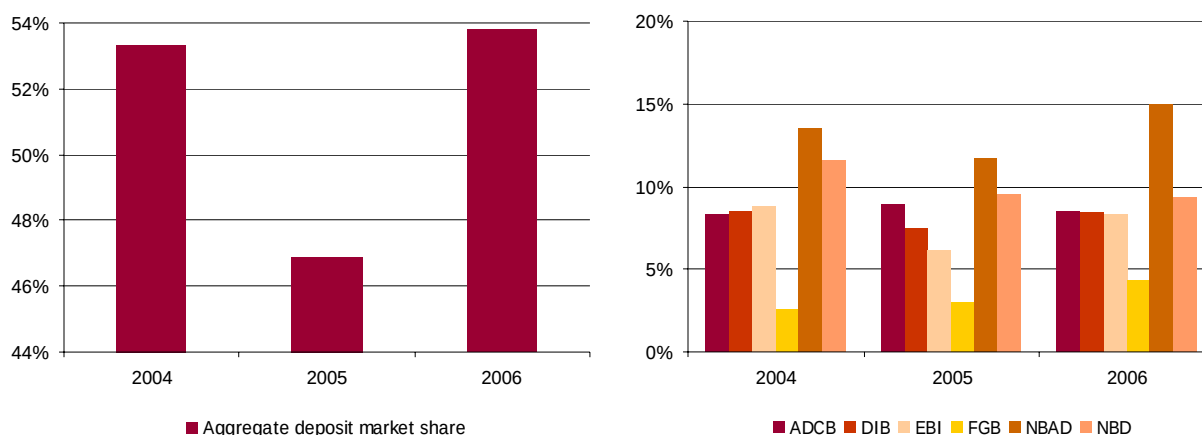
The banks in our peer group showed a similar-to-sector 33% deposit CAGR in 2003-06. Nonetheless, aggressiveness, in term of deposit mobilization, varied among them. While FGB was the most aggressive, growing its deposit base by a 2003-06 CAGR of 80.3%, NBD was the least forceful, recording only 19% CAGR. Smaller banks (like FGB) that were hungry for deposits exerted an upward pressure on deposit rates. We will examine the impact of various strategies on the banks cost of funds and interest spreads.



Source: Banks, Noor Capital

...succeeded in doubling its deposit market share in two years

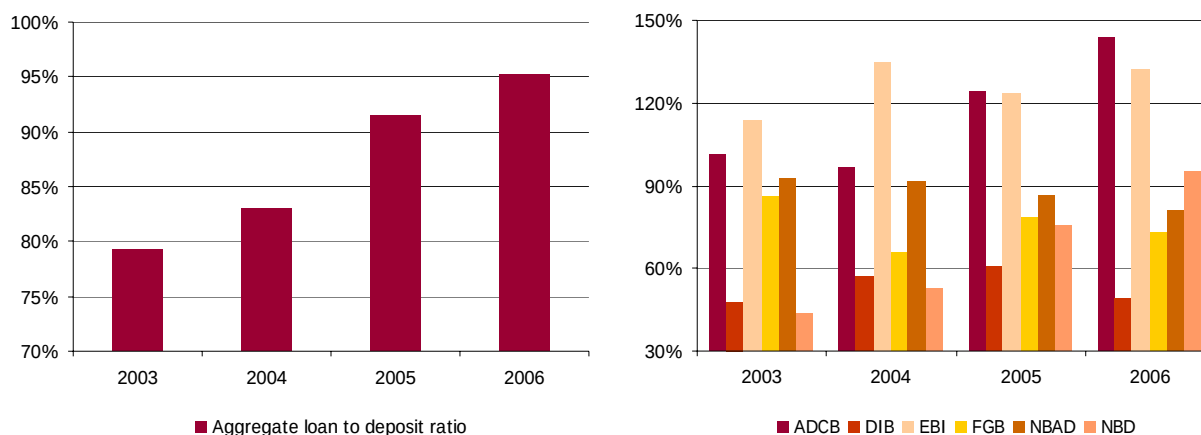
Apart from 2005, when banks in our peer group shifted focus to the asset side of their balance sheets, their aggregate deposit market share remained fairly stable at 53% in 2004 and 2006. Again, FGB stands out, as it has managed to nearly double its deposit market share in only two years from 2.5% in 2004 to 4.3% in 2006. While other banks in our peer group managed to, at least, defend their deposit market shares, NBD lost 2.3 percentage points to settle at 9.3% in 2006. It goes without saying that NBAD commands the largest deposit market share among our peer group (15% in 2006).



Source: Banks, Noor Capital. Note: Market share is calculated relative to local UAE banks

Loan to deposit ratios “smartly” rose across our peer group

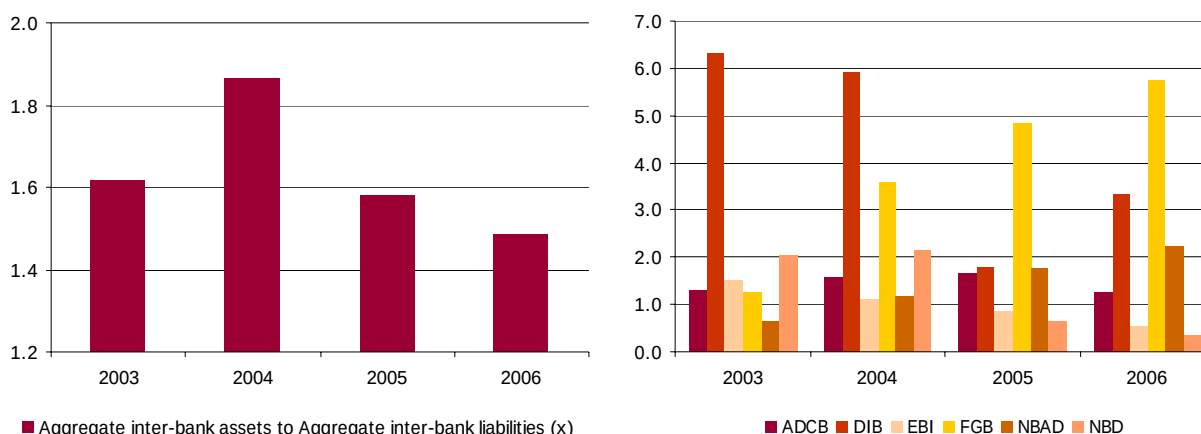
Banks in our peer group were reckoned to be more liquid and less aggressive in their lending approaches than the rest of the sector, which pursued irrational lending practices, driven by the 2005's stock market activity. Loan/deposit ratio for our peer group, while still growing from 83% in 2004 to 95.2% in 2006, was still lower than the sector average of 87% in 2004 and the staggering 108% of 2006. Loan to deposit ratios varied widely among individual banks in our peer group. While FGB and NBAD reported declining ratios, ADCB and NBD stretched the utilization pattern of their deposit base. Henceforth, both banks issued medium term notes (MTNs) to fund the growth of their loan portfolios.



Source: Banks, Noor Capital. Note: The sector average mentioned in the above paragraph pertains to local banks

Lending appetite in the inter-bank market faded away except at liquid peers

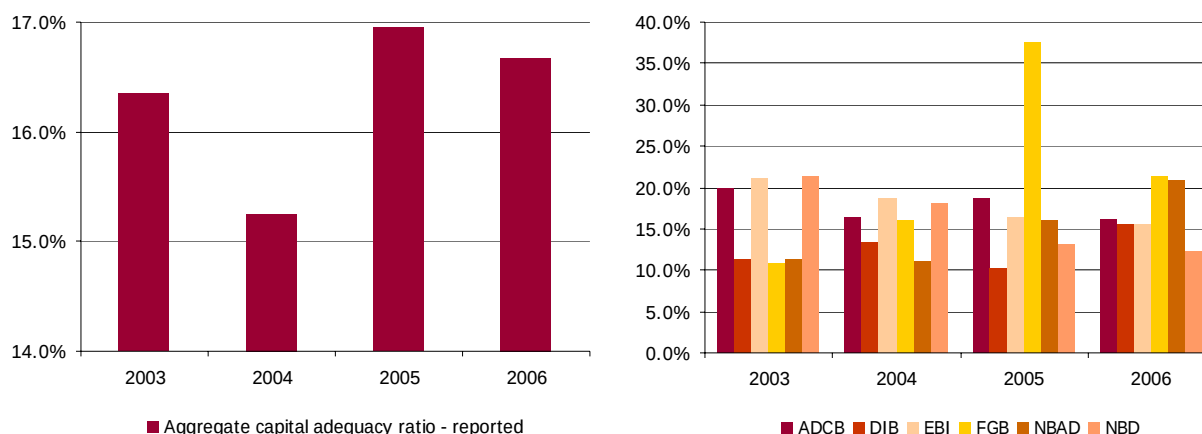
While peer banks maintained their position as net lenders to the inter-bank market, their appetite faded away over time. In 2004, the peer group's inter-bank assets were 1.86 times its inter-bank liabilities. This ratio declined to 1.49x in 2006, as rivalry profitable utilizations emerged. Backed by relatively more liquid balance sheets, FGB and NBAD increased their inter-bank lending activity. Liquid assets to total assets at FGB and NBAD surged from 11% and 15% in 2003 to 34% and 30% in 2006, respectively.



Source: Banks, Noor Capital

Peer group is still overcapitalized despite strong RWA growth

UAE banks are required by the Central Bank to maintain a minimum capital adequacy ratio of 10%, which is more stringent than the minimum 8% required by BIS, even under the Basle II convention. The local requirement was raised from 8% to 10% and created a problem for undercapitalized banks. We have found that between 2003 and 2006, the peer group constantly reported rising capital adequacy ratios, as higher risk weighted assets (e.g. loans) lagged behind banks' capital base. The aggregate capital adequacy ratio for the whole group climbed from 15.2% in 2004 to 16.9% in 2005 due to FGB's capital increase then slipped to 16.7% in 2006 on the back of the slight recovery in loan growth. With an aggregate capital adequacy ratio of 16.7%, banks in our peer group look overcapitalized. In that respect, unless risk weighted assets (RWA) show signs of strong growth in the future, there wouldn't be a stressful need to raise further capital. If slow growth persists, banks could even consider reducing their capital base, through buying back treasury shares and canceling them.



Source: Banks, Noor Capital

FGB and NBAD, with their lowest proportion of RWA (50.6% and 35.1%, respectively of 2006 total assets and contingents), enjoyed the highest capital adequacy ratio (21.3% and 20.9% in 2006), followed by the rest at 15-16%. This means that FGB and NBAD have more room to grow their higher risk weighted assets without being forced to raise fresh capital. Constrained banks can alternatively use revaluations and subordinated debt to augment their capital base.

Strong volumes, offsetting thinner margins, preserved net interest income growth in 2006

Net interest income is a major source of revenue for UAE banks. For our peer group, it, declined, on an

2003-06 net interest income / total income (%)				
Bank	2003	2004	2005	2006
ADCB	77.6%	73.3%	52.7%	56.8%
EBI	64.2%	54.7%	46.1%	47.2%
FGB	71.2%	68.7%	72.3%	62.8%
NBAD	63.3%	60.1%	53.0%	68.7%
NBD	63.2%	59.0%	67.0%	67.0%
Peer group	64.0 %	58.6 %	52.2 %	58.1 %

Source: Banks, Noor Capital

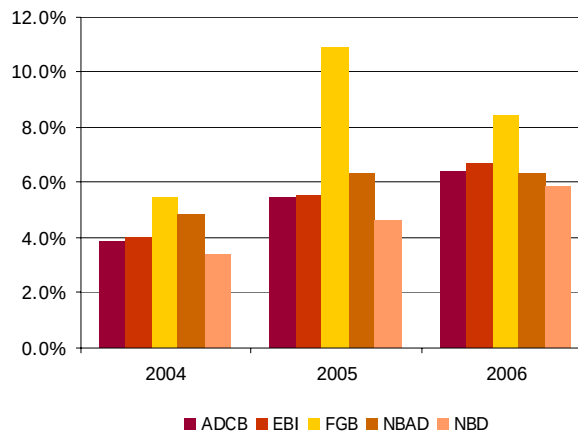
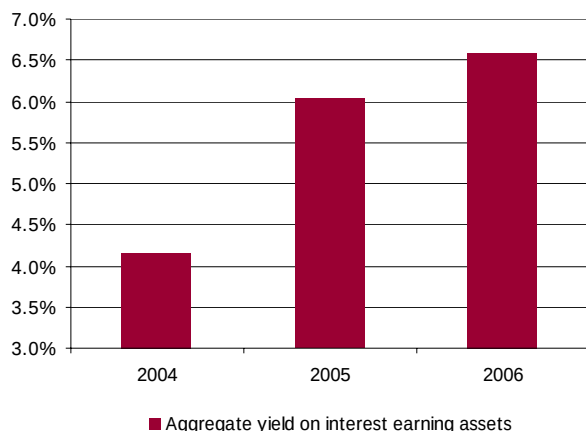
aggregate level, from 64% of total income in 2003 to 58.1% in 2006. Over the past four years, net interest income outpaced non-interest revenues at NBAD and NBD. On the other hand, ADCB, EBI and FGB, had robust non-interest revenues. We will discuss the breakdown of non-interest revenues in more detail later on in this section. The period between 2003 and 2006, albeit short, can be divided into two phases; the first until 2005, saw margin expansion driving net interest income growth for our peer group. Net interest margin increased from 2.578% in 2004, for the whole group, to 2.975% in 2005. This was led by FGB, which reported the highest margin in 2005. Net interest income growth during the second phase (2006) was volume-driven, as margins shrunk. We refer to average interest earnings assets (AIEAs) when we talk about volumes. Again, FGB led this trend also through managing to double its AIEAs in just one year. NBD lagged other members of the peer group and the average through reporting the lowest AIEA's CAGR and the thinnest interest rate margin.

2004-06 margin and volume contribution to net interest income growth				
Bank	2004	2005	2006	CAGR
ADCB				
Average Interest Earning Assets (AEDm)	33,679	44,474	64,320	38.2%
Net interest income (AEDm)	847	1,373	1,774	44.7%
Margin (%)	2.515%	3.086%	2.758%	
EBI				
Average Interest Earning Assets (AEDm)	29,877	41,368	64,904	47.4%
Net interest income (AEDm)	817	1,172	1,500	35.5%
Margin (%)	2.735%	2.833%	2.311%	
FGB				
Average Interest Earning Assets (AEDm)	8,841	17,403	34,312	97.0%
Net interest income (AEDm)	306	880	1,208	98.8%
Margin (%)	3.459%	5.055%	3.521%	
NBAD				
Average Interest Earning Assets (AEDm)	40,066	60,990	85,762	46.3%
Net interest income (AEDm)	1,010	1,677	2,021	41.5%
Margin (%)	2.520%	2.749%	2.356%	
NBD				
Average Interest Earning Assets (AEDm)	34,765	41,488	54,698	25.4%
Net interest income (AEDm)	815	1,020	1,195	21.1%
Margin (%)	2.345%	2.459%	2.185%	
Peer Group				
Average Interest Earning Assets (AEDm)	147,228	205,723	303,996	43.7%
Net interest income (AEDm)	3,795	6,121	7,698	42.4%
Margin (%)	2.578%	2.975%	2.532%	

Source: Banks, Noor Capital

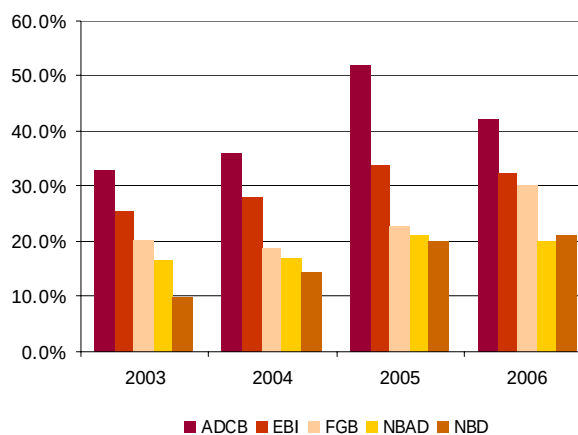
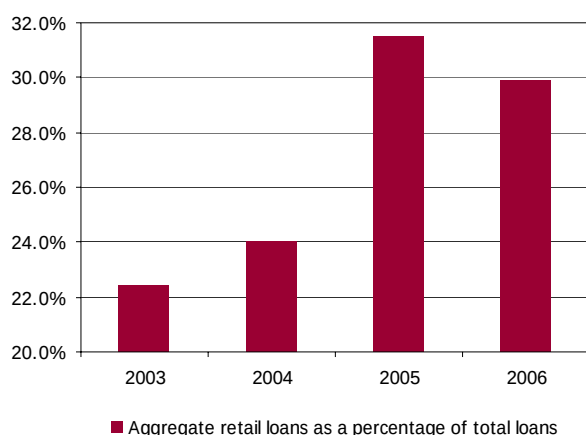
Yield on average interest earning assets, albeit constantly rising...

The yield on average interest earning assets (AIEA) for our peer group constantly rose from 4.155% in 2004 to as high as 6.578% in 2006 (an increase of 242bp). FGB experienced the highest expansion in yields, followed by EBI, with NBAD lagging. FGB maintained the highest asset yield in our peer group throughout the whole period between 2004 and 2006.



Source: Banks, Noor Capital

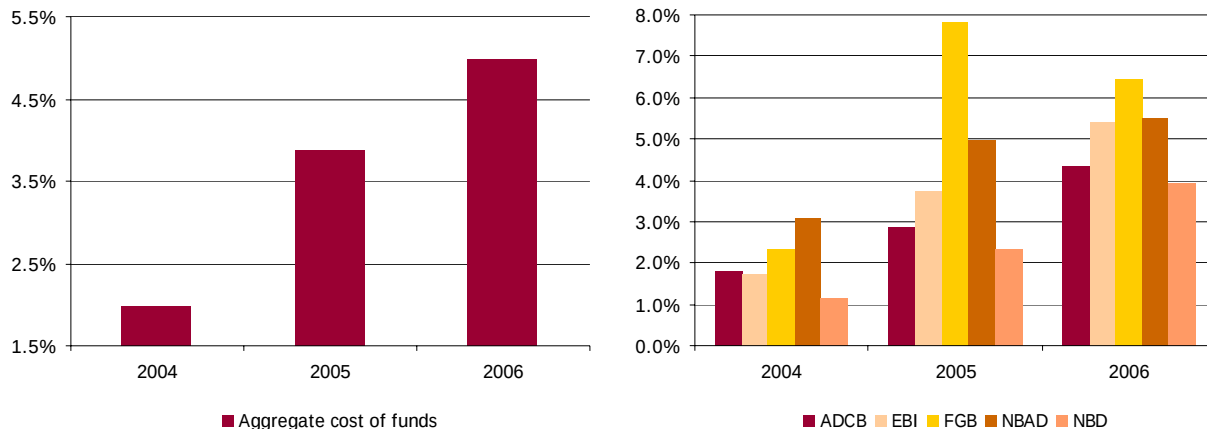
One plausible explanation for the improvement in yields, apart from rising interest rates, is that higher margin retail loans were gaining more share of the underlying banks' loan portfolios. Retail loans jumped to represent 29.9% of the peer group's aggregate loan portfolio in 2006, up from 22.4% in 2004. This growing share of retail loans, is largely explained by the inflow of expatriates to the UAE during the current oil boom, the influx of stock-market related activities and the real-estate boom. Although ADCB always had the largest proportionate retail segment, it delivered average yields.



Source: Banks, Noor Capital

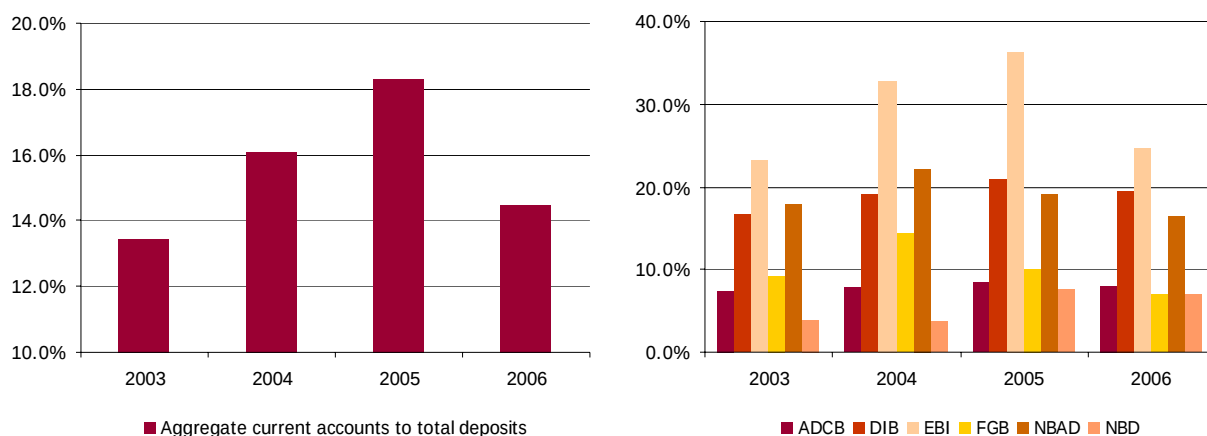
...lagged cost of funds and...

On the other hand, cost of funds (CoF) were rising faster than yields and translating into thinner spreads. Average cost of funds (CoF) for our peer group surged from 1.972% in 2004 to 4.991% in 2006 (an increase of 302bp). In our view this was driven by (1) competition among banks to sway depositors from each other, (2) competition between banks, on one side, and other saving vehicles (real estate and stocks) and (3) rising interest rates. On an individual basis, FGB had the highest CoF increase among banks in our peer group. In our view, this could be explained by pursuing a more aggressive approach in fund raising, particularly that the bank has the least proportionate share of low-cost deposits (i.e. current accounts) given its smaller branch network.



Source: Banks, Noor Capital

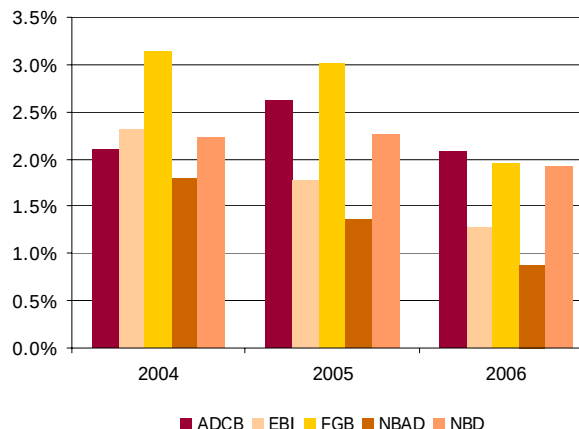
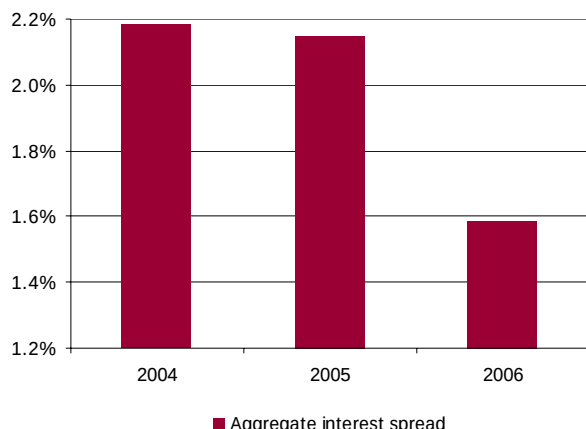
What helped each bank partially mitigate CoF dilemma was the proportion of low-cost deposits it held under its custody relative to the bank's total deposits. The more proportionate level of low-cost deposits the bank has, the more likely it will exhibit lower CoF. While EBI had the largest proportionate level of low-cost deposits, it still did not exhibit the lowest CoF among our peer group. In our view, this is due to (1) heavier-than-average reliance on inter-bank deposits as a funding source and (2) Issuance of medium term loans, which represented 17.8% of the bank's interest bearing liabilities in 2006.



Source: Banks, Noor Capital

...resulted in narrower spreads for our peer group

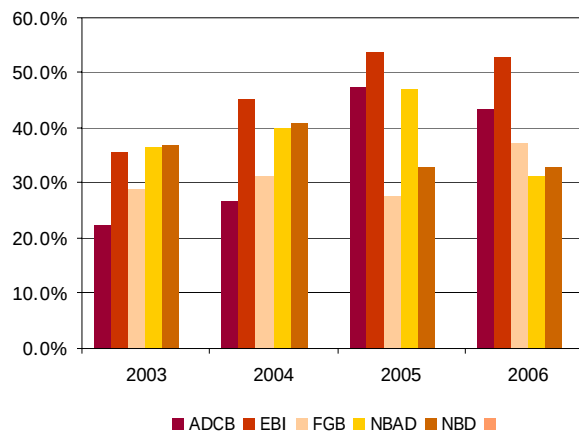
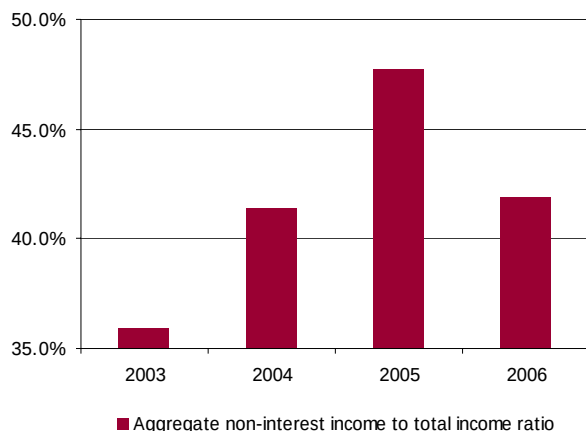
Rising cost of funds outpaced asset yields thus translating into thinner spreads for our peer group. Interest rate spread declined from 2.183% in 2004 to 1.588% in 2006. ADCB not only maintained the highest spread among our peer group in 2006 (at 2.08%), but experienced the least extent of shrinkage, as well. On the other hand, the pace of deterioration in interest spreads at FGB was the fastest and the most severe. Given its relatively smaller footing, FGB seems to be more attentive to volumes than spreads. NBAD had the thinnest spreads among our peer banks. This could be explained by its large cap orientation. NBAD's corporate customers are predominantly large caps that enjoy high negotiating powers.



Source: Banks, Noor Capital

Non-interest revenues outpaced net interest income till 2005...

Aggregate non-interest revenues for our peer group outpaced net interest income, growing at a 2003-06 CAGR of 45.9% to represent 41.9% of the peer group's aggregate top-line revenues in 2006, up from 36% in 2003. This, to a great extent, was driven by stock market-related fee income. Larger trading volumes translated into higher brokerage commissions, inflated market capitalization explained the growth in asset management fees and the influx of heavily oversubscribed IPOs accounted for the surge in other commissions (if a bank is mandated to receive subscriptions). All these additional revenue streams were further compounded by rising realized and unrealized gains on proprietary investment portfolios. By mid 2006, the show was coming to an end with DFM and AD5M indexes massively dropping, pushing down trading volumes, market capitalization and slackening IPO activity in the primary market. While aggregate non-interest revenues, for the peer group, still showed some y-o-y growth in 2006, it retreated as a percentage of total revenues from 47.8% in 2005 to 41.9% in 2006.

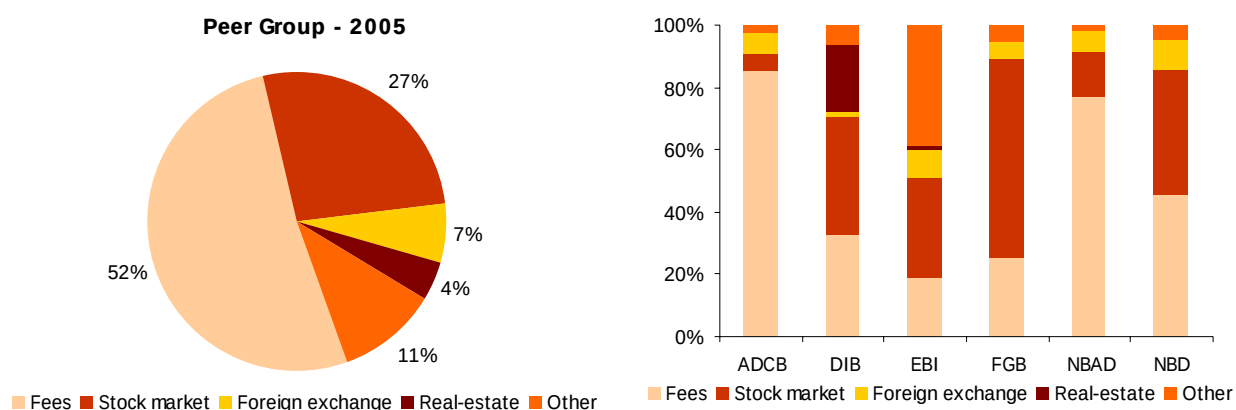


Source: Banks, Noor Capital

On an individual basis, EBI, not only had the largest proportionate non-interest income, but it succeeded in growing it, thanks to its Islamic banking subsidiary (i.e. non-interest yielding).

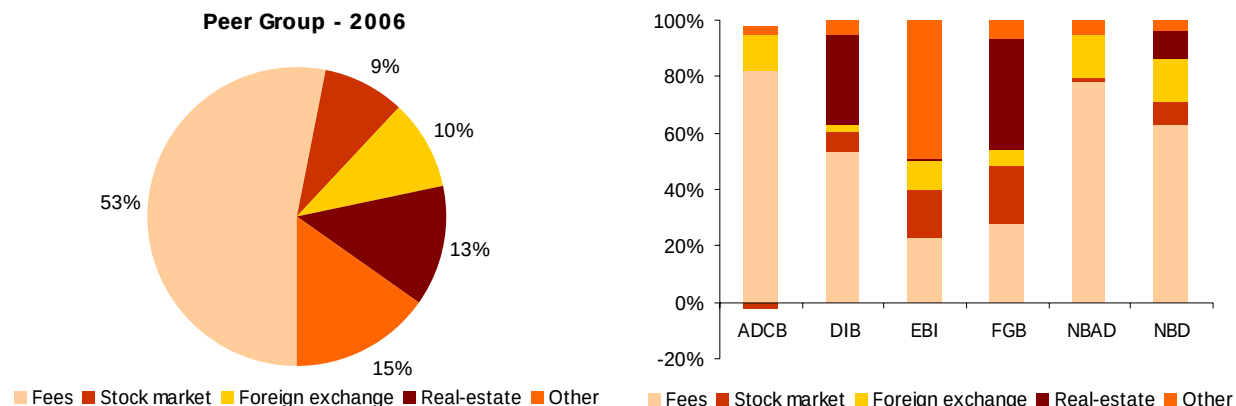
...due to surmounting stock-market related revenues

To have a clearer view of peer banks' sources of non-interest income, we opted to split this revenue stream into five components; namely core fees and commissions, stock market-related non-interest revenues (which combines revaluations, IPO, brokerage, fund management fees and capital gains), foreign exchange profits, real estate-related revenues (grouping revaluations, fee income and capital gains) and the last category being other non-interest income. We found out that core fees and commissions represented the bulk of non-interest revenues (circa 52%). In 2005, stock market-related income represented 27% of our peer group's non-interest revenues, with the largest beneficiary being FGB. On the other hand, real estate related revenues captured 4% of non-interest revenues.



Source: Banks, Noor Capital

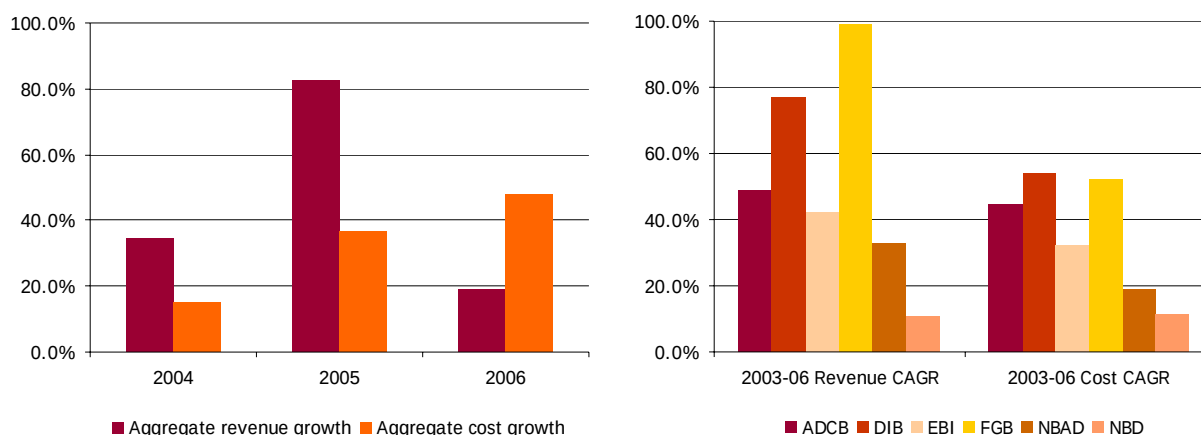
In 2006, the share of stock market-related revenues retreated to only 9% of non-interest income for the whole peer group. This was largely compensated for by a higher share of real estate-related revenues which grew from 4% in 2005 to 13% in 2006. Other core revenue streams, such as foreign exchange gains, fared well, growing from 7% of non-interest revenues in 2005 to 10% in 2006. Accordingly, we can comfortably infer that our peer group (as a whole) proved to exhibit some resilience to the 2006's stock market downturn. This was achieved through diversifying the non-interest revenue base, venturing into untapped segments and continuous launching of innovative products.



Source: Banks, Noor Capital

Top-line revenues lagged costs in 2006 thus...

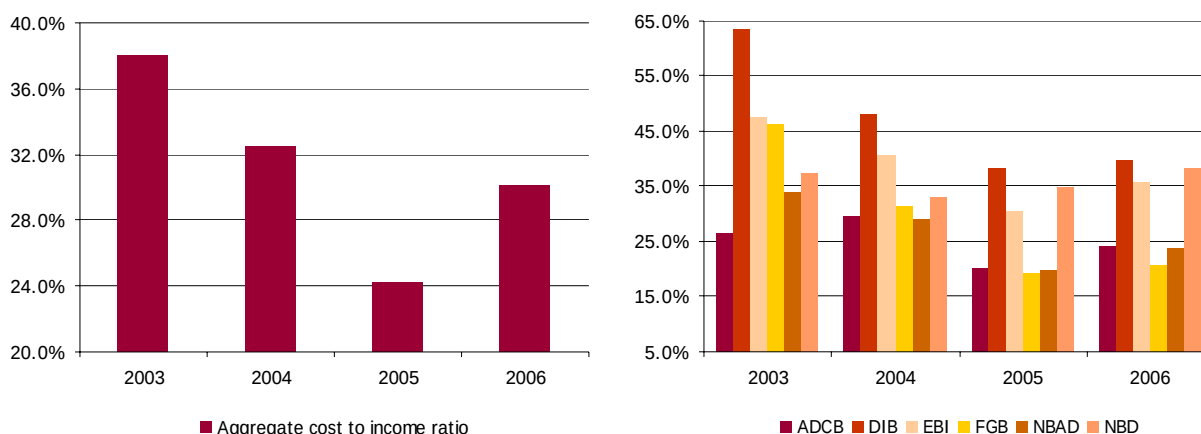
Efficiency for our peer group showed remarkable improvement over 2003-05. This was largely driven by the revenue side. Aggregate revenues of the peer group increased at a 2003-05 CAGR of 54.3% versus 25.2% CAGR for costs. Revenue growth was led by FGB, with DIB following and NBD lagging. On the cost side, FGB experienced the fastest growth in cost base, on the back of its expansive mode, also followed by DIB. The picture changed by 2006, whereby top-line, for the whole peer group, lagged costs, as the latter are known to be quite rigid on the downside, given the abundance of fixed cost elements at banks.



Source: Banks, Noor Capital

...eroding early realized cost efficiency gains

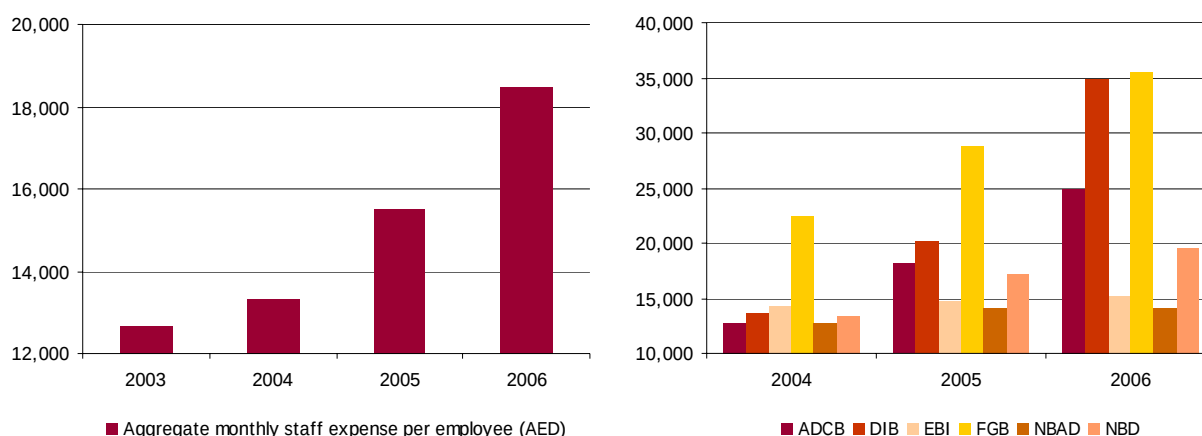
Cost efficiency for our peer group improved throughout 2003-05, whereby the aggregate cost to income ratio dropped from 38% in 2003 to 24.2% in 2005, thanks to massive top-line growth realized at FGB and DIB. By 2005, FGB and NBAD reported the lowest cost to income ratio in our peer group, at 19%, on average. NBD, albeit showing some cost efficiencies, lagged the peer group due to slower revenue growth. In 2006, the aggregate cost to income ratio climbed to 30.1%. In the aftermath of the market meltdown and with a 2006 cost/income ratio of 20.8%, FGB seems to be the most efficient among peers.



Source: Banks, Noor Capital

While FGB reported the highest staff cost per employee...

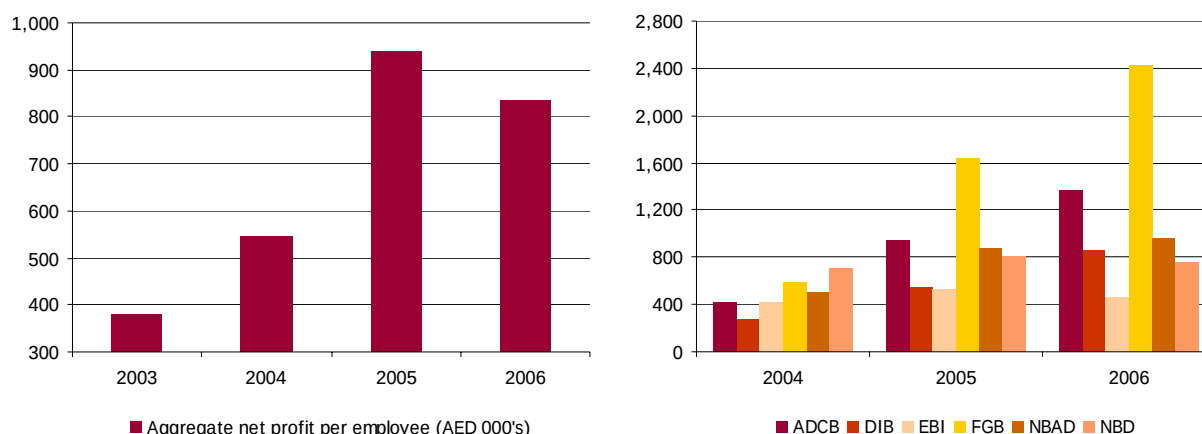
A decisive factor of a bank's cost competency is the efficiency of its workforce. We like to define efficiency as a relationship between average staff expense per employee (i.e. remuneration) and profit per employee. Staff expenses for our peer group averaged 57% of operating costs throughout 2003-06 and hence their significance. Average staff cost per employee was regularly rising among banks in our peer group. This could be explained by mounting inflationary pressures that necessitated constant upward revisions of salaries in addition to the economic boom which boosted banks' affordability to attract highly paid expatriates, expand their Emiratization programs and solicit distinguished executives from competitors. Among our peer group, FGB reported the highest level of staff cost per employee.



Source: Banks, Noor Capital

...it also exhibited the highest profit per employee

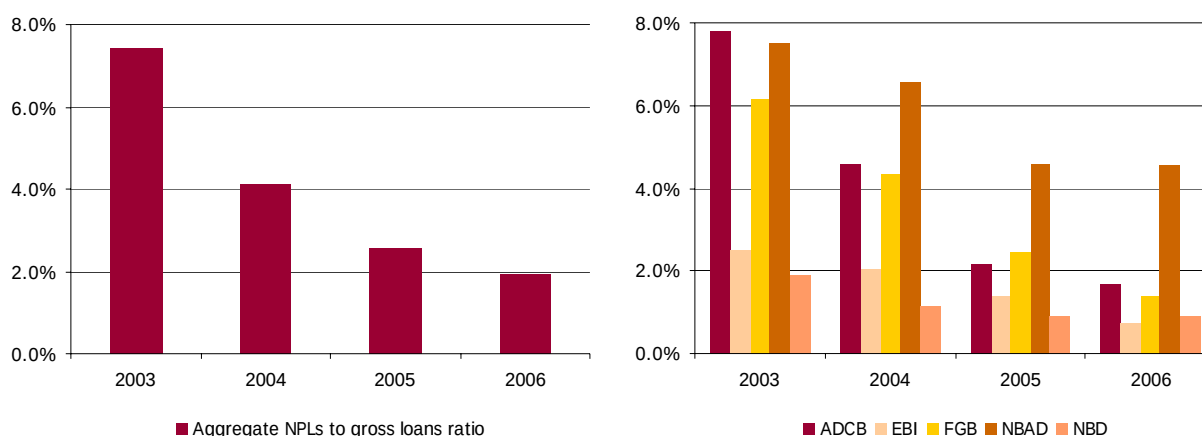
We also looked at profit per employee. This measure nearly tripled between 2003 and 2005 for the whole peer group, before sliding down in 2006. This was normal, as a growing portion of banks' profits were generated from corporate and investment divisions, which are known to be less labor intensive than retail banking. Again, FGB not only showed the highest net profit per employee, but the best performance, as well.



Source: Banks, Noor Capital

NPLs declined in absolute terms and as a percentage of gross loans

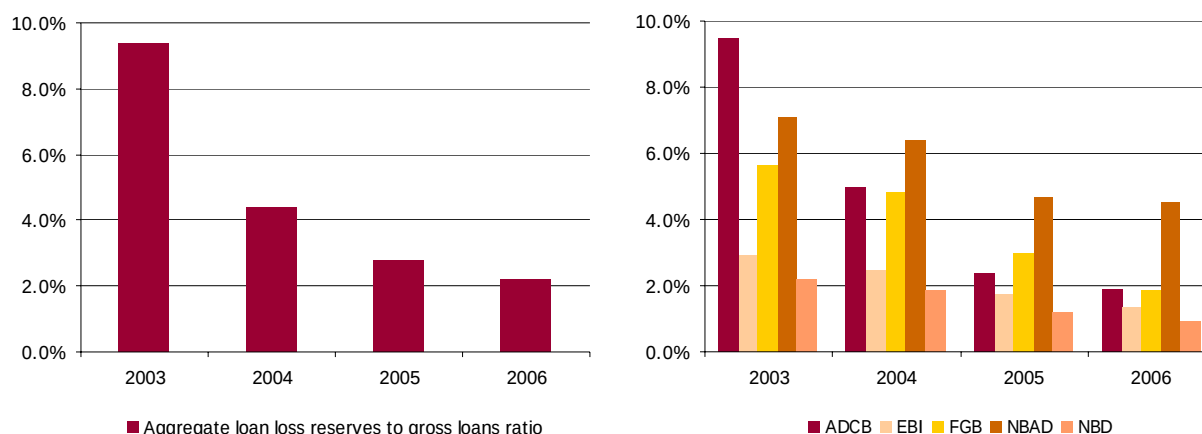
The peer group's aggregate figure of non-performing loans (NPLs) dropped in absolute terms and as a percentage of gross loans from AED7.3bn and 7.4% in 2003 to AED5.1bn and 1.9% in 2006. While the absolute decline (in AED terms) is explained by better recovery of previously classified debts and/or aggressive write-offs, the relative decline (as a percentage of gross loans) is certainly a matter of very strong loan growth. In all cases, better economic conditions reduced delinquency levels among borrowers. Among our peer group, ADCB exhibited the best performance in reducing its NPLs' portfolio (in absolute terms and as a percentage of gross loans). Nonetheless, the cleanest loan book in 2006 (as defined by NPLs/gross loans ratio) is maintained by NBD. On the other hand, NBAD had the highest NPL ratio in 2006. Our analysis, off course, assumes that NPL recognition methodologies are consistent among banks in our peer group.



Source: Banks, Noor Capital

Lower LL reserves to total loans ratio confirms the improvement in asset quality

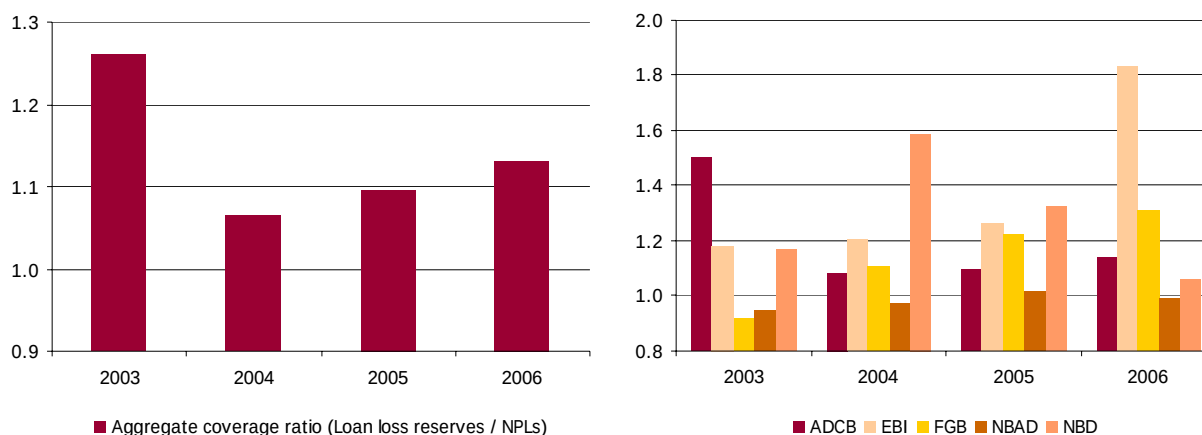
Another indication of asset quality improvement is a constantly declining ratio of loan loss reserves (i.e. provisions + suspended interest) to total loans. In aggregate, it dropped from 9.4% in 2003 to 2.2% in 2006. Again, NBAD was running the highest loan loss reserves to total loans ratio, reaching 4.5% in 2006.



Source: Banks, Noor Capital

Coverage is gradually scaled up among our peer group but...

Provisioning levels varied among banks in our peer group, according to each bank's perception of underlying credit risks, magnitude of earnings in a specific year and the prospects of growth going forward. Banks tend to accumulate more provisions in good years and vice versa. Looking at the aggregate coverage ratio for our peer group, we discovered a sizable drop from 1.26x in 2003 to 1.06x in 2004. This is explained by a simultaneous decline in NPLs triggering some write back of "surplus" provisions to banks' P&Ls. Thereafter, coverage was gradually augmented to reach 1.13x in 2006. Of our peer group, EBI maintained the highest coverage in 2006 (1.83x), while NBAD had the lowest (0.99x).



Source: Banks, Noor Capital

...excessive provisioning could imply an understated equity base

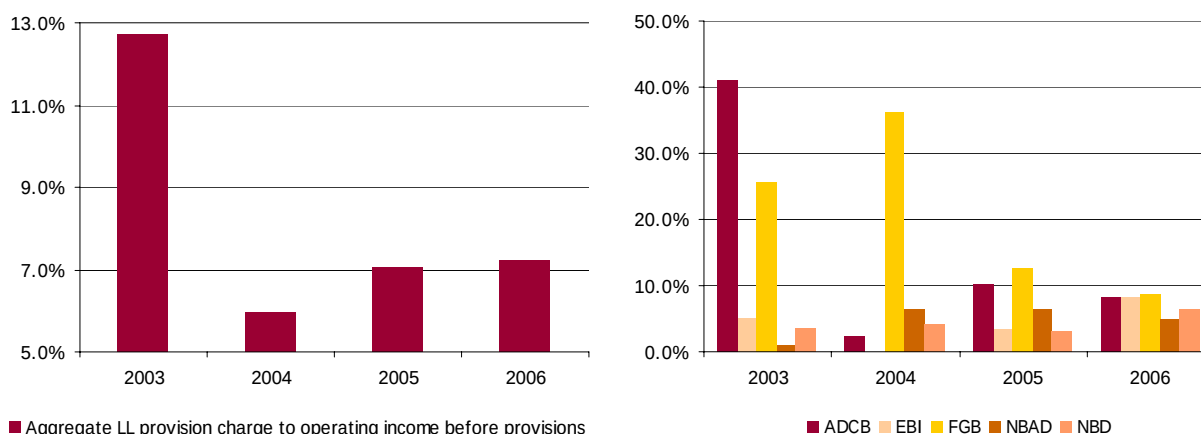
High coverage can have two interpretations that are equally probable. Either the bank is over provisioning and hence concealing current year's profits to streamline future earnings, or it expects a credit shock to hit, shortly. In either case, we like to look at excess coverage/provisioning as part of shareholders' equity and hence adjust it, accordingly. We did this exercise for our peer group and found out that excess coverage would add circa AED660m or 1.5% to our peer group's equity base. EBI is reckoned to be the most beneficiary, followed by ADCB and FGB. We understand that adding the full amount of excess provisions to equity is quite aggressive, but unless we are provided with information to help us exclude the redundant portion, we have no other better alternative. Banks should decompose loan loss provisions into specific and general ones to help analysts undertake this exercise more precisely.

Adjustment of 2006 shareholders' equity figures with excess LL coverage						
Bank	ADCB	EBI	FGB	NBAD	NBD	Peer
Coverage (x)	1.14	1.83	1.31	0.99	1.06	1.13
Excess Coverage (x)	0.14	0.83	0.31	-0.01	0.06	0.13
NPLS (AEDmn)	1,073	492	360	2,745	387	5,057
Adjustment amount (AEDm)	148	409	112	-32	22	660
Shareholders' equity (AEDm)	10,724	8,878	8,985	9,005	6,044	43,637
Adjusted equity (AEDm)	10,872	9,287	9,098	8,974	6,066	44,297
Impact of adjustment (%)	1.4%	4.6%	1.3%	-0.4%	0.4%	1.5 %

Source: Banks, Noor Capital

Loan loss provisioning did not hurt profitability

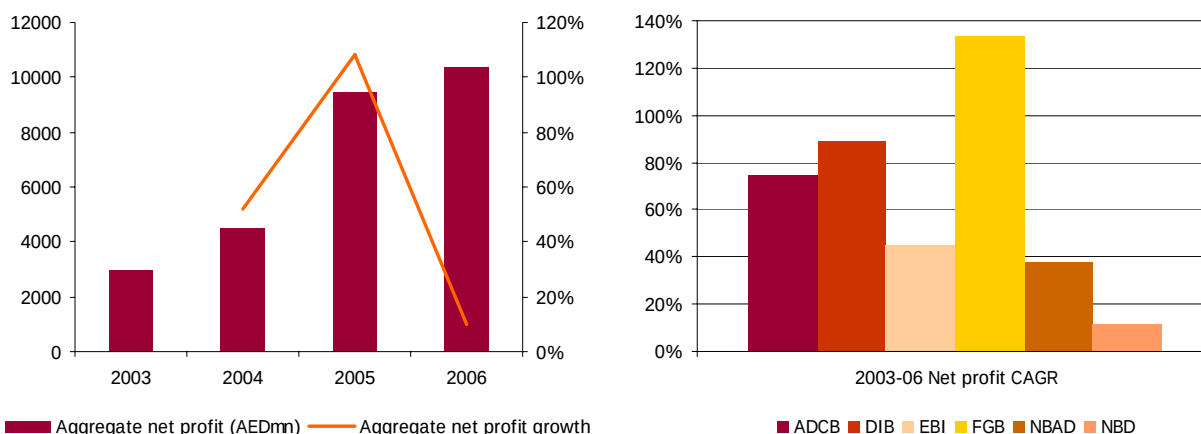
As the NPLs of peer banks were originally fully, and in some instances, excessively covered, annual provisioning did not exert considerable downward pressure on profitability. Annual loan loss provision charge represented 7.2% of the peer group's aggregate operating income in 2006. In 2006, all the banks in our peer group had pretty much similar burden ratios (i.e. loan loss provision charge to operating income).



Source: Banks, Noor Capital

Bottom line result: profitability slackened in 2006

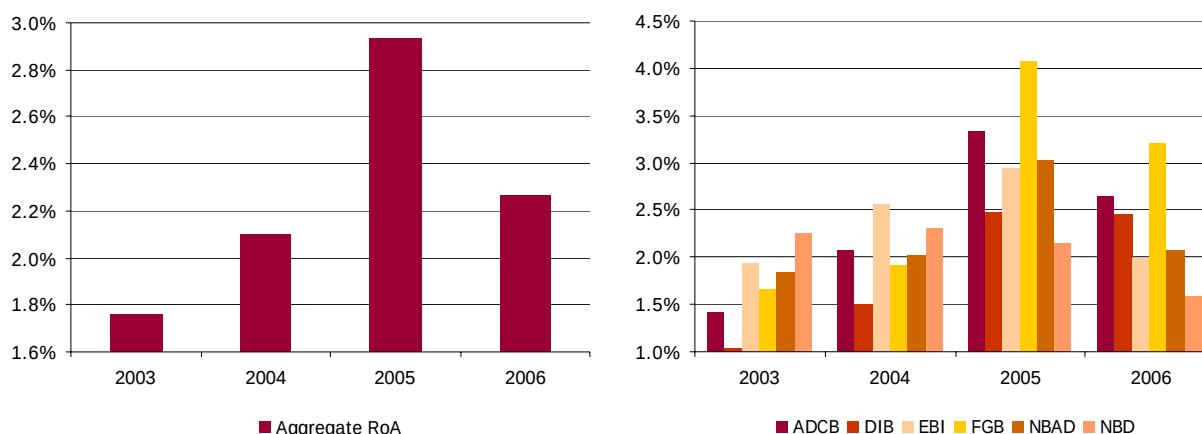
In 2006, slower y-o-y revenue growth translated into lower efficiency, given short-term cost rigidity. In that respect, net profit growth for our peer group slackened from a staggering 108% y-o-y in 2005 to 9.6% y-o-y in 2006. Let's not forget how 2005 earnings were heavily blurred with stock-market related income. For analytical purposes, we opted to compare long-term growth pattern among banks in our peer group. We found out that FGB delivered the highest 2003-06 net profit CAGR (133.3%), followed by DIB (88.8%) with NBD lagging at 11.2%.



Source: Banks, Noor Capital

FGB exhibited the highest RoA among our peer group

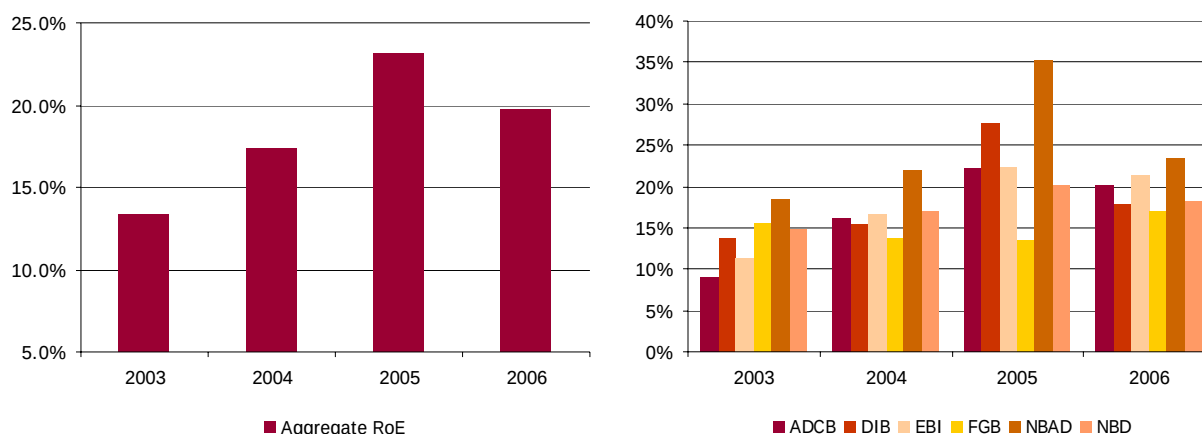
Thinner interest margins and slower growth of risk weighted assets (RWAs) together with slackening fee income overshadowed our peer group's 2006 return on assets. It ought to be highlighted that the 2006's aggregate RoA (2.26%) for the peer group is still higher than that of 2004 (2.09%) and compares well with other emerging markets' peers. As of 2006, FGB stood out with a RoA of 3.22%. This is due to commanding the smallest, but simultaneously, the most profitable asset base, among our peer group.



Source: Banks, Noor Capital

Banks' overcapitalization reined RoEs

Return on equity (RoE) also dropped from a record high of 23.1% in 2005 to 19.8% in 2006, which is, again, still higher than 2004's 17.4%. In our view, the drop has more to do with the overcapitalization issue than the slower earnings growth. Overcapitalized banks, such as FGB, historically reported the lowest RoE among our peer group. Going forward, we don't see need for fresh capital injections. Banks with an edgy capital adequacy ratio (like NBD had it not merged with EBI) are likely to experience difficulties augmenting their equity base through raising fresh capital. In our view, they will, more likely, depend on asset revaluations, higher retentions and/or sourcing subordinated debt.



Source: Banks, Noor Capital

Future Prospects

Earnings' prospects in 2007

Here is what we believe to be 2007's most likely earnings' theme at UAE banks. After running in a marathon (stock market rally) for the last two years, and even being stunned by a sudden finish line (market crash), banks need to get their act together and take a breather via inward examination of systems, portfolios, cost base and human resources. They also need to assess their status, not just from a short-term tactical standing, but from a strategic long-term positioning. Banks are now at cross roads. In that respect, we don't expect 2007 to bring massive earnings surprises. Hence, there is nothing really to be excited about for the sector, as a whole, during this year. Individual stories are more interesting to look at.

Net interest income

On one side, we believe that volume growth of AIEAs is likely to decelerate. On the other side, interest margins, unless squeezed by irrational downward pricing pressures from smaller banks or rising NPLs at bigger ones (highly unlikely), will tend to stabilize, as AED rates are reckoned to remain constant. The main threat to margins, in our view, is escalating pricing pressures and not asset quality or mix. Smaller banks with shaky asset quality and liquidity shortages can distort the market in the short run. While price competition can be better absorbed by bigger banks in the long term, it could certainly hurt their short term profitability. We see pricing pressure brewing in two segments: (1) large corporate loans, capable of securing big volumes/tickets for smaller banks in one go and (2) higher-margin retail business. Smaller banks are, however, limited by their capital base, and hence, less equipped to tackle large corporates, which can even raise funds overseas, at more competitive rates/terms. Moreover, with a limited branch network and inferior internet banking facilities, smaller banks are also less appealing to retail. Ultimately, their higher cost of funds will dictate the competitive practices they will eventually pursue.

Non-interest revenue

On the non-interest revenue front, we expect banks to maximize quality income streams that are generated from core business activities i.e. genuine fee income and not just stock market-related one. This course of action, albeit presenting short-run difficulties and delayed payoffs, will ultimately underpin a bank's core competitive edge. In a nutshell, unless there is a huge influx of IPOs and/or revaluations of real-estate assets, we expect non-interest revenues to further lag net-interest income in 2007.

Cost efficiency

On the cost side, we might witness some efficiencies, as the revenue slowdown of 2006, which caught banks by surprise and gave them a very short notice to adjust/rationalize costs, is not expected to have a similar impact this year. In 2007, banks have a better chance to reflect on their cost structures, expansion plans and human resources. This does not mean that banks will downsize their operations, but it reflects more streamlined capex and opex. Also note that the 2007's employees' bonuses will be based on the 2006's performance, which is far lower than 2005's. Nonetheless, sluggish top-line could translate into a slightly higher cost/income ratio.

Provisioning

We also don't expect a massive provisioning shock to hit banks P&Ls. This is based on the premise that margin lending is preemptively liquidated prior to realization of losses. Banks unable to liquidate the underlying positions, due to market becoming illiquid, will have to impair those non performing loans that are still sitting on their books. Though we lack a breakdown of aggregate NPLs, by business segment, we can judge, by the pace of year-to-date UAE stock market performance and the previously high extent of leverage that there are either fewer margins to be called in 2007 or that impaired positions are already fully provided for. We also believe that the bulk of margins have been called already. Another source of

concern is real estate lending. Based on our analysis, real estate-related loans (i.e. those extended to developers plus mortgages) represented 17% of the UAE banks' aggregate loan portfolio. We don't expect the whole of this 17% to flip and, at worst, it won't happen in one year.

Profitability

To recap, we expect the sector's profitability, as measured by RoA, to slide further in 2007 due to slower net-interest income growth and evaporation of stock market-related non-interest revenues. These are slightly mitigated by some cost efficiencies here and there and lower provisioning. In terms of RoE, as we believe that banks don't need to further augment their equity bases, particularly that they are already overcapitalized, then returns to shareholders, in the event of higher dividend payouts, should be in line or slightly better than 2006.

Long term drivers of earnings' growth

In 2008 onward, we see a different picture with several earnings' growth drivers enrooted in the UAE environment. We will name a few of them. We strongly believe that UAE banks will witness a new era.

Favorable demographics

The UAE enjoys one of the world's fastest growing, young and highly educated populations. According to CBUAE, population growth rate averaged 7.3% per annum between 1999 and 2005 to reach 3.769 million inhabitants. This is driven by the inflow of expatriates who are attracted by the country's high living standards. Worth noting that 73% of this population lie in the working age bracket (i.e. between 20-60 years) and the illiteracy level is only 9%. These are certainly appealing demographics for banks.

Buoyant economic conditions

Real GDP growth rate (i.e. at year 2000 constant prices) averaged 8.9% per annum between 2003 and 2005 to reach AED357.58bn (USD97.37bn). The non-oil sector exhibited a remarkable 11.7% CAGR over 2003-05 to account for 73.4% of real GDP up from 69.8% in 2003. Moreover, 39% of the real growth was driven by private consumption with another 57% emanating from net exports (higher net proceeds of hydrocarbons). Also with a 7.9% budget surplus, 20% current account surplus and several real estate and infrastructure projects coming on stream, the economic environment is certainly buoyant for banks. Hence, modeling a long-term sustainable real GDP growth rate of 3.5%, is not just highly conservative, but sarcastically means that real per capita GDP is forecast to decline, if population growth remained strong.

UAE Macroeconomic Indicators						
Indicator	2003	2004	2005	2006e	2007f	2008f
Real GDP Growth Rate (%)	11.9%	9.7%	8.2%	8.9%	7.3%	6.5%
Budget Surplus (Deficit) / GDP (%)	-5.6%	-0.4%	7.9%	12.3%	9.1%	7.6%
Current Account Surplus (Deficit) / GDP (%)	9.5%	10.1%	20.0%	15.9%	9.5%	5.6%
CPI (%)	0.3%	5.0%	n/a	13.5%	8.0%	6.0%
Average interest rate on corporate loans (%)	5.6%	5.9%	7.2%	n/a	n/a	n/a
Average 3m deposit rate (%)	0.7%	1.0%	2.6%	n/a	n/a	n/a
Population Growth Rate (%)	7.7%	6.9%	n/a	n/a	n/a	n/a

Source: CBUAE, Economist Intelligence Unit Estimates, Noor Capital

Consolidation synergies

Following the announcement of a merger exercise between National Bank of Dubai and Emirates Bank International, we believe that several banks will follow suit. Judging by some experience, we might see two or more banks in Abu Dhabi announcing merger talks soon. This should not be interpreted as a

massive consolidation wave. We still believe that different ownerships and dissimilar cultures of the underlying banks can effectively inhibit an influx of a merger spree. What we like about this merger is that it is a voluntary one (i.e. not enforced by stressful conditions, as historical ones). Despite widely spread hints that the banking sector “consolidation” is a government-orchestrated one, it doesn't really matter for us, as long as, a merger's synergies are realized to the best benefit of shareholders. On the contrary, a government orchestrated synergy might even prove to be more successful, in the case of the UAE, than a management initialized merger. Consolidation synergies are pretty much known. They range from complementing revenue streams, removing the overlap in joint functional areas and hence reduce costs to enhancing the merged entity's lending/investing capacity. Other benefits accruing to the new entity include controlling larger branch/ATM networks and securing better credit rating. These synergies can help reduce cost of funds. On the other hand, the classical hurdles to a merger are social considerations pertaining to layoffs, inconsistent cultures and conflicts over management approach.

Absence of centralized credit bureau

Retail lending in the UAE is carried out in absence of a centralized credit bureau. To overcome this deficiency given a large expatriate population and the difficulty of enforcing a liability, banks usually extend personal loans on a fully secured basis (i.e. they require the borrower's salary to be transferred to the bank). This deficiency limits customers' ability to tap different banks for different services and hence restrains competition, as switching costs between banks could be prohibitive particularly for smaller retail accounts.

Restrictions on new banking licenses

Although we haven't come across any CBUAE decree that explicitly forbids the issuance of new national commercial banking licenses, the fact that their number hasn't changed since mid-eighties makes us wonder if this is the case. In 1982, the board of directors of the CBUAE suspended the granting of new licenses to foreign commercial banks. Moreover, the local network of a foreign bank is restricted to 8 branches. The CBUAE also has to pre-approve equity holdings exceeding 5% of a bank's ownership. These high barriers to entry translate into excess returns for the existing players. In such a setting, smaller domestic banks will have a value to those foreign commercial banks that wish to tap/expand in the UAE.

Limited asset backed lending

One of the impediments, in our view, to the spread out of mortgages, is the lack of an active local bond market, particularly asset backed securities (ABS). Securitization of loans would help banks bridge the A/L maturity gap and extend longer maturities. For this to happen, several steps need to be taken, including launching a long-term sovereign benchmark, passing a legislation that entitles banks to securitize loans, clarifying property rights, particularly for non-residents and enforcing laws that entitle banks to foreclose the property of a defaulted customer. Adopting these measures could spur growth of mortgage finance. Banks have mitigated the A/L maturity gaps through MTNs, which still has shorter maturities than mortgages.

Negative real interest rates

One of the main catalysts to the stock market rally and the real estate boom over the last years has been the prevalence of negative real interest rates. Despite continuous upward adjustment of nominal rates, inflation was growling, as rents were skyrocketing. Going forward, while we don't expect inflation to spiral, thanks to capping annual rent increases, we might see some easing of nominal interest rates, should global risk premiums decline. This combination should restore the favorable conditions for banks.

Growing foreign competition

Foreign banks (FB) established on the ground overcome the legislative limitation on branch networks by hiring troops of customer service officers, on commission basis, to address retail segment. With respect to corporate banking business, FBs fly in executives from all around the world to address any “sizeable”

Future Prospects

UAE Banks

April 2007

opportunity. The FB typically leans on its parent's global expertise across different asset classes and products, placement capabilities and stronger balance sheet to address these opportunities. We expect a rise in foreign competition with the institutionalization of the UAE economy and as more FB set up operations in DIFC to benefit from filling the time zone gap.

Summary forecast assumptions for the whole peer group					
Item	2005	2006	2007e	2008e	2009e
Asset yield	5.859%	6.482%	7.157%	7.634%	7.514%
Cost of funds	3.829%	4.967%	5.888%	6.564%	6.439%
Spread	2.031%	1.515%	1.269%	1.071%	1.075%
AIEAs growth	38.3%	46.0%	32.7%	25.0%	21.9%
Net interest margin	2.756%	2.325%	2.127%	2.132%	2.136%
Asset growth	48.6%	42.5%	27.9%	23.4%	20.3%
Net loan growth	52.3%	41.5%	25.5%	22.4%	19.3%
Deposit growth	38.2%	36.0%	28.2%	27.2%	23.0%
Net interest income/total income	47.3%	48.9%	50.8%	53.1%	53.9%
Non-interest income/average assets	2.64%	2.11%	1.77%	1.61%	1.57%
Revenue growth	82.7%	19.1%	16.9%	19.9%	20.3%
Cost/income	26.0%	30.5%	32.2%	34.1%	35.1%
Cost/average assets	1.214%	1.239%	1.142%	1.161%	1.185%
NPLs/loans	2.51%	2.30%	2.19%	2.10%	2.07%
NPLs/assets	1.58%	1.42%	1.33%	1.27%	1.24%
Coverage NPLs	114%	100%	102%	104%	113%
Loan loss charge/operating income	5.2%	4.6%	7.5%	7.4%	8.0%
Loan loss charge/total loans	0.35%	0.26%	0.39%	0.38%	0.42%
Equity/assets	12.7%	11.4%	10.0%	8.7%	7.9%
RoAE	28.2%	22.2%	20.3%	21.9%	23.3%
RoAA	3.512%	2.657%	2.155%	2.036%	1.931%
Estimated capital adequacy ratio	17.7%	16.0%	14.3%	12.8%	11.9%
Risk weighted assets growth	53.3%	44.3%	26.0%	22.7%	19.1%
Net profit growth	108.0%	9.6%	8.6%	13.4%	15.5%
Cash dividend payout ratio	20.0%	46.1%	59.0%	62.8%	60.9%

Source: Banks, Noor Capital

Background and positioning

Founded in 1985 through a merger of three banks, ADCB commands now the second largest asset base in Abu Dhabi and the third largest in the UAE. ADCB operates through a network of 42 UAE-based branches plus two branches in India. In 2003, new management took office and succeeded in re-branding the bank, enhancing its franchise, broadening its product offering, strengthening its risk management systems and ultimately attaining a higher credit rating. Operations are segmented into commercial and investment banking. While commercial banking encompasses corporate and retail sub-segments, investment banking handles asset management, treasury and securities' brokerage (via a wholly-owned subsidiary). In 2006, the commercial banking segment generated 89% of NPBT and captured 80% of the bank's assets.

Future prospects and growth drivers

Management aims to position ADCB as a niche player in the infrastructure project finance segment through establishing joint ventures (JVs) with prime foreign banks (Macquarie Bank of Australia). Moreover, the bank is very active in the joint offering of attractive products. A good example is the Sharia'a compliant equity fund that was jointly launched with KFIC of Kuwait. ADCB was also awarded a mandate to handle the commercial segment of the Khalifa committee's portfolio. Management has also articulated an efficient mechanism to generate revenues, acquire customers and reduce exposure to a single market (UAE) via cross selling foreign banks' products. We believe that ADCB is primarily interested in joining forces with banks from countries that has a large expatriate community in the UAE.

Valuation and recommendation

ADCB is the most actively traded bank among our peer group in Abu Dhabi. Despite dropping by 27% over the last 12 months, it has managed to outperform the MSCI UAE index by 12.3%. ADCB currently trades at a 9.8% discount to our peer group's 2007e weighted average P/BV despite expectations of delivering a sustainable premium to the group's RoAE. With a 12 month expected total return of 22.4% (16.7% upside potential on current market price + 5.8% 2007e dividend yield), we initiate research coverage on ADCB with a Buy recommendation. We expect the stock to ultimately re-rate, not just based on short-lived merger rumors, but on investors' appreciation of the stock's sound growth and value propositions.

Current Price	6.00
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Target Price	7.00
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Recommendation

Buy

Price Performance

Absolute	%
1 month	-2.1%
3 months	-0.5%
6 months	-13.9%
12 months	-27.0%

Relative to MSCI – UAE	%
1 month	1.2%
3 months	7.9%
6 months	7.0%
12 months	12.3%

Stock data

Market cap (AEDbn)	24.0
Free float (%)	35.2

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Valuation Summary

ADCB.AD	EPS (AED)	BVPS (AED)	DPS (AED)	P/E (x)	P/BV (x)	Div. Yield (%)
2006	0.53	2.68	0.30	11.33	2.24	5.0%
2007e	0.54	2.88	0.35	11.01	2.08	5.8%
2008e	0.62	3.06	0.44	9.64	1.96	7.4%
2009e	0.74	3.30	0.50	8.07	1.82	8.4%
2010e	0.89	3.61	0.58	6.72	1.66	9.7%

Source: ADCB, Noor Capital

ADCB - Key assumption For....	
For....	...we are assuming
Balance sheet	• Lower than historical volume growth as the bank shifts profitability driver from volumes to margins. • Assets are projected to grow at a 2006-2012 CAGR of 15.2% versus 41.3% between 2003 and 2006. • Net loan CAGR of 13.7% between 2006 and 2012 vis-à-vis 47.2% historically, thus bringing net loans/total assets ratio down to 71% by 2012 from 77% in 2006. • Interest earning assets are projected to grow at a slower rate (14.2%) to represent 88% of 2012's total assets down from 93% in 2006. • With a high loan to deposit ratio of 143% in 2006, the bank will have to grow its deposit base. Loan to deposit ratio is expected to reach 117% by 2012, translating to a 17.6% 2006-12 deposit CAGR.
Asset quality	• NPLs are expected to slightly decline to 1.4% by 2012 from 1.7% in 2006. Coverage, as defined by loan loss reserves to NPLs will also grow from 114% in 2006 to 174% in 2012.
Net interest income	• Robust AIEAs growth between 2006 and 2012 together with gradual recovery of margins will jointly derive the 20.7% net-interest income CAGR over our forecast horizon.
Non-interest revenues	• While growing in absolute terms at a 2006-2012 CAGR of 5.6%, non-interest revenues are expected to lag net interest income thus dropping from 42.7% of 2006's revenues (48.2% in 2005) to the more long-term sustainable level of 25.3% by 2012. This level corresponds to core banking activities.
Cost	• Rising cost to income ratio (33% by 2012 versus 24% in 2006) is merely a matter of cost rigidity (i.e. operating leverage) and slower-than-historical top-line growth pattern.
Provisions	• Given a comfortable NPL coverage and as NPLs are expected to proportionately decline, annual provisioning charge would also decline from 0.77% of 2006's loans to 0.16% by 2012. Loan loss provisions to operating income would, however, stay stable at circa 13%.
Net profit	• Projected to grow at a 2006-2012 CAGR of 12.8%, which will be equally reflected in EPS growth
Dividend policy	• Slower projected growth of RWA and a healthy tier one ratio justify raising dividend payout ratio from the current 56% to as aggressively as 90% by 2012.

Source: Noor Capital

SWOT analysis - ADCB

Strengths

- New management team turned around ADCB via enhancing its franchise, broadening its product offering, achieving economies of scale and strengthening its risk management framework.
- Higher-than-sovereign credit rating warrants raising funds through MTNs at very competitive rates vis-à-vis peer banks.
- Best improvement in asset quality (NPLs dropped 43% annually at ADCB between 2003 and 2006 and 11% at our peer group).

Opportunities

- Pool of hidden reserves (real estate assets mostly booked on BS at historical rates) enhances capital adequacy and lending capacity.
- Tapping overseas markets (countries with large expatriate community in the UAE) via cross selling foreign banks' products.
- Grabbing a niche segment in infrastructure project finance via JVs.
- Awarded the commercial side of the Khalifa committee's portfolio.

Weaknesses

- Very high loan/deposit ratio (over 100% even with the inclusion of MTNs) exposes ADCB to inter-bank interest rate volatilities.
- Balance sheet liquidity, despite running at healthy rates, has been constantly lower than the average for our peer group.
- High exposure to retail lending (42% of loans), albeit rewarding in terms of margins and risk diversification, is worrying particularly in absence of credit bureau and presence of high expatriate community.

Threats

- Fierce competition from resident foreign banks
- Overly reliance on key management figures is quite risky should they consider to quit.
- High exposure to UAE economy (73.85% of 2006's assets) in case of failing to establish fully fledged overseas banking subsidiaries.
- Deposit concentration of the Abu Dhabi ruling family.

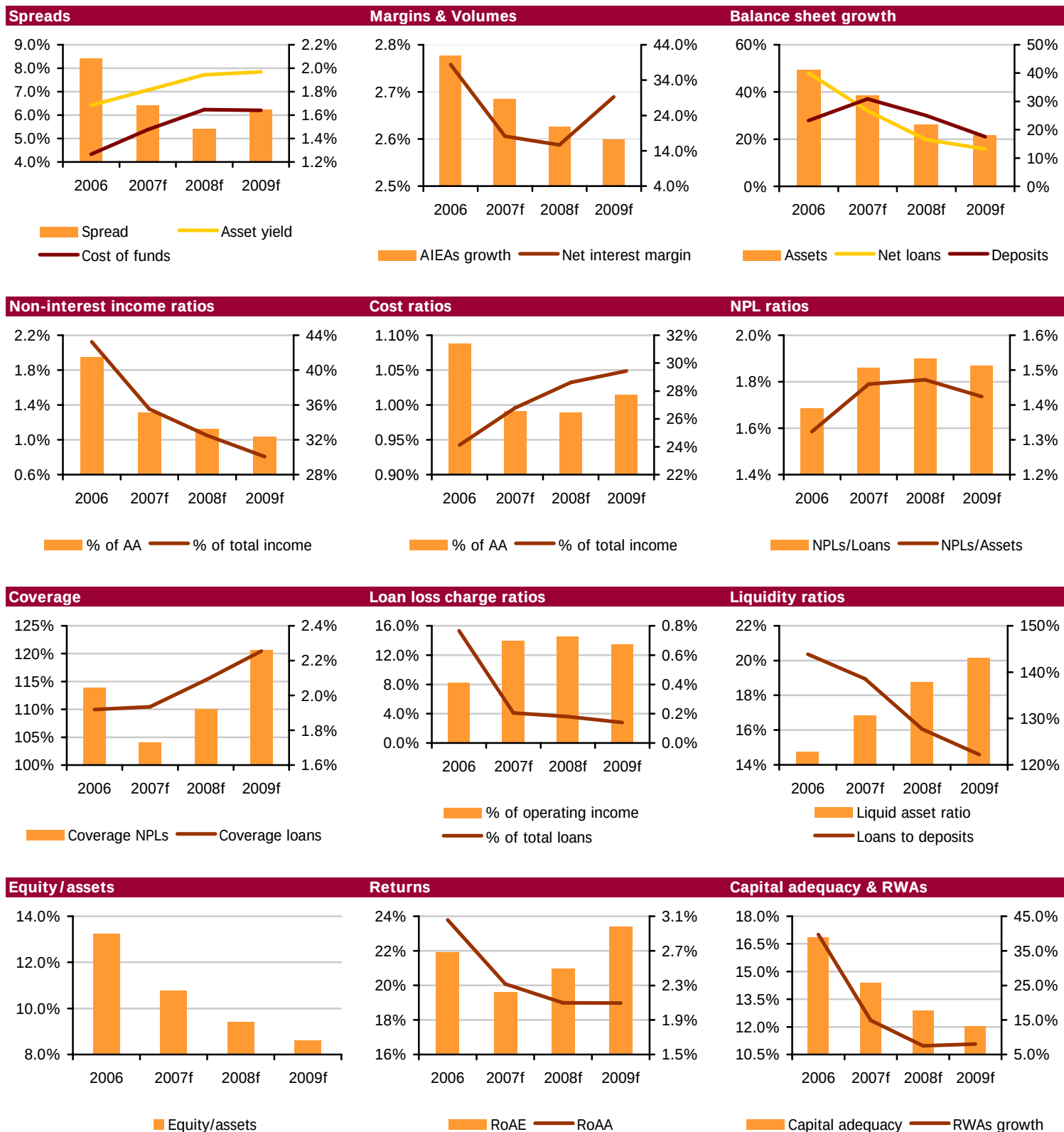
Summary Income Statement									
(AEDm, except per share values)	2004	2005	2006	2007	2008	2009	2010	2011	2012
Net interest margin	2.51%	3.09%	2.76%	2.61%	2.59%	2.69%	2.77%	3.01%	3.35%
Average interest earning assets	33,679	44,474	64,320	86,100	106,974	127,110	144,149	156,449	164,409
Net interest income	847	1,373	1,774	2,243	2,768	3,418	3,986	4,710	5,509
Fees & commissions	247	1,093	1,129	988	1,053	1,158	1,262	1,363	1,418
FX operations	50	86	181	198	221	248	275	303	330
Non-interest securities	2	2	4	5	6	6	7	9	12
Sale of associated companies	(1)	20	-	18	22	26	29	31	33
Other non-interest income	13	75	9	46	52	58	64	71	77
Non-interest income	311	1,277	1,323	1,255	1,354	1,496	1,638	1,777	1,870
Total income	1,158	2,650	3,097	3,499	4,122	4,914	5,624	6,487	7,378
Administrative & personnel	223	312	440	605	833	1,086	1,338	1,624	2,060
Remuneration & profit sharing	2	2	28	30	32	36	42	47	50
Depreciation	20	27	41	54	68	80	91	101	109
Other non-interest expense	99	186	273	273	273	273	273	273	273
Non-interest expense	343	527	782	962	1,206	1,475	1,744	2,046	2,492
Operating income	815	2,123	2,315	2,537	2,916	3,439	3,880	4,441	4,886
Loan loss and other provisions	20	212	193	354	424	462	305	540	526
Net profit before extraordinary	795	1,911	2,121	2,182	2,492	2,977	3,575	3,901	4,360
Noor extraordinary results	-	-	-	-	-	-	-	-	-
Net profit before tax	795	1,911	2,121	2,182	2,492	2,977	3,575	3,901	4,360
Income tax provision	(4)	0	3	3	3	4	4	5	5
Net profit before minority interest	799	1,910	2,119	2,179	2,489	2,973	3,570	3,896	4,355
Minority interest	-	-	-	-	-	-	-	-	-
Net profit before preferred dividends	799	1,910	2,119	2,179	2,489	2,973	3,570	3,896	4,355
Preferred dividends	-	-	-	-	-	-	-	-	-
Net profit to shareholders	799	1,910	2,119	2,179	2,489	2,973	3,570	3,896	4,355
Avg. shares outstanding (mn)	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000
EPS	0.20	0.48	0.53	0.54	0.62	0.74	0.89	0.97	1.09

Profitability and Efficiency Ratios									
(AEDm)	2004	2005	2006	2007	2008	2009	2010	2011	2012
Net profit growth	n/a	139.2%	10.9%	2.9%	14.2%	19.5%	20.1%	9.1%	11.8%
Earnings per common share growth	n/a	139.2%	10.9%	2.9%	14.2%	19.5%	20.1%	9.1%	11.8%
Dividends per share outstanding	0.25	-	0.30	0.35	0.44	0.50	0.58	0.75	1.03
Cash dividend payout ratio (%)	125.2%	0.0%	57.1%	63.3%	71.1%	67.5%	65.3%	76.6%	94.5%
Return on average equity (ROAE)	16.9%	28.1%	21.9%	19.6%	20.9%	23.4%	25.8%	26.1%	28.1%
Return on average assets (ROAA)	2.38%	3.98%	3.06%	2.32%	2.10%	2.10%	2.22%	2.25%	2.36%
Non-interest expense/total income	29.7%	19.9%	25.3%	27.5%	29.3%	30.0%	31.0%	31.5%	33.8%
Administrative & personnel/total income	19.2%	11.8%	14.2%	17.3%	20.2%	22.1%	23.8%	25.0%	27.9%
Non-interest expense/average assets	1.02%	1.10%	1.13%	1.02%	1.02%	1.04%	1.09%	1.18%	1.35%
Non-interest income/total income	26.9%	48.2%	42.7%	35.9%	32.8%	30.4%	29.1%	27.4%	25.3%
Non-interest income/non-interest expense	90.6%	242.5%	169.1%	130.5%	112.3%	101.4%	93.9%	86.9%	75.0%
Fees & commissions/total income	21.3%	41.2%	36.5%	28.2%	25.5%	23.6%	22.4%	21.0%	19.2%
Non-interest income/average assets	0.93%	2.66%	1.91%	1.33%	1.14%	1.05%	1.02%	1.03%	1.01%
Number of branches	36	36	36	38	40	42	44	46	48
Number of employees (000's)	1,366	1,485	1,455	1,426	1,447	1,435	1,428	1,428	1,422
Employees per branch	38	41	40	38	36	34	33	31	29
Assets per employee (000's)	28,106	38,710	55,715	75,039	89,941	107,048	117,241	125,404	133,507
Net profit per employee (000's)	585	1,286	1,456	1,528	1,720	2,072	2,500	2,728	3,062

Summary Balance Sheet Data (AEDm)	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total loans	29,997	43,192	63,646	84,013	100,816	116,946	126,302	132,617	137,922
Net loans	28,502	42,164	62,425	82,387	98,709	114,308	123,341	129,516	134,688
Total interest earning assets	35,586	53,362	75,278	96,922	117,025	137,195	151,103	161,796	167,022
Total assets	38,393	57,484	81,088	107,037	130,157	153,585	167,407	179,126	189,873
Total customer deposits	29,553	33,937	43,397	59,454	77,290	93,521	102,873	109,559	115,037
Total interest bearing liabilities	30,220	44,520	64,120	78,611	97,472	113,928	125,228	133,252	137,483
Total liabilities	33,433	48,866	70,364	95,513	117,914	140,378	152,963	163,768	174,277
Total equity	4,960	8,618	10,724	11,523	12,242	13,207	14,445	15,357	15,597
Loan growth	n/a	44.0%	47.4%	32.0%	20.0%	16.0%	8.0%	5.0%	4.0%
Net loan growth	n/a	47.9%	48.1%	32.0%	19.8%	15.8%	7.9%	5.0%	4.0%
Interest earning asset growth	n/a	50.0%	41.1%	28.8%	20.7%	17.2%	10.1%	7.1%	3.2%
Asset growth	n/a	49.7%	41.1%	32.0%	21.6%	18.0%	9.0%	7.0%	6.0%
Customer deposits growth	n/a	14.8%	27.9%	37.0%	30.0%	21.0%	10.0%	6.5%	5.0%
Interest bearing liabilities growth	n/a	47.3%	44.0%	22.6%	24.0%	16.9%	9.9%	6.4%	3.2%
Liabilities growth	n/a	46.2%	44.0%	35.7%	23.5%	19.1%	9.0%	7.1%	6.4%
Equity growth	n/a	73.7%	24.4%	7.5%	6.2%	7.9%	9.4%	6.3%	1.6%
Average interest earning assets	33,679	44,474	64,320	86,100	106,974	127,110	144,149	156,449	164,409
Average assets	33,572	47,939	69,286	94,063	118,597	141,871	160,496	173,267	184,500
Average equity	4,720	6,789	9,671	11,124	11,883	12,725	13,826	14,901	15,477
Average interest earning asset growth	n/a	32.1%	44.6%	33.9%	24.2%	18.8%	13.4%	8.5%	5.1%
Average asset growth	n/a	42.8%	44.5%	35.8%	26.1%	19.6%	13.1%	8.0%	6.5%
Average equity growth	n/a	43.8%	42.4%	15.0%	6.8%	7.1%	8.7%	7.8%	3.9%

Balance Sheet Ratios	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total interest earning assets/total assets	92.7%	92.8%	92.8%	90.6%	89.9%	89.3%	90.3%	90.3%	88.0%
Total loans/total assets	78.1%	75.1%	78.5%	78.5%	77.5%	76.1%	75.4%	74.0%	72.6%
Net loans/total assets	74.2%	73.3%	77.0%	77.0%	75.8%	74.4%	73.7%	72.3%	70.9%
Total loans/customer deposits	101.5%	127.3%	146.7%	141.3%	130.4%	125.0%	122.8%	121.0%	119.9%
Net loans/customer deposits	96.4%	124.2%	143.8%	138.6%	127.7%	122.2%	119.9%	118.2%	117.1%
Total int. bearing liabilities/total liabilities	90.4%	91.1%	91.1%	82.3%	82.7%	81.2%	81.9%	81.4%	78.9%
Total equity/total assets	12.9%	15.0%	13.2%	10.8%	9.4%	8.6%	8.6%	8.6%	8.2%
Total equity/total loans	16.5%	20.0%	16.8%	13.7%	12.1%	11.3%	11.4%	11.6%	11.3%
Capital adequacy ratio, calculated	16.9%	19.7%	16.8%	14.4%	12.9%	12.0%	12.3%	12.5%	11.9%

Asset Quality Data (AEDm)	2004	2005	2006	2007	2008	2009	2010	2011	2012
Non-performing loans	1,384	936	1,073	1,563	1,915	2,187	2,248	2,056	1,862
Loan loss reserves	1,495	1,028	1,222	1,626	2,106	2,638	2,961	3,101	3,234
Loan loss provisions	793	714	908	1,262	1,686	2,149	2,454	2,647	2,829
Additions (charged to P&L)	20	212	193	354	424	462	305	540	526
Recoveries, reserve movement, and other	(113)	(106)	(294)	182	242	299	329	322	310
Deductions	46	1	-	-	-	-	-	347	344
Unearned interest	702	314	314	364	420	489	507	454	405
NPL growth	n/a	-32.4%	14.7%	45.6%	22.6%	14.2%	2.8%	-8.6%	-9.4%
NPLs/ total assets	3.6%	1.6%	1.3%	1.5%	1.5%	1.4%	1.3%	1.1%	1.0%
NPLs/total loans (excl. unearned interest)	4.7%	2.2%	1.7%	1.9%	1.9%	1.9%	1.8%	1.6%	1.4%
Loan loss provisions/NPLs	57.3%	76.3%	84.5%	80.8%	88.0%	98.2%	109.1%	128.7%	151.9%
Loan loss provisions/total loans	2.6%	1.7%	1.4%	1.5%	1.7%	1.8%	1.9%	2.0%	2.1%
Loan loss reserves/NPLs	108.0%	109.8%	113.8%	104.0%	110.0%	120.6%	131.7%	150.8%	173.7%
Loan loss reserves/total loans	5.0%	2.4%	1.9%	1.9%	2.1%	2.3%	2.3%	2.3%	2.3%

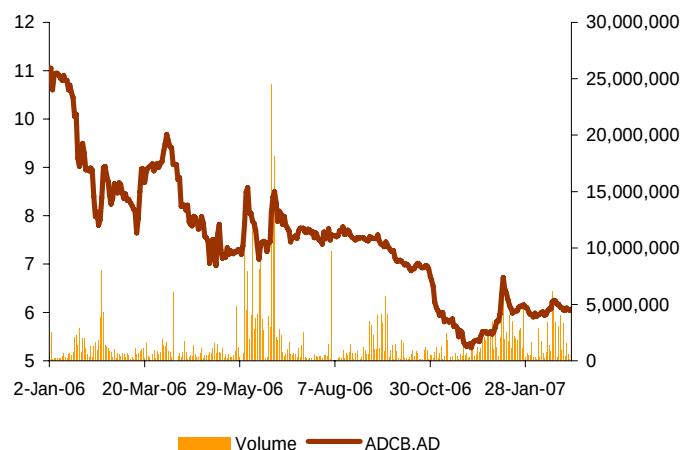


Bank	Year	EPS	DPS	P/E	EVA	P/BV	CoE	RoAE/CoE	Div. Yield	Cost/Income
ADCB.AD	2006a	0.53	0.30	11.3	1.07	2.2	10.5%	2.1	5.0%	25.0%
	2007e	0.54	0.35	11.0	1.11	2.1	10.5%	1.9	5.8%	27.6%
	2008e	0.62	0.44	9.6	0.98	2.0	10.5%	2.0	7.4%	29.4%
	2009e	0.74	0.50	8.1	0.82	1.8	10.5%	2.2	8.4%	30.2%
DISB.DU	2006a	0.52	0.35	14.4	1.01	2.4	10.4%	2.4	4.6%	40.0%
	2007e	0.58	0.39	13.0	1.30	2.4	10.4%	1.8	5.2%	42.7%
	2008e	0.68	0.45	11.0	1.11	2.2	10.4%	2.0	6.0%	46.7%
	2009e	0.82	0.50	9.2	0.91	2.0	10.4%	2.2	6.6%	47.4%
EBIL.DU	2006a	0.65	0.30	14.0	1.05	2.4	10.0%	2.3	3.3%	36.2%
	2007e	0.69	0.35	13.0	1.20	2.5	10.0%	2.1	3.9%	38.8%
	2008e	0.83	0.40	10.8	1.03	2.2	10.0%	2.2	4.4%	38.8%
	2009e	1.01	0.45	8.9	0.84	2.0	10.0%	2.3	5.0%	38.8%
FGB.AD	2006a	1.20	0.70	9.8	1.17	1.6	12.8%	1.4	6.0%	22.8%
	2007e	1.42	1.00	8.3	1.03	1.5	12.8%	1.5	8.5%	24.7%
	2008e	1.65	1.43	7.1	0.88	1.5	12.8%	1.6	12.2%	26.8%
	2009e	1.88	1.43	6.3	0.77	1.3	12.8%	1.7	12.2%	27.2%
NBAD.AD	2006a	1.32	0.40	14.3	0.76	2.6	7.6%	3.4	2.1%	23.9%
	2007e	1.43	0.75	13.2	0.94	2.9	7.6%	3.1	4.0%	24.6%
	2008e	1.63	1.00	11.6	0.85	2.6	7.6%	3.1	5.3%	25.6%
	2009e	1.75	1.25	10.8	0.80	2.4	7.6%	3.1	6.6%	28.0%
NBDD.DU	2006a	0.71	0.40	12.3	1.09	1.9	11.1%	1.7	4.6%	38.5%
	2007e	0.75	0.40	11.6	1.22	2.0	11.1%	1.6	4.6%	37.4%
	2008e	0.84	0.45	10.4	1.11	1.8	11.1%	1.6	5.2%	39.8%
	2009e	0.98	0.50	8.9	0.94	1.7	11.1%	1.8	5.7%	40.0%

Absolute and relative performance - ADCB.AD



Price and volume - ADCB.AD



Market data - ADCB.AD

Market capitalization (AEDm)	24,000
Average daily traded volume (000's shares) - 2006	1,496
Average daily traded value (AED' 000) - 2006	11,210
Average daily number of transactions - 2006	58

Summary of Valuation Methods	
DDM	10.01
Bond price	5.38
Rel pricing P/E	6.44
Rel Pricing P/BV	6.17
Target price	7.00
Current Price	6.00
Upside / Downside	16.7%
Recommendation	Buy

DDM	2007	2008	2009	2010	2011	2012
DPS	0.35	0.44	0.50	0.58	0.75	1.03
Factor	1.10	1.22	1.35	1.49	1.65	1.82
PV DPS	0.31	0.36	0.37	0.39	0.45	0.57
ROE						28.14
COE						10.49
g						3.5
ROE-g/COE-g						3.53
BVPS	2.88	3.06	3.30	3.61	3.84	3.90
Implied Price						13.75
PV implied Price	7.56					
NPV DPS	2.46					
"Fair Value"	10.01					

Bond pricing	2007	2008	2009	2010	2011	2012
ROE	19.59%	20.95%	23.37%	25.82%	26.15%	28.14%
COE	10.49%	10.49%	10.49%	10.49%	10.49%	10.49%
Implied P/BV	1.87	2.00	2.23	2.46	2.49	2.68
P/BV	2.08	1.96	1.82	1.66	1.56	1.54
Upside/Downside	-10%	2%	23%	48%	60%	74%
Minimum	-10%					
EVA	1.11	0.98	0.82	0.67	0.63	0.57

Relative valuation	2007	2008	2009	2010	2011	2012
UAE Peer Average P/E	11.83	9.90	8.64	7.51	6.61	5.94
UAE Peer Average P/BV	2.28	2.10	1.91	1.73	1.56	1.40
ADCB P/E	11.01	9.64	8.07	6.72	6.16	5.51
Price						
At average P/E	6.45	6.16	6.42	6.70	6.44	6.46
At Average P/BV	6.58	6.42	6.32	6.25	5.99	5.46
Average Price						
At average P/E	6.44					
At Average P/BV	6.17					

PEG Ratios	2007	2008	2009	2010	2011	2012
EPS growth	0.03	0.14	0.19	0.20	0.09	0.12
P/E	11.01	9.64	8.07	6.72	6.16	5.51
PEG	385.20	67.90	41.48	33.47	67.43	46.85

Background and positioning

Established in 1975, DIB is now ranked first among Islamic banks and fifth locally, in terms of total assets. DIB is 30% owned by the government of Dubai and enjoys a 45% free float, with the balance held by renowned Emirati families. Distribution channels include 37 branches, 103 ATMS, phone, mobile and internet banking. DIB's brand "Al Islmai" has gained wide recognition. Consolidated subsidiaries and associates encompass equity interests in Sudanese, Pakistani and Bosnian banks, brokerage, leasing, real estate, securitization, insurance and manufacturing companies. In 2006, DIB's stake in Tamweel fell below 20% and the bank contributed 10% in an entity set up jointly with Etisalat to acquire Pakistan's fixed line incumbent. DIB offers retail, private, corporate and investment banking products and services on a Shari'a compliant basis. Operations are segmented into financing activities (commanding 77% and 62% of assets and revenues, respectively) and investing activities. Spreads look very thin, probably as revenues are mostly booked as fee income. As such, cost to income ratio was the highest among our peer group.

Future prospects and growth drivers

DIB enjoys a first mover advantage in offering Islamic banking products in the UAE. However, as we see more banks venturing into this fast growing segment via establishing an Islamic window or a consolidated subsidiary, we believe DIB would face fierce competition in its own territories. DIB's asset market share (among the four "pure" domestic Islamic banks) declined from 65% in 2004 to 54% in 2006. Should we consider the Islamic operations of conventional banks, the picture would look more serious. A mitigate to this concern relies in the fact that most of DIB's foreign banking subsidiaries/affiliates are still at an early stage of development. In other words, they have not realized their full earnings potential yet.

Valuation and recommendation

Allowing for foreign ownership, DIB is the most actively traded bank in the UAE. The stock has dropped 52.7% over the past 12 months to under-perform the MSCI UAE index by 27.3%. Nonetheless, the past two weeks' price rally has inflated valuation multiples. The stock now trades at 18% and 11% premiums to the peer group's weighted average 2007e P/E and P/BV, respectively. We believe this slight premium is warranted given our expectations that DIB's earnings will outpace peer's average. With a 12 month expected total return of 6.8% (1.6% upside potential to current market price + 5.2% 2007e dividend yield), we initiate research coverage on DIB with a Hold recommendation. We need to be assured that DIB will safeguard its top rank.

Current Price	7.54
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Target Price	7.66
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Recommendation

Hold

Price Performance

Absolute	%
1 month	2.9%
3 months	-7.8%
6 months	-30.7%
12 months	-52.7%

Relative to MSCI – UAE	%
1 month	6.3%
3 months	0.1%
6 months	-13.9%
12 months	-27.3%

Stock data

Market cap (AEDbn)	22.6
Free float (%)	70.0

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Valuation Summary

DIB.DU	EPS (AED)	BVPS (AED)	DPS (AED)	P/E (x)	P/BV (x)	Div. Yield (%)
2006	0.52	3.15	0.35	14.37	2.39	4.6%
2007e	0.58	3.20	0.39	13.00	2.36	5.2%
2008e	0.68	3.43	0.45	11.04	2.20	6.0%
2009e	0.82	3.75	0.50	9.15	2.01	6.6%
2010e	1.01	4.21	0.55	7.49	1.79	7.3%

Source: DIB, Noor Capital

DIB - Key assumption For....	
...	...we are assuming
Balance sheet	• Lower than historical volume growth as the bank shifts profitability driver from volumes to margins. • Assets are projected to grow at a 2006-2012 CAGR of 22.2% versus 41.4% between 2003 and 2006. • Growth of Islamic financing and Murabahat is projected at a 2006-2012 CAGR of 14.2% versus 34.9% historically, thus bringing their share to total assets ratio down to 24% by 2012 from 36% in 2006. • Investments are projected to grow at a faster rate (27.7%) to represent 39% of 2012's total assets up from 30% in 2006. • Deposits are projected to grow at 16.5% CAGR between 2006 and 2012 versus an average annual growth of 33.9% between 2003 and 2006.
Asset quality	• Asset quality is expected to remain fairly stable between 2006 and 2012.
Income from Islamic financing & International Murabahat	• Income from Islamic financing and Murabahat is expected to grow at a 2006-2012 CAGR of 49.3% to represent 20% of 2012's revenues up from 6% in 2006.
Non-interest revenues	• While growing in absolute terms at a 2006-2012 CAGR of 17.7%, non-interest revenues are expected to lag income from Islamic financing and Murabahat thus dropping from 94% of 2006's revenues to 80% by 2012. The reason being the elimination of non-recurring income.
Cost	• Rising cost to income ratio (55% by 2012 versus 40% in 2006 and 63% in 2003) is merely a matter of cost rigidity (i.e. operating leverage) and slower-than-historical top-line growth pattern.
Net profit	• Projected to grow at a 2006-2012 CAGR of 14.7%, which will be equally reflected in EPS growth
Dividend policy	• Strong growth of RWA and an edgy tier one ratio do not justify raising dividend payout ratio. We model a gradual decline of payout from 62% in 2006 to 54% in 2012.

Source: Noor Capital

SWOT analysis - DIB

Strengths

- First and largest "pure" Islamic Bank in the UAE and the Middle East
- Widely recognized strong brand name "Al Islami"
- Large market capitalization and the most actively traded bank share
- Regional and sectoral diversification of investment portfolios
- Islamic banks are gaining market share from conventional ones
- Lead arranger of large Sukuk issues for prime customers

Weaknesses

- Thin spreads as revenues are mostly booked as fee income
- Highest cost to income ratio among peers

Opportunities

- Islamic banking continues to outpace conventional one
- DIB's foreign banking subsidiaries are still at an early stage of development and, hence, their earnings' potential is not fully realized
- Positioned to capitalize on the real-estate boom (via offering longer-term mortgages) thanks to its successful Sukuk's offering
- High credit rating secures raising funds at competitive pricing

Threats

- DIB is likely to face fierce competition in its own territories. DIB's asset market share (vis-à-vis the four "pure" local Islamic banks) declined from 65% in 2004 to 54% in 2006.

Summary Income Statement									
(AEDm, except per share values)	2004	2005	2006	2007	2008	2009	2010	2011	2012
Net interest margin	1.28 %	1.01 %	0.47 %	0.25 %	0.62 %	1.01 %	1.28 %	1.56 %	1.47 %
Average earning assets	20,268	25,847	34,133	45,251	56,896	70,903	86,967	103,825	121,858
Income from Islamic Financing	258	261	162	115	353	714	1,117	1,623	1,790
Fees & commissions	92	429	870	1,087	1,250	1,375	1,485	1,589	1,685
FX operations	21	16	37	76	87	105	126	139	152
Non-interest securities	340	501	1,144	1,402	1,627	2,287	2,843	3,416	4,148
Sale of associated companies	34	245	573	449	473	492	508	534	558
Other non-interest income	168	325	33	318	350	392	442	477	513
Non-interest income	655	1,517	2,657	3,332	3,786	4,652	5,405	6,156	7,056
Total income	913	1,778	2,819	3,447	4,139	5,365	6,522	7,779	8,846
Administrative & personnel	313	539	1,092	1,372	1,810	2,391	3,049	3,954	4,672
Remuneration & profit sharing	3	5	5	5	6	7	9	11	13
Depreciation	23	31	57	76	98	121	145	171	196
Other non-interest expense	28	12	10	10	10	10	10	10	10
Non-interest expense	366	586	1,164	1,464	1,924	2,529	3,213	4,145	4,891
Operating income	547	1,191	1,655	1,983	2,215	2,836	3,309	3,634	3,956
Loan loss and other provisions	89	130	76	239	160	358	283	319	354
Net profit before extraordinary	458	1,061	1,579	1,744	2,055	2,478	3,026	3,315	3,602
Noor extraordinary results	-	-	-	-	-	-	-	-	-
Net profit before tax	458	1,061	1,579	1,744	2,055	2,478	3,026	3,315	3,602
Income tax provision	-	3	6	7	8	10	12	13	14
Net profit before minority interest	458	1,058	1,573	1,738	2,047	2,468	3,014	3,302	3,588
Minority interest	-	-	-	-	-	-	-	-	-
Net profit before preferred dividends	458	1,058	1,573	1,738	2,047	2,468	3,014	3,302	3,588
Preferred dividends	-	-	-	-	-	-	-	-	-
Net profit to shareholders	458	1,058	1,573	1,738	2,047	2,468	3,014	3,302	3,588
Avg. shares outstanding (mn)	2,996	2,996	2,996	2,996	2,996	2,996	2,996	2,996	2,996
EPS	0.15	0.35	0.52	0.58	0.68	0.82	1.01	1.10	1.20

Profitability and Efficiency Ratios									
(AEDm)	2004	2005	2006	2007	2008	2009	2010	2011	2012
Net profit growth	n/a	130.9%	48.6%	10.5%	17.8%	20.6%	22.1%	9.6%	8.7%
Earnings per common share growth	n/a	130.9%	48.6%	10.5%	17.8%	20.6%	22.1%	9.6%	8.7%
Dividends per share outstanding	0.10	0.20	0.35	0.39	0.45	0.50	0.55	0.60	0.65
Cash dividend payout ratio (%)	65.4%	56.5%	66.7%	67.7%	66.4%	60.7%	54.7%	54.4%	54.3%
Return on average equity (ROAE)	19.5%	31.0%	24.8%	18.9%	20.6%	22.9%	25.3%	24.7%	24.0%
Return on average assets (ROAA)	1.72%	2.87%	2.93%	2.28%	2.03%	1.97%	2.01%	1.88%	1.78%
Non-interest expense/total income	40.1%	33.0%	41.3%	42.5%	46.5%	47.1%	49.3%	53.3%	55.3%
Administrative & personnel/total income	34.3%	30.3%	38.7%	39.8%	43.7%	44.6%	46.7%	50.8%	52.8%
Non-interest expense/average assets	1.37%	1.59%	2.17%	1.92%	1.91%	2.02%	2.14%	2.37%	2.43%
Non-interest income/total income	71.7%	85.3%	94.3%	96.7%	91.5%	86.7%	82.9%	79.1%	79.8%
Non-interest income/non-interest expense	178.7%	258.6%	228.3%	227.7%	196.8%	183.9%	168.2%	148.5%	144.3%
Fees & commissions/total income	10.1%	24.1%	30.9%	31.5%	30.2%	25.6%	22.8%	20.4%	19.0%
Non-interest income/average assets	2.45%	4.12%	4.95%	4.36%	3.76%	3.71%	3.60%	3.51%	3.51%
Number of branches	22	26	37	41	45	49	53	57	61
Number of employees (000's)	1,331	1,451	1,593	1,727	1,884	2,055	2,237	2,439	2,658
Employees per branch	61	56	43	42	42	42	42	43	44
Assets per employee (000's)	23,000	29,633	40,448	51,111	59,981	67,079	72,711	77,042	80,586
Net profit per employee (000's)	344	729	987	1,006	1,087	1,201	1,347	1,354	1,350

Summary Balance Sheet Data (AEDm)	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total loans	14,890	20,975	24,328	27,734	31,062	36,653	42,151	48,137	54,635
Net loans	14,228	20,228	23,498	26,596	29,773	35,016	40,241	45,917	52,071
Total interest earning assets	23,209	28,486	39,781	50,721	63,071	78,734	95,199	112,451	131,264
Total assets	30,613	42,998	64,434	88,274	112,991	137,849	162,662	187,875	214,178
Total customer deposits	24,941	33,392	47,732	56,324	64,210	77,052	90,150	104,124	119,222
Total interest bearing liabilities	21,549	30,225	42,918	52,076	61,671	76,063	91,585	108,729	128,245
Total liabilities	27,627	39,159	55,610	78,694	102,722	126,610	150,057	173,765	198,427
Total equity	2,987	3,839	8,824	9,581	10,269	11,239	12,605	14,110	15,750
Loan growth	n/a	40.9%	16.0%	14.0%	12.0%	18.0%	15.0%	14.2%	13.5%
Net loan growth	n/a	42.2%	16.2%	13.2%	11.9%	17.6%	14.9%	14.1%	13.4%
Interest earning asset growth	n/a	22.7%	39.7%	27.5%	24.3%	24.8%	20.9%	18.1%	16.7%
Asset growth	n/a	40.5%	49.9%	37.0%	28.0%	22.0%	18.0%	15.5%	14.0%
Customer deposits growth	n/a	33.9%	42.9%	18.0%	14.0%	20.0%	17.0%	15.5%	14.5%
Interest bearing liabilities growth	n/a	40.3%	42.0%	21.3%	18.4%	23.3%	20.4%	18.7%	17.9%
Liabilities growth	n/a	41.7%	42.0%	41.5%	30.5%	23.3%	18.5%	15.8%	14.2%
Equity growth	n/a	28.5%	129.9%	8.6%	7.2%	9.4%	12.2%	11.9%	11.6%
Average interest earning assets	20,268	25,847	34,133	45,251	56,896	70,903	86,967	103,825	121,858
Average assets	26,696	36,806	53,716	76,354	100,633	125,420	150,256	175,269	201,026
Average equity	2,345	3,413	6,332	9,203	9,925	10,754	11,922	13,358	14,930
Average interest earning asset growth	n/a	27.5%	32.1%	32.6%	25.7%	24.6%	22.7%	19.4%	17.4%
Average asset growth	n/a	37.9%	45.9%	42.1%	31.8%	24.6%	19.8%	16.6%	14.7%
Average equity growth	n/a	45.6%	85.5%	45.3%	7.9%	8.4%	10.9%	12.0%	11.8%

Balance Sheet Ratios	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total interest earning assets/total assets	75.8%	66.2%	61.7%	57.5%	55.8%	57.1%	58.5%	59.9%	61.3%
Total loans/total assets	48.6%	48.8%	37.8%	31.4%	27.5%	26.6%	25.9%	25.6%	25.5%
Net loans/total assets	46.5%	47.0%	36.5%	30.1%	26.3%	25.4%	24.7%	24.4%	24.3%
Total loans/customer deposits	59.7%	62.8%	51.0%	49.2%	48.4%	47.6%	46.8%	46.2%	45.8%
Net loans/customer deposits	57.0%	60.6%	49.2%	47.2%	46.4%	45.4%	44.6%	44.1%	43.7%
Total int. bearing liabilities/total liabilities	78.0%	77.2%	77.2%	66.2%	60.0%	60.1%	61.0%	62.6%	64.6%
Total equity/total assets	9.8%	8.9%	13.7%	10.9%	9.1%	8.2%	7.7%	7.5%	7.4%
Total equity/total loans	20.1%	18.3%	36.3%	34.5%	33.1%	30.7%	29.9%	29.3%	28.8%
Capital adequacy ratio, calculated	15.1%	12.5%	19.8%	16.2%	14.0%	13.1%	12.9%	12.8%	12.9%

Asset Quality Data (AEDm)	2004	2005	2006	2007	2008	2009	2010	2011	2012
Non-performing loans	410	476	1,472	1,525	1,553	1,741	1,897	2,046	2,185
Loan loss reserves	662	746	830	1,138	1,289	1,638	1,911	2,220	2,565
Loan loss provisions	662	746	830	1,138	1,289	1,638	1,911	2,220	2,565
Additions (charged to P&L)	63	117	67	229	151	349	273	310	344
Recoveries, reserve movement, and other	-	(2)	(4)	7	9	13	19	26	33
Deductions	-	-	-	-	-	-	-	-	-
Unearned interest	-	-	-	-	-	-	-	-	-
NPL growth	n/a	16.1%	209.3%	3.6%	1.8%	12.1%	8.9%	7.9%	6.8%
NPLs/ total assets	1.3%	1.1%	2.3%	1.7%	1.4%	1.3%	1.2%	1.1%	1.0%
NPLs/total loans (excl. unearned interest)	2.8%	2.3%	6.0%	5.5%	5.0%	4.8%	4.5%	4.3%	4.0%
Loan loss provisions/NPLs	161.5%	156.8%	56.4%	74.6%	83.0%	94.1%	100.7%	108.5%	117.4%
Loan loss provisions/total loans	4.4%	3.6%	3.4%	4.1%	4.2%	4.5%	4.5%	4.6%	4.7%
Loan loss reserves/NPLs	161.5%	156.8%	56.4%	74.6%	83.0%	94.1%	100.7%	108.5%	117.4%
Loan loss reserves/total loans	4.4%	3.6%	3.4%	4.1%	4.2%	4.5%	4.5%	4.6%	4.7%

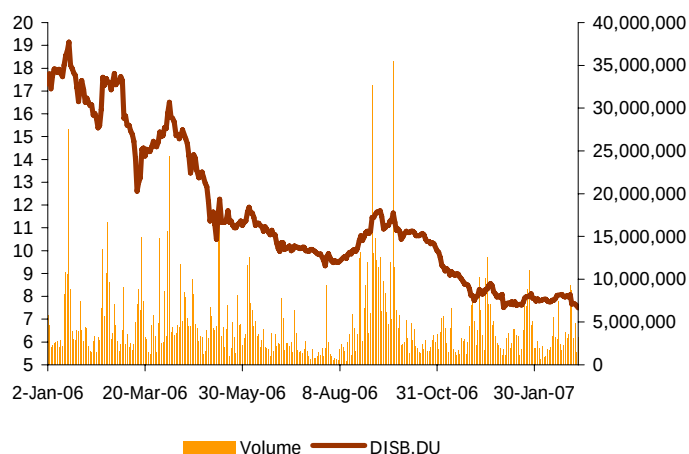
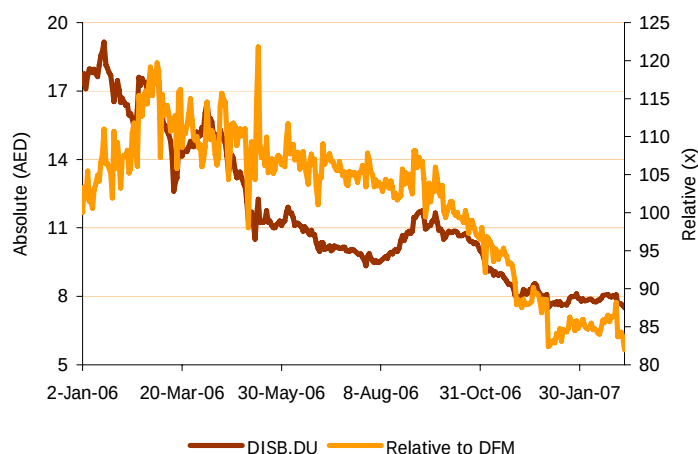


Dubai Islamic Bank – DISB.DU

Bank	Year	EPS	DPS	P/E	EVA	P/BV	CoE	RoAE/CoE	Div. Yield	Cost/Income
ADCB.AD	2006a	0.53	0.30	11.3	1.07	2.2	10.5%	2.1	5.0%	25.0%
	2007e	0.54	0.35	11.0	1.11	2.1	10.5%	1.9	5.8%	27.6%
	2008e	0.62	0.44	9.6	0.98	2.0	10.5%	2.0	7.4%	29.4%
	2009e	0.74	0.50	8.1	0.82	1.8	10.5%	2.2	8.4%	30.2%
DISB.DU	2006a	0.52	0.35	14.4	1.01	2.4	10.4%	2.4	4.6%	40.0%
	2007e	0.58	0.39	13.0	1.30	2.4	10.4%	1.8	5.2%	42.7%
	2008e	0.68	0.45	11.0	1.11	2.2	10.4%	2.0	6.0%	46.7%
	2009e	0.82	0.50	9.2	0.91	2.0	10.4%	2.2	6.6%	47.4%
EBIL.DU	2006a	0.65	0.30	14.0	1.05	2.4	10.0%	2.3	3.3%	36.2%
	2007e	0.69	0.35	13.0	1.20	2.5	10.0%	2.1	3.9%	38.8%
	2008e	0.83	0.40	10.8	1.03	2.2	10.0%	2.2	4.4%	38.8%
	2009e	1.01	0.45	8.9	0.84	2.0	10.0%	2.3	5.0%	38.8%
FGB.AD	2006a	1.20	0.70	9.8	1.17	1.6	12.8%	1.4	6.0%	22.8%
	2007e	1.42	1.00	8.3	1.03	1.5	12.8%	1.5	8.5%	24.7%
	2008e	1.65	1.43	7.1	0.88	1.5	12.8%	1.6	12.2%	26.8%
	2009e	1.88	1.43	6.3	0.77	1.3	12.8%	1.7	12.2%	27.2%
NBAD.AD	2006a	1.32	0.40	14.3	0.76	2.6	7.6%	3.4	2.1%	23.9%
	2007e	1.43	0.75	13.2	0.94	2.9	7.6%	3.1	4.0%	24.6%
	2008e	1.63	1.00	11.6	0.85	2.6	7.6%	3.1	5.3%	25.6%
	2009e	1.75	1.25	10.8	0.80	2.4	7.6%	3.1	6.6%	28.0%
NBDD.DU	2006a	0.71	0.40	12.3	1.09	1.9	11.1%	1.7	4.6%	38.5%
	2007e	0.75	0.40	11.6	1.22	2.0	11.1%	1.6	4.6%	37.4%
	2008e	0.84	0.45	10.4	1.11	1.8	11.1%	1.6	5.2%	39.8%
	2009e	0.98	0.50	8.9	0.94	1.7	11.1%	1.8	5.7%	40.0%

Absolute and relative performance - DISB.DU

Price and volume - DISB.DU



Market data - DISB.DU

Market capitalization (AEDm)	22,590
Average daily traded volume (000's shares) - 2006	4,655
Average daily traded value (AED' 000) - 2006	65,634
Average daily number of transactions - 2006	471

Summary of Valuation Methods	
DDM	10.77
Bond price	5.78
Rel pricing P/E	6.91
Rel Pricing P/BV	7.18
Target price	7.66
Current Price	7.54
Upside / Downside	1.6%
Recommendation	Hold

DDM	2007	2008	2009	2010	2011	2012
DPS	0.39	0.45	0.50	0.55	0.60	0.65
Factor	1.10	1.22	1.35	1.49	1.64	1.81
PV DPS	0.36	0.37	0.37	0.37	0.37	0.36
ROE						24.03
COE						10.44
g						3.5
ROE-g/COE-g						2.96
BVPS	3.20	3.43	3.75	4.21	4.71	5.26
Implied Price						15.56
PV implied Price	8.57					
NPV DPS	2.19					
"Fair Value"	10.77					

Bond pricing	2007	2008	2009	2010	2011	2012
ROE	18.88%	20.63%	22.95%	25.28%	24.72%	24.03%
COE	10.44%	10.44%	10.44%	10.44%	10.44%	10.44%
Implied P/BV	1.81	1.98	2.20	2.42	2.37	2.30
P/BV	2.36	2.20	2.01	1.79	1.60	1.43
Upside/Downside	-23%	-10%	9%	35%	48%	61%
Minimum	-23%					
EVA	1.30	1.11	0.91	0.74	0.68	0.62

Relative valuation	2007	2008	2009	2010	2011	2012
UAE Peer Average P/E	11.40	9.61	8.39	7.31	6.45	5.76
UAE Peer Average P/BV	2.22	2.05	1.87	1.70	1.55	1.42
DIB P/E	13.00	11.04	9.15	7.49	6.84	6.30
Price						
At average P/E	6.61	6.57	6.91	7.35	7.11	6.89
At Average P/BV	7.11	7.02	7.03	7.17	7.31	7.47
Average Price						
At average P/E	6.91					
At Average P/BV	7.18					

PEG Ratios	2007	2008	2009	2010	2011	2012
EPS growth	0.11	0.18	0.21	0.22	0.10	0.09
P/E	13.00	11.04	9.15	7.49	6.84	6.30
PEG	123.81	61.97	44.50	33.88	71.63	72.66

Background and positioning

Incorporated in 1977, EBI Group is ranked second nationally, in terms of total assets and market capitalization. It operates through a network of 34 branches "meBank" (of which 21 have dedicated premier customer/priority banking facilities "Al-Shaheen Club"), 15 Islamic banking units (belonging to its consolidated subsidiary; Emirates Islamic Bank), 108 ATMs, 2 branches in the UK and KSA, 3 representative offices in Mumbai, Tehran and Singapore in addition to other subsidiaries and affiliates undertaking asset management, brokerage, trade finance and real estate (48.9% stake in Union Properties). EBI has a very strong brand. The government of Dubai owns 70% of EBI and foreign ownership is not allowed. While "sovereign" loans represented 25% of 2006's loan portfolio, government and public sector contributed 15% of deposits. EBI's business is segmented into corporate banking (56.5% of 2006's assets), retail (11.4%), investment banking (21.3%), Islamic banking & other activities (10.8%).

Future prospects and growth drivers

In early March, EBI announced the commencement of a merger exercise with NBD. The combined asset base of the new entity will exceed that of NBD and will position it among the largest banks in the Middle East. We believe that the synergies would range from complementing revenue streams (While EBI is powerful in retail, Islamic banking and government-related business, NBD is active in commercial banking), cutting cost overlap, enhancing equity base/lending capacity, reducing funding cost and setting up a solid platform for regional/global expansion that safeguards the bank's domestic positioning from foreign invaders. Both banks have agreed to appoint Goldman Sachs as the lead financial advisor. Extensive due diligence and regulatory approvals are required before executing the full merger.

Valuation and recommendation

EBI has the second largest market capitalization among banks with a ban on foreign ownership and 23% free float. Despite dropping by 35.3% over the last 12 months, it has matched the MSCI UAE index. EBI currently trades at premium to our peer group's 2007e weighted average P/BV and P/E. We tend to ascribe this to two factors: (1) foreign ownership ban deprives the stock from a chance to converge toward sector multiples and (2) excitement regarding the merger story. With a 12 month expected pre-deal total return of 12.3% (8.4% upside potential + 3.9% 2007e dividend yield), we initiate research coverage on EBI with an Add rating. We will revisit our expectations, as more merger-related information becomes available.

Current Price	9.00
----------------------	-------------

Target Price	9.76
---------------------	-------------

Recommendation
Add

Price Performance

Absolute	%
1 month	-11.1%
3 months	-15.4%
6 months	-34.1%
12 months	-35.3%

Relative to MSCI – UAE	%
1 month	-8.1%
3 months	-8.2%
6 months	-18.1%
12 months	-0.4%

Stock data

Market cap (AEDbn)	26.2
Free float (%)	23.0

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Valuation Summary

EBIL.DU	EPS (AED)	BVPS (AED)	DPS (AED)	P/E (x)	P/BV (x)	Div. Yield (%)
2006	0.65	3.81	0.30	13.95	2.36	3.3%
2007e	0.69	3.59	0.35	12.95	2.51	3.9%
2008e	0.83	4.02	0.40	10.82	2.24	4.4%
2009e	1.01	4.59	0.45	8.88	1.96	5.0%
2010e	1.16	5.25	0.50	7.74	1.71	5.6%

Source: EBI, Noor Capital

EBI - Key assumption	
For....	...we are assuming
Balance sheet	• Lower than historical volume growth as the bank shifts profitability driver from volumes to margins. • Assets are projected to grow at a 2006-2012 CAGR of 15.8% versus 43.8% between 2003 and 2006. • Net loan CAGR of 18% between 2006 and 2012 vis-à-vis 41.3% historically, thus bringing net loans/total assets ratio up to 78% by 2012 from 69% in 2006. • Interest earning assets are projected to grow at a faster rate (18.9% CAGR) to represent 98% of 2012's total assets up from 84% in 2006. • With a high loan to deposit ratio of 132% in 2006, the bank will have to grow its deposit base. Loan to deposit ratio is expected to reach 121% by 2012, translating to a 19.7% 2006-12 deposit CAGR.
Asset quality	• NPLs are expected to remain fairly stable at 0.7-1% of total loans. Coverage will also remain stable at 2006's level of 183%, unless management decided to write back those provisions to the P&L.
Net interest income	• Expected strong growth of AIEAs between 2006 and 2012, mitigating the gradual margin dilution, will derive the 21.8% net-interest income CAGR over our forecast horizon.
Non-interest revenues	• While growing in absolute terms at a 2006-2012 CAGR of 13.6%, non-interest revenues are expected to lag net interest income thus dropping from 53.1% of 2006's revenues to the more long-term sustainable level of 42.7% by 2012, which corresponds to core revenue generating ability.
Cost	• Rising cost to income ratio (42% by 2012 versus 36% in 2006) is merely a matter of cost rigidity and slower-than-historical top-line growth pattern. Cost to income ratio was 47.4% in 2003.
Provisions	• Given an excessive coverage and a fairly stable NPL ratio, annual provisioning charge is expected to decline from 0.27% of 2006's loans to 0.08% by 2012. Loan loss provisions to operating income would also drop from 8.2% in 2006 to 2.7% in 2012.
Net profit	• Projected to grow at a 2006-2012 CAGR of 15.7%, which will be equally reflected in EPS growth
Dividend policy	• Dividend payout is projected in light of RWAs growth and capital adequacy. Strong growth of RWA and an edgy tier 1 ratio necessitate cutting payout and vice versa. Our projected average payout ratio is 38%.

Source: Noor Capital

SWOT analysis - EBI

Strengths

- Well developed retail franchise, with a strong brand name "me"
- Fast-growing Islamic banking business (Emirates Islamic Bank) complements traditional activities.
- Wide product offering (commercial banking, insurance, brokerage, fund management and real-estate) brings a diversified revenue base
- Largest market capitalization among UAE banks

Weaknesses

- Excessively overstretched loan/deposit ratio (over 132% ex-MTNs in 2006 and 106% including MTNs) exposes EBI to high interest rate volatilities, as the bank is a net borrower from the inter-bank market.
- Significant government lending (25% of the 2006's loan book).
- EBI stock trades at a significant premium to peer group's multiples.
- Foreign ownership ban either inflates or depresses spot multiples.

Opportunities

- Portion of the excess NPL coverage could be considered as reserve
- Materialization of merger synergies with NBD. These could range from cutting overlap in expenses, complementing revenue streams, enhancing equity base/lending capacity and reducing cost of funds.
- Merger could set a platform for regional and global expansion

Threats

- Merger with NBD does not produce the hoped for synergies
- Rising rivalry from foreigners. Yet, post merger, EBI could compete in areas where foreigners are omnipresent (investment banking)
- Inability to attentively cater for specific customer's needs following the merger and losing the strong brand equity.

Summary Income Statement									
(AEDm, except per share values)	2004	2005	2006	2007	2008	2009	2010	2011	2012
Net interest margin	2.73%	2.83%	2.31%	2.08%	2.14%	2.10%	2.12%	2.15%	2.33%
Average interest earning assets	29,877	41,368	64,904	91,229	112,911	136,158	164,241	187,242	210,269
Net interest income	817	1,172	1,500	1,894	2,420	2,857	3,484	4,032	4,892
Fees & commissions	257	711	682	655	687	742	787	865	935
FX operations	87	123	165	255	290	337	384	430	474
Non-interest securities	40	323	300	310	473	731	961	1,076	1,159
Sale of associated companies	190	-	-	20	23	27	32	35	39
Other non-interest income	249	234	549	554	632	733	835	935	1,032
Non-interest income	822	1,391	1,697	1,793	2,105	2,570	2,998	3,342	3,639
Total income	1,640	2,563	3,197	3,687	4,525	5,427	6,483	7,373	8,531
Administrative & personnel	556	711	1,063	1,315	1,619	1,945	2,418	2,908	3,411
Remuneration & profit sharing	2	5	8	9	10	11	13	15	18
Depreciation	44	55	71	90	110	131	153	176	198
Other non-interest expense	6	8	8	8	8	8	8	8	8
Non-interest expense	608	780	1,150	1,421	1,747	2,095	2,592	3,107	3,635
Operating income	1,031	1,784	2,047	2,266	2,778	3,332	3,890	4,267	4,896
Loan loss and other provisions	0	61	167	240	354	376	500	465	384
Net profit before extraordinary	1,031	1,723	1,880	2,026	2,424	2,956	3,390	3,802	4,512
Noor extraordinary results	(62)	(4)	0	-	-	-	-	-	-
Net profit before tax	970	1,720	1,880	2,026	2,424	2,956	3,390	3,802	4,512
Income tax provision	-	-	-	-	-	-	-	-	-
Net profit before minority interest	970	1,720	1,880	2,026	2,424	2,956	3,390	3,802	4,512
Minority interest	-	-	-	-	-	-	-	-	-
Net profit before preferred dividends	970	1,720	1,880	2,026	2,424	2,956	3,390	3,802	4,512
Preferred dividends	-	-	-	-	-	-	-	-	-
Net profit to shareholders	970	1,720	1,880	2,026	2,424	2,956	3,390	3,802	4,512
Avg. shares outstanding (mn)	2,915	2,915	2,915	2,915	2,915	2,915	2,915	2,915	2,915
EPS	0.33	0.59	0.65	0.69	0.83	1.01	1.16	1.30	1.55

Profitability and Efficiency Ratios									
(AEDm)	2004	2005	2006	2007	2008	2009	2010	2011	2012
Net profit growth	n/a	77.3%	9.3%	7.7%	19.7%	21.9%	14.7%	12.1%	18.7%
Earnings per common share growth	n/a	77.3%	9.3%	7.7%	19.7%	21.9%	14.7%	12.1%	18.7%
Dividends per share outstanding	0.20	0.25	0.30	0.35	0.40	0.45	0.50	0.55	0.60
Cash dividend payout ratio (%)	60.1%	42.4%	46.5%	50.1%	48.1%	44.4%	43.0%	42.2%	38.8%
Return on average equity (ROAE)	18.2%	25.4%	22.6%	20.9%	21.8%	23.5%	23.6%	23.2%	23.9%
Return on average assets (ROAA)	2.95%	3.57%	2.45%	1.90%	1.86%	1.91%	1.88%	1.88%	2.04%
Non-interest expense/total income	37.1%	30.4%	36.0%	38.6%	38.6%	38.6%	40.0%	42.1%	42.6%
Administrative & personnel/total income	33.9%	27.8%	33.2%	35.7%	35.8%	35.8%	37.3%	39.4%	40.0%
Non-interest expense/average assets	1.74%	1.61%	1.50%	1.33%	1.34%	1.35%	1.44%	1.53%	1.65%
Non-interest income/total income	50.2%	54.3%	53.1%	48.6%	46.5%	47.4%	46.3%	45.3%	42.7%
Non-interest income/non-interest expense	135.2%	178.5%	147.5%	126.1%	120.5%	122.7%	115.7%	107.6%	100.1%
Fees & commissions/total income	15.6%	27.8%	21.3%	17.8%	15.2%	13.7%	12.1%	11.7%	11.0%
Non-interest income/average assets	2.35%	2.88%	2.21%	1.68%	1.61%	1.66%	1.66%	1.65%	1.65%
Number of branches	32	36	49	51	54	57	60	63	66
Number of employees (000's)	2,172	3,007	4,720	5,192	5,711	6,282	6,911	7,602	8,362
Employees per branch	68	84	96	101	106	111	116	122	127
Assets per employee (000's)	17,523	19,473	20,097	22,837	24,914	26,725	27,940	27,940	27,432
Net profit per employee (000's)	446	572	398	390	424	470	491	500	540

Summary Balance Sheet Data (AEDm)	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total loans	28,149	41,463	66,738	85,197	107,413	128,567	149,458	166,315	181,380
Net loans	27,458	40,739	65,837	84,056	105,919	126,696	147,087	163,479	178,159
Total interest earning assets	32,723	50,014	79,793	102,665	123,156	149,160	179,323	195,161	225,376
Total assets	38,061	58,556	94,857	118,572	142,286	167,898	193,082	212,390	229,382
Total customer deposits	20,372	33,058	49,932	64,912	82,438	99,751	117,706	133,007	146,840
Total interest bearing liabilities	24,277	35,149	69,816	83,152	88,698	110,197	128,736	140,914	148,290
Total liabilities	32,241	50,806	85,979	108,100	130,557	154,524	177,777	194,886	209,114
Total equity	5,820	7,750	8,878	10,471	11,729	13,373	15,306	17,504	20,267
Loan growth	n/a	47.3%	61.0%	27.7%	26.1%	19.7%	16.2%	11.3%	9.1%
Net loan growth	n/a	48.4%	61.6%	27.7%	26.0%	19.6%	16.1%	11.1%	9.0%
Interest earning asset growth	n/a	52.8%	59.5%	28.7%	20.0%	21.1%	20.2%	8.8%	15.5%
Asset growth	n/a	53.9%	62.0%	25.0%	20.0%	18.0%	15.0%	10.0%	8.0%
Customer deposits growth	n/a	62.3%	51.0%	30.0%	27.0%	21.0%	18.0%	13.0%	10.4%
Interest bearing liabilities growth	n/a	44.8%	98.6%	19.1%	6.7%	24.2%	16.8%	9.5%	5.2%
Liabilities growth	n/a	57.6%	69.2%	25.7%	20.8%	18.4%	15.0%	9.6%	7.3%
Equity growth	n/a	33.2%	14.6%	17.9%	12.0%	14.0%	14.5%	14.4%	15.8%
Average interest earning assets	29,877	41,368	64,904	91,229	112,911	136,158	164,241	187,242	210,269
Average assets	34,983	48,309	76,707	106,715	130,429	155,092	180,490	202,736	220,886
Average equity	5,667	6,785	8,314	9,675	11,100	12,551	14,339	16,405	18,886
Average interest earning asset growth	n/a	38.5%	56.9%	40.6%	23.8%	20.6%	20.6%	14.0%	12.3%
Average asset growth	n/a	38.1%	58.8%	39.1%	22.2%	18.9%	16.4%	12.3%	9.0%
Average equity growth	n/a	19.7%	22.5%	16.4%	14.7%	13.1%	14.2%	14.4%	15.1%

Balance Sheet Ratios	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total interest earning assets/total assets	86.0%	85.4%	84.1%	86.6%	86.6%	88.8%	92.9%	91.9%	98.3%
Total loans/total assets	74.0%	70.8%	70.4%	71.9%	75.5%	76.6%	77.4%	78.3%	79.1%
Net loans/total assets	72.1%	69.6%	69.4%	70.9%	74.4%	75.5%	76.2%	77.0%	77.7%
Total loans/customer deposits	138.2%	125.4%	133.7%	131.2%	130.3%	128.9%	127.0%	125.0%	123.5%
Net loans/customer deposits	134.8%	123.2%	131.9%	129.5%	128.5%	127.0%	125.0%	122.9%	121.3%
Total int. bearing liabilities/total liabilities	75.3%	69.2%	81.2%	76.9%	67.9%	71.3%	72.4%	72.3%	70.9%
Total equity/total assets	15.3%	13.2%	9.4%	8.8%	8.2%	8.0%	7.9%	8.2%	8.8%
Total equity/total loans	20.7%	18.7%	13.3%	12.3%	10.9%	10.4%	10.2%	10.5%	11.2%
Capital adequacy ratio, calculated	18.9%	16.6%	11.9%	11.3%	10.2%	10.0%	10.3%	10.5%	12.0%

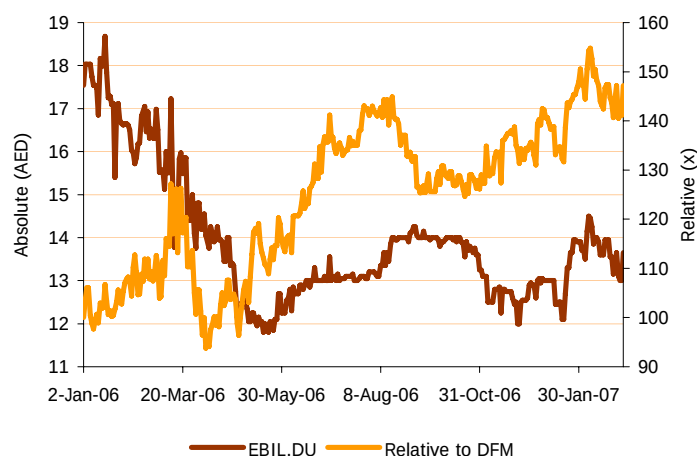
Asset Quality Data (AEDm)	2004	2005	2006	2007	2008	2009	2010	2011	2012
Non-performing loans	572	575	492	641	850	1,131	1,449	1,684	1,752
Loan loss reserves	691	724	901	1,141	1,495	1,871	2,371	2,836	3,220
Loan loss provisions	691	724	901	1,141	1,495	1,871	2,371	2,836	3,220
Additions (charged to P&L)	0	61	167	162	230	189	230	116	(18)
Recoveries, reserve movement, and other	(78)	(39)	(57)	78	124	187	270	349	402
Deductions	-	-	-	-	-	-	-	-	-
Unearned interest	-	-	-	-	-	-	-	-	-
NPL growth	n/a	0.5%	-14.4%	30.3%	32.7%	32.9%	28.2%	16.3%	4.0%
NPLs/ total assets	1.5%	1.0%	0.5%	0.5%	0.6%	0.7%	0.8%	0.8%	0.8%
NPLs/total loans (excl. unearned interest)	2.0%	1.4%	0.7%	0.8%	0.8%	0.9%	1.0%	1.0%	1.0%
Loan loss provisions/NPLs	120.8%	125.9%	183.2%	178.0%	175.7%	165.5%	163.7%	168.4%	183.8%
Loan loss provisions/total loans	2.5%	1.7%	1.4%	1.3%	1.4%	1.5%	1.6%	1.7%	1.8%
Loan loss reserves/NPLs	120.8%	125.9%	183.2%	178.0%	175.7%	165.5%	163.7%	168.4%	183.8%
Loan loss reserves/total loans	2.5%	1.7%	1.4%	1.3%	1.4%	1.5%	1.6%	1.7%	1.8%



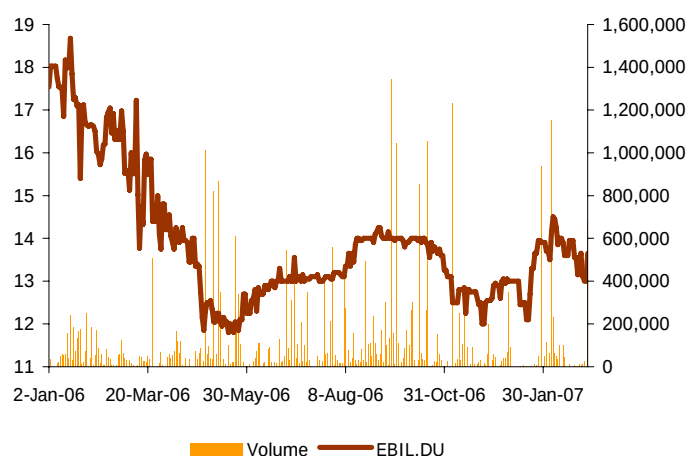
Emirates Bank International – EBIL.DU

Bank	Year	EPS	DPS	P/E	EVA	P/BV	CoE	RoAE/CoE	Div. Yield	Cost/Income
ADCB.AD	2006a	0.53	0.30	11.3	1.07	2.2	10.5%	2.1	5.0%	25.0%
	2007e	0.54	0.35	11.0	1.11	2.1	10.5%	1.9	5.8%	27.6%
	2008e	0.62	0.44	9.6	0.98	2.0	10.5%	2.0	7.4%	29.4%
	2009e	0.74	0.50	8.1	0.82	1.8	10.5%	2.2	8.4%	30.2%
DISB.DU	2006a	0.52	0.35	14.4	1.01	2.4	10.4%	2.4	4.6%	40.0%
	2007e	0.58	0.39	13.0	1.30	2.4	10.4%	1.8	5.2%	42.7%
	2008e	0.68	0.45	11.0	1.11	2.2	10.4%	2.0	6.0%	46.7%
	2009e	0.82	0.50	9.2	0.91	2.0	10.4%	2.2	6.6%	47.4%
EBIL.DU	2006a	0.65	0.30	14.0	1.05	2.4	10.0%	2.3	3.3%	36.2%
	2007e	0.69	0.35	13.0	1.20	2.5	10.0%	2.1	3.9%	38.8%
	2008e	0.83	0.40	10.8	1.03	2.2	10.0%	2.2	4.4%	38.8%
	2009e	1.01	0.45	8.9	0.84	2.0	10.0%	2.3	5.0%	38.8%
FGB.AD	2006a	1.20	0.70	9.8	1.17	1.6	12.8%	1.4	6.0%	22.8%
	2007e	1.42	1.00	8.3	1.03	1.5	12.8%	1.5	8.5%	24.7%
	2008e	1.65	1.43	7.1	0.88	1.5	12.8%	1.6	12.2%	26.8%
	2009e	1.88	1.43	6.3	0.77	1.3	12.8%	1.7	12.2%	27.2%
NBAD.AD	2006a	1.32	0.40	14.3	0.76	2.6	7.6%	3.4	2.1%	23.9%
	2007e	1.43	0.75	13.2	0.94	2.9	7.6%	3.1	4.0%	24.6%
	2008e	1.63	1.00	11.6	0.85	2.6	7.6%	3.1	5.3%	25.6%
	2009e	1.75	1.25	10.8	0.80	2.4	7.6%	3.1	6.6%	28.0%
NBDD.DU	2006a	0.71	0.40	12.3	1.09	1.9	11.1%	1.7	4.6%	38.5%
	2007e	0.75	0.40	11.6	1.22	2.0	11.1%	1.6	4.6%	37.4%
	2008e	0.84	0.45	10.4	1.11	1.8	11.1%	1.6	5.2%	39.8%
	2009e	0.98	0.50	8.9	0.94	1.7	11.1%	1.8	5.7%	40.0%

Absolute and relative performance - EBIL.DU



Price and volume - EBIL.DU



Market data - EBIL.DU

Market capitalization (AEDm)	26,234
Average daily traded volume (000's shares) - 2006	95
Average daily traded value (AED' 000) - 2006	1,733
Average daily number of transactions - 2006	5

Summary of Valuation Methods	
DDM	14.26
Bond price	7.50
Rel pricing P/E	8.39
Rel Pricing P/BV	8.88
Target price	9.76
Current Price	9.00
Upside / Downside	8.4%
Recommendation	Add

DDM	2007	2008	2009	2010	2011	2012
DPS	0.35	0.40	0.45	0.50	0.55	0.60
Factor	1.10	1.21	1.33	1.47	1.61	1.77
PV DPS	0.32	0.33	0.34	0.34	0.34	0.34
ROE						23.89
COE						10.02
g						3.5
ROE-g/COE-g						3.13
BVPS	3.59	4.02	4.59	5.25	6.01	6.95
Implied Price						21.73
PV implied Price	12.25					
NPV DPS	2.01					
"Fair Value"	14.26					

Bond pricing	2007	2008	2009	2010	2011	2012
ROE	20.94%	21.84%	23.55%	23.64%	23.17%	23.89%
COE	10.02%	10.02%	10.02%	10.02%	10.02%	10.02%
Implied P/BV	2.09	2.18	2.35	2.36	2.31	2.38
P/BV	2.51	2.24	1.96	1.71	1.50	1.29
Upside/Downside	-17%	-3%	20%	38%	54%	84%
Minimum	-17%					
EVA	1.20	1.03	0.84	0.73	0.65	0.54

Relative valuation	2007	2008	2009	2010	2011	2012
UAE Peer Average P/E	11.37	9.61	8.43	7.25	6.42	5.85
UAE Peer Average P/BV	2.19	2.03	1.88	1.72	1.58	1.46
EBI P/E	12.95	10.82	8.88	7.74	6.90	5.81
Price						
At average P/E	7.90	8.00	8.55	8.43	8.38	9.06
At Average P/BV	7.86	8.19	8.62	9.03	9.46	10.15
Average Price						
At average P/E	8.39					
At Average P/BV	8.88					

PEG Ratios	2007	2008	2009	2010	2011	2012
EPS growth	0.08	0.20	0.22	0.15	0.12	0.19
P/E	12.95	10.82	8.88	7.74	6.90	5.81
PEG	167.43	54.98	40.51	52.66	56.82	31.10

Background and positioning

Established in 1979 as an ordinary small-sized bank, FGB is ranked now third among Abu-Dhabi banks and seventh among UAE banks in terms of total assets. Backed by prominent major shareholders (Abu Dhabi ruling family), the ex-Citibank management team, which took office in 1999, succeeded in delivering phenomenal results. FGB, while eyeing asset quality, is now reckoned to be the fastest growing, most efficient and profitable bank among peers. FGB's 2005 AED 1 billion rights issue was 1.54x oversubscribed despite being offered at 10x par value. This offering not only sat a platform for future growth in RWAs but signaled shareholders' vote of confidence in management strategy. FGB currently operates via 15 branches in the UAE and a rep office in Singapore. It is mostly powerful in corporate banking and treasury (76% of 2006 income) with recent "intelligent" strides in Islamic banking and retail finance. FGB enjoys "A" rating by Fitch Ratings.

Future prospects and growth drivers

Management is working on several interesting projects aiming to create sustainable long-term value to shareholders. These include: (1) mandating a global investment bank to identify promising non-GCC acquisition targets in order to limit FGB's exposure to a single growth driver; namely oil price, (2) using the consent to manage the Private Housing Loan Scheme of the Abu Dhabi government to instantly acquire a retail customer base while avoiding the required capex and simultaneously cross sell FGB's other products to locked-in customers at lucrative rates to mitigate previously-committed thin spreads on non-funded mortgages, (3) establishing and empowering subsidiaries capable of addressing rising opportunities, particularly property management, real estate brokerage, merchant and Islamic banking.

Valuation and recommendation

FGB has the smallest market capitalization among our Abu-Dhabi based peer banks. Despite dropping by 27.6% over the last 12 months, it has managed to outperform the MSCI UAE index by 11.5%. FGB currently trades at a staggering 28% discount to our peer group's 2007e weighted average P/BV despite delivering superior performance. We believe this is due to a wide skepticism among investors regarding the sustainability of FGB's non-interest revenue streams. With a 12 month expected total return of 49% (40.5% upside potential on current market price + 8.5% 2007e dividend yield), we initiate research coverage on FGB with a Buy recommendation. We expect the stock to ultimately re-rate, when the bank starts beating expectations via delivering strong sequential growth in 2007.

Current Price 11.75

Target Price 16.50

Recommendation

Buy

Price Performance

Absolute	%
1 month	-3.3%
3 months	-10.0%
6 months	-10.7%
12 months	-27.6%

Relative to MSCI – UAE	%
1 month	-0.1%
3 months	-2.4%
6 months	11.0%
12 months	11.5%

Stock data

Market cap (AEDbn)	14.7
Free float (%)	40.0

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Valuation Summary						
FGB.AD	EPS (AED)	BVPS (AED)	DPS (AED)	P/E (x)	P/BV (x)	Div. Yield (%)
2006	1.20	7.19	0.70	9.81	1.63	6.0%
2007e	1.42	7.61	1.00	8.27	1.54	8.5%
2008e	1.65	8.07	1.43	7.12	1.46	12.2%
2009e	1.88	8.72	1.43	6.26	1.35	12.2%
2010e	2.09	9.57	1.54	5.62	1.23	13.1%

Source: FGB, Noor Capital

FGB - Key assumption For....	
...we are assuming	
Balance sheet	• Lower than historical volume growth as the bank shifts profitability driver from volumes to margins. • Assets are projected to grow at a 2006-2012 CAGR of 31.6% versus 87.6% between 2003 and 2006. • Net loan CAGR of 31.4% between 2006 and 2012 vis-à-vis 70.7% historically, thus maintaining loans to total assets ratio at 53%. • Interest earning assets are projected to grow at a slightly slower rate of 29.7% CAGR to represent 86% of 2012's total assets down from 94% in 2006. More real-estate assets will appear on the balance sheet. • With a high loan to deposit ratio of 132% in 2006, the bank will have to grow its deposit base. Loan to deposit ratio is expected to reach 121% by 2012, translating to a 19.7% 2006-12 deposit CAGR.
Asset quality	• We are modeling a 2006-2012 NPL CAGR of 39% to represent only 2% of loans by 2012 up from 1.4% in 2006. NPL rise is seen as a spillover from strong asset growth. Coverage will remain stable at 132%.
Net interest income	• Expected strong growth of AIEAs between 2006 and 2012, mitigating the gradual margin dilution, will derive the 23.5% net-interest income CAGR over our forecast horizon.
Non-interest revenues	• While growing in absolute terms at a 2006-2012 CAGR of 18%, non-interest revenues are expected to lag net interest income thus dropping from 42.8% of 2006's revenues to the more long-term sustainable level of 36.2% by 2012.
Cost	• Rising cost to income ratio (41% by 2012 versus 21% in 2006) is a function of the aggressive expansion plan that management seeks to pursue. Costs are unlikely to be matched with a top-line growth similar to that seen in 2004-2006. Cost to income ratio was 46.2% in 2003.
Provisions	• Provisioning charge is expected to rise during periods of fast loan/NPL growth and vise versa. With a stable coverage, annual LL provision charge is expected to drop to 0.25% of 2012's loans down from 0.56% in 2006.
Net profit	• Projected to grow at a 2006-2012 CAGR of 18.7%, which will be equally reflected in EPS growth
Dividend policy	• Despite a higher-than-peer capital adequacy ratio, FGB is not expected to maintain a high dividend payout ratio, thanks to the expected strong growth of RWAs. Our projections, off course, rule out the utilization of asset revaluations as a capital enhancer because we can't determine their magnitude or timing. Dividend payout is expected to decline from 69% in 2007 to 54% in 2012.

Source: Noor Capital

SWOT analysis - FGB

Strengths

- Core shareholders are very supportive to management.
- Dynamic results-driven ex-Citibank management team that still enjoys the entrepreneurial spirit of small to medium-sized firms.
- Fastest growing bank, yet, with superior asset quality (87% asset CAGR vs. 39% for peers and 1.4% 2006 NPL ratio vs. 1.7% at peers)
- Most efficient bank (21% 2006 cost/income ratio vs. 30% for peers).
- Highest profitability (3.21% 2006 RoA vs. 2.26% for peer group).

Weaknesses

- Highest capital adequacy is more of a challenge than a weakness
- Exposure to the UAE, albeit declining, is still high (79% of 2003's total assets were in UAE versus 71% in 2006).
- Small branch network and lower-than-peers exposure to retail.
- Overly reliance on key management figures is quite risky.
- Booking loans at thin spreads will be hopefully mitigated by cross selling other FGB's products to locked in customers at lucrative rates

Opportunities

- Non-interest revenue is misperceived as non-recurring and hence FGB trades at an unwarranted discount to peer banks' spot multiples.
- Securing the residential segment of the Khalifa committee will help FGB swiftly overcome the deficiency of limited exposure to retail.
- Acquisitions in non-GCC countries and expand local branch network.

Threats

- As FGB continues to grow and cross national borders, it runs the risk of stretching its resources thin across different markets and divisions.
- Failing to manage strong growth without institutionalizing operations and strengthening corporate governance.
- Inability to replicate UAE-based growth pattern in overseas markets.

Summary Income Statement (AEDm, except per share values)	2004	2005	2006	2007	2008	2009	2010	2011	2012
Net interest margin	3.46 %	5.05 %	3.52 %	2.62 %	2.13 %	1.77 %	1.65 %	1.84 %	2.03 %
Average interest earning assets	8,841	17,403	34,312	58,349	90,023	127,217	162,208	194,252	211,698
Net interest income	306	880	1,208	1,532	1,919	2,251	2,683	3,573	4,294
Fees & commissions	106	212	282	332	415	478	526	570	599
FX operations	18	29	49	152	185	218	249	282	310
Non-interest securities	2	2	2	9	11	17	15	34	40
Sale of associated companies	0	64	175	123	56	14	15	17	20
Other non-interest income	62	236	395	666	883	1,074	1,230	1,355	1,463
Non-interest income	189	544	902	1,283	1,550	1,801	2,034	2,258	2,432
Total income	495	1,424	2,110	2,815	3,469	4,052	4,718	5,832	6,726
Administrative & personnel	132	219	380	596	521	762	1,069	1,475	1,997
Remuneration & profit sharing	3	3	39	42	49	51	54	59	62
Depreciation	8	15	20	28	37	45	53	60	67
Other non-interest expense	-	-	42	-	-	-	-	-	-
Non-interest expense	143	237	481	666	607	857	1,175	1,594	2,127
Operating income	352	1,187	1,629	2,149	2,863	3,194	3,543	4,237	4,599
Loan loss and other provisions	110	123	132	373	491	607	554	487	409
Net profit before extraordinary	242	1,064	1,497	1,776	2,371	2,588	2,989	3,750	4,190
Noor extraordinary results	-	-	-	-	-	-	-	-	-
Net profit before tax	242	1,064	1,497	1,776	2,371	2,588	2,989	3,750	4,190
Income tax provision	-	-	-	-	-	-	-	-	-
Net profit before minority interest	242	1,064	1,497	1,776	2,371	2,588	2,989	3,750	4,190
Minority interest	-	-	-	-	-	-	-	-	-
Net profit before preferred dividends	242	1,064	1,497	1,776	2,371	2,588	2,989	3,750	4,190
Preferred dividends	-	-	-	-	-	-	-	-	-
Net profit to shareholders	242	1,064	1,497	1,776	2,371	2,588	2,989	3,750	4,190
Avg. shares outstanding (mn)	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250
EPS	0.19	0.85	1.20	1.42	1.90	2.07	2.39	3.00	3.35

Profitability and Efficiency Ratios (AEDm)	2004	2005	2006	2007	2008	2009	2010	2011	2012
Net profit growth	n/a	339.5%	40.7%	18.6%	33.5%	9.1%	15.5%	25.5%	11.7%
Earnings per common share growth	n/a	339.5%	40.7%	18.6%	33.5%	9.1%	15.5%	25.5%	11.7%
Dividends per share outstanding	0.20	0.25	0.70	1.00	1.43	1.43	1.54	1.74	1.84
Cash dividend payout ratio (%)	103.2%	29.4%	58.4%	70.4%	75.5%	69.0%	64.4%	58.0%	54.9%
Return on average equity (ROAE)	18.9%	22.1%	17.8%	19.2%	21.1%	22.3%	22.9%	25.3%	24.3%
Return on average assets (ROAA)	2.42%	5.45%	4.04%	2.81%	2.10%	1.69%	1.46%	1.50%	1.48%
Non-interest expense/total income	28.8%	16.6%	22.8%	23.7%	17.5%	21.2%	24.9%	27.3%	31.6%
Administrative & personnel/total income	26.7%	15.3%	18.0%	21.2%	15.0%	18.8%	22.6%	25.3%	29.7%
Non-interest expense/average assets	1.42%	1.21%	1.30%	1.05%	0.62%	0.62%	0.65%	0.74%	0.89%
Non-interest income/total income	38.2%	38.2%	42.8%	45.6%	44.7%	44.4%	43.1%	38.7%	36.2%
Non-interest income/non-interest expense	132.6%	229.9%	187.5%	192.7%	255.6%	210.0%	173.1%	141.7%	114.3%
Fees & commissions/total income	21.5%	14.9%	13.3%	11.8%	12.0%	11.8%	11.1%	9.8%	8.9%
Non-interest income/average assets	1.89%	2.78%	2.44%	2.03%	1.57%	1.30%	1.13%	1.05%	1.02%
Number of branches	6	6	15	18	21	24	27	30	33
Number of employees (000's)	0.340	0.461	0.592	0.760	0.993	1.283	1.660	2.155	2.789
Employees per branch	57	77	39	42	47	53	61	72	85
Assets per employee (000's)	37,638	57,012	80,674	103,712	118,990	124,367	120,126	106,453	88,814
Net profit per employee (000's)	712	2,308	2,529	2,337	2,387	2,017	1,800	1,740	1,502

Summary Balance Sheet Data (AEDm)	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total loans	6,863	14,024	25,633	42,295	63,442	85,647	107,059	123,118	132,967
Net loans	6,532	13,604	25,161	41,447	62,098	83,689	104,539	120,103	129,537
Total interest earning assets	10,828	23,978	44,647	72,051	107,994	146,440	177,976	210,528	212,869
Total assets	12,797	26,282	47,759	78,802	118,204	159,575	199,469	229,389	247,740
Total customer deposits	9,977	17,314	34,434	60,260	99,429	139,201	187,921	221,747	243,922
Total interest bearing liabilities	9,414	16,368	35,663	58,886	94,513	129,423	173,011	200,789	221,750
Total liabilities	11,020	18,444	38,774	69,291	108,111	148,679	187,509	215,853	232,314
Total equity	1,777	7,839	8,985	9,512	10,093	10,896	11,959	13,536	15,426
Loan growth	n/a	104.3%	82.8%	65.0%	50.0%	35.0%	25.0%	15.0%	8.0%
Net loan growth	n/a	108.3%	85.0%	64.7%	49.8%	34.8%	24.9%	14.9%	7.9%
Interest earning asset growth	n/a	121.5%	86.2%	61.4%	49.9%	35.6%	21.5%	18.3%	1.1%
Asset growth	n/a	105.4%	81.7%	65.0%	50.0%	35.0%	25.0%	15.0%	8.0%
Customer deposits growth	n/a	73.5%	98.9%	75.0%	65.0%	40.0%	35.0%	18.0%	10.0%
Interest bearing liabilities growth	n/a	73.9%	117.9%	65.1%	60.5%	36.9%	33.7%	16.1%	10.4%
Liabilities growth	n/a	67.4%	110.2%	78.7%	56.0%	37.5%	26.1%	15.1%	7.6%
Equity growth	n/a	341.1%	14.6%	5.9%	6.1%	8.0%	9.8%	13.2%	14.0%
Average interest earning assets	8,841	17,403	34,312	58,349	90,023	127,217	162,208	194,252	211,698
Average assets	10,015	19,540	37,021	63,281	98,503	138,889	179,522	214,429	238,565
Average equity	1,278	4,808	8,412	9,249	9,802	10,495	11,428	12,748	14,481
Average interest earning asset growth	n/a	96.8%	97.2%	70.1%	54.3%	41.3%	27.5%	19.8%	9.0%
Average asset growth	n/a	95.1%	89.5%	70.9%	55.7%	41.0%	29.3%	19.4%	11.3%
Average equity growth	n/a	276.1%	75.0%	9.9%	6.0%	7.1%	8.9%	11.6%	13.6%

Balance Sheet Ratios	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total interest earning assets/total assets	84.6%	91.2%	93.5%	91.4%	91.4%	91.8%	89.2%	91.8%	85.9%
Total loans/total assets	53.6%	53.4%	53.7%	53.7%	53.7%	53.7%	53.7%	53.7%	53.7%
Net loans/total assets	51.0%	51.8%	52.7%	52.6%	52.5%	52.4%	52.4%	52.4%	52.3%
Total loans/customer deposits	68.8%	81.0%	74.4%	70.2%	63.8%	61.5%	57.0%	55.5%	54.5%
Net loans/customer deposits	65.5%	78.6%	73.1%	68.8%	62.5%	60.1%	55.6%	54.2%	53.1%
Total int. bearing liabilities/total liabilities	85.4%	88.7%	92.0%	85.0%	87.4%	87.0%	92.3%	93.0%	95.5%
Total equity/total assets	13.9%	29.8%	18.8%	12.1%	8.5%	6.8%	6.0%	5.9%	6.2%
Total equity/total loans	25.9%	55.9%	35.1%	22.5%	15.9%	12.7%	11.2%	11.0%	11.6%
Capital adequacy ratio, calculated	22.9%	48.2%	29.9%	19.4%	14.2%	11.8%	10.3%	10.6%	10.3%

Asset Quality Data (AEDm)	2004	2005	2006	2007	2008	2009	2010	2011	2012
Non-performing loans	298	343	360	613	983	1,413	1,874	2,278	2,593
Loan loss reserves	331	420	473	848	1,345	1,959	2,520	3,015	3,430
Loan loss provisions	327	415	467	839	1,331	1,938	2,491	2,978	3,387
Additions (charged to P&L)	110	123	132	373	491	607	554	487	409
Recoveries, reserve movement, and other	(8)	(11)	(11)	15	24	33	49	67	83
Deductions	4	5	6	-	-	-	-	-	-
Unearned interest	4	5	6	9	14	21	29	36	43
NPL growth	n/a	14.9%	5.1%	70.3%	60.3%	43.7%	32.6%	21.6%	13.8%
NPLs/ total assets	2.3%	1.3%	0.8%	0.8%	0.8%	0.9%	0.9%	1.0%	1.0%
NPLs/total loans (excl. unearned interest)	4.3%	2.4%	1.4%	1.5%	1.6%	1.7%	1.8%	1.9%	2.0%
Loan loss provisions/NPLs	109.5%	121.1%	129.6%	136.9%	135.3%	137.1%	133.0%	130.8%	130.6%
Loan loss provisions/total loans	4.8%	3.0%	1.8%	2.0%	2.1%	2.3%	2.3%	2.4%	2.5%
Loan loss reserves/NPLs	110.8%	122.5%	131.2%	138.3%	136.8%	138.6%	134.5%	132.4%	132.3%
Loan loss reserves/total loans	4.8%	3.0%	1.8%	2.0%	2.1%	2.3%	2.4%	2.4%	2.6%

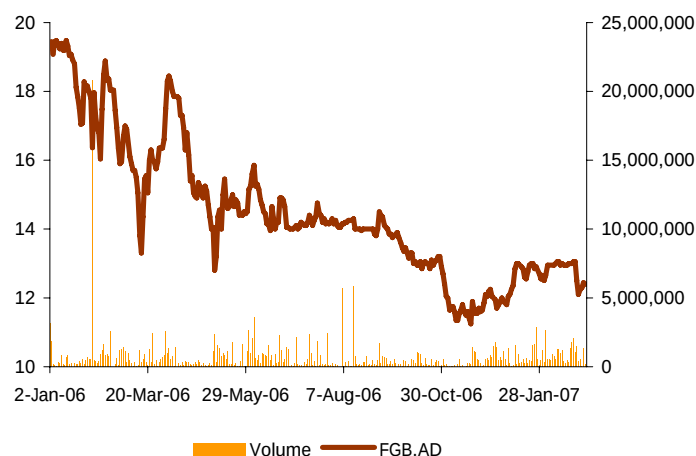
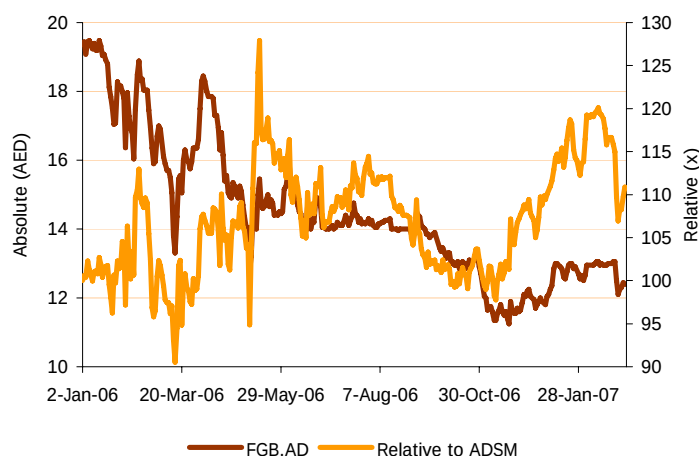


First Gulf Bank – FGB.AD

Bank	Year	EPS	DPS	P/E	EVA	P/BV	CoE	RoAE/CoE	Div. Yield	Cost/Income
ADCB.AD	2006a	0.53	0.30	11.3	1.07	2.2	10.5%	2.1	5.0%	25.0%
	2007e	0.54	0.35	11.0	1.11	2.1	10.5%	1.9	5.8%	27.6%
	2008e	0.62	0.44	9.6	0.98	2.0	10.5%	2.0	7.4%	29.4%
	2009e	0.74	0.50	8.1	0.82	1.8	10.5%	2.2	8.4%	30.2%
DISB.DU	2006a	0.52	0.35	14.4	1.01	2.4	10.4%	2.4	4.6%	40.0%
	2007e	0.58	0.39	13.0	1.30	2.4	10.4%	1.8	5.2%	42.7%
	2008e	0.68	0.45	11.0	1.11	2.2	10.4%	2.0	6.0%	46.7%
	2009e	0.82	0.50	9.2	0.91	2.0	10.4%	2.2	6.6%	47.4%
EBIL.DU	2006a	0.65	0.30	14.0	1.05	2.4	10.0%	2.3	3.3%	36.2%
	2007e	0.69	0.35	13.0	1.20	2.5	10.0%	2.1	3.9%	38.8%
	2008e	0.83	0.40	10.8	1.03	2.2	10.0%	2.2	4.4%	38.8%
	2009e	1.01	0.45	8.9	0.84	2.0	10.0%	2.3	5.0%	38.8%
FGB.AD	2006a	1.20	0.70	9.8	1.17	1.6	12.8%	1.4	6.0%	22.8%
	2007e	1.42	1.00	8.3	1.03	1.5	12.8%	1.5	8.5%	24.7%
	2008e	1.65	1.43	7.1	0.88	1.5	12.8%	1.6	12.2%	26.8%
	2009e	1.88	1.43	6.3	0.77	1.3	12.8%	1.7	12.2%	27.2%
NBAD.AD	2006a	1.32	0.40	14.3	0.76	2.6	7.6%	3.4	2.1%	23.9%
	2007e	1.43	0.75	13.2	0.94	2.9	7.6%	3.1	4.0%	24.6%
	2008e	1.63	1.00	11.6	0.85	2.6	7.6%	3.1	5.3%	25.6%
	2009e	1.75	1.25	10.8	0.80	2.4	7.6%	3.1	6.6%	28.0%
NBDD.DU	2006a	0.71	0.40	12.3	1.09	1.9	11.1%	1.7	4.6%	38.5%
	2007e	0.75	0.40	11.6	1.22	2.0	11.1%	1.6	4.6%	37.4%
	2008e	0.84	0.45	10.4	1.11	1.8	11.1%	1.6	5.2%	39.8%
	2009e	0.98	0.50	8.9	0.94	1.7	11.1%	1.8	5.7%	40.0%

Absolute and relative performance - FGB.AD

Price and volume - FGB.AD



Market data - FGB.AD

Market capitalization (AEDm)	14,688
Average daily traded volume (000's shares) - 2006	678
Average daily traded value (AED' 000) - 2006	1,733
Average daily number of transactions - 2006	5

Summary of Valuation Methods	
DDM	19.23
Bond price	11.43
Rel pricing P/E	17.51
Rel Pricing P/BV	17.85
Target price	16.50
Current Price	11.75
Upside / Downside	40.5%
Recommendation	Buy

DDM	2007	2008	2009	2010	2011	2012
DPS	1.00	1.43	1.43	1.54	1.74	1.84
Factor	1.13	1.27	1.43	1.62	1.83	2.06
PV DPS	0.89	1.13	1.00	0.95	0.95	0.89
ROE						24.30
COE						12.79
g						3.5
ROE-g/COE-g						2.24
BVPS	7.61	8.07	8.72	9.57	10.83	12.34
Implied Price						27.63
PV implied Price	13.42					
NPV DPS	5.81					
"Fair Value"	19.23					

Bond pricing	2007	2008	2009	2010	2011	2012
ROE	19.20%	21.06%	22.35%	22.86%	25.31%	24.30%
COE	12.79%	12.79%	12.79%	12.79%	12.79%	12.79%
Implied P/BV	1.50	1.65	1.75	1.79	1.98	1.90
P/BV	1.54	1.46	1.35	1.23	1.09	0.95
Upside/Downside	-3%	13%	30%	46%	82%	100%
Minimum	-3%					
EVA	1.03	0.88	0.77	0.69	0.55	0.50

Relative valuation	2007	2008	2009	2010	2011	2012
UAE Peer Average P/E	12.33	10.66	9.12	7.85	7.13	6.40
UAE Peer Average P/BV	2.38	2.19	2.00	1.81	1.65	1.52
FGB P/E	8.27	7.12	6.26	5.62	4.55	4.17
Price						
At average P/E	17.52	17.60	17.11	16.41	18.40	18.01
At Average P/BV	18.11	17.68	17.41	17.31	17.88	18.73
Average Price						
At average P/E	17.51					
At Average P/BV	17.85					

PEG Ratios	2007	2008	2009	2010	2011	2012
EPS growth	0.19	0.16	0.14	0.11	0.24	0.09
P/E	8.27	7.12	6.26	5.62	4.55	4.17
PEG	44.43	43.86	45.98	49.31	19.35	46.11

Background and positioning

NBAD was incorporated in 1968 to serve as a banker for the UAE government and the emirate of Abu Dhabi. It also acted as a central bank until the Currency Board was formed in 1975. NBAD is now ranked first among UAE banks in terms of assets and deposits. It also has the largest local branch (66) and ATM (172) networks in addition to 28 overseas branches and subsidiaries in Bahrain, Kuwait, Oman, Egypt, Sudan, France, UK and USA. NBAD is a fully fledged bank engaged in corporate, retail and investment banking activities, with niche presence in asset management and securities brokerage. NBAD can also be described as the bank of choice for the government of Abu Dhabi and key public sector bodies (government and the public sector contributed 70% of deposits as of 2006). It also commands the highest RoE among peer banks and one of the lowest cost to income ratios.

Future prospects and growth drivers

Going forward, we believe that NBAD faces two key challenges namely; (1) the necessity to pursue a more aggressive strategy to revitalize strong growth and move to a higher regional ranking while simultaneously safeguarding/strengthening its superior local positioning and (2) the need to diversify more into non-public sector business to alleviate concentration risk and enhance margins further. While the first challenge is addressed through creating an Islamic finance company in the UAE, establishing a private banking subsidiary in Switzerland and setting up a local real estate subsidiary, the second challenge is likely to be more tricky to overcome. As long as the government (particularly in Abu Dhabi) continues to be the growth engine for the economy, it is hard for any bank, not just NBAD, to overlook business opportunities related to government projects. NBAD is, however, expanding credit card business, beefing up its capital markets' team and exploring SME business.

Valuation and recommendation

NBAD has the largest market capitalization of any bank in the UAE with a 25% foreign ownership limit and a 27% free float. NBAD dropped by 44.3% over the last 12 months to under-perform the MSCI UAE index by 14.2%. NBAD currently trades at a 3% premium to our peer group's 2007e weighted average P/BV/RoAE measure. This measure does not just look at the multiple to book, but the quality of book, as well. With a 12 month expected total return of 8.6% (4.6% upside potential + 4.0% 2007e dividend yield), we initiate research coverage on NBAD with Hold rating. We believe the stock is fairly valued at these price levels, with a possibility of revisiting our expectations should the bank surprise on the upside.

Current Price	18.85
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Target Price	19.72
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Recommendation

Hold

Price Performance

Absolute	%
1 month	5.2%
3 months	8.3%
6 months	-12.5%
12 months	-44.3%

Relative to MSCI – UAE	%
1 month	8.7%
3 months	17.5%
6 months	8.7%
12 months	-14.2%

Stock data

Market cap (AEDbn)	29.9
Free float (%)	27.0

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Valuation Summary

NBAD.AD	EPS (AED)	BVPS (AED)	DPS (AED)	P/E (x)	P/BV (x)	Div. Yield (%)
2006	1.32	7.36	0.40	14.27	2.56	2.1%
2007e	1.43	6.57	0.75	13.16	2.87	4.0%
2008e	1.63	7.20	1.00	11.57	2.62	5.3%
2009e	1.75	7.70	1.25	10.80	2.45	6.6%
2010e	1.86	8.05	1.50	10.15	2.34	8.0%

Source: NBAD, Noor Capital

NBAD - Key assumption For....	
...we are assuming	
Balance sheet	- Lower than historical volume growth as the bank shifts profitability driver from volumes to margins. - Assets are projected to grow at a 2006-2012 CAGR of 8.4% versus 32.3% between 2003 and 2006. - Net loan CAGR of 8% between 2006 and 2012 vis-à-vis 25.5% historically, thus restoring net loans/total assets ratio at 56% in 2006 and 2012. - Interest earning assets are projected to grow at 8.7% CAGR to represent 94% of 2012's total assets up from 92% in 2006. - With a comfortable loan to deposit ratio of 85% in 2006, the bank is not in an urgent need to grow its deposit base. Loan to deposit ratio is expected to reach 81% by 2012.
Asset quality	NPLs are expected to rise to 5% of total loans from 4.7% in 2006. Augmenting coverage is likely to be challenging as revenue growth is projected to slacken. We forecast a decline in coverage from 99% in 2006 to 93% in 2012.
Net interest income	Given its pricing power, NBAD margins are set to improve to mitigate the slackening volume growth of AIEAs. We model a 15.5% net-interest income CAGR over our forecast horizon.
Non-interest revenues	While growing in absolute terms at a 2006-2012 CAGR of 3.3%, non-interest revenues are expected to lag net interest income thus dropping from 32% of 2006's revenues to the more long-term sustainable level of 20% by 2012.
Cost	Rising cost to income ratio (38% by 2012 versus 24% in 2006) is ascribed to aggressive overseas expansion and slackening top-line growth. Cost to income ratio was 34% in 2003.
Provisions	Given expectations of growing NPLs and less-than-full coverage, annual provisioning charge is expected to rise from 4.82% of operating income in 2006 to 8.69% in 2009, before gradually coming back to 5.5% in 2012. Provisioning is quite cumbersome at NBAD.
Net profit	Projected to grow at a 2006-2012 CAGR of 7.1%, which will be equally reflected in EPS growth
Dividend policy	NBAD can sustain high dividend payout ratios as we are not projecting a massive growth of RWAs and capital adequacy is among the highest in our peer group. As such we are modeling a payout ratio that gradually rise to 90% by 2012.

Source: Noor Capital

SWOT analysis - NBAD

Strengths

- Largest UAE bank in terms of assets, deposits, branches and ATMs
- Active presence of subsidiaries in overseas markets (NBAD's international banking division generated 18% of 2006's NPBT).
- One-stop-shop bank with diversified product offerings
- Highest RoAE among our peer group of banks

Weaknesses

- The 2003-06 decline in NPL ratio is merely due to strong loan growth
- Highest NPL ratio among peers with less than 100% coverage
- Growing balance sheet's liquidity impacts margins
- Unless NBAD identifies and pursues a differentiated growth strategy, operations will become mature and even lackluster

Opportunities

- Inorganic growth, particularly in overseas markets, seems to be more rewarding to NBAD at its current life cycle than organic one.
- Given its critical mass and "quasi-government" status, NBAD is better positioned to spearhead consolidation among Abu Dhabi-based ones and even more specifically those approaching operational maturity

Threats

- Government and public sector contribute 70% of deposit base
- Fierce competition from global, let alone, local rivals
- Unsustainable cost efficiency due to overseas-related capex and local rivalry pushing up salary levels. NBAD had the lowest staff expense (i.e. remuneration) per employee among our peer group.

Summary Income Statement									
(AEDm, except per share values)									
	2004	2005	2006	2007	2008	2009	2010	2011	2012
Net interest margin	2.52 %	2.75 %	2.36 %	2.50 %	2.70 %	2.92 %	3.07 %	3.21 %	3.26 %
Average interest earning assets	40,066	60,990	85,762	97,214	107,132	115,806	124,910	135,994	147,277
Net interest income	1,010	1,677	2,021	2,426	2,896	3,381	3,832	4,362	4,801
Fees & commissions	552	1,359	765	623	654	680	700	718	733
FX operations	86	124	143	146	144	147	147	144	138
Non-interest securities	1	1	2	2	3	3	3	3	3
Sale of associated companies	12	1	4	12	13	13	14	15	16
Other non-interest income	98	276	54	50	100	153	206	252	290
Non-interest income	749	1,763	968	834	914	996	1,070	1,131	1,179
Total income	1,759	3,439	2,989	3,259	3,809	4,377	4,903	5,492	5,979
Administrative & personnel	438	570	641	730	897	1,139	1,519	1,985	2,356
Remuneration & profit sharing	3	4	4	4	4	4	5	4	4
Depreciation	50	52	59	64	71	79	88	97	108
Other non-interest expense	26	28	33	-	-	-	-	-	-
Non-interest expense	517	654	736	797	971	1,221	1,611	2,086	2,467
Operating income	1,242	2,785	2,252	2,462	2,838	3,156	3,291	3,406	3,512
Loan loss and other provisions	81	155	99	135	183	311	265	236	266
Net profit before extraordinary	1,161	2,630	2,153	2,326	2,655	2,845	3,027	3,170	3,247
Noor extraordinary results	-	-	-	-	-	-	-	-	-
Net profit before tax	1,161	2,630	2,153	2,326	2,655	2,845	3,027	3,170	3,247
Income tax provision	26	54	51	48	62	67	72	76	79
Net profit before minority interest	1,135	2,576	2,102	2,278	2,593	2,778	2,954	3,094	3,168
Minority interest	-	-	-	-	-	-	-	-	-
Net profit before preferred dividends	1,135	2,576	2,102	2,278	2,593	2,778	2,954	3,094	3,168
Preferred dividends	-	-	-	-	-	-	-	-	-
Net profit to shareholders	1,135	2,576	2,102	2,278	2,593	2,778	2,954	3,094	3,168
Avg. shares outstanding (mn)	1,591	1,591	1,591	1,591	1,591	1,591	1,591	1,591	1,591
EPS	0.71	1.62	1.32	1.43	1.63	1.75	1.86	1.94	1.99

Profitability and Efficiency Ratios									
(AEDm)									
	2004	2005	2006	2007	2008	2009	2010	2011	2012
Net profit growth	n/a	127.0%	-18.4%	8.4%	13.8%	7.1%	6.4%	4.7%	2.4%
Earnings per common share growth	n/a	127.0%	-18.4%	8.4%	13.8%	7.1%	6.4%	4.7%	2.4%
Dividends per share outstanding	0.40	0.40	0.40	0.75	1.00	1.25	1.50	1.75	2.00
Cash dividend payout ratio (%)	56.1%	24.7%	30.3%	52.4%	61.4%	71.6%	80.8%	90.0%	100.5%
Return on average equity (ROAE)	23.7%	41.2%	25.7%	23.4%	23.7%	23.4%	23.6%	23.9%	24.2%
Return on average assets (ROAA)	2.27%	3.65%	2.26%	2.14%	2.22%	2.19%	2.15%	2.09%	2.00%
Non-interest expense/total income	29.4%	19.0%	24.6%	24.5%	25.5%	27.9%	32.9%	38.0%	41.3%
Administrative & personnel/total income	24.9%	16.6%	21.4%	22.4%	23.5%	26.0%	31.0%	36.1%	39.4%
Non-interest expense/average assets	1.03%	0.93%	0.79%	0.75%	0.83%	0.96%	1.17%	1.41%	1.56%
Non-interest income/total income	42.6%	51.3%	32.4%	25.6%	24.0%	22.8%	21.8%	20.6%	19.7%
Non-interest income/non-interest expense	145.0%	269.4%	131.4%	104.5%	94.0%	81.6%	66.4%	54.2%	47.8%
Fees & commissions/total income	31.4%	39.5%	25.6%	19.1%	17.2%	15.5%	14.3%	13.1%	12.3%
Non-interest income/average assets	1.50%	2.50%	1.04%	0.78%	0.78%	0.79%	0.78%	0.76%	0.74%
Number of branches	58	59	66	69	74	79	84	90	96
Number of employees (000's)	1,932	2,320	2,544	2,819	3,197	3,558	3,979	4,463	4,988
Employees per branch	33	39	39	41	43	45	47	50	52
Assets per employee (000's)	29,157	36,621	39,688	39,579	38,036	37,085	35,815	34,323	32,861
Net profit per employee (000's)	587	1,110	826	808	811	781	743	693	635

Summary Balance Sheet Data (AEDm)	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total loans	37,847	54,001	60,199	65,566	71,261	77,143	83,288	89,118	94,941
Net loans	35,428	51,468	57,486	62,930	68,734	74,183	79,926	85,371	90,990
Total interest earning assets	43,203	78,776	92,748	101,681	112,583	119,030	130,789	141,198	153,356
Total assets	56,331	84,960	100,966	111,567	121,608	131,945	142,501	153,188	163,912
Total customer deposits	38,748	59,573	70,738	78,519	85,782	93,245	101,171	109,265	117,132
Total interest bearing liabilities	33,023	54,684	70,629	78,379	85,730	92,385	100,271	105,266	112,572
Total liabilities	51,147	77,636	91,961	101,110	110,149	119,698	129,686	140,064	150,802
Total equity	5,185	7,324	9,005	10,457	11,459	12,247	12,815	13,124	13,110
Loan growth	n/a	42.7%	11.5%	8.9%	8.7%	8.3%	8.0%	7.0%	6.5%
Net loan growth	n/a	45.3%	11.7%	9.5%	9.2%	7.9%	7.7%	6.8%	6.6%
Interest earning asset growth	n/a	82.3%	17.7%	9.6%	10.7%	5.7%	9.9%	8.0%	8.6%
Asset growth	n/a	50.8%	18.8%	10.5%	9.0%	8.5%	8.0%	7.5%	7.0%
Customer deposits growth	n/a	53.7%	18.7%	11.0%	9.3%	8.7%	8.5%	8.0%	7.2%
Interest bearing liabilities growth	n/a	65.6%	29.2%	11.0%	9.4%	7.8%	8.5%	5.0%	6.9%
Liabilities growth	n/a	51.8%	18.5%	9.9%	8.9%	8.7%	8.3%	8.0%	7.7%
Equity growth	n/a	41.3%	23.0%	16.1%	9.6%	6.9%	4.6%	2.4%	-0.1%
Average interest earning assets	40,066	60,990	85,762	97,214	107,132	115,806	124,910	135,994	147,277
Average assets	49,977	70,646	92,963	106,267	116,588	126,777	137,223	147,845	158,550
Average equity	4,784	6,254	8,165	9,731	10,958	11,853	12,531	12,970	13,117
Average interest earning asset growth	n/a	52.2%	40.6%	13.4%	10.2%	8.1%	7.9%	8.9%	8.3%
Average asset growth	n/a	41.4%	31.6%	14.3%	9.7%	8.7%	8.2%	7.7%	7.2%
Average equity growth	n/a	30.7%	30.5%	19.2%	12.6%	8.2%	5.7%	3.5%	1.1%

Balance Sheet Ratios	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total interest earning assets/total assets	76.7%	92.7%	91.9%	91.1%	92.6%	90.2%	91.8%	92.2%	93.6%
Total loans/total assets	67.2%	63.6%	59.6%	58.8%	58.6%	58.5%	58.4%	58.2%	57.9%
Net loans/total assets	62.9%	60.6%	56.9%	56.4%	56.5%	56.2%	56.1%	55.7%	55.5%
Total loans/customer deposits	97.7%	90.6%	85.1%	83.5%	83.1%	82.7%	82.3%	81.6%	81.1%
Net loans/customer deposits	91.4%	86.4%	81.3%	80.1%	80.1%	79.6%	79.0%	78.1%	77.7%
Total int. bearing liabilities/total liabilities	64.6%	70.4%	76.8%	77.5%	77.8%	77.2%	77.3%	75.2%	74.6%
Total equity/total assets	9.2%	8.6%	8.9%	9.4%	9.4%	9.3%	9.0%	8.6%	8.0%
Total equity/total loans	13.7%	13.6%	15.0%	15.9%	16.1%	15.9%	15.4%	14.7%	13.8%
Capital adequacy ratio, calculated	13.4%	13.2%	14.3%	15.0%	15.5%	14.8%	14.8%	14.3%	13.7%

Asset Quality Data (AEDm)	2004	2005	2006	2007	2008	2009	2010	2011	2012
Non-performing loans	2,480	2,490	2,745	3,015	3,314	3,627	3,999	4,368	4,229
Loan loss reserves	2,418	2,533	2,713	2,636	2,526	2,960	3,362	3,746	3,951
Loan loss provisions	714	848	918	1,050	1,229	1,537	1,799	2,031	2,189
Additions (charged to P&L)	78	164	108	116	155	273	212	169	193
Recoveries, reserve movement, and other	(4)	(10)	(12)	17	25	34	50	63	70
Deductions	30	20	26	-	-	-	-	-	105
Unearned interest	1,704	1,684	1,795	1,586	1,297	1,423	1,563	1,715	1,762
NPL growth	n/a	0.4%	10.2%	9.8%	9.9%	9.5%	10.3%	9.2%	-3.2%
NPLs/ total assets	4.4%	2.9%	2.7%	2.7%	2.7%	2.7%	2.8%	2.9%	2.6%
NPLs/total loans (excl. unearned interest)	6.9%	4.8%	4.7%	4.7%	4.7%	4.8%	4.9%	5.0%	4.5%
Loan loss provisions/NPLs	28.8%	34.1%	33.4%	34.8%	37.1%	42.4%	45.0%	46.5%	51.8%
Loan loss provisions/total loans	1.9%	1.6%	1.5%	1.6%	1.7%	2.0%	2.2%	2.3%	2.3%
Loan loss reserves/NPLs	97.5%	101.7%	98.8%	87.4%	76.2%	81.6%	84.1%	85.8%	93.4%
Loan loss reserves/total loans	6.4%	4.7%	4.5%	4.0%	3.5%	3.8%	4.0%	4.2%	4.2%

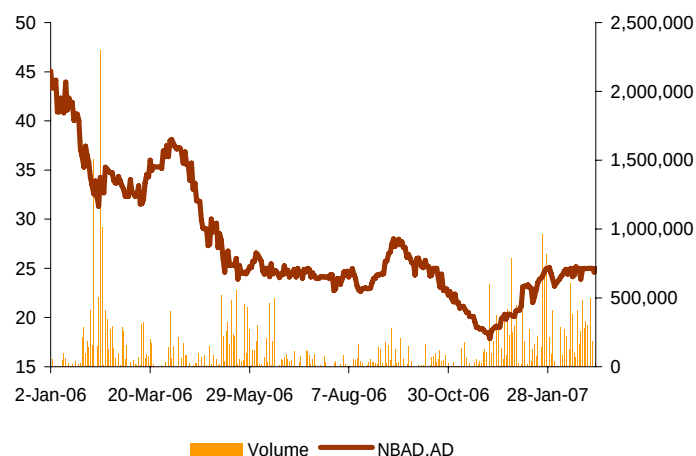


National Bank of Abu Dhabi – NBAD.AD

Bank	Year	EPS	DPS	P/E	EVA	P/BV	CoE	RoAE/CoE	Div. Yield	Cost/Income
ADCB.AD	2006a	0.53	0.30	11.3	1.07	2.2	10.5%	2.1	5.0%	25.0%
	2007e	0.54	0.35	11.0	1.11	2.1	10.5%	1.9	5.8%	27.6%
	2008e	0.62	0.44	9.6	0.98	2.0	10.5%	2.0	7.4%	29.4%
	2009e	0.74	0.50	8.1	0.82	1.8	10.5%	2.2	8.4%	30.2%
DISB.DU	2006a	0.52	0.35	14.4	1.01	2.4	10.4%	2.4	4.6%	40.0%
	2007e	0.58	0.39	13.0	1.30	2.4	10.4%	1.8	5.2%	42.7%
	2008e	0.68	0.45	11.0	1.11	2.2	10.4%	2.0	6.0%	46.7%
	2009e	0.82	0.50	9.2	0.91	2.0	10.4%	2.2	6.6%	47.4%
EBIL.DU	2006a	0.65	0.30	14.0	1.05	2.4	10.0%	2.3	3.3%	36.2%
	2007e	0.69	0.35	13.0	1.20	2.5	10.0%	2.1	3.9%	38.8%
	2008e	0.83	0.40	10.8	1.03	2.2	10.0%	2.2	4.4%	38.8%
	2009e	1.01	0.45	8.9	0.84	2.0	10.0%	2.3	5.0%	38.8%
FGB.AD	2006a	1.20	0.70	9.8	1.17	1.6	12.8%	1.4	6.0%	22.8%
	2007e	1.42	1.00	8.3	1.03	1.5	12.8%	1.5	8.5%	24.7%
	2008e	1.65	1.43	7.1	0.88	1.5	12.8%	1.6	12.2%	26.8%
	2009e	1.88	1.43	6.3	0.77	1.3	12.8%	1.7	12.2%	27.2%
NBAD.AD	2006a	1.32	0.40	14.3	0.76	2.6	7.6%	3.4	2.1%	23.9%
	2007e	1.43	0.75	13.2	0.94	2.9	7.6%	3.1	4.0%	24.6%
	2008e	1.63	1.00	11.6	0.85	2.6	7.6%	3.1	5.3%	25.6%
	2009e	1.75	1.25	10.8	0.80	2.4	7.6%	3.1	6.6%	28.0%
NBDD.DU	2006a	0.71	0.40	12.3	1.09	1.9	11.1%	1.7	4.6%	38.5%
	2007e	0.75	0.40	11.6	1.22	2.0	11.1%	1.6	4.6%	37.4%
	2008e	0.84	0.45	10.4	1.11	1.8	11.1%	1.6	5.2%	39.8%
	2009e	0.98	0.50	8.9	0.94	1.7	11.1%	1.8	5.7%	40.0%

Absolute and relative performance - NBAD.AD

Price and volume - NBAD.AD



Market data - NBAD.AD

Market capitalization (AEDm)	29,996
Average daily traded volume (000's shares) - 2006	123
Average daily traded value (AED' 000) - 2006	3,705
Average daily number of transactions - 2006	10

Summary of Valuation Methods	
DDM	32.61
Bond price	20.14
Rel pricing P/E	13.33
Rel Pricing P/BV	12.78
Target price	19.72
Current Price	18.85
Upside / Downside	4.6%
Recommendation	Hold

DDM	2007	2008	2009	2010	2011	2012
DPS	0.75	1.00	1.25	1.50	1.75	2.00
Factor	1.08	1.16	1.25	1.34	1.44	1.56
PV DPS	0.70	0.86	1.00	1.12	1.21	1.29
ROE						24.15
COE						7.64
g						3.5
ROE-g/COE-g						4.99
BVPS	6.57	7.20	7.70	8.05	8.25	8.24
Implied Price						41.11
PV implied Price	26.43					
NPV DPS	6.18					
"Fair Value"	32.61					

Bond pricing	2007	2008	2009	2010	2011	2012
ROE	23.41%	23.66%	23.43%	23.58%	23.86%	24.15%
COE	7.64%	7.64%	7.64%	7.64%	7.64%	7.64%
Implied P/BV	3.07	3.10	3.07	3.09	3.12	3.16
P/BV	2.87	2.62	2.45	2.34	2.29	2.29
Upside/Downside	7%	18%	25%	32%	37%	38%
Minimum	7%					
EVA	0.94	0.85	0.80	0.76	0.73	0.72

Relative valuation	2007	2008	2009	2010	2011	2012
UAE Peer Average P/E	11.26	9.41	8.01	6.78	5.93	5.24
UAE Peer Average P/BV	2.11	1.95	1.78	1.59	1.43	1.28
NBAD P/E	13.16	11.57	10.80	10.15	9.69	9.47
Price						
At average P/E	16.13	15.33	13.98	12.59	11.53	10.44
At Average P/BV	13.85	14.05	13.67	12.82	11.75	10.54
Average Price						
At average P/E	13.33					
At Average P/BV	12.78					

PEG Ratios	2007	2008	2009	2010	2011	2012
EPS growth	0.08	0.14	0.07	0.06	0.05	0.02
P/E	13.16	11.57	10.80	10.15	9.69	9.47
PEG	156.96	83.85	151.62	159.46	204.90	396.49

Background and positioning

Established in 1963, NBD is ranked second in Dubai and fourth nationally, in terms of total assets. NBD operates through a network of 36 branches and 146 ATMs in the UAE in addition to a branch in the UK and a rep office in Tehran. Consolidated subsidiaries are engaged in brokerage, real estate development, investment and Islamic banking. Asset growth lagged peers' due to a funding constraint, which presumably exposed NBD to inter-bank market volatilities. To overcome this issue, NBD launched an MTN program, of which USD0.5bn worth of subordinated debt qualified as Tier II capital. On the plus side, NBD exhibited one of the best utilization patterns among peers with loans/assets rising from 33% in 2003 to 62% in 2006, while simultaneously maintaining the cleanest loan book (0.9% 2006 NPL ratio) that is adequately covered. Capital adequacy is on edge at 12.2% in 2006.

Future prospects and growth drivers

Prior to the merger talks with EBI, NBD was facing two challenges, namely: (1) the need to grow customers' deposits to bridge the funding gap and (2) the necessity to enhance capital base, which approached the minimum requirement, in order to boost future RWAs growth. While the merger would help NBD overcome its second challenge, as EBI is slightly more capitalized than NBD (as at end of 2006) it would be interesting to see how the new entity would tackle the funding gap issue, since both of them have over stretched loan/deposit ratios. Our statement does not imply that we are skeptical of the combined firm's ability to mobilize funds. We just want to see what tactics it would use to grow the market and enlarge the funding base. Probably it would issue more MTNs. We believe that the merger would also bring some cost synergies to the table since EBI enjoys a slightly lower cost/income ratio.

Valuation and recommendation

NBD has the smallest market capitalization among peer group, however, with a sizeable 86% free float that is, unfortunately, not reflected in share liquidity. The stock has dropped 43.4% over the last 12 months to under-perform the MSCI UAE index by 12.9%. NBD currently trades at par with peer group's 2007e weighted average P/BV and P/E. One thing we like most about NBD is the quality of its non-interest revenue. NBD was less exposed to stock-market related revenues than peers. With a 12 month expected pre-deal total return of 14.7% (10.1% upside potential to current market price + 4.6% 2007e dividend yield), we initiate research coverage on NBD with an Add rating. We will revisit our expectations, as more merger-related information becomes publicly available.

Current Price	8.70
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Target Price	9.58
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Recommendation
Add

Price Performance

Absolute	%
1 month	-1.4%
3 months	18.3%
6 months	-10.1%
12 months	-43.4%

Relative to MSCI – UAE	%
1 month	1.9%
3 months	28.3%
6 months	11.7%
12 months	-12.9%

Stock data

Market cap (AEDbn)	13.5
Free float (%)	86.0

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Valuation Summary

NBDD.DU	EPS (AED)	NAV (AED)	DPS (AED)	P/E (x)	P/NAV (x)	Div. Yield (%)
2006	0.71	4.66	0.40	12.30	1.87	4.6%
2007e	0.75	4.40	0.40	11.64	1.98	4.6%
2008e	0.84	4.79	0.45	10.37	1.82	5.2%
2009e	0.98	5.26	0.50	8.90	1.65	5.7%
2010e	1.17	5.88	0.55	7.46	1.48	6.3%

Source: NBD, Noor Capital

NBD - Key assumption For....	
For....	...we are assuming
Balance sheet	• In line with historical volume growth. DIB had the least exposure to stock-market related volumes. • Assets are projected to grow at a 2006-2012 CAGR of 23.1% versus 24.8% between 2003 and 2006. • Net loan CAGR of 22.7% between 2006 and 2012 vis-à-vis 54.4% historically, thus restoring net loans/total assets ratio at roughly 62% in 2006 and 2012. • Interest earning assets are projected to grow at 22.5% CAGR, which is largely in line with asset growth. IEAs are modeled to account for 83% of total assets. • With a slightly high loan to deposit ratio of 96% in 2006, the bank would rather grow its deposit base. Loan to deposit ratio is expected to reach 88% by 2012.
Asset quality	• NPLs are expected to remain proportionately stable at the remarkable 1% level thanks to heightened risk aversion. Coverage can comfortably grow to even reach circa 2x the stock of NPLs by 2012.
Net interest income	• Net interest income is projected to grow in line with AIEAs' growth, as we are modeling stable margins. We expect 20% net-interest income CAGR over our forecast horizon.
Non-interest revenues	• While growing in absolute terms at a 2006-2012 CAGR of 13.1%, non-interest revenues are expected to lag net interest income, dropping from 36% of 2006's revenues to 28% by 2012.
Cost	• Cost to income ratio is expected to remain flat at 38-39%, which is similar to previous patterns.
Provisions	• Given our expectations of stable NPLs, the modeled rise in annual provision charge reflects the need to gradually augment coverage. LL provision charge is expected to reach 0.45% of 2012's loans up from 0.16% in 2006.
Net profit	• Projected to grow at a 2006-2012 CAGR of 14.4%, which will be equally reflected in EPS growth
Dividend policy	• NBD will have to augment its capital adequacy before raising dividend payout. In 2006, NBD reported a capital adequacy ratio of 12.2%. While still higher than the 10% required by CBUAE, this ratio leaves NBD little space to aggressively expand its RWAs base. Henceforth, we modeled a gradual decline of payout from 47% to 37% by 2012. Worth noting, payout dropped from above 80% in 2003 to 47% in 2006.

Source: Noor Capital

SWOT analysis - NBD

Strengths

- Best improvement in utilization pattern among peer banks (loans to assets ratio grew from 33% in 2003 to 62% in 2006)
- One of the cleanest loan portfolios among our peer group (NPL ratio is less than 1%) with adequate provision coverage
- Solid fee income base (i.e. high quality of non-interest revenues)
- Investment Banking subsidiary at Dubai International Financial Center and a branch at Qatar Financial Center are promising

Weaknesses

- Lowest 2003-06 asset CAGR among our peer group
- Tenor mismatch, albeit down due to issuing MTNs, is still high with 1 year+ loans representing 4.9x 1 year+ deposits and MTNs
- Lowest 2003-06 net profit CAGR and RoAA among our peer group
- Low BS liquidity and consistent borrowing from inter-bank market
- High cost to income ratio probably due to competition for HR
- Low capital adequacy tends to restrain future RWAs growth

Opportunities

- Plans to open offices in KSA and Singapore should boost growth
- Setting up a factoring JV will boost trade finance-related revenues
- Materialization of merger synergies with EBI. These could range from cutting overlap in expenses, complementing revenue streams, enhancing equity base/lending capacity and reducing cost of funds.

Threats

- With loan/deposits growing from 43.7% in 2003 to 95.2% and given sluggish deposit growth, NBD might face a funding bottleneck
- Merger with EBI does not produce the hoped for synergies
- Alike other UAE banks, NBD is exposed to fierce competition from foreign rivals

Summary Income Statement									
(AEDm, except per share values)	2004	2005	2006	2007	2008	2009	2010	2011	2012
Net interest margin	2.34 %	2.46 %	2.19 %	1.89 %	1.84 %	1.86 %	1.87 %	1.83 %	1.87 %
Average interest earning assets	34,765	41,488	54,698	70,535	86,942	106,377	131,602	160,502	193,725
Net interest income	815	1,020	1,195	1,335	1,603	1,978	2,460	2,942	3,630
Fees & commissions	211	284	421	484	576	663	749	831	920
FX operations	27	60	105	100	110	123	138	158	181
Non-interest securities	-	-	-	-	-	-	-	-	-
Sale of associated companies	308	129	36	85	96	108	123	138	152
Other non-interest income	61	149	104	79	87	96	108	122	139
Non-interest income	607	621	666	749	869	989	1,118	1,249	1,392
Total income	1,422	1,641	1,861	2,084	2,472	2,967	3,579	4,191	5,023
Administrative & personnel	390	461	618	685	877	1,065	1,320	1,505	1,771
Remuneration & profit sharing	3	6	6	4	4	6	7	9	11
Depreciation	67	71	62	59	65	72	79	87	96
Other non-interest expense	-	-	-	-	-	-	-	-	-
Non-interest expense	460	538	686	748	946	1,143	1,407	1,602	1,878
Operating income	963	1,103	1,175	1,336	1,526	1,824	2,172	2,590	3,145
Loan loss and other provisions	38	7	75	174	220	303	357	444	677
Net profit before extraordinary	925	1,097	1,100	1,163	1,306	1,521	1,815	2,146	2,469
Noor extraordinary results	-	-	-	-	-	-	-	-	-
Net profit before tax	925	1,097	1,100	1,163	1,306	1,521	1,815	2,146	2,469
Income tax provision	-	-	-	-	-	-	-	-	-
Net profit before minority interest	925	1,097	1,100	1,163	1,306	1,521	1,815	2,146	2,469
Minority interest	-	-	-	-	-	-	-	-	-
Net profit before preferred dividends	925	1,097	1,100	1,163	1,306	1,521	1,815	2,146	2,469
Preferred dividends	-	-	-	-	-	-	-	-	-
Net profit to shareholders	925	1,097	1,100	1,163	1,306	1,521	1,815	2,146	2,469
Avg. shares outstanding (mn)	1,556	1,556	1,556	1,556	1,556	1,556	1,556	1,556	1,556
EPS	0.59	0.70	0.71	0.75	0.84	0.98	1.17	1.38	1.59

Profitability and Efficiency Ratios									
(AEDm)	2004	2005	2006	2007	2008	2009	2010	2011	2012
Net profit growth	n/a	18.6%	0.3%	5.7%	12.3%	16.5%	19.4%	18.2%	15.1%
Earnings per common share growth	n/a	18.6%	0.3%	5.7%	12.3%	16.5%	19.4%	18.2%	15.1%
Dividends per share outstanding	0.60	0.40	0.40	0.40	0.45	0.50	0.55	0.58	0.59
Cash dividend payout ratio (%)	101.0%	56.8%	56.6%	53.5%	53.6%	51.2%	47.1%	42.2%	37.4%
Return on average equity (ROAE)	16.9%	20.1%	19.1%	18.0%	18.3%	19.4%	20.9%	22.0%	22.1%
Return on average assets (ROAA)	2.44%	2.39%	1.82%	1.54%	1.45%	1.39%	1.35%	1.27%	1.15%
Non-interest expense/total income	32.3%	32.8%	36.9%	35.9%	38.3%	38.5%	39.3%	38.2%	37.4%
Administrative & personnel/total income	27.4%	28.1%	33.2%	32.9%	35.5%	35.9%	36.9%	35.9%	35.3%
Non-interest expense/average assets	1.21%	1.17%	1.14%	0.99%	1.05%	1.05%	1.04%	0.95%	0.88%
Non-interest income/total income	42.7%	37.8%	35.8%	36.0%	35.2%	33.3%	31.2%	29.8%	27.7%
Non-interest income/non-interest expense	132.1%	115.5%	97.1%	100.2%	91.8%	86.5%	79.5%	78.0%	74.2%
Fees & commissions/total income	14.9%	17.3%	22.6%	23.2%	23.3%	22.3%	20.9%	19.8%	18.3%
Non-interest income/average assets	1.60%	1.35%	1.10%	0.99%	0.96%	0.90%	0.83%	0.74%	0.65%
Number of branches	29	33	39	44	51	58	67	77	88
Number of employees (000's)	1.196	1.332	1.540	1.656	1.845	2.057	2.266	2.515	2.789
Employees per branch	41	40	39	38	36	35	34	33	32
Assets per employee (000's)	33,668	38,595	44,985	49,579	53,381	58,419	65,879	74,768	86,315
Net profit per employee (000's)	773	823	715	702	708	739	801	853	885

Summary Balance Sheet Data (AEDm)	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total loans	16,932	28,267	43,627	51,480	61,775	75,675	93,837	118,516	150,515
Net loans	16,620	27,937	43,218	50,882	60,953	74,524	92,288	116,474	147,728
Total interest earning assets	36,497	46,479	62,917	78,154	95,730	117,024	146,180	174,824	212,626
Total assets	40,267	51,408	69,276	82,092	98,511	120,183	149,267	188,077	240,738
Total customer deposits	31,477	37,092	45,408	54,490	66,477	82,432	103,040	132,303	171,068
Total interest bearing liabilities	33,351	42,639	59,305	73,046	88,128	103,657	128,581	154,760	188,047
Total liabilities	34,830	45,911	63,233	75,249	91,062	111,991	140,116	177,686	228,802
Total equity	5,438	5,498	6,044	6,843	7,449	8,192	9,151	10,391	11,936
Loan growth	n/a	66.9%	54.3%	18.0%	20.0%	22.5%	24.0%	26.3%	27.0%
Net loan growth	n/a	68.1%	54.7%	17.7%	19.8%	22.3%	23.8%	26.2%	26.8%
Interest earning asset growth	n/a	27.4%	35.4%	24.2%	22.5%	22.2%	24.9%	19.6%	21.6%
Asset growth	n/a	27.7%	34.8%	18.5%	20.0%	22.0%	24.2%	26.0%	28.0%
Customer deposits growth	n/a	17.8%	22.4%	20.0%	22.0%	24.0%	25.0%	28.4%	29.3%
Interest bearing liabilities growth	n/a	27.8%	39.1%	23.2%	20.6%	17.6%	24.0%	20.4%	21.5%
Liabilities growth	n/a	31.8%	37.7%	19.0%	21.0%	23.0%	25.1%	26.8%	28.8%
Equity growth	n/a	1.1%	9.9%	13.2%	8.9%	10.0%	11.7%	13.5%	14.9%
Average interest earning assets	34,765	41,488	54,698	70,535	86,942	106,377	131,602	160,502	193,725
Average assets	37,945	45,838	60,342	75,684	90,301	109,347	134,725	168,672	214,408
Average equity	5,461	5,468	5,771	6,443	7,146	7,820	8,671	9,771	11,163
Average interest earning asset growth	n/a	19.3%	31.8%	29.0%	23.3%	22.4%	23.7%	22.0%	20.7%
Average asset growth	n/a	20.8%	31.6%	25.4%	19.3%	21.1%	23.2%	25.2%	27.1%
Average equity growth	n/a	0.1%	5.5%	11.7%	10.9%	9.4%	10.9%	12.7%	14.3%

Balance Sheet Ratios	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total interest earning assets/total assets	90.6%	90.4%	90.8%	95.2%	97.2%	97.4%	97.9%	93.0%	88.3%
Total loans/total assets	42.0%	55.0%	63.0%	62.7%	62.7%	63.0%	62.9%	63.0%	62.5%
Net loans/total assets	41.3%	54.3%	62.4%	62.0%	61.9%	62.0%	61.8%	61.9%	61.4%
Total loans/customer deposits	53.8%	76.2%	96.1%	94.5%	92.9%	91.8%	91.1%	89.6%	88.0%
Net loans/customer deposits	52.8%	75.3%	95.2%	93.4%	91.7%	90.4%	89.6%	88.0%	86.4%
Total int. bearing liabilities/total liabilities	95.8%	92.9%	93.8%	97.1%	96.8%	92.6%	91.8%	87.1%	82.2%
Total equity/total assets	13.5%	10.7%	8.7%	8.3%	7.6%	6.8%	6.1%	5.5%	5.0%
Total equity/total loans	32.1%	19.4%	13.9%	13.3%	12.1%	10.8%	9.8%	8.8%	7.9%
Capital adequacy ratio, calculated	23.4%	15.3%	11.8%	11.9%	11.3%	10.4%	9.6%	8.4%	7.4%

Asset Quality Data (AEDm)	2004	2005	2006	2007	2008	2009	2010	2011	2012
Non-performing loans	196	250	387	456	556	689	863	1,102	1,430
Loan loss reserves	312	330	409	597	822	1,151	1,549	2,042	2,788
Loan loss provisions	232	251	312	482	698	998	1,351	1,791	2,464
Additions (charged to P&L)	38	31	71	170	216	299	353	440	673
Recoveries, reserve movement, and other	-	-	-	-	-	-	-	-	-
Deductions	6	12	10	-	-	-	-	-	-
Unearned interest	80	79	96	115	124	153	198	251	323
NPL growth	n/a	27.3%	54.9%	17.8%	22.0%	23.9%	25.4%	27.7%	29.7%
NPLs/ total assets	0.5%	0.5%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%
NPLs/total loans (excl. unearned interest)	1.2%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	1.0%
Loan loss provisions/NPLs	118.1%	100.4%	80.7%	105.8%	125.6%	144.9%	156.5%	162.5%	172.3%
Loan loss provisions/total loans	1.4%	0.9%	0.7%	0.9%	1.1%	1.3%	1.4%	1.5%	1.6%
Loan loss reserves/NPLs	158.9%	132.3%	105.7%	131.1%	147.9%	167.1%	179.4%	185.3%	195.0%
Loan loss reserves/total loans	1.8%	1.2%	0.9%	1.2%	1.3%	1.5%	1.7%	1.7%	1.9%

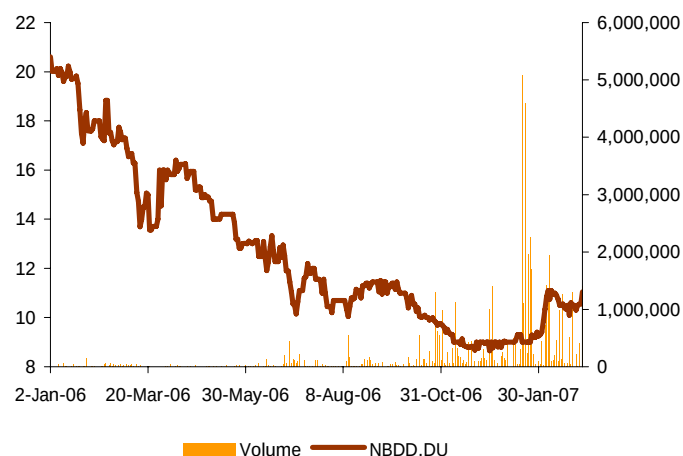
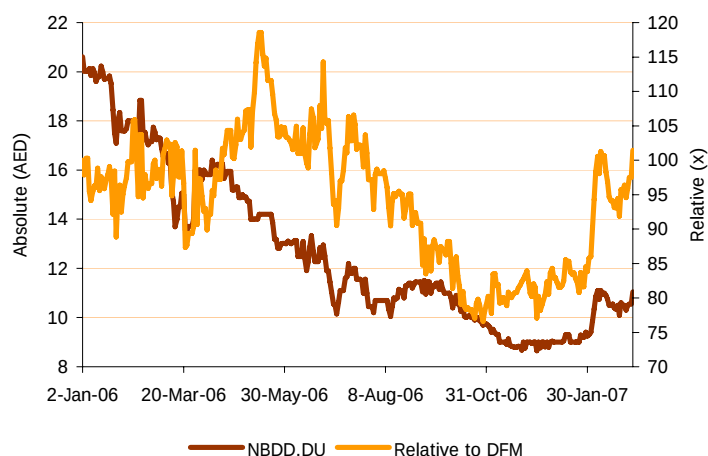


National Bank of Dubai – NBDD.DU

Bank	Year	EPS	DPS	P/E	EVA	P/BV	CoE	RoAE/CoE	Div. Yield	Cost/Income
ADCB.AD	2006a	0.53	0.30	11.3	1.07	2.2	10.5%	2.1	5.0%	25.0%
	2007e	0.54	0.35	11.0	1.11	2.1	10.5%	1.9	5.8%	27.6%
	2008e	0.62	0.44	9.6	0.98	2.0	10.5%	2.0	7.4%	29.4%
	2009e	0.74	0.50	8.1	0.82	1.8	10.5%	2.2	8.4%	30.2%
DISB.DU	2006a	0.52	0.35	14.4	1.01	2.4	10.4%	2.4	4.6%	40.0%
	2007e	0.58	0.39	13.0	1.30	2.4	10.4%	1.8	5.2%	42.7%
	2008e	0.68	0.45	11.0	1.11	2.2	10.4%	2.0	6.0%	46.7%
	2009e	0.82	0.50	9.2	0.91	2.0	10.4%	2.2	6.6%	47.4%
EBIL.DU	2006a	0.65	0.30	14.0	1.05	2.4	10.0%	2.3	3.3%	36.2%
	2007e	0.69	0.35	13.0	1.20	2.5	10.0%	2.1	3.9%	38.8%
	2008e	0.83	0.40	10.8	1.03	2.2	10.0%	2.2	4.4%	38.8%
	2009e	1.01	0.45	8.9	0.84	2.0	10.0%	2.3	5.0%	38.8%
FGB.AD	2006a	1.20	0.70	9.8	1.17	1.6	12.8%	1.4	6.0%	22.8%
	2007e	1.42	1.00	8.3	1.03	1.5	12.8%	1.5	8.5%	24.7%
	2008e	1.65	1.43	7.1	0.88	1.5	12.8%	1.6	12.2%	26.8%
	2009e	1.88	1.43	6.3	0.77	1.3	12.8%	1.7	12.2%	27.2%
NBAD.AD	2006a	1.32	0.40	14.3	0.76	2.6	7.6%	3.4	2.1%	23.9%
	2007e	1.43	0.75	13.2	0.94	2.9	7.6%	3.1	4.0%	24.6%
	2008e	1.63	1.00	11.6	0.85	2.6	7.6%	3.1	5.3%	25.6%
	2009e	1.75	1.25	10.8	0.80	2.4	7.6%	3.1	6.6%	28.0%
NBDD.DU	2006a	0.71	0.40	12.3	1.09	1.9	11.1%	1.7	4.6%	38.5%
	2007e	0.75	0.40	11.6	1.22	2.0	11.1%	1.6	4.6%	37.4%
	2008e	0.84	0.45	10.4	1.11	1.8	11.1%	1.6	5.2%	39.8%
	2009e	0.98	0.50	8.9	0.94	1.7	11.1%	1.8	5.7%	40.0%

Absolute and relative performance - NBDD.DU

Price and volume - NBDD.DU



Market data - NBDD.DU

Market capitalization (AEDm)	13,538
Average daily traded volume (000's shares) - 2006	158
Average daily traded value (AED' 000) - 2006	2,312
Average daily number of transactions - 2006	6

Summary of Valuation Methods	
DDM	12.08
Bond price	7.14
Rel pricing P/E	8.68
Rel Pricing P/BV	10.41
Target price	9.58
Current Price	8.70
Upside / Downside	10.1%
Recommendation	Add

DDM	2007	2008	2009	2010	2011	2012
DPS	0.40	0.45	0.50	0.55	0.58	0.59
Factor	1.11	1.23	1.37	1.52	1.69	1.88
PV DPS	0.36	0.36	0.36	0.36	0.34	0.32
ROE						22.11
COE						11.11
g						3.5
ROE-g/COE-g						2.45
BVPS	4.40	4.79	5.26	5.88	6.68	7.67
Implied Price						18.76
PV implied Price	9.97					
NPV DPS	2.11					
"Fair Value"	12.08					

Bond pricing	2007	2008	2009	2010	2011	2012
ROE	18.05%	18.27%	19.45%	20.93%	21.96%	22.11%
COE	11.11%	11.11%	11.11%	11.11%	11.11%	11.11%
Implied P/BV	1.62	1.64	1.75	1.88	1.98	1.99
P/BV	1.98	1.82	1.65	1.48	1.30	1.13
Upside/Downside	-18%	-10%	6%	27%	52%	75%
Minimum	-18%					
EVA	1.22	1.11	0.94	0.79	0.66	0.57

Relative valuation	2007	2008	2009	2010	2011	2012
UAE Peer Average P/E	11.65	9.77	8.47	7.33	6.53	5.89
UAE Peer Average P/BV	2.28	2.11	1.93	1.75	1.60	1.47
NBD P/E	11.64	10.37	8.90	7.46	6.31	5.48
Price						
At average P/E	8.70	8.20	8.28	8.55	9.01	9.34
At Average P/BV	10.03	10.08	10.15	10.29	10.66	11.25
Average Price						
At average P/E	8.68					
At Average P/BV	10.41					

PEG Ratios	2007	2008	2009	2010	2011	2012
EPS growth	0.06	0.12	0.16	0.19	0.18	0.15
P/E	11.64	10.37	8.90	7.46	6.31	5.48
PEG	205.39	84.17	54.11	38.52	34.67	36.42

Recommendation structure

Expected 12 months total return	Recommendation
Total Return > -20%	Sell
-10% < Total Return < -20%	Reduce
-10% < Total Return < 10%	Hold
10% < Total Return < 20%	Add
Total Return > 20%	Buy
Note: We define total return as the sum of upside/downside price potential to target price and expected dividend yield	

Source: Noor Capital

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