

UAE BANKING SECTOR

Under Pressure, Over Punished



July 18, 2010

Valuation

	Price * (AED)	Fair Value (AED)	Upside / Downside	Recommendation	Market Cap. AED Millions
NBAD	11.00	14.10	28%	Buy	26,309
ADCB	1.71	1.80	5%	Accumulate	8,225
FGB	14.40	20.90	45%	Buy	19,800
UNB	3.00	3.80	27%	Buy	6,806

*As of July 15, 2010. Sources: Reuters, Abu Dhabi Securities Exchange, and NBK Capital

Rebased Performance



Sources: Reuters and NBK Capital

Forecasts

	2010 F				
	P/E	P/B	Net Profit Growth	Operating Income Growth	RoAE
NBAD	8.1	1.1	7.7%	10.2%	14.8%
ADCB	n/m	0.4	n/m	6.1%	-1.8%
FGB	5.6	0.8	7.1%	8.2%	14.9%
UNB	5.8	0.6	1.5%	20.5%	10.7%

Sources: Banks' financial statements, Reuters, and NBK Capital

Key Ratios

	NPLs-to- Gross Loans	NPL Coverage	Prov. Chg-to-Avg. Gross Loans	Cost-to-Income	LDR	CAR
	Mar-2010		1Q2010			Mar-2010
NBAD	1.3%	160%	0.7%	27.9%	116%	21.4%
ADCB	5.2% *	68% *	1.9%	28.5%	130%	17.5%
FGB	2.0%	158%	2.1%	14.8%	104%	22.6%
UNB	1.5%	117%	0.7%	26.0%	105%	21.4%

*As of December 2009. Sources: Banks' financial statements and NBK Capital

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Highlights

- The United Arab Emirates (UAE) banking sector continues to operate in a challenging environment, with asset quality being the top concern and high provisioning placing profitability under pressure. However, we believe the current low valuations provide considerable upside potentials, ranging from 5% for ADCB to 45% for FGB. We have slightly increased our fair value estimates for all banks under coverage, and see a rebound in net profit in 2011, when provisioning is expected to start decreasing, despite remaining high compared to the low levels seen before 2008. We expect NBAD and FGB to continue capturing market share as they demonstrate more rapid growth than their peers, and see these two banks posting better results than ADCB and UNB in FY2010. We continue to see ADCB as the most vulnerable in terms of asset quality, a matter that has significantly impacted the bank's share price, in addition to hindering the bank's growth.
- The covered banks witnessed a slight growth of 1% in net loans in 1Q2010. On the sector level, deposits witnessed a 2% decline in 1Q2010, driven by a drop in public sector deposits. The covered banks managed to increase their combined operating income by an impressive 25% in 1Q2010, driven primarily by net interest income. This, in addition to good cost control, enabled all the covered banks with the exception of ADCB to see their bottom lines increase by more than 20% in 1Q2010, despite the spike in loan provisioning charges.
- The debt restructuring at Dubai World weighed heavily on the already vulnerable banking sector. The lack of full disclosure regarding the banks' exposure to Dubai World as well as the existence of different options the banks can choose from do not permit an accurate calculation of the provisioning that is required to account for the interest income shortfall. However, we estimate that a base-case scenario of around 20% provisioning on the banks' exposure to Dubai World will need to be taken after the actual signing of the restructuring agreement. We do not think this should pose any serious threat to the solvency of any of the covered banks, which enjoy high CARs.
- We expect net interest margins (NIMs) in FY2010 to be generally similar to their level in FY2009. We see continued growth in operating income but at lower rates than those witnessed in 1Q2010. We see a moderate improvement in loan growth in 2011, compared to the growth in 2010. We expect NPL formation to continue in 2010 and spill over to 2011. We see provisioning peaking in FY2010, placing the biggest damper on the bottom line for all the covered banks. We expect a rebound in net profit growth in FY2011, as the continued increase in the top line will be aided by an expected drop in provisioning in that year.

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SECTOR HIGHLIGHTS

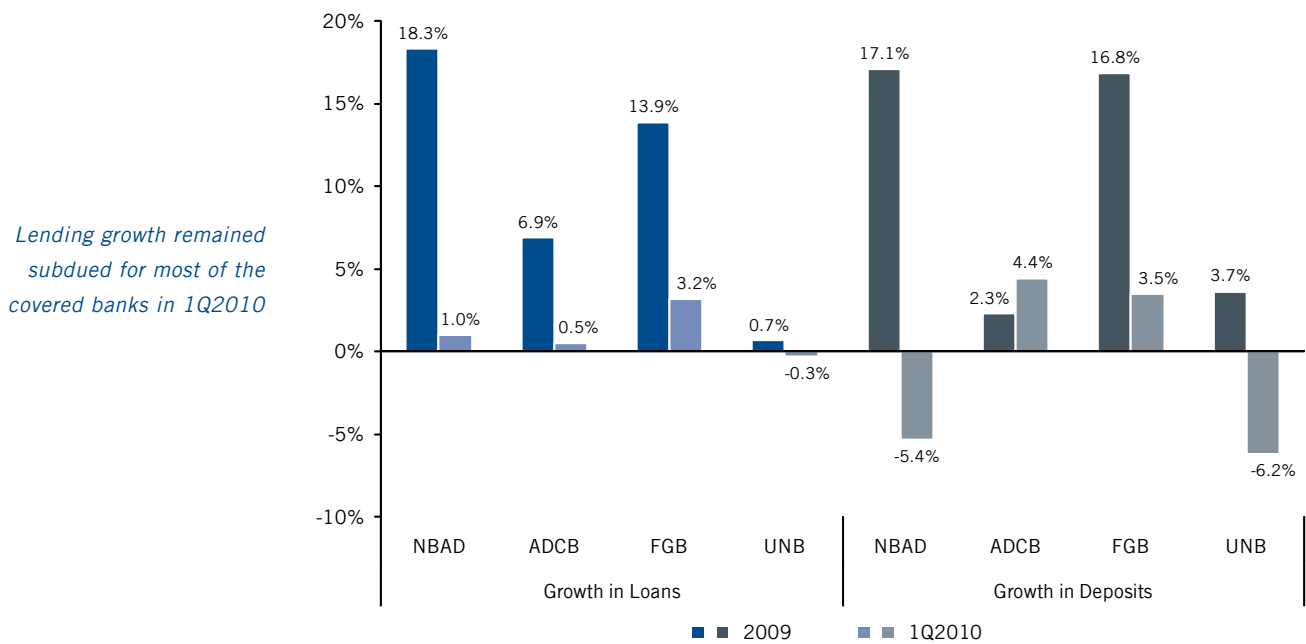
Lending and Deposit Growth

The weak lending growth witnessed in FY2009 continues to be the case thus far in 2010. The Dubai World issue and the particulars of the restructuring proposal weighed heavily on the UAE banking sector. Between November 2009, when the USD 26 billion restructuring was first announced, and May 2010, there has been a slight decline in total credit (-0.6%) in the UAE, primarily attributable to the drop in December 2009, when sector loans fell by nearly 1% month-on-month (M-o-M). Since then, net loans have inched up by merely 0.3% as of the end of May 2010. In May 2010, Dubai World announced that it had reached an agreement with the Coordinating Committee (CoCom) and the Government of Dubai to restructure USD 23.5 billion of debt. The CoCom is composed of HSBC, Standard Chartered PLC, Royal Bank of Scotland (RBS), Lloyds, Bank of Tokyo Mitsubishi, ADCB, and Emirates NBD, which together hold 60% of Dubai World's bank loans. The final agreement between Dubai World and all its creditors will help determine the impact on the UAE banking sector in the future. We maintain our view that the Dubai-based banks, which are predicted to have higher exposure to the troubled group, will be more significantly impacted than most Abu Dhabi-based banks. Overall, we expect banks to maintain caution in their lending activities, at least in the short-term, with a stronger focus on risk management.

Among the covered banks, NBAD, FGB, and ADCB outperformed the sector in terms of loan growth in FY2009, while UNB was unable to do so. NBAD recorded the highest growth (+18%) among the covered banks in 2009, driven by a continued focus on the public sector. However, FGB took the lead in 1Q2010, recording the highest growth (3%) among the covered banks and the second-highest growth among the nine largest banks in the UAE. ADCB's loans have remained nearly flat since 3Q2009, after seeing 7% growth in 9M2009. UNB's loan book at the end of March 2010 has remained mostly unchanged since 3Q2008.

Total sector deposits declined by 3% between November 2009 and May 2010, as the majority of the banks converted the Ministry of Finance (MoF) deposits into Tier II capital during that period. Therefore, the sector loans-to-deposits ratio (LDR) increased to 106% at the end of March 2010, compared to 102% at the end of November 2009. NBAD recorded the highest growth in deposits (17%) among the covered banks in 2009, which was the second-highest growth among the nine largest UAE banks. FGB followed closely, with deposits growing by 16.8%, despite the conversion of MoF deposits (AED 4.5 billion) in 4Q2009. Excluding the conversion, FGB's deposits would have grown by a considerable 24%. In 1Q2010, however, NBAD's deposits fell as the bank converted the MoF deposits (AED 5.6 billion) into Tier II capital. Excluding this conversion, the deposits would still have declined, but by less than 1%. ADCB had the highest growth (4.4%) in deposits among the covered banks in 1Q2010, followed by FGB, at 3.5%. UNB witnessed a 6% decline in deposits in 1Q2010 for the second quarter in a row, as the bank let go of expensive deposits in order to protect interest margins, which were under pressure due to UNB's high liquidity ratios.

Figure 1 Lending and Deposit Growth: 2009 and 1Q2010

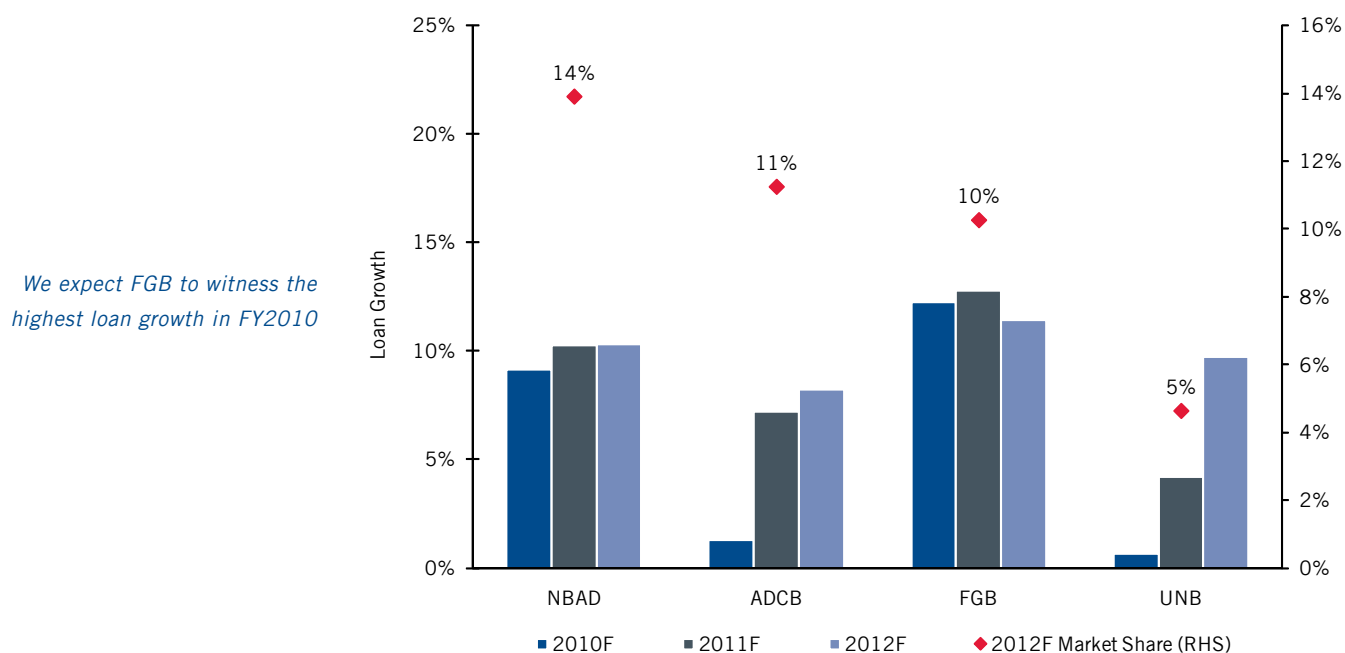


Sources: Banks' financial statements and NBK Capital

We believe that 2H2010 and FY2011 will remain challenging for the UAE banks, as the Dubai World saga continues to bear down on the already low-risk appetites of the local banks. Furthermore, the banks' profitability, at least in 2010, will depend on the final terms agreed with Dubai World, which will give the banks a clear picture of the amount of interest income shortfall that will need to be provisioned.

On the macroeconomic front, the most recent estimates by the International Monetary Fund (IMF) put the real Gross Domestic Product (GDP) growth for the UAE at 1% and 3% for 2010 and 2011, respectively. This follows a slight decline in the GDP of 2009, which was estimated at 0.7%. The price of oil has remained more or less stable since December 2009, averaging around USD 78 per barrel. We expect FGB to post the highest loan growth among the covered banks in FY2010 at 12%, followed by NBAD recording loan growth of 9%. On the other hand, we expect ADCB and UNB to expand their loan books by around 1% in FY2010.

Figure 2 Loan Growth and Market Share Forecasts

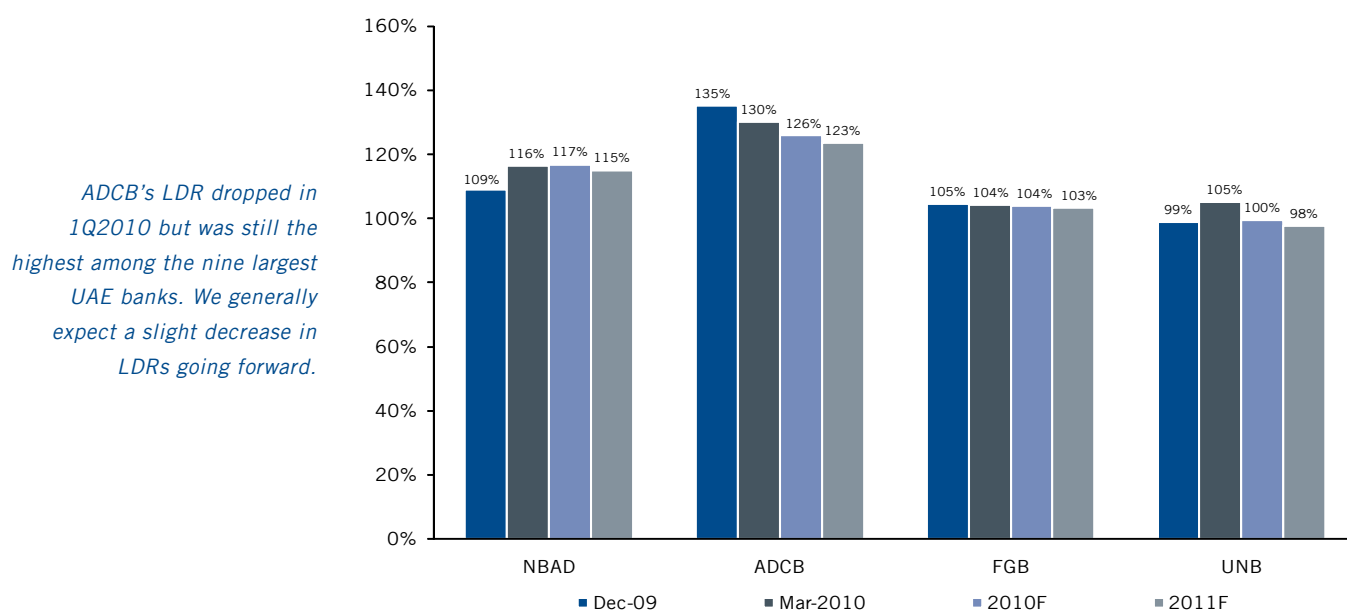


Source: NBK Capital

Liquidity

The upside of the slowdown in lending has been improved liquidity in general. The sector's simple LDR had dropped to 102% in November 2009, compared to the peak of 110% that was reached in January 2009. However, the low deposit accumulation since the end of 2009 resulted in an increase in the LDR, which reached 106% in February 2010, and stood at 105% at the end of May 2010. The weighted average LDR of the covered banks increased from 113% at the end of December 2009 to 115% at the end of March 2010, driven by the large decline in deposits at NBAD and UNB. At ADCB, the surge in deposits in 1Q2010 helped lower the bank's LDR to 130% by March 2010, the lowest level since December 2008. While lower than the peak of 151% reached in March 2009, ADCB's LDR at the end of March 2010 was still the highest among the nine largest banks in the UAE. Over the forecast horizon, we expect the covered banks' LDRs to decline gradually, in line with the desire of the Central Bank of the UAE (CBUAE) to decrease the current lending-deposit gap. In particular, we expect the LDR to decline more rapidly for ADCB, which, as previously mentioned, has the highest ratio.

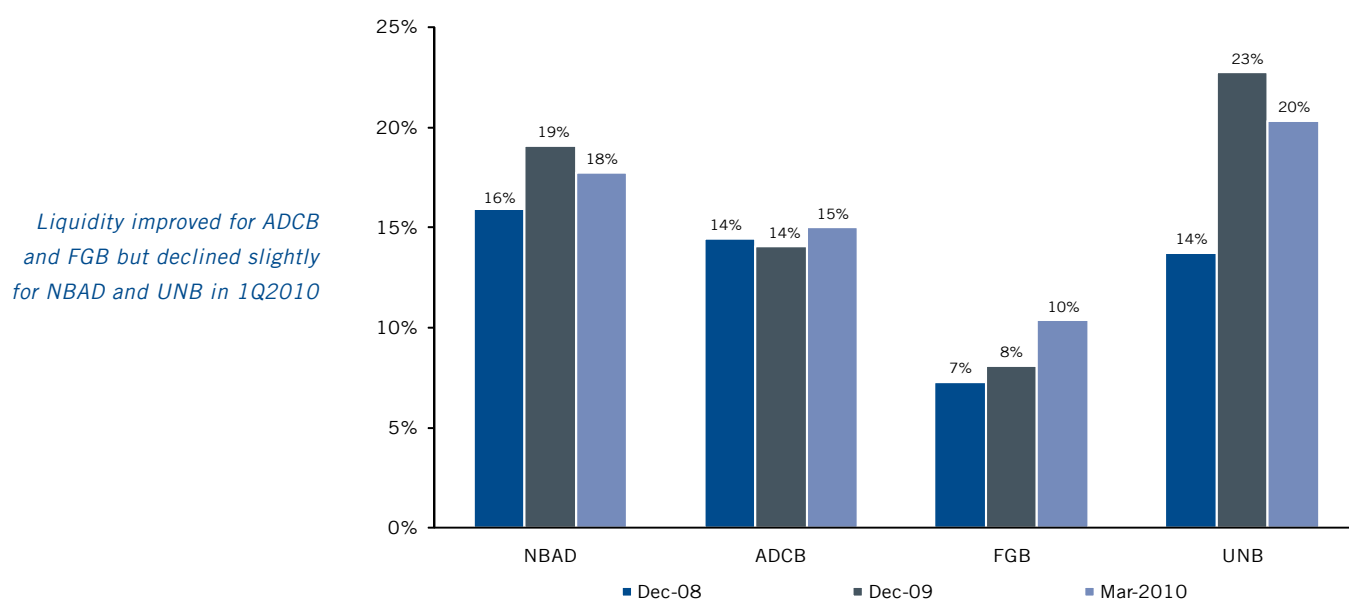
Figure 3 Loans-to-Deposits Ratios



Sources: Banks' financial statements and NBK Capital

In terms of the ratio of liquid assets (defined here as cash and balances with central banks plus interbank deposits) to total assets, the average for the sampled banks stood at 16% as of March 2010, similar to the level as of December 2009. Two of the covered banks (namely FGB and ADCB) witnessed an increase in the ratio in 1Q2010, while the other two had declining ratios. FGB's ratio, which is the lowest among the covered banks, increased to 10% at the end of March 2010. UNB, on the other hand, witnessed a decline in the ratio to 20% by the end of March 2010, as the bank's balances with the CBUAE were nearly halved and deposits contracted. While this decline may seem unfavorable in terms of the bank's liquidity position, UNB will benefit from shedding some excess liquidity, which will help ease the pressure on interest margins. At the end of March 2010, UNB still maintained the highest liquidity ratio (20%) among the covered banks and will thus be at an advantage when credit demand improves.

Figure 4 Liquid Assets-to-Total Assets

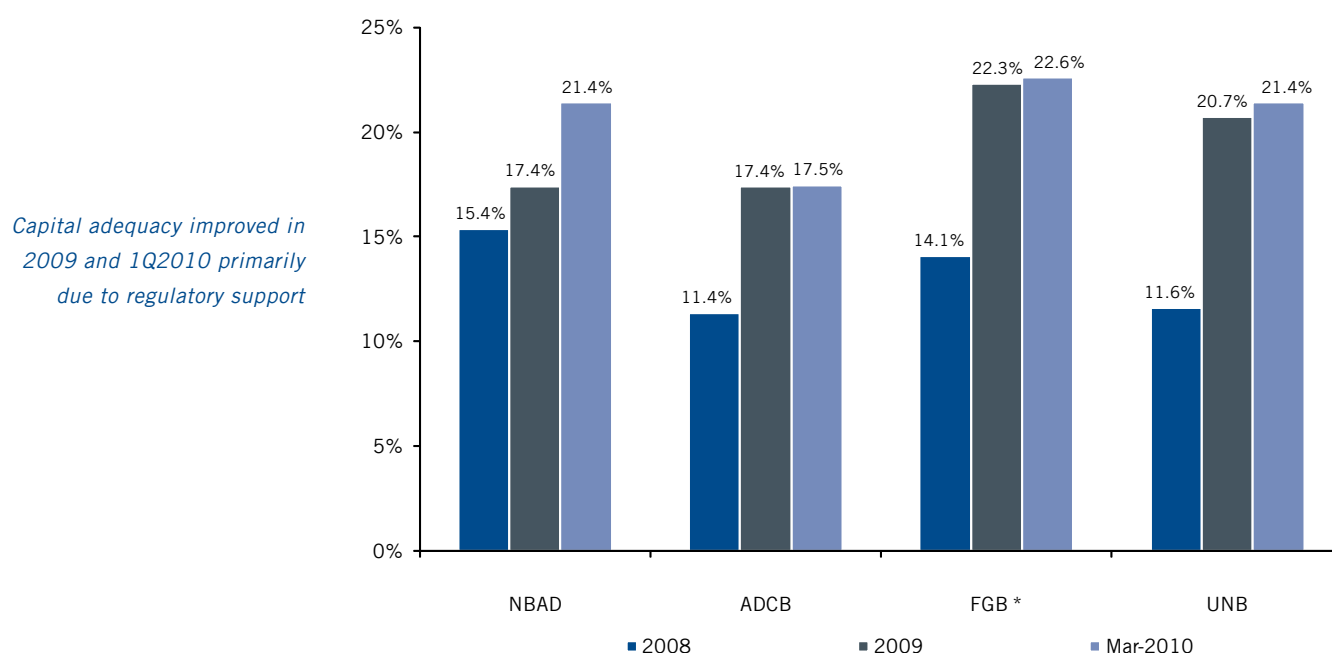


Sources: Banks' financial statements and NBK Capital

Capitalization

The CARs of all the covered banks improved in 2009 and 1Q2010 (Figure 5). At the end of March 2010, CBUAE data put the aggregate CAR of the UAE banks at 20.3%, compared with 19.2% at the end of December 2009 and 13.3% at the end of December 2008. However, the increase in CARs was driven by factors outside the banks' normal business activities. These included the issuance of Tier I notes to the government of Abu Dhabi in February 2009 and the conversion of the MoF deposits into Tier II subordinated debt in late 2009 and 1Q2010 for the majority of the local banks. The high level of CARs bodes well, especially in the current scenario of high loan provisioning. Therefore, we do not believe that the solvency of any of the covered banks is at risk. Last year, the CBUAE revised the minimum requirements for the CAR, stating that all banks should maintain a Tier I ratio of 8% and a CAR of 12% by June 2010.

Figure 5 Capital Adequacy Ratios



* December 2008 CAR per CBUAE Basel I guidelines. Sources: Banks' financial statements and NBK Capital

FGB continued to maintain the highest CAR, a trend that has been observed since 2008, at 22.6% as of March 2010. FGB also had the highest equity-to-total assets ratio as of March 2010, at 17%, compared to the 11.8% average of the other three banks. The jump in NBAD's CAR in 1Q2010 was largely due to the conversion of AED 5.6 billion of MoF deposits into Tier II capital in that quarter; whereas the other three covered banks benefited from the conversion in 2009. We believe the UAE banks will continue to receive strong support from the local authorities when required. Going forward, we do not expect any major changes in the CARs of the covered banks, although in a longer-term view, we do expect CARs to drop from the current highs.

Earnings

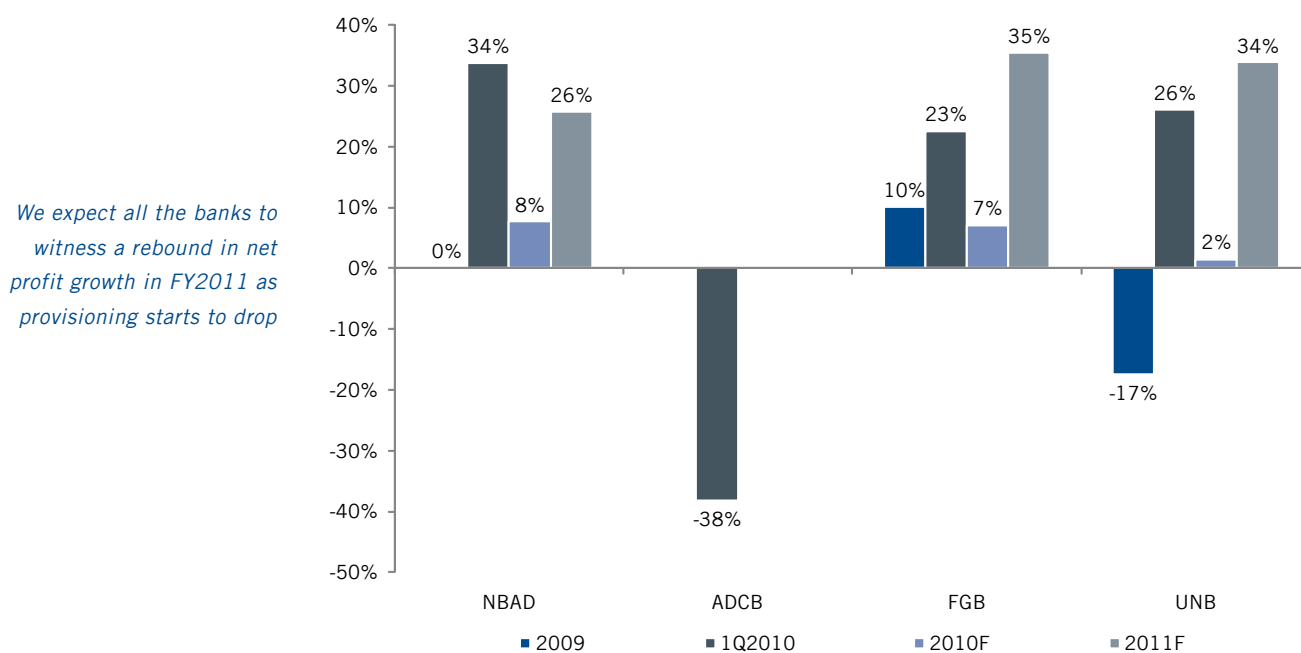
The covered banks recorded robust growth in NII in 1Q2010, which was the key driver of operating income growth in that period. Furthermore, most banks witnessed an improvement in fee and commission income and investment income. The combined operating income of the covered banks grew by 25% in 1Q2010. Costs were under control in general, with two banks, namely ADCB and FGB, even recording a decline in costs in 1Q2010. However, high provisioning at all of the covered banks put some pressure on the bottom line. NBAD had the smallest increase in loan

loss provisioning at 5% in 1Q2010, enabling the bank to record the highest growth in net profit (+34%) among the nine largest UAE banks in 1Q2010. In contrast, ADCB's loan loss provisioning grew more than four-fold in 1Q2010. Thus, ADCB was the only bank among the covered banks to witness a decline in net profit in 1Q2010 (Figure 6). Nevertheless, ADCB's net profit in 1Q2010 of AED 219 million compared favorably to the net loss of AED 1.2 billion recorded in 4Q2009.

In 2009, FGB was the only covered bank to record notable growth in net profit (10%), despite a spike in provisioning charges. The growth was driven by a 31% increase in operating income, supported by robust NII growth, and a 5% drop in costs. NBAD's net profit remained flat at around AED 3.02 billion in 2009, while UNB recorded a 17% decline in net profit. ADCB, on the other hand, recorded net losses of AED 559 million in 2009, on the back of high loan loss provisioning charges of AED 2.97 billion, which wiped out the bank's income before provisions (IBP) (excluding loan loss provisions) of AED 2.41 billion.

Going forward, we expect NBAD to record the highest growth in net profit (+8%) in FY2010. We expect ADCB to turn profitable in FY2011, as loan loss provisioning charges start to decline from the current highs. In fact, we expect all the banks to witness a rebound in net profit growth in FY2011, as the economic conditions improve, lending growth improves, and, most importantly, provisioning starts to drop.

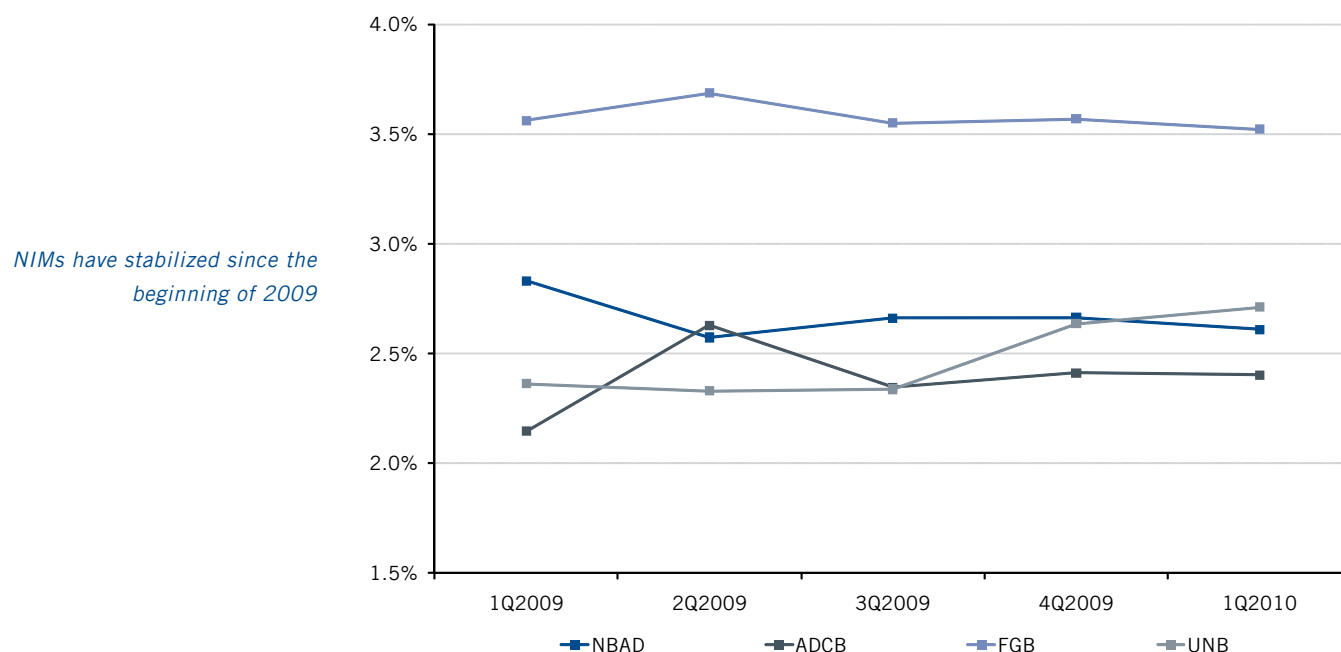
Figure 6 Net Profit Growth



Source: Banks' financial statements and NBK Capital

With the exception of UNB, the covered banks were able to increase the NIM in 2009, as the impact of loan re-pricing, done in late 2008 and early 2009, became visible. UNB's NIM suffered due to the bank's high liquidity position for most of FY2009. However, the bank managed to increase NIMs in 4Q2009 and 1Q2010. Overall, as seen in Figure 7, NIMs have more or less stabilized in recent quarters. Since the beginning of 2010, the three-month Emirates Interbank Offered Rate (EIBOR) has been gradually increasing, after having declined sharply from a high of 4.7% in October 2008 to a low of 1.89% in December 2009. At the end of June 2010, the three-month EIBOR stood at 2.3%. We believe the Dubai World issue is one of the reasons the EIBOR has been on the rise since late December 2009, due to the increased risk averseness of lenders. Furthermore, credit conditions globally remain difficult. Going forward, we expect NII to be the main driver of earnings growth, as lending activity regains momentum. We expect NIMs in FY2010 to be generally similar to their level in FY2009.

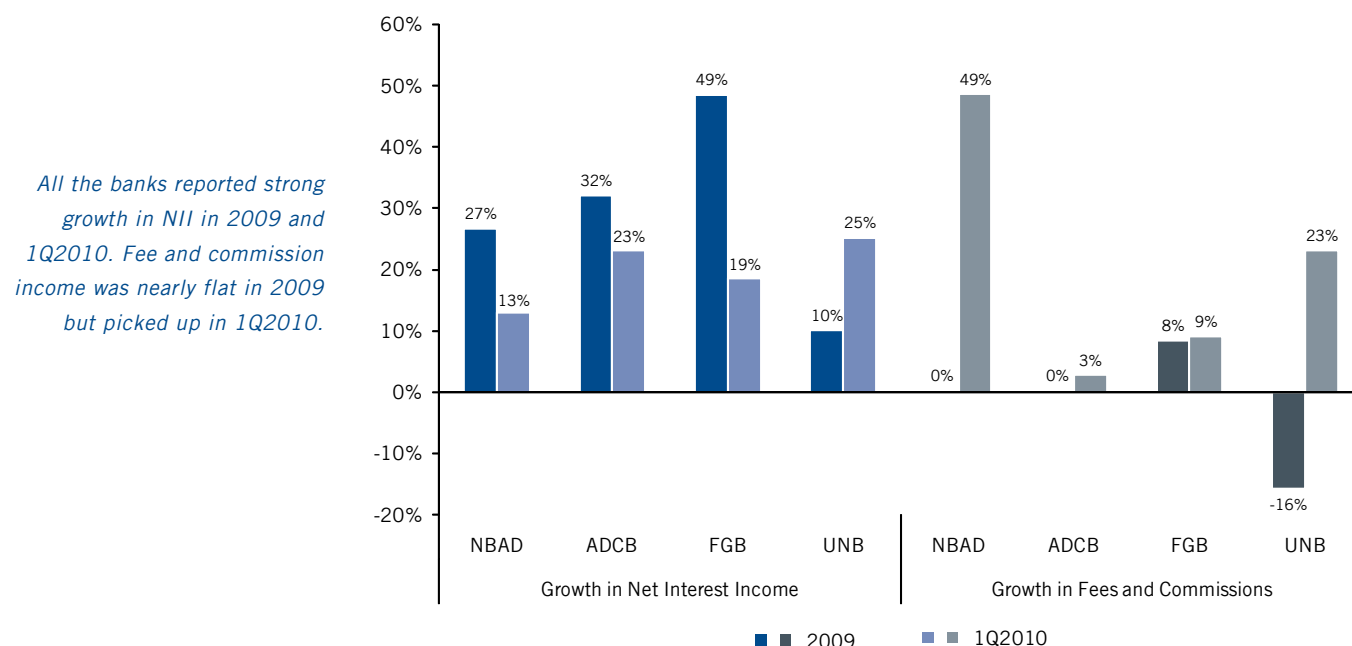
Figure 7 Net Interest Margins



Sources: Banks' financial statements and NBK Capital

As previously mentioned, NII was the main driver of operating income growth in 2009 and 1Q2010. FGB was the outperformer in 2009, recording 49% growth in NII. UNB recorded the highest growth in NII (+25%) in 1Q2010, by shedding relatively expensive time deposits in the quarter, as lending remained muted. In terms of fee and commission income, however, most of the covered banks did not fare as well in 2009 due to weak lending growth. In 1Q2010, however, the banks recorded 19% growth in combined income from fees and commissions. NBAD stood out, recording the highest growth at 49%. However, this growth was a result of an exceptionally weak quarter in 1Q2009, when NBAD recorded the lowest income from fees and commissions in a quarter since 3Q2007. ADCB witnessed an increase in retail banking fees in 1Q2010 (up 29% Y-o-Y) that were offset by a drop in investment banking fees (down 56% Y-o-Y), resulting in fees and commissions growing by just 3% in 1Q2010. FGB's fee and commission income growth was consistent at 8% in FY2009, followed by 9% in 1Q2010.

Figure 8 Growth in Net Interest Income and in Fees and Commissions: 2009 and 1Q2010



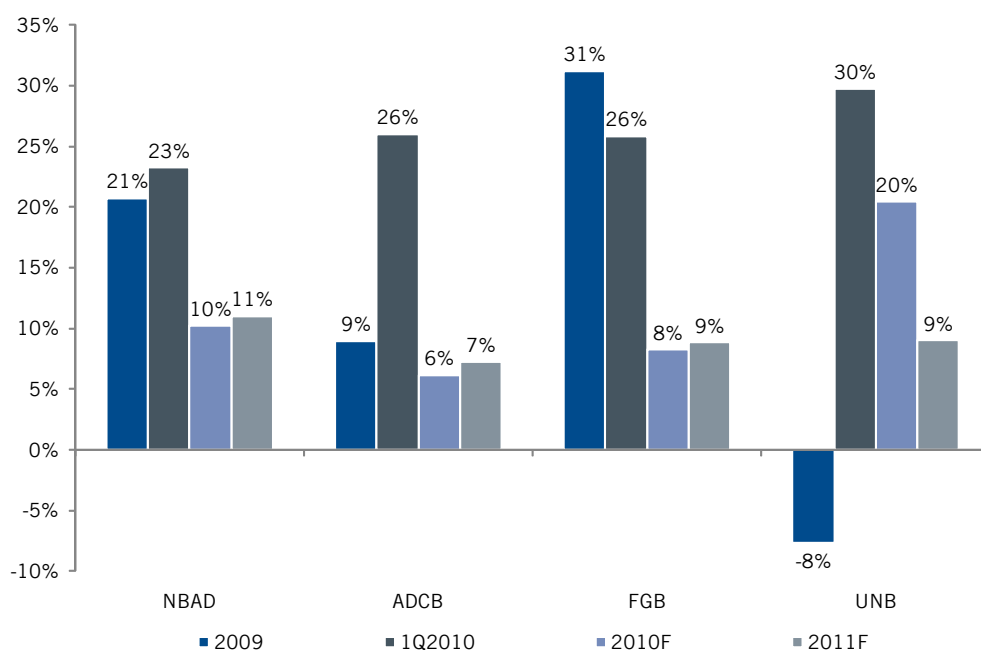
Sources: Banks' financial statements and NBK Capital

We believe the growth in fee and commission income in 1Q2010 was primarily driven by core banking activities. The market-related fees, which typically account for a small share of total fees, remained under pressure due to slow stock market activity in 1Q2010. For example, the total value traded on the Dubai Financial Market (DFM) and the Abu Dhabi Securities Exchange (ADSE) grew by just 3% in 1Q2010, compared to 1Q2009. However, year-to-date (YTD) as of June 2010, the total value traded on the Dubai and Abu Dhabi exchanges combined have declined by 46% compared to the corresponding period in 2009. We believe all the covered banks, with the exception of ADCB, will be able to increase fee and commission income in FY2010. Furthermore, we believe that core banking activities will be the primary driver for growth in income from fees and commissions, while improving non-core fees will be challenging until investor confidence is restored.

Going forward, we believe growth in operating income in FY2010 will be slower than it was in FY2009. We expect UNB to record the highest growth in operating income among the covered banks in FY2010 at 20%, driven by strong growth in NII and the low operating income base in FY2009.

Figure 9 Operating Income Growth

We believe growth in operating income in FY2010 will be slower than it was in FY2009

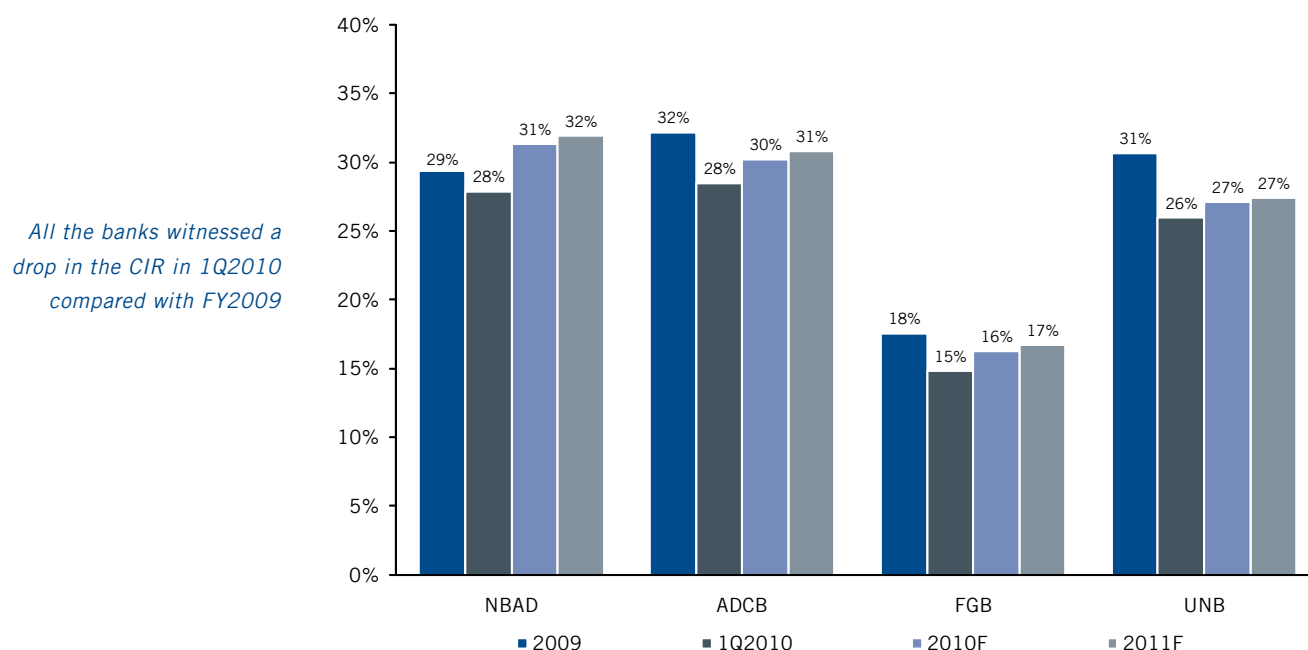


Sources: Banks' financial statements and NBK Capital

Cost Efficiency

All the covered banks have been focusing on controlling costs, in anticipation of pressure on profitability given the low growth environment, pressure on operating income, and high provisioning charges. The banks were able to reduce the combined cost growth to 8% in FY2009 and down to 1% in 1Q2010, compared to the double-digit growth rates seen in previous years. In 2009, only NBAD witnessed a significant increase in costs (+30%) as the bank's infrastructure expansion and investment in information technology (IT) continued. All the banks reduced their cost-to-income ratios (CIRs) in 1Q2010, compared with FY2009. FGB witnessed a decline in its CIR to a very low 15% in 1Q2010, compared with 18% in FY2009; however, we do not believe this is sustainable in the long run. Accordingly, we expect FGB's CIR to increase going forward, although we believe it will remain lower than the CIR of the other three banks, as has been the case historically. Similarly, UNB's CIR declined from 30.6% in FY2009 to 26% in 1Q2010. However, we believe UNB's CIR will increase over our forecast horizon. We expect NBAD's CIR to increase gradually toward its medium-term cap of 35% as the bank continues to expand and invest in its infrastructure.

Figure 10 Cost-to-Income Ratios

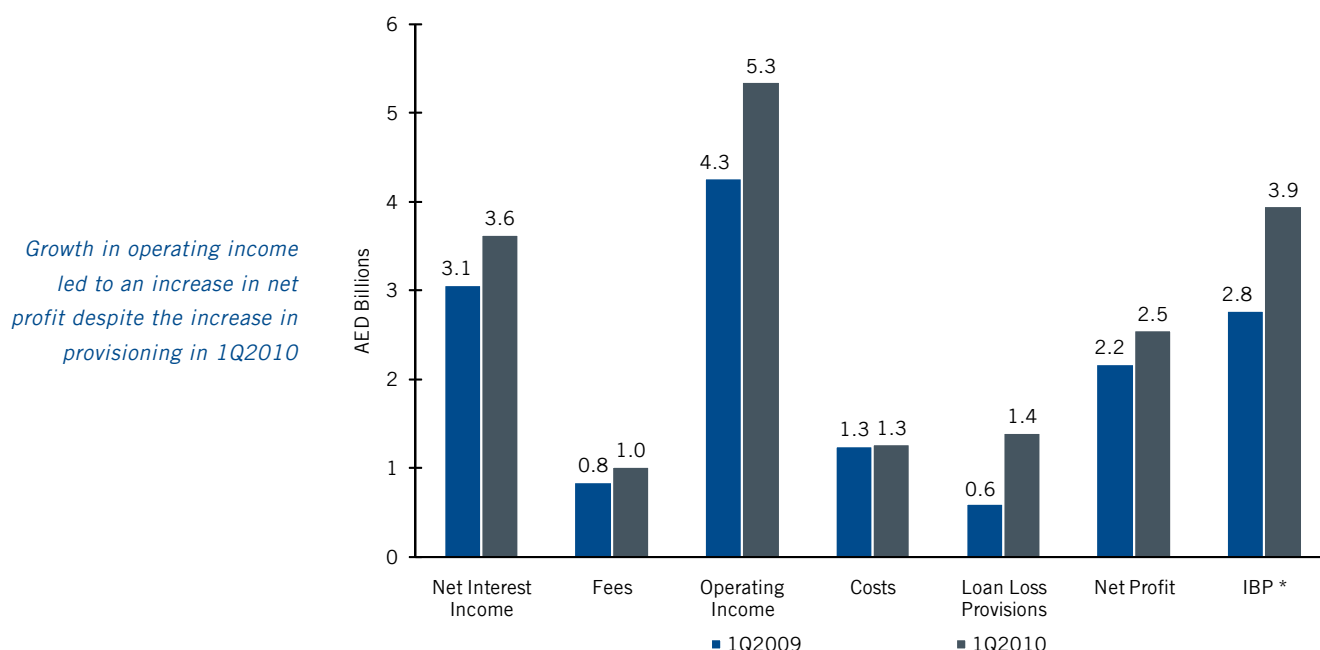


Sources: Banks' financial statements and NBK Capital

Provisioning charges were the biggest damper on earnings in 2009 and 1Q2010. Loan loss provisions increased nearly three-fold from AED 2.2 billion in FY2008 to AED 6.3 billion in FY2009. ADCB had the highest increase in provisioning charges from AED 758 million in FY2008 to AED 2.97 billion in FY2009. With the exception of NBAD, all the covered banks more than doubled loan loss provisioning charges in 1Q2010, compared with 1Q2009. The Dubai World debt restructuring poses the single largest threat to UAE banks' profitability in 2010. Among the covered banks, NBAD officially disclosed its exposure of USD 239 million, while the chief executive officer (CEO) of ADCB was reported to have mentioned a total exposure of around AED 9 billion to Dubai World and its subsidiaries. Accordingly, we expect NBAD to be the least impacted by the Dubai World restructuring agreement and ADCB to be the most impacted.

All in all, three of the covered banks witnessed an increase in net profit in 1Q2010, despite high provisioning. The banks' combined IBP grew by 42% in 1Q2010, versus net profit growth of 17%.

Figure 11 Income Statement Accounts: 1Q2010 versus 1Q2009



*Income before loan loss provisions. Sources: Banks' financial statements and NBK Capital

Asset Quality

Asset quality has been the top concern for UAE banks since 2H2008. The Dubai World issue added fuel to the fire and ignited further concerns of weakening asset quality. All the covered banks have exposure to Dubai World, although only two have publicly disclosed the extent of their exposure, that is, NBAD and ADCB. The lack of disclosure, however, makes it difficult to ascertain the extent of damage on the banks' books, whether in terms of profitability or capital. As previously mentioned, Dubai World reached an agreement with the CoCom and the Government of Dubai in May 2010, with regard to the restructuring plan. After the restructuring, the company's liabilities will stand at USD 14.4 billion, split up into two tranches; Tranche A, maturing in five years, is worth USD 4.4 billion and will pay a coupon of 1%, and Tranche B is worth approximately USD 10 billion and will mature in eight years. Each creditor will receive a portion of Tranche A and Tranche B, and will be able to select one of three options for the latter. The three options have been designed to address the preferences of the lenders based on interest rates and capital guarantees. Options 1 and 2 will be available for USD lenders, while Option 3 will be available for AED lenders, to compensate for the EIBOR-LIBOR interest rate gap, in addition to Options 1 and 2. The three options for Tranche B are as follows:

- **Option 1:**
 - 1% coupon
 - 1.5% payment in kind (PIK) per annum (pa)
 - USD 4 billion (40%) shortfall guarantee, which comes into effect if the company is unable to repay the principle at maturity
- **Option 2:**
 - 1% coupon
 - 2% PIK pa for years 1-5, 2.5% PIK pa for years 6-8
 - USD 1 billion (10%) shortfall guarantee

- **Option 3 (Available for AED lenders only):**
 - 1% coupon + difference between EIBOR and LIBOR capped at 1%
 - 1.5% PIK
 - No shortfall guarantee

Keeping in line with the announcement made on March 25, 2010, the Government of Dubai will convert USD 8.9 billion of debt toward the company into equity. The government will also support SG&A expenses of up to USD 500 million along with a maximum interest facility of USD 1 billion and will maintain 100% ownership in the company. Furthermore, Nakheel, the real-estate arm of Dubai World, offered trade creditors repayment of 40% in cash and 60% in the form of a Sukuk yielding 10% annual return. Recent news confirms that Nakheel's payment to trade creditors has in fact started. On July 14, 2010, Nakheel formally presented the proposed recapitalization and restructuring plan, for debt worth USD 10.5 billion, to its creditor banks; however, the details have not been publicly disclosed. The lenders were asked to respond by the end of August 2010. The company stated that the terms of the restructuring were negotiated with Nakheel's CoCom, which composes of Barclays Inc., National Bank of Abu Dhabi, and Dubai Islamic Bank. While this has not been confirmed yet, Nakheel is said to offer the creditor banks interest of 4% above the benchmark rates on new loans, if the lenders agree to extend the loans by five to seven years. Nakheel has a USD 750 million Islamic bond due in January 2011 and another USD 1.85 billion facility maturing in 2012. In May 2010, Nakheel paid back a USD 980 million Islamic bond.

The lack of full disclosure regarding the banks' exposure to Dubai World as well as the existence of different options the banks can choose from do not permit an accurate calculation regarding the provisioning that is required to account for the interest income shortfall. The full disclosure should include the nature of the exposure, its underlying currency, and the original interest rate at which the loans were given, among other things. However, according to our calculations and from our discussions with the banks' management, we think that a base-case scenario of around 20% provisioning on the banks' exposure to Dubai World will need to be taken after the actual signing of the restructuring agreement.

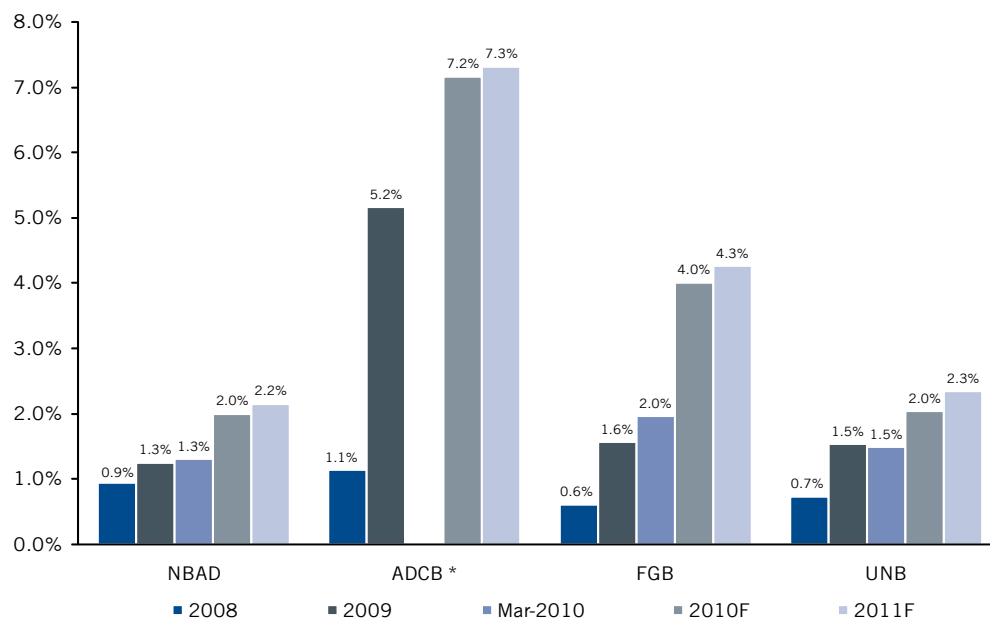
More recently, Dubai Holding has also been in the news, due to financial troubles at its investment subsidiary, Dubai International Capital (DIC). At the end of May 2010, DIC requested a three-month extension on a USD 1.25 billion loan maturing in June 2010. DIC has another USD 1.35 billion in debts maturing by 2011. Subsequently, Dubai Holding Commercial Operations Group (DHCOG) extended USD 555 million of credit due in July 2010. The loan is part of a USD 1 billion credit facility taken out in 2007 with Standard Chartered PLC, Citigroup Inc., and RBS. DHCOG posted an AED 22.8 billion net loss in 2009, on the back of falling revenues due to suffering real estate markets and high provisions worth AED 22.5 billion in that year.

NPL formation is still on the rise in the UAE banking sector. Among the covered banks, NBAD and FGB witnessed an increase in the NPLs-to-gross loans ratio in 1Q2010 (Figure 12). UNB, on the other hand, managed to decrease its NPL ratio as NPLs declined by 4% in 1Q2010. ADCB did not disclose its NPLs as of March 2010. All the banks had witnessed an increase in the NPLs-to-gross loans ratio in 2009. Other than the weakening in the local portfolios, particularly the retail and real estate segments, the increase in NPLs in 2009 was partly attributable to the exposure of the covered banks to the Saad and Gosaibi groups in Saudi Arabia. The NPL ratio of the covered banks rose from 0.9% in 2008 to 2.5% in 2009, as the total NPLs more than tripled from AED 3.2 billion in 2008 to AED 10.2 billion in 2009. It is important to note that the individual NPL ratios of the covered banks are not directly comparable due to differences in classification of NPLs at the respective banks. Among the covered banks, NBAD and ADCB follow the 90-day past due rule for recognizing NPLs, while FGB follows a 180-day past due rule. UNB follows a 90-day past due rule for the retail portfolio and a 180-day past due rule for the corporate portfolio. The CBUAE will require all the banks in the UAE to move to the 90-day NPL definition; however, it is unclear exactly when this will be implemented. In the meanwhile, some banks, like FGB, are already in the process of transitioning to the 90-day NPL definition.

Going forward, we believe all the covered banks will witness an increase in the NPL ratio in FY2010 and less so in FY2011. According to the CBUAE governor, the UAE banking sector's NPL ratio could rise to 6.4% by the end of 2010, from 4.4% at the end of 2009.

Figure 12 NPLs-to-Gross Loans Ratios

We expect the NPL ratio of all the covered banks to increase in FY2010 and remain high in FY2011

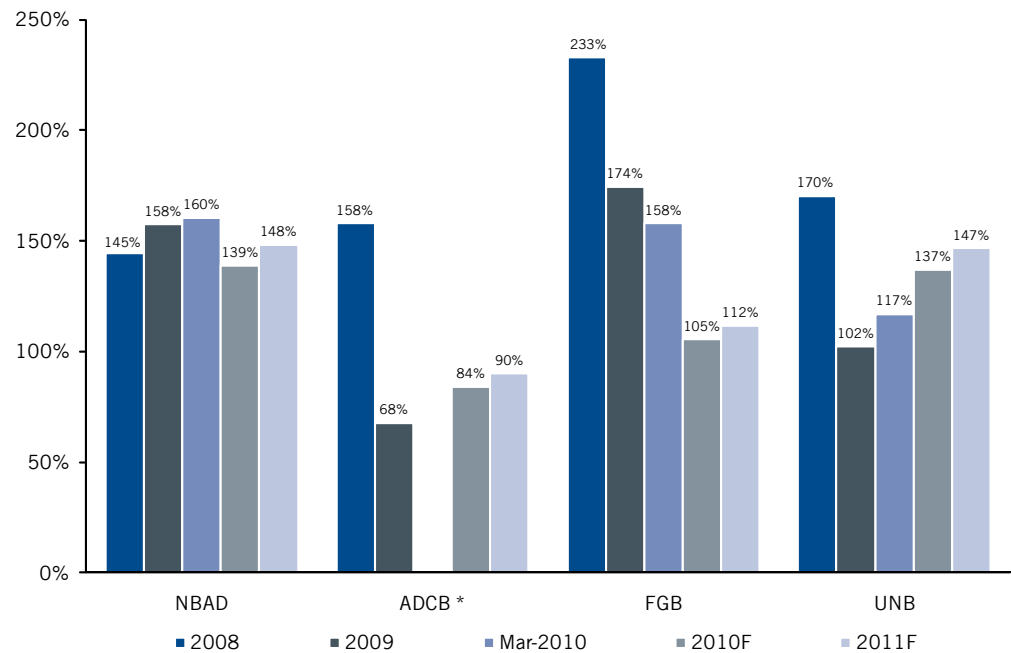


* Unavailable as of March 2010. Sources: Banks' financial statements and NBK Capital

Although provisioning surged in 2009, the jump in the NPLs exceeded the increase in provisions, resulting in a decline in the NPL coverage ratios for most banks in FY2009. We believe loan provisioning will peak in FY2010 as the banks continue to buffer against the existing loan portfolios and provide for their Dubai World exposure. Although we expect provisioning to start dropping in FY2011, we expect it to remain relatively high compared to the very low provisioning that prevailed in the years before FY2008. Going forward, despite the increase in NPLs, we still expect the banks to maintain relatively high NPL coverage ratios of more than 100% for the majority of the covered banks.

Figure 13 NPL Coverage Ratios

We expect NPL coverage ratios for the majority of our covered banks to remain above 100% over our forecast horizon

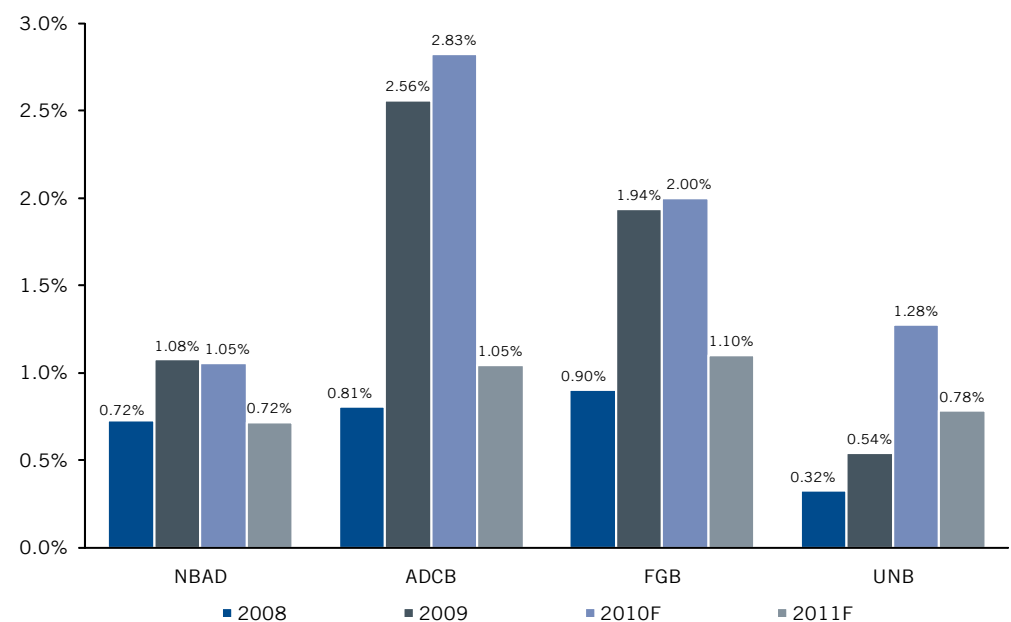


* Unavailable for March 2010. Sources: Banks' financial statements and NBK Capital

Looking at provisioning charges can also give us an indication of the direction of loan quality. All banks witnessed an increase in the ratio of net provisioning charges-to-average loans (risk cost) in FY2009, compared with FY2008. The new provisions were both specific (indicating an increase in NPLs) and general provisions (indicating that the overall quality of the loan books has generally weakened). ADCB had the highest risk cost in 2009 (2.56%), as provisioning surged to AED 2.97 billion, resulting in a net loss for ADCB in that year, while UNB had the lowest risk cost in FY2008 as well as in FY2009. We believe that risk costs will peak in FY2010 for most of the covered banks, before tapering off in FY2011 and beyond. For FY2010, we see risk costs of the covered banks ranging between 1% and 3%.

Figure 14 Provisioning Charges-to-Average Gross Loans

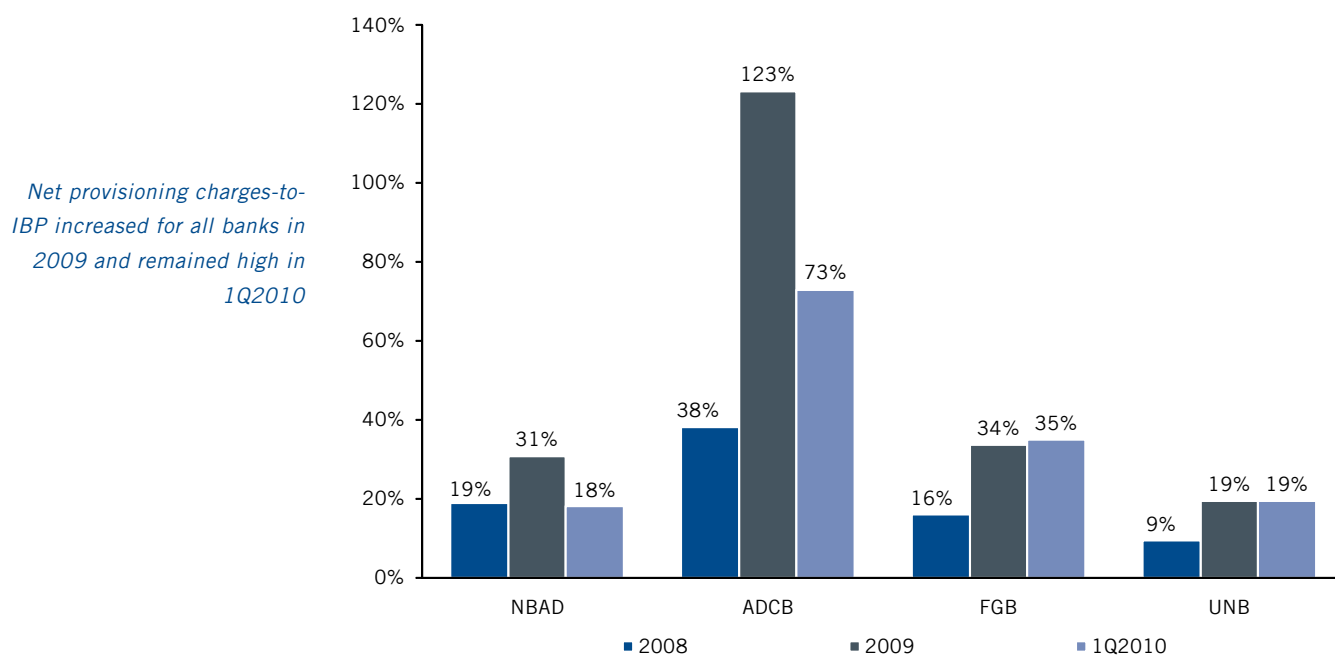
We expect provisioning to peak in FY2010 and to remain relatively high in FY2011



Sources: Banks' financial statements and NBK Capital

To get a clearer picture of the impact of provisioning on the bottom line, we plot the net provisioning charges-to-income before provisions (Figure 15). The measure increased significantly for all banks in 2009, and remained high in 1Q2010. ADCB had the highest measure in 2009 (when provisions exceeded IBP) and 1Q2010, whereas UNB and NBAD maintained the lowest measures in 2009 and 1Q2010, respectively.

Figure 15 Net Provisioning Charges-to-IBP



Sources: Banks' financial statements and NBK Capital

Finally, we believe NBAD and FGB will continue to outperform their peers, with higher growth in their balance sheets as both banks capture market share. We believe provisioning will remain the biggest damper on the banks' profitability in FY2010. We expect a rebound in net profit growth in FY2011 as the continued increase in operating income will be aided by an expected drop in provisioning in that year.

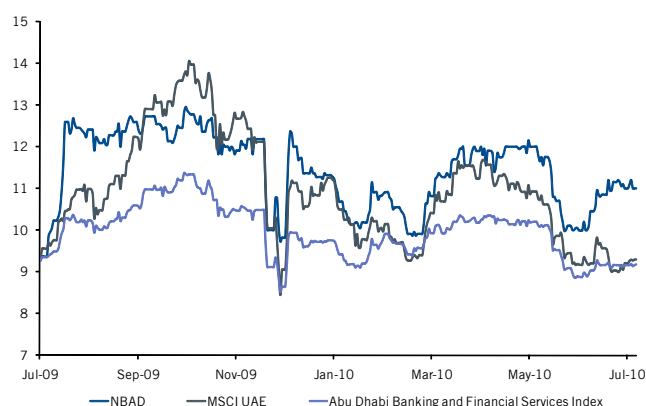
National Bank of Abu Dhabi (NBAD)

Valuation

Valuation Method	Value (AED)	Weight (%)
Discounted Equity Cash Flow (DECF)	18.20	40%
Dividend Discount Model (DDM)	11.10	40%
Peer-Based Valuation	12.00	20%
Weighted Average Fair Value	14.10	100%

Source: NBK Capital

Rebased Performance



Sources: Reuters and NBK Capital

Historical Performance

AED Thousands	2009	% Change in 2009	Mar-2010	Q-o-Q Change %
Net Loans and Advances	132,258,330	18.3%	133,611,659	1.0%
Customer Deposits	121,205,104	17.1%	114,719,135	-5.4%
Shareholders' Equity	20,440,568	42.4%	21,442,560	4.9%
Total Assets	196,844,520	19.6%	200,837,324	2.0%

AED Thousands	2009	% Change in 2009	1Q2009	1Q2010	Y-o-Y Change %
Net Interest Income	4,571,201	26.7%	1,096,654	1,239,437	13.0%
Net Fees and Commissions	1,135,686	0.4%	217,577	323,306	48.6%
Net Invest. Gains/(Losses)	160,612	n/m	(55,444)	97,032	n/m
Total Operating Income	6,399,052	20.7%	1,438,024	1,772,020	23.2%
Total Costs	(1,879,131)	29.9%	(435,082)	(493,940)	13.5%
Prov. for Credit Losses, net	(1,335,692)	90.0%	(214,020)	(225,126)	5.2%
Net Profit	3,019,937	0.0%	770,465	1,030,835	33.8%

Sources: Bank's financial statements and NBK Capital

Forecasts

AED Thousands	2010 Forecasts			2010 Change %	5-year CAGR *
	Old	New	Change %		
Net Loans and Advances	153,058,677	144,367,146	-5.7%	9.2%	9.7%
Customer Deposits	135,578,115	123,548,962	-8.9%	1.9%	10.5%
Net Interest Income	5,232,802	5,183,067	-1.0%	13.4%	8.3%
Net Fees and Commissions	1,272,360	1,288,519	1.3%	13.5%	10.7%
Total Operating Income	7,196,491	7,053,844	-2.0%	10.2%	8.8%
Total Costs	(2,197,283)	(2,208,346)	0.5%	17.5%	10.1%
Prov. for Credit Losses, net	(1,306,753)	(1,494,556)	14.4%	11.9%	-21.8%
Net Profit	3,554,378	3,251,761	-8.5%	7.7%	14.9%

AED Millions	2Q2009A	1Q2010A	2Q2010F	3Q2010F
Operating Income	1,649	1,772	1,721	1,756
Income before Provisions	1,192	1,256	1,184	1,183

*CAGR: 2010–2015. Sources: Bank's financial statements and NBK Capital

12-Month Fair Value: AED 14.10

Recommendation: Buy – Risk Level**: 2

- Our new estimate of NBAD's fair value per share stands at AED 14.10, which is 6% above our prior fair value per share estimate of AED 13.30, and 28% above the share's closing price as of July 15, 2010. Hence, our recommendation on the stock is "Buy." NBAD posted a solid set of results in 1Q2010, with robust growth in earnings and good asset quality indicators. However, balance sheet expansion was conservative, with sluggish growth in lending (1%) and a slight decline in deposits in 1Q2010. The conversion of MoF deposits (AED 5.6 billion) into Tier II capital during 1Q2010, however, boosted NBAD's CAR, which rose to 21.4% as of March 2010, compared to 17.4% as of December 2009.
- NBAD recorded the highest ever quarterly net profit of AED 1,031 million in 1Q2010, 34% above 1Q2009, and 140% above 4Q2009. The growth was supported by strong growth in net interest income, fee and commission income, and investment gains. Net interest income also reached a record high of AED 1,239 million in 1Q2010, up 13% Y-o-Y and 1% Q-o-Q. Fee and commission income reached AED 323 million, accounting for a third of the Y-o-Y increase in operating income in 1Q2010. Net investment gains stood at AED 97 million in 1Q2010, compared to net losses in 1Q2009 and 4Q2009, which helped support total operating income growth in 1Q2010. Aside from the network expansion plans in the MENA region, NBAD has also applied for a license to operate in Malaysia.
- NBAD displayed the strongest asset quality indicators among the covered banks, with the lowest NPLs-to-gross loans ratio at 1.3% and the highest NPL coverage ratio of 161% as of March 2010. NBAD has a relatively small exposure of USD 239 million (0.6% of the loan book) to Dubai World. The bank is carrying on its branch network expansion in 2010, with an increased focus on expanding the consumer business. To strengthen the bank's funding base, NBAD raised USD 750 million in March 2010, paying a coupon of 4.25%, as part of the bank's EMTN program. This was followed by another issuance in June 2010, NBAD's first Sukuk, worth Malaysian Ringgit (MYR) 500 million, paying a coupon of 4.75%, and was oversubscribed by nearly 4x.
- We remain optimistic regarding NBAD and believe the bank will post good results in FY2010. We expect NBAD to maintain strong asset quality indicators, with the NPLs-to-gross loans ratio reaching 2%, and NPL coverage at 139% at the end of December 2010. We now forecast loans to grow by a CAGR of 10% in the coming five years, compared to our prior forecast of 12%. We expect NBAD to record 8% growth in net profit in FY2010, followed by a rebound of 26% in FY2011. We believe provisioning in FY2010 will be slightly higher than FY2009. However, the impact on NBAD's bottom line will be lower, than is the case for the other covered banks, due to a provisioning burden of 32%.

**Please refer to page 26 for recommendations and risk ratings.

Abu Dhabi Commercial Bank (ADCB)

Valuation

Valuation Method	Value (AED)	Weight (%)
Discounted Equity Cash Flow (DECF)	2.20	40%
Dividend Discount Model (DDM)	1.40	40%
Peer-Based Valuation	1.90	20%
Weighted Average Fair Value	1.80	100%

Source: NBK Capital

Rebased Performance



Sources: Reuters and NBK Capital

Historical Performance

AED Thousands	2009	% Change in 2009	Mar-2010	Q-o-Q Change %
Net Loans and Advances	116,610,292	6.9%	117,232,284	0.5%
Customer Deposits	86,299,957	2.3%	90,139,178	4.4%
Shareholders' Equity	19,021,032	20.3%	19,182,850	0.9%
Total Assets	160,208,778	7.9%	163,701,477	2.2%

AED Thousands	2009	% Change in 2009	1Q2009	1Q2010	Y-o-Y Change %
Net Interest Income	3,276,143	32.1%	708,389	871,693	23.1%
Net Fees and Commissions	985,624	0.4%	203,969	209,687	2.8%
Net Invest. Gains/(Losses)	38,677	-90.3%	8,500	1,116	-86.9%
Total Operating Income	4,782,806	8.9%	1,007,687	1,269,815	26.0%
Total Costs	(1,539,400)	0.9%	(375,254)	(361,404)	-3.7%
Prov. for Credit Losses, net	(2,968,315)	291.4%	(135,401)	(589,188)	335.1%
Prov. on Invest. and others	(784,659)	6.1%	(141,991)	(92,136)	-35.1%
Net Profit	(559,448)	n/m	353,705	218,557	-38.2%

Sources: Bank's financial statements and NBK Capital

Forecasts

AED Thousands	2010 Forecasts			2010 Change %	5-year CAGR *
	Old	New	Change %		
Net Loans and Advances	128,846,541	118,131,713	-8.3%	1.3%	8.4%
Customer Deposits	95,842,111	93,877,878	-2.0%	8.8%	9.6%
Net Interest Income	3,578,876	3,544,226	-1.0%	8.2%	8.3%
Net Fees and Commissions	1,104,356	866,736	-21.5%	-12.1%	10.9%
Total Operating Income	5,390,572	5,076,826	-5.8%	6.1%	9.3%
Total Costs	(1,843,509)	(1,534,184)	-16.8%	-0.3%	12.1%
Prov. for Credit Losses, net	(1,948,130)	(3,483,919)	78.8%	17.4%	-26.4%
Net Profit	1,179,240	(345,607)	n/m	n/m	n/m

AED Millions	2Q2009A	1Q2010A	2Q2010F	3Q2010F
Operating Income	1,318	1,270	1,260	1,269
Income before Provisions	908	900	881	879

*CAGR: 2010–2015. Sources: Bank's financial statements and NBK Capital

12-Month Fair Value: AED 1.80

Recommendation: Accumulate – Risk Level**: 4

- Our estimate of ADCB's fair value per share stands at AED 1.80, which is 6% above our prior fair value per share estimate of AED 1.70, and 5% above the share's closing price as of July 15, 2010. Hence, our recommendation on the stock is "Accumulate." ADCB has material exposure to Dubai World of around AED 9 billion, as stated by the bank's CEO, accounting for 7% of the bank's gross loans as of March 2010. ADCB's asset quality indicators deteriorated considerably in 2009, with the NPLs-to-gross loans ratio reaching 5.2% while the NPL coverage ratio fell to 68%. These indicators are the weakest among the covered banks. No NPL information was disclosed at the end of March 2010. However, we believe there was a further weakening of asset quality in 1Q2010.
- ADCB recorded a net profit of AED 219 million in 1Q2010, 38% below 1Q2009, but well above the losses recorded in 4Q2009 on the back of high provisioning charges. Total operating income continued to grow, reaching AED 1.27 billion, 26% above 1Q2009 and 5% above 4Q2009, supported heavily by net interest income and income from associates. The bank's Malaysian associate, RHB Capital Berhard, contributed 8% of total operating income in 1Q2010, compared to 2% in 1Q2009. We believe the subsidiary will be a key driver of operating income growth going forward, contributing around 8% of operating income over the forecast horizon. An increased focus on cost efficiency led to costs declining in 1Q2010 by 4% Y-o-Y and Q-o-Q, resulting in a CIR of 28% in 1Q2010, compared with 32% in FY2009. Investment provisions of AED 92 million, although lower than the past six quarters, continued to put pressure on the bank's bottom line in 1Q2010.
- ADCB's exposure to Dubai World is the key factor in determining the bank's profitability in FY2010. Management was unavailable to comment on the bank's strategy in the coming year in terms of balance sheet management, asset quality, and earnings capability. We believe asset quality is the biggest challenge facing ADCB. We now expect ADCB's NPLs-to-gross loans to reach 7.2% at the end of 2010, compared with our prior forecast of 5.5%. We believe provisioning will peak in FY2010, improving the coverage ratio to 84% as of December 2010, compared with 68% as of December 2009, and gradually increasing over our forecast horizon. We expect ADCB to record losses in FY2010, although lower than FY2009, before the bank turns profitable in FY2011. However, we expect operating income to grow by 6% in FY2010, supported primarily by net interest income. ADCB's high CAR (17.5% as of March 2010) will enable the bank to absorb any losses in the short-term. Lastly, the bank's majority-ownership by the Abu Dhabi government is a comforting factor, given the continuous support provided by the authorities, which we expect will remain the case going forward.

**Please refer to page 26 for recommendations and risk ratings.

First Gulf Bank (FGB)

Valuation

Valuation Method	Value (AED)	Weight (%)
Discounted Equity Cash Flow (DECF)	28.80	40%
Dividend Discount Model (DDM)	13.30	40%
Peer-Based Valuation	20.30	20%
Weighted Average Fair Value	20.90	100%

Source: NBK Capital

Rebased Performance



Sources: Reuters and NBK Capital

Historical Performance

AED Thousands	2009	% Change in 2009	Mar-2010	Q-o-Q Change %
Net Loans and Advances	90,385,885	13.9%	93,257,188	3.2%
Customer Deposits	86,421,906	16.8%	89,431,807	3.5%
Shareholders' Equity	22,517,837	38.6%	22,458,660	-0.3%
Total Assets	125,472,543	16.7%	132,771,738	5.8%

AED Thousands	2009	% Change in 2009	1Q2009	1Q2010	Y-o-Y Change %
Net Interest Income	3,833,732	48.6%	875,264	1,037,253	18.5%
Net Fees and Commissions	1,207,400	8.4%	321,177	350,619	9.2%
Net Invest. Gains/(Losses)	277,480	n/m	31,642	42,838	35.4%
Total Operating Income	6,164,014	31.2%	1,318,648	1,659,131	25.8%
Total Costs	(1,080,583)	-4.8%	(292,719)	(246,178)	-15.9%
Prov. for Credit Losses, net	(1,680,466)	196.7%	(219,999)	(492,410)	123.8%
Net Profit	3,310,335	10.2%	750,321	919,727	22.6%

Sources: Bank's financial statements and NBK Capital

Forecasts

AED Thousands	2010 Forecasts			2010 Change %	5-year CAGR *
	Old	New	Change %		
Net Loans and Advances	107,050,681	101,459,844	-5.2%	12.3%	10.1%
Customer Deposits	105,071,295	97,582,881	-7.1%	12.9%	10.3%
Net Interest Income	4,377,215	4,435,089	1.3%	15.7%	10.3%
Net Fees and Commissions	1,404,127	1,346,149	-4.1%	11.5%	9.9%
Total Operating Income	6,467,565	6,672,341	3.2%	8.2%	9.3%
Total Costs	(1,313,575)	(1,084,565)	-17.4%	0.4%	13.7%
Prov. for Credit Losses, net	(1,624,068)	(1,989,642)	22.5%	18.4%	-18.1%
Net Profit	3,418,891	3,545,134	3.7%	7.1%	16.6%

AED Millions	2Q2009A	1Q2010A	2Q2010F	3Q2010F
Operating Income	1,314	1,659	1,527	1,682
Income before Provisions	1,055	1,412	1,272	1,413

*CAGR: 2010-2015 Sources: Bank's financial statements and NBK Capital

12-Month Fair Value: AED 20.90

Recommendation: Buy – Risk Level**: 4

- Our estimate of FGB's fair value per share stands at AED 20.90, which is 8% above our prior fair value per share estimate of AED 19.40, and 45% above the share's closing price as of July 15, 2010. Hence, our recommendation on the stock is "Buy." The increase in fair value is driven by higher operating income and net profit at the end of our forecast horizon than previously forecasted. FGB witnessed a surge in net profit in 1Q2010 (+23%), after posting the highest net profit growth (+10%) among the nine largest UAE banks in FY2009. The bank also posted the highest loan growth in 1Q2010 among the covered banks.
- FGB achieved a net profit of AED 920 million in 1Q2010, 23% above 1Q2009 and 8% above 4Q2009. Operating income surged by 26% in 1Q2010 to AED 1.66 billion, supported by 19% growth in net interest income and 9% growth in fee and commission income. Furthermore, the bank recorded a one-off gain on the sale of development properties worth AED 179 million, which contributed 11% of the total operating income in 1Q2010. Costs dropped by 16% Y-o-Y and 13% Q-o-Q in 1Q2010. Loan loss provisioning charges were high at AED 492 million in 1Q2010, compared to an average quarterly figure of AED 420 million in FY2009.
- FGB converted AED 4.1 billion of deposits from the MoF to Tier II capital in 4Q2009, boosting the bank's CAR to a very comfortable 22.3% in 2009, compared to 14.1% in 2008. At the end of March 2010, the ratio had further increased to 22.6%. FGB's NPLs grew by around 30% in 1Q2010. By the end of FY2010, we expect the NPLs-to-gross loans ratio to reach 4% with the NPL coverage dropping to 105%. Some of the weakening in these asset quality indicators in FY2010 and FY2011 will be driven by the bank's move toward the 90-day NPL definition, from the current 180-day definition. We believe FGB has exposure to Dubai World; however, we do not expect provisioning for that exposure to have a large impact on the bank's profitability. Accordingly, we expect provisioning to peak in FY2010, with the risk cost inching up to 2% in FY2010 compared with 1.94% in FY2009. We forecast NPL coverage to remain above 100% over our forecast horizon.
- We expect FGB to post the highest loan growth among the covered banks in FY2010 at 12%, followed by a CAGR of 10% in the coming five years. We expect net interest income to remain the key driver of operating income growth, which we expect to stand at 8% and 9% in FY2010 and FY2011, respectively. Even as provisioning peaks, we believe FGB will be able to post net profit growth of 7% in FY2010, before rebounding in FY2011 to increase by 35%. We believe FGB will keep a tight control over costs in order to preserve profitability in the current slow-growth environment.

**Please refer to page 26 for recommendations and risk ratings.

Union National Bank (UNB)

Valuation

Valuation Method	Value (AED)	Weight (%)
Discounted Equity Cash Flow (DECF)	4.00	40%
Dividend Discount Model (DDM)	3.40	40%
Peer-Based Valuation	4.20	20%
Weighted Average Fair Value	3.80	100%

Source: NBK Capital

Rebased Performance



Sources: Reuters and NBK Capital

Historical Performance

AED Thousands	2009	% Change in 2009	Mar-2010	Q-o-Q Change %
Net Loans and Advances	50,768,595	0.7%	50,616,861	-0.3%
Customer Deposits	51,279,409	3.7%	48,114,093	-6.2%
Shareholders' Equity	10,504,394	39.6%	10,867,682	3.5%
Total Assets	75,725,621	16.1%	73,111,864	-3.5%

AED Thousands	2009	% Change in 2009	1Q2009	1Q2010	Y-o-Y Change %
Net Interest Income	1,648,089	10.0%	381,147	477,293	25.2%
Net Fees and Commissions	444,593	-15.8%	105,158	129,433	23.1%
Net Invest. Gains/(Losses)	29,910	n/m	1,131	7,335	548.5%
Net Gain/(Loss) on Invest. Prop.	(119,633)	n/m	(36,007)	-	n/m
Total Operating Income	2,118,268	-7.7%	496,005	643,539	29.7%
Total Costs	(648,640)	1.3%	(147,469)	(167,011)	13.3%
Prov. for Credit Losses, net	(276,713)	92.3%	(28,375)	(91,420)	222.2%
Net Profit	1,160,141	-17.4%	300,711	379,244	26.1%

Sources: Bank's financial statements and NBK Capital

Forecasts

AED Thousands	2010 Forecasts			2010 Change %	5-year CAGR *
	Old	New	Change %		
Net Loans and Advances	57,196,405	51,090,336	-10.7%	0.6%	8.9%
Customer Deposits	63,517,240	51,307,713	-19.2%	0.1%	9.4%
Net Interest Income	1,721,378	1,919,570	11.5%	16.5%	8.6%
Net Fees and Commissions	491,278	522,326	6.3%	17.5%	12.6%
Total Operating Income	2,402,332	2,551,597	6.2%	20.5%	9.7%
Total Costs	(775,097)	(691,759)	-10.8%	6.6%	11.6%
Prov. for Credit Losses, net	(338,892)	(664,401)	96.1%	140.1%	-12.9%
Net Profit	1,270,749	1,177,620	-7.3%	1.5%	16.2%

AED Millions	2Q2009A	1Q2010A	2Q2010F	3Q2010F
Operating Income	520	644	618	632
Income before Provisions	349	471	440	454

* CAGR: 2010-2015 Sources: Bank's financial statements and NBK Capital

12-Month Fair Value: 3.80

Recommendation: Buy – Risk Level**: 3

- Our estimate of UNB's fair value per share stands at AED 3.80, which is 6% above our prior fair value per share estimate of AED 3.60, and 27% above the share's closing price as of July 15, 2010. Hence, our recommendation on the stock is "Buy." The increase in fair value is driven by higher operating income and net profit at the end of our forecast horizon. UNB has been the most conservative of the covered banks in terms of lending, as net loans remained flat since 3Q2008. On the upside, UNB has been able to maintain strong asset quality throughout the crisis period. In 1Q2010, UNB's NPLs reduced by 4%, putting the bank's NPLs-to-gross loans ratio at 1.49%.
- UNB posted a net profit of AED 379 million in 1Q2010, 26% above 1Q2009 and 66% above 4Q2009. Net interest margins were supported by reducing expensive deposits, which resulted in a 6% drop in deposits in 1Q2010. Fee and commission income was the next biggest contributor to operating income growth, increasing by 23% Y-o-Y and by 11% Q-o-Q. Costs remained under control in 1Q2010, growing by less than 1% Q-o-Q for the second quarter in a row, following a decline of 4% in 3Q2009. Provisioning continued to bear down on UNB's bottom line, as loan loss provision charges stood at AED 91 million in 1Q2010, compared to a quarterly average of AED 69 million in FY2009. We believe that UNB has exposure to Dubai World and accordingly expect provisioning to peak in FY2010, before starting to drop in FY2011.
- UNB converted AED 3.2 billion in deposits from the MoF to Tier II capital in 4Q2009, boosting the bank's CAR to 20.7% as of December 2009, compared to 17.1% as of September 2009. At the end of March 2010, the ratio had further increased to 21.4%. While NPLs decreased in 1Q2010, we do not believe this is a trend and are expecting an increase in the bank's NPL ratio to 2% at the end of FY2010. With the exception of 2009, UNB has maintained coverage ratios in excess of 110%, and we expect this to be the case going forward.
- As in FY2009 and 1Q2010, we anticipate that UNB will continue to manage liquidity in order to protect margins, as loan volumes will remain low. In FY2010, we expect loans to remain flat at around AED 51 billion, followed by a CAGR of 9% in the coming five years. We believe deposits will follow a similar trend, and expect the bank's LDR to remain near the 100% mark. We expect operating income to grow by 20% in FY2010 and costs to be under control in the year, such that the CIR reaches 27% in FY2010, compared to 31% in FY2009. We see the bank's risk cost increasing to 1.3% in FY2010, restricting net profit growth to 2%. In FY2011, we see the risk cost dropping to around 0.8% in FY2011, resulting in a rebound in net profit in that year.

**Please refer to page 26 for recommendations and risk ratings.

FINANCIAL STATEMENTS

National Bank of Abu Dhabi

Balance Sheet (AED Thousands)	Historical		Forecast				
Fiscal Year Ends December	2008	2009	2010	2011	2012	2013	2014
ASSETS							
Cash and Balances with Central Banks	19,432,923	18,056,843	13,585,690	14,885,553	15,675,067	17,184,163	18,479,507
Due from Banks	6,788,528	19,520,709	30,683,502	22,636,465	21,101,508	21,317,702	21,543,069
Net Investments	19,945,990	20,605,794	26,026,439	25,063,620	27,541,567	29,745,204	32,126,922
Net Loans and Advances	111,764,267	132,258,330	144,367,146	159,194,918	175,596,521	192,811,010	211,434,693
Net Fixed Assets	1,319,200	2,085,349	2,342,811	2,536,066	2,681,036	2,840,503	3,015,916
Other Assets	5,403,572	4,317,495	6,371,712	7,039,198	7,724,896	8,495,683	9,342,085
Total Assets	164,654,480	196,844,520	223,377,300	231,355,820	250,320,596	272,394,265	295,942,192

LIABILITIES & EQUITY							
Due to Banks	25,796,996	30,776,663	44,602,005	32,871,302	30,648,036	31,165,854	32,107,428
Repurchase Agreements with Banks	4,535,345	2,570,289	3,232,283	3,555,511	3,911,062	4,223,947	4,561,863
Customer Deposits	103,481,145	121,205,104	123,548,962	138,350,585	154,216,355	170,415,562	187,261,147
Other Purchased Funds	11,719,219	16,264,298	21,748,952	22,006,442	22,006,442	21,486,313	20,976,587
Other Liabilities	4,765,176	5,587,598	6,706,405	7,542,641	8,459,965	9,478,349	10,620,697
Total Liabilities	150,297,881	176,403,952	199,838,608	204,326,481	219,241,861	236,770,025	255,527,723
Total Shareholders' Equity	14,356,599	20,440,568	23,538,692	27,029,339	31,078,735	35,624,240	40,414,469
Total Liabilities and Equity	164,654,480	196,844,520	223,377,300	231,355,820	250,320,596	272,394,265	295,942,192

Income Statement (AED Thousands)	Historical		Forecast				
Fiscal Year Ends December	2008	2009	2010	2011	2012	2013	2014
Net Interest Income	3,607,565	4,571,201	5,183,067	5,755,632	6,066,337	6,581,802	7,119,788
Income from Fees and Commissions	1,131,307	1,135,686	1,288,519	1,430,399	1,587,922	1,760,416	1,954,861
Other Operating Income	562,410	562,165	582,258	642,696	682,310	740,246	804,706
Total Operating Income	5,301,282	6,399,052	7,053,844	7,828,726	8,336,569	9,082,464	9,879,354
Provisions for Credit Losses	(702,941)	(1,335,692)	(1,494,556)	(1,124,163)	(709,364)	(468,147)	(486,912)
Salaries and Employee-Related Expenses	(900,907)	(1,237,190)	(1,447,512)	(1,635,475)	(1,757,922)	(1,932,787)	(2,121,697)
General and Administrative Expenses	(463,025)	(540,821)	(632,761)	(708,599)	(761,651)	(837,414)	(919,262)
Depreciation	(82,171)	(101,120)	(128,074)	(152,873)	(178,083)	(195,891)	(215,480)
Other Provisions	(14,139)	(72,121)	-	-	-	-	-
Total Operating Expenses	(2,163,183)	(3,286,944)	(3,702,903)	(3,621,110)	(3,407,019)	(3,434,239)	(3,743,352)
Net Operating Profit	3,138,099	3,112,108	3,350,941	4,207,617	4,929,550	5,648,225	6,136,003
Other Income / (Expenses)	(47,313)	(19,232)	(21,135)	(31,358)	(40,382)	(53,285)	(61,631)
Income Taxes	(72,051)	(72,939)	(78,045)	(85,849)	(98,727)	(113,536)	(130,566)
Net Profit	3,018,735	3,019,937	3,251,761	4,090,409	4,790,441	5,481,404	5,943,806
EPS (AED)	1.27	1.26	1.36	1.71	2.00	2.29	2.49

Key Ratios	Historical		Forecast				
Fiscal Year Ends December	2008	2009	2010	2011	2012	2013	2014
Growth in Loans	40.2%	18.3%	9.2%	10.3%	10.3%	9.8%	9.7%
Growth in Deposits	26.6%	17.1%	1.9%	12.0%	11.5%	10.5%	9.9%
Growth in Net Profit	20.5%	0.0%	7.7%	25.8%	17.1%	14.4%	8.4%
Growth in Operating Income	44.6%	20.7%	10.2%	11.0%	6.5%	8.9%	8.8%
Loans-to-Assets	67.9%	67.2%	64.6%	68.8%	70.1%	70.8%	71.4%
Loans-to-Deposits	108.0%	109.1%	116.9%	115.1%	113.9%	113.1%	112.9%
NPLs-to-Gross Loans	0.9%	1.3%	2.0%	2.2%	2.2%	2.2%	2.2%
NPL Coverage	144.6%	157.6%	138.9%	148.4%	150.5%	145.9%	141.3%
Capital Adequacy	15.4%	17.4%	20.9%	21.2%	21.1%	21.0%	20.9%
Growth in Costs	42.3%	29.9%	17.5%	13.1%	8.0%	10.0%	9.8%
Non-Interest Expense-to-Average Assets	1.4%	1.8%	1.8%	1.6%	1.4%	1.3%	1.3%
Cost-to-Income	27.3%	29.4%	31.3%	31.9%	32.4%	32.7%	33.0%
Non-Interest Income-to-Operating Inc.	31.9%	28.6%	26.5%	26.5%	27.2%	27.5%	27.9%
Dividend Payout	19.6%	7.2%	11.0%	12.2%	14.5%	17.3%	21.7%
Net Interest Margin	2.5%	2.6%	2.5%	2.6%	2.6%	2.6%	2.6%
RoAE	23.6%	17.4%	14.8%	16.2%	16.5%	16.4%	15.6%
RoAA	2.0%	1.7%	1.5%	1.8%	2.0%	2.1%	2.1%

Sources: Bank's financial statements and NBK Capital

FINANCIAL STATEMENTS

Abu Dhabi Commercial Bank

Balance Sheet (AED Thousands)	Historical		Forecast				
Fiscal Year Ends December	2008	2009	2010	2011	2012	2013	2014
ASSETS							
Cash and Balances with Central Banks	3,911,009	4,139,015	4,645,247	5,737,464	7,480,153	9,028,661	9,541,969
Due from Banks	17,528,422	18,348,988	20,943,688	21,993,869	23,220,489	24,558,753	26,000,434
Investments	4,055,286	5,008,797	5,709,245	6,213,635	6,893,996	7,652,736	8,366,605
Investment in Associates	4,427,529	4,582,659	5,030,657	5,330,668	5,670,802	6,044,949	6,445,287
Net Loans and Advances	109,081,089	116,610,292	118,131,713	126,618,842	137,051,676	149,421,696	162,777,523
Net Fixed Assets	575,841	791,721	797,342	823,040	851,265	882,308	916,496
Other Assets	8,851,293	10,727,306	11,872,723	13,046,462	13,270,879	13,515,116	14,837,377
Total Assets	148,430,469	160,208,778	167,130,615	179,763,980	194,439,259	211,104,221	228,885,692

LIABILITIES & EQUITY							
Due to Banks	6,905,263	4,738,201	6,834,671	5,437,419	4,592,817	4,372,115	5,657,905
Customer Deposits	84,360,821	86,299,957	93,877,878	102,532,483	112,652,572	123,697,941	135,599,770
Other Purchased Funds	30,566,548	37,541,298	33,906,587	35,801,917	37,792,013	39,881,613	40,320,429
Other Liabilities	10,682,685	12,539,203	13,913,565	15,353,038	16,174,134	17,026,349	17,922,962
Total Liabilities	132,515,317	141,118,659	148,532,701	159,124,858	171,211,536	184,978,019	199,501,066
Minority Interest	107,603	69,087	96,561	108,381	120,573	115,246	122,928
Total Shareholders' Equity	15,807,549	19,021,032	18,501,353	20,530,742	23,107,150	26,010,956	29,261,698
Total Liabilities and Equity	148,430,469	160,208,778	167,130,615	179,763,980	194,439,259	211,104,221	228,885,692

Income Statement (AED Thousands)	Historical		Forecast				
Fiscal Year Ends December	2008	2009	2010	2011	2012	2013	2014
Net Interest Income	2,480,611	3,276,143	3,544,226	3,671,968	3,933,178	4,377,800	4,765,829
Income from Fees and Commissions	982,094	985,624	866,736	964,386	1,069,550	1,194,180	1,323,322
Other Operating Income	927,594	521,039	665,864	806,496	912,562	1,033,608	1,106,326
Total Operating Income	4,390,299	4,782,806	5,076,826	5,442,849	5,915,290	6,605,589	7,195,477
Provisions for Credit Losses	(758,440)	(2,968,315)	(3,483,919)	(1,366,603)	(864,479)	(780,902)	(747,099)
Salaries and Employee-Related Expenses	(848,110)	(856,962)	(839,823)	(917,168)	(1,015,122)	(1,153,886)	(1,303,085)
General and Administrative Expenses	(619,721)	(593,355)	(599,289)	(654,481)	(724,380)	(823,401)	(929,868)
Depreciation	(57,330)	(89,083)	(95,072)	(105,576)	(118,245)	(132,434)	(148,326)
Other Provisions	(739,707)	(784,659)	(370,866)	(92,717)	-	-	-
Total Operating Expenses	(3,023,308)	(5,292,374)	(5,388,969)	(3,136,544)	(2,722,226)	(2,890,623)	(3,128,378)
Net Operating Profit	1,366,991	(509,568)	(312,143)	2,306,305	3,193,065	3,714,966	4,067,099
Other Income / (Expenses)	(8,518)	(3,231)	(3,716)	(4,273)	(4,914)	(5,651)	(6,499)
Minority Interest	(121,881)	(46,649)	(29,748)	(32,644)	(35,043)	(19,203)	(21,123)
Net Profit	1,236,592	(559,448)	(345,607)	2,269,389	3,153,108	3,690,112	4,039,477
EPS (AED)	0.26	-0.12	-0.07	0.47	0.60	0.68	0.74

Key Ratios	Historical		Forecast				
Fiscal Year Ends December	2008	2009	2010	2011	2012	2013	2014
Growth in Loans	44.1%	6.9%	1.3%	7.2%	8.2%	9.0%	8.9%
Growth in Deposits	47.6%	2.3%	8.8%	9.2%	9.9%	9.8%	9.6%
Growth in Net Profit	-37.8%	n/m	n/m	n/m	38.9%	17.0%	9.5%
Growth in Operating Income	15.5%	8.9%	6.1%	7.2%	8.7%	11.7%	8.9%
Loans-to-Assets	73.5%	72.8%	70.7%	70.4%	70.5%	70.8%	71.1%
Loans-to-Deposits	129.3%	135.1%	125.8%	123.5%	121.7%	120.8%	120.0%
NPLs-to-Gross Loans	1.1%	5.17%	7.2%	7.3%	7.0%	6.6%	6.3%
NPL Coverage	157.9%	67.8%	84.0%	90.1%	95.8%	99.9%	103.8%
Capital Adequacy	11.4%	17.4%	16.7%	16.4%	15.5%	14.8%	14.2%
Growth in Costs	51.2%	0.9%	-0.3%	9.3%	10.8%	13.6%	12.9%
Non-Interest Expense-to-Average Assets	2.4%	3.4%	3.3%	1.8%	1.5%	1.4%	1.4%
Cost-to-Income	34.7%	32.2%	30.2%	30.8%	31.4%	31.9%	33.1%
Non-Interest Income-to-Operating Inc.	43.5%	31.5%	30.2%	32.5%	33.5%	33.7%	33.8%
Dividend Payout	38.9%	0.0%	0.0%	14.8%	17.3%	16.3%	16.2%
Net Interest Margin	2.1%	2.4%	2.5%	2.4%	2.4%	2.4%	2.4%
RoAE	9.1%	-3.2%	-1.8%	11.6%	14.5%	15.0%	14.6%
RoAA	1.0%	-0.4%	-0.2%	1.3%	1.7%	1.8%	1.8%

Sources: Bank's financial statements and NBK Capital

FINANCIAL STATEMENTS

First Gulf Bank

Balance Sheet (AED Thousands)	Historical		Forecast				
Fiscal Year Ends December	2008	2009	2010	2011	2012	2013	2014
ASSETS							
Cash and balances with Central Banks	5,005,045	5,546,970	6,008,650	8,395,733	9,945,496	11,997,046	14,054,122
Due from Banks	2,837,412	4,626,549	8,564,690	8,828,218	9,057,998	9,296,595	9,539,156
Net Investments	14,523,947	20,043,816	23,806,379	26,602,820	29,409,252	32,514,631	35,951,094
Net Loans and Advances	79,362,996	90,385,885	101,459,844	114,427,667	127,497,091	139,491,799	151,704,033
Net Fixed Assets	2,012,260	638,721	634,249	654,862	677,601	702,685	730,362
Other Assets	3,780,048	4,230,602	4,102,288	4,536,584	5,210,650	5,972,324	6,839,953
Total Assets	107,521,708	125,472,543	144,576,100	163,445,885	181,798,087	199,975,081	218,818,719
LIABILITIES & EQUITY							
Due to Banks	3,112,642	1,940,567	6,851,752	7,945,396	9,510,898	10,040,323	10,588,464
Customer Deposits	73,962,659	86,421,906	97,582,881	110,759,300	122,248,281	134,178,162	146,306,215
Other Purchased Funds	5,784,975	9,819,962	9,812,996	10,161,256	10,338,868	10,518,257	10,699,440
Other Liabilities	8,041,822	4,387,340	4,976,473	5,290,291	5,607,314	5,929,613	6,252,019
Total Liabilities	90,902,098	102,569,775	119,224,101	134,156,243	147,705,361	160,666,355	173,846,137
Minority Interest	374,369	384,931	387,931	391,081	394,389	397,861	401,508
Total Shareholders' Equity	16,245,241	22,517,837	24,964,067	28,898,561	33,698,338	38,910,864	44,571,074
Total Liabilities and Equity	107,521,708	125,472,543	144,576,100	163,445,885	181,798,087	199,975,081	218,818,719
Income Statement (AED Thousands)							
Fiscal Year Ends December	2008	2009	2010	2011	2012	2013	2014
Net Interest Income	2,580,500	3,833,732	4,435,089	5,046,496	5,616,298	6,120,832	6,685,902
Income from Fees and Commissions	1,113,715	1,207,400	1,346,149	1,519,012	1,681,405	1,832,177	1,992,153
Other Operating Income	1,004,234	1,122,882	891,103	696,214	823,368	875,643	942,319
Total Operating Income	4,698,449	6,164,014	6,672,341	7,261,722	8,121,071	8,828,651	9,620,374
Provisions for Credit Losses	(566,350)	(1,680,466)	(1,989,642)	(1,246,303)	(790,271)	(718,830)	(721,090)
Salaries and Employee-Related Expenses	(559,502)	(579,697)	(581,127)	(649,893)	(759,296)	(863,417)	(984,016)
General and Administrative Expenses	(536,584)	(439,462)	(440,546)	(492,677)	(575,614)	(654,547)	(745,972)
Depreciation	(38,810)	(61,424)	(62,892)	(68,270)	(75,097)	(82,607)	(90,867)
Other Provisions	-	(90,000)	(50,000)	-	-	-	-
Total Operating Expenses	(1,701,246)	(2,851,049)	(3,124,207)	(2,457,143)	(2,200,277)	(2,319,401)	(2,541,946)
Net Operating Profit	2,997,203	3,312,965	3,548,134	4,804,579	5,920,794	6,509,250	7,078,429
Minority Interest	8,047	(2,630)	(3,000)	(3,150)	(3,308)	(3,473)	(3,647)
Net Profit	3,005,250	3,310,335	3,545,134	4,801,429	5,917,487	6,505,778	7,074,782
EPS (AED)	2.19	2.41	2.58	3.36	3.94	4.34	4.72
Key Ratios							
Fiscal Year Ends December	2008	2009	2010	2011	2012	2013	2014
Growth in Loans	78.7%	13.9%	12.3%	12.8%	11.4%	9.4%	8.8%
Growth in Deposits	41.5%	16.8%	12.9%	13.5%	10.4%	9.8%	9.0%
Growth in Net Profit	49.7%	10.2%	7.1%	35.4%	23.2%	9.9%	8.7%
Growth in Operating Income	66.3%	31.2%	8.2%	8.8%	11.8%	8.7%	9.0%
Loans-to-Assets	73.8%	72.0%	70.2%	70.0%	70.1%	69.8%	69.3%
Loans-to-Deposits	107.3%	104.6%	104.0%	103.3%	104.3%	104.0%	103.7%
NPLs-to-Gross Loans	0.6%	1.6%	4.0%	4.3%	4.1%	3.9%	3.7%
NPL Coverage	232.9%	174.4%	105.5%	111.9%	119.2%	126.4%	133.9%
Capital Adequacy	14.1%	22.3%	21.7%	21.4%	21.6%	22.0%	22.4%
Growth in Costs	85.8%	-4.8%	0.4%	11.6%	16.4%	13.5%	13.8%
Non-Interest Expense-to-Average Assets	1.9%	2.4%	2.3%	1.6%	1.3%	1.2%	1.2%
Cost-to-Income	24.2%	17.5%	16.3%	16.7%	17.4%	18.1%	18.9%
Non-Interest Income-to-Operating Inc.	45.1%	37.8%	33.5%	30.5%	30.8%	30.7%	30.5%
Dividend Payout	15.9%	20.5%	17.7%	18.3%	17.8%	18.6%	19.7%
Net Interest Margin	3.1%	3.6%	3.6%	3.6%	3.5%	3.5%	3.5%
RoAE	22.8%	17.1%	14.9%	17.8%	18.9%	17.9%	16.9%
RoAA	3.3%	2.8%	2.6%	3.1%	3.4%	3.4%	3.4%

Sources: Bank's financial statements and NBK Capital

FINANCIAL STATEMENTS

Union National Bank

Balance Sheet (AED Thousands)	Historical		Forecast				
Fiscal Year Ends December	2008	2009	2010	2011	2012	2013	2014
ASSETS							
Cash and balances with Central Banks	2,108,328	7,476,796	3,429,794	4,447,979	5,068,514	5,598,276	6,277,130
Due from Banks	5,929,871	9,335,681	12,631,803	13,606,534	14,189,738	14,829,045	15,521,520
Net Investments	3,965,017	5,157,084	5,516,095	6,087,754	6,695,860	7,364,777	8,100,585
Net Loans and Advances	50,429,317	50,768,595	51,090,336	53,238,987	58,414,523	64,262,719	70,620,270
Net Fixed Assets	364,621	372,854	376,675	395,218	418,540	444,661	473,917
Other Assets	2,428,121	2,614,611	2,730,541	2,864,551	2,981,488	3,101,075	3,225,252
Total Assets	65,225,275	75,725,621	75,775,244	80,641,022	87,768,663	95,600,552	104,218,673
LIABILITIES & EQUITY							
Due to Banks	645,706	3,196,596	3,753,368	3,772,430	3,230,794	2,642,318	2,151,409
Customer Deposits	49,472,570	51,279,409	51,307,713	54,505,711	60,169,103	66,376,654	73,097,345
Other Purchased Funds	5,672,023	8,510,906	6,909,134	7,087,317	7,541,683	8,018,767	8,519,705
Other Liabilities	1,738,948	2,071,088	2,031,520	2,154,274	2,297,400	2,434,369	2,576,314
Total Liabilities	57,529,247	65,057,999	64,001,736	67,519,732	73,238,979	79,472,108	86,344,773
Minority Interest	169,775	163,228	167,451	172,324	177,534	183,226	189,565
Total Shareholders' Equity	7,526,253	10,504,394	11,606,058	12,948,967	14,352,150	15,945,219	17,684,335
Total Liabilities and Equity	65,225,275	75,725,621	75,775,244	80,641,022	87,768,663	95,600,552	104,218,673
Income Statement (AED Thousands)							
Fiscal Year Ends December	2008	2009	2010	2011	2012	2013	2014
Net Interest Income	1,497,721	1,648,089	1,919,570	2,025,859	2,168,361	2,383,265	2,618,880
Income from Fees and Commissions	527,859	444,593	522,326	597,486	691,666	773,031	851,551
Other Operating Income	268,449	25,586	109,700	157,450	170,270	181,722	194,218
Total Operating Income	2,294,029	2,118,268	2,551,597	2,780,794	3,030,297	3,338,019	3,664,649
Provisions for Credit Losses	(143,862)	(276,713)	(664,401)	(421,575)	(338,057)	(294,381)	(303,642)
Staff, General and Admin. Expenses	(591,351)	(589,970)	(626,301)	(688,821)	(764,401)	(857,313)	(958,348)
Depreciation	(48,980)	(58,670)	(65,459)	(73,456)	(83,556)	(93,582)	(104,812)
Other Provisions	(60,061)	(11,780)	(519)	-	-	-	-
Total Operating Expenses	(844,254)	(937,133)	(1,356,679)	(1,183,851)	(1,186,014)	(1,245,276)	(1,366,803)
Net Operating Profit	1,449,775	1,181,135	1,194,917	1,596,943	1,844,283	2,092,743	2,297,846
Income Taxes	(8,590)	(23,571)	(13,075)	(15,724)	(16,415)	(17,108)	(18,465)
Minority Interest	(36,404)	2,577	(4,223)	(4,873)	(5,210)	(5,691)	(6,339)
Net Profit	1,404,781	1,160,141	1,177,620	1,576,346	1,822,658	2,069,943	2,273,042
EPS (AED)	0.62	0.51	0.52	0.69	0.80	0.91	1.00
Key Ratios							
Fiscal Year Ends December	2008	2009	2010	2011	2012	2013	2014
Growth in Loans	34.9%	0.7%	0.6%	4.2%	9.7%	10.0%	9.9%
Growth in Deposits	23.1%	3.7%	0.1%	6.2%	10.4%	10.3%	10.1%
Growth in Net Profit	20.2%	-17.4%	1.5%	33.9%	15.6%	13.6%	9.8%
Growth in Operating Income	35.4%	-7.7%	20.5%	9.0%	9.0%	10.2%	9.8%
Loans-to-Assets	77.3%	67.0%	67.4%	66.0%	66.6%	67.2%	67.8%
Loans-to-Deposits	101.9%	99.0%	99.6%	97.7%	97.1%	96.8%	96.6%
NPLs-to-Gross Loans	0.7%	1.5%	2.0%	2.3%	2.3%	2.4%	2.4%
NPL Coverage	170.4%	102.3%	137.1%	146.6%	156.5%	160.2%	162.5%
Capital Adequacy	11.6%	20.7%	21.8%	22.1%	21.5%	21.2%	20.9%
Growth in Costs	28.6%	1.3%	6.6%	10.2%	11.2%	12.1%	11.8%
Non-Interest Expense-to-Average Assets	1.4%	1.3%	1.8%	1.5%	1.4%	1.4%	1.4%
Cost-to-Income	27.9%	30.6%	27.1%	27.4%	28.0%	28.5%	29.0%
Non-Interest Income-to-Operating Inc.	34.7%	22.2%	24.8%	27.1%	28.4%	28.6%	28.5%
Dividend Payout	13.3%	0.0%	9.6%	19.0%	19.6%	20.4%	21.9%
Net Interest Margin	2.6%	2.4%	2.6%	2.7%	2.7%	2.7%	2.7%
RoAE	19.9%	12.9%	10.7%	12.8%	13.4%	13.7%	13.5%
RoAA	2.3%	1.6%	1.6%	2.0%	2.2%	2.3%	2.3%

Sources: Bank's financial statements and NBK Capital

RISK AND RECOMMENDATION GUIDE

RECOMMENDATION			UPSIDE (DOWNSIDE) POTENTIAL	
BUY			MORE THAN 20%	
ACCUMULATE			BETWEEN 5% AND 20%	
HOLD			BETWEEN -10% AND 5%	
REDUCE			BETWEEN -25% AND -10%	
SELL			LESS THAN -25%	
RISK LEVEL				
LOW RISK			HIGH RISK	
1	2	3	4	5

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