



UAE Banking Sector Review

Banking sector | UAE

A Tale of Two Cities

We initiate coverage of the banking sector in the United Arab Emirates (UAE), with a positive outlook given the overall economic environment. Our coverage universe includes five banks based in Abu Dhabi and four banks based in Dubai. In addition to the upside potential reflected by the DCF valuation, we believe that most shares in our coverage are trading at low multiples and offer solid earnings growth. *Our top picks are Commercial Bank of Dubai (CBD) and Union National Bank (UNB) with an upside potential of 29.6% and 28.1% respectively.*

Healthy economic environment gives the banking sector a boost

The UAE is currently the second largest economy in the GCC and home to the region's fifth largest oil reserves. The UAE's real GDP has been growing steadily, to reach 9.4% in 2006, up from 1.7% in 2001. The banking sector has been a major beneficiary of the positive economic growth, capitalising on the booming real estate sector, the vibrant growth in infrastructure and the benefits stemming from the increase in oil prices over the last few years.

Strong profitability, healthy margins and high asset quality are key positive features

UAE banks have been experiencing strong performance levels in terms of profitability and balance sheet growth. Overall banking assets grew at a 2003-2006 CAGR of 33%, while the sector's profitability registered a CAGR of 45% over the same period to reach AED19.8 billion (US\$5.4 billion). The sector has also witnessed high credit and deposit penetration levels, comprising 90% and 87% of GDP in 2006 respectively. Despite the squeeze in margins and spreads, the UAE banks still enjoy healthy margins, in addition to strong asset quality, with a sector average of 6.3% of non-performing loans to gross loans ratio.

We believe the banking sector is yet to see further growth driven by:

- Population growth: pushed by the increasing flow of the expatriate workforce
- The very significant number and size of infrastructure projects planned across the UAE
- Potential growth from profitable segments, including Islamic banking and mortgage financing
- High capitalisation to support future expansion

However, we are concerned about:

- Escalating competition which may put pressure on spreads, margins and market shares
- The rising cost of funding, with higher reliance on medium-term notes
- Experienced human resources deficiency
- The high risk associated with capital market and real estate exposure

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Banks under Coverage

	Target Price (AED)	Current Price (AED)	Recommendation	Market Cap (AED bn)	Av. Daily Turnover (AED mn)	Free Float	Foreign Ownership Limit
Abu Dhabi Banks							
National Bank of Abu Dhabi (NBAD)	23.50	23.20	Hold	36.8	5.1	27%	25%
First Gulf Bank (FGB)	25.10	22.70	Add	28.4	20.8	39%	30%
Abu Dhabi Commercial Bank (ADCB)	8.10	6.80	Add	27.2	13.4	22%	25%
Union National Bank (UNB)	11.90	9.30	Buy	14.6	6.1	40%	40%
Abu Dhabi Islamic Bank (ADIB)	78.50	63.00	Add	9.5	28.4	20%	N/A
Dubai Banks							
Emirates NBD (ENBD)	16.20	13.90	Add	61.1	16.9	44%	5%
Dubai Islamic Bank (DIB)	10.40	10.90	Hold	32.5	74.1	58%	15%
Mashreqbank	309.20	308.00	Hold	26.7	3.3	13%	N/A
Commercial Bank of Dubai (CBD)	13.20	10.20	Buy	10.7	1.9	80%	N/A

*N/A: Not allowed

Source: Beltone Financial.

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Executive Summary

We initiate coverage of the banking sector in the United Arab Emirates (UAE), with a positive outlook, foreseeing further growth in the sector, backed by the vibrant economic picture. Real GDP has been witnessing unprecedented growth levels over the past five years, rising steadily to reach 9.4% in 2006, up from 1.7% in 2001, with higher oil revenues and services acting as the key catalysts. However, the UAE has been reducing its dependency on hydrocarbons to diversify its economic structure and dynamics. While we believe there are several factors that challenge the sustainability of the current growth levels, we expect real growth to average 7% in the medium term.

The banking sector in the UAE started to see real economic growth with oil development in the 1960s. However, growth was variable in the 1980s and 1990s, which resulted in the failure of some banks. Over the past few years, the banking sector experienced robust growth, fueled by the surge in oil prices, the take-off in the infrastructure and real estate sectors, along with the capital market recovery. On a regional perspective, the UAE banking sector currently holds a prime position amongst the MENA countries, registering higher than average loan/deposit, loan/asset and loan/GDP ratios. The UAE is also the biggest in the region in terms of total banking assets. Credit and deposit penetration levels reached 90% and 87% of GDP respectively in 2006. Banking profits have surged by a CAGR of 45% over 2003-2006, but were slightly harmed in 2006, affected by capital market losses. Going forward, we believe that the banking sector is set to see further growth, particularly in the medium term, driven by population growth, lower interest rates, high purchasing power and sustained investment.

Key features of the sector include the dominance of the local banks, which control a 78% market share of total banking assets. We view the banking sector as possibly over-banked since 51 banks serve a population of 4 million. Other key positive features include healthy margins, high asset quality and adequate capitalisation. Nevertheless, with the entry of new banks into the market, all banks are gearing up for the challenge posed by the escalating competition.

To expand operations, gain market share, and withstand competition, UAE banks are venturing aggressively into areas where there is potential for high growth including: personal lending; Islamic lending; mortgage and SME financing. However, we argue that corporate lending is likely to remain the bigger portion of total bank's lending given the number and size of projects, which are planned by the government and the private sector (around US\$120 billion in infrastructure projects alone planned over the next three years).

Our coverage universe includes five banks based in Abu Dhabi and four banks based in Dubai.

Top picks: Commercial Bank of Dubai (CBD) offers the highest upside potential amongst the banks we cover. We value CBD at AED13.20, 29.6% higher than the current market price. CBD stands out with its unique corporate strategy and healthy margins. We also recommend **Union National Bank (UNB)**, where we estimate a 28.1% upside potential to its current share price. We value UNB at AED11.90, compared to its current market price of AED9.30. UNB has been turned around, to focus on creating a solid domestic presence, with an eye on international markets.

Other attractive targets: Abu Dhabi Islamic Bank (ADIB) and Abu Dhabi Commercial Bank (ADCB) are other attractive targets, where we estimate an upside potential of 24.5% and 20% respectively. ADIB still has strong growth prospects being the second largest Islamic bank in the UAE, while ADCB enjoys a high retail lending market share, which positively affects the bank's profitability.

Moderate upside potential: Emirates NBD and First Gulf Bank (FGB) have moderate upside potential. We value Emirates NBD at AED16.20, 16.8% higher than its current market price, while we estimate a 10.7% upside potential for FGB. Emirates NBD is the UAE's new national champion, born by the merger of Emirates Bank International (EBI) and National Bank of Dubai (NBD). Meanwhile, FGB is the fastest growing bank in our coverage universe.

Least attractive: We perceive **Mashreqbank, National Bank of Abu Dhabi (NBAD), and Dubai Islamic Bank (DIB)** as fairly valued.

We are positive on the overall economic picture

Banks are benefiting from the strong economic growth

The UAE outperformed most of its MENA peers in terms of loan/deposit and loan/asset growth

UAE banks enjoy healthy margins, high asset quality, strong capitalisation...yet competition is a challenge awaiting all banks

Commercial Bank of Dubai and Union National Bank are our top picks

Valuation Summary

We calculated a weighted average of the fair values using the DECF and comparative valuation methodologies. Equal weights have been assigned to both methodologies.

DECF Methodology

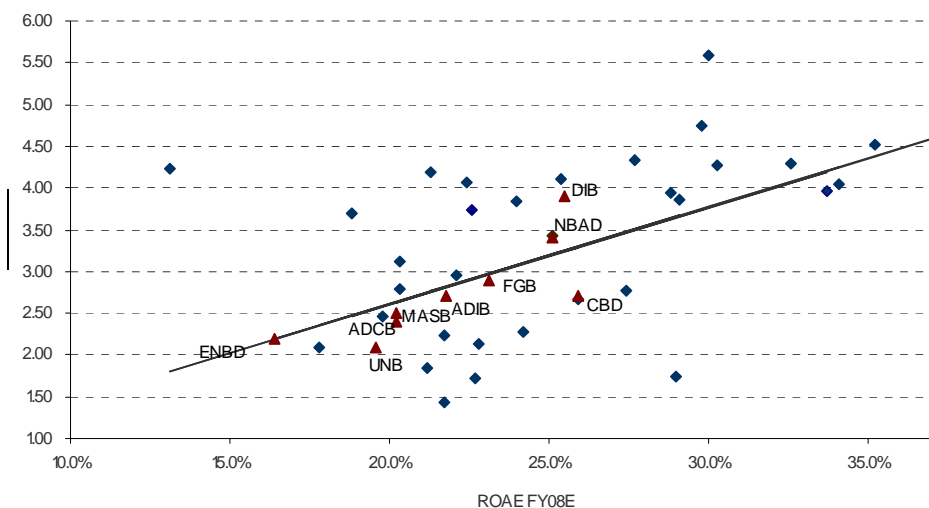
Our DECF methodology involves the discounting of each bank's equity cash flows, which is defined as net attributable income after deducting 10% of the change in risk-weighted assets to maintain the 10% minimum required capital adequacy ratio set by the Central Bank of the UAE. We used a cost of equity of 10.5%, based on a risk free rate of 4.25% to mirror that of the United States Federal Funds rate given the UAE currency peg to the US dollar, which may change in the future if there is a change in the dollar peg, in addition to a risk premium of 6.25%. We have developed explicit FCFE estimates until the year 2012. After 2012, we have assumed a perpetual growth rate of 5%.

Comparative Valuation

For the purpose of comparative valuation, we have chosen banks that operate in the EMEA (Europe, Middle East and Africa) region. We have valued each bank based on expected P/B and P/E ratios for the year 2008. Please refer to the table in the page overleaf for the details of our regional and emerging market comparative valuation universe.

We obtained the comparative valuation of each bank by multiplying BVPS FY08e by the P/B FY08e predicted by the regression equation, given the bank's ROAE FY08E. In addition, the regional and emerging market average P/E FY08e was multiplied by the respective banks' EPS FY08E, to reach the comparative fair value, using P/E multiples. Equal weights have been assigned to comparative values, using P/E and P/B multiples.

Figure 1 | Comparative valuation based on ROAE FY08E and P/B FY08E



Note: Y-axis: P/B FY08E
 X-axis: ROAE FY08E
 Source: Beltone Financial estimates, Reuters, Bloomberg

Figure 2 | Comparative valuation based on trading multiples

Bank	Country	P/B	P/E	ROE
		2008e	2008e	2008e
Komerčni Banka A.S.	Czech Republic	2.7	14.6	19%
BZ WBK	Poland	3.7	16.6	23%
Bank BPH S.A.	Poland	0.4	1.8	22%
PKO BP	Poland	4.1	19.3	22%
Bank Pekao	Poland	4.1	16.7	25%
FHB	Hungary	2.8	14.7	20%
OTP Bank Ltd.	Hungary	2.1	10.2	23%
Yapi Ve Kredi Bankasi AS	Turkey	1.7	9.0	23%
Is Bank	Turkey	1.4	7.3	22%
Vakifbank	Turkey	0.9	4.4	24%
AK Bank	Turkey	2.3	10.0	24%
Turkiye Garanti Bankasi AS	Turkey	3.9	16.3	29%
Ahli United Bank	Bahrain	2.5	12.3	20%
Bank of Bahrain and Kuwait	Bahrain	1.8	8.4	21%
Bahrain Islamic Bank	Bahrain	1.7	5.7	29%
Egyptian Gulf Bank	Egypt	3.7	17.5	19%
National Societe Generale Bank	Egypt	3.1	17.0	20%
Credit Agricole Egypt	Egypt	3.8	18.5	24%
Commercial International Bank	Egypt	3.9	11.6	29%
The Bank of Kuwait and Middle East	Kuwait	2.1	12.3	18%
Burgan bank	Kuwait	2.8	10.4	27%
Kuwait Finance House	Kuwait	5.6	19.2	30%
Commercial Bank of Kuwait	Kuwait	4.0	12.1	34%
Al Ahli Bank of Kuwait	Kuwait	4.3	13.8	33%
National Bank of Kuwait	Kuwait	4.5	12.8	35%
Gulf Bank	Kuwait	4.9	12.9	39%
Alliance Housing Bank	Oman	4.2	29.2	13%
Oman International Bank	Oman	2.2	10.8	22%
National Bank of Oman	Oman	3.4	14.3	25%
Bank Dhofar	Oman	2.7	11.2	26%
Bank Muscat	Oman	4.0	15.2	34%
Riyad Bank	Saudi Arabia	4.2	20.3	21%
Saudi Hollandi	Saudi Arabia	3.0	14.1	22%
Saudi British Bank	Saudi Arabia	4.9	17.9	29%
Arab National Bank	Saudi Arabia	4.3	17.0	28%
Banque Saudi Fransi	Saudi Arabia	4.3	15.0	30%
Samba Financial Group	Saudi Arabia	4.7	17.1	30%
Dubai Islamic Bank	UAE	3.9	15.3	26%
National Bank of Abu Dhabi	UAE	3.4	13.5	25%
First Gulf Bank	UAE	2.9	12.5	23%
Abu Dhabi Islamic Bank	UAE	2.7	12.2	22%
Commercial Bank of Dubai	UAE	2.7	10.1	26%
Mashreq Bank	UAE	2.5	12.6	20%
Abu Dhabi Commercial Bank	UAE	2.4	11.8	20%
Emirates NBD	UAE	2.2	13.6	16%
Union National Bank	UAE	2.1	10.9	20%
Average P/B and P/E (x)		3.2	13.5	25%

Note: Prices as available on December 13th, 2007

Source: Beltone Financial estimates, Reuters and Bloomberg

Figure 3 | Target prices for our coverage universe

Bank	DECF (AED)	Comparative valuation (AED)	P/B 08e (x)	P/E 08e (x)	Target price (AED)	Current price (AED)	Upside/Downside
Commercial Bank of Dubai	13.30	13.10	2.7	10.3	13.20	10.20	29.6%
Union National Bank	12.50	11.40	2.1	10.9	11.90	9.30	28.1%
Abu Dhabi Islamic Bank	79.80	77.10	2.7	12.2	78.50	63.00	24.5%
Abu Dhabi Commercial Bank	8.70	7.60	2.4	11.8	8.10	6.80	20.0%
Emirates NBD	18.20	14.30	2.2	13.6	16.20	13.90	16.8%
First Gulf Bank	26.50	23.70	2.9	12.5	25.10	22.70	10.7%
National Bank of Abu Dhabi	25.40	21.70	3.4	13.5	23.50	23.20	1.6%
Mashreqbank	297.50	320.90	2.5	12.6	309.20	308.00	0.4%
Dubai Islamic Bank	11.20	9.60	3.9	15.3	10.40	10.90	-4.2%

Source: Beltone Financial

The Sector in Brief

Strengths

- The sector growth is fueled by the UAE's robust economic growth
- Banks benefit from the favourable demographics, pushed by the rise in the expatriate workforce
- Majority government ownership supports local banks
- Healthy competition, with no significant pressure on spreads and margins
- Strong profitability levels
- High asset quality
- Well-capitalized banks, supporting further expansion
- Low trading multiples, implying undervalued banks
- High credit ratings

Weaknesses

- Fragmented and over-banked sector
- No credit history of the growing expatriate population
- Banks have recorded high utilisation levels (gross loans/deposits). As a result, banks had to resort to higher cost sources of funding like EMTNs, syndicated loans, and sukuku (in the case of Islamic banks), which raise their funding cost on one side, but create a better asset liability management on another
- High exposure to real estate loans, thus, if a softening in the sector takes place, it will ripple through the system

Opportunities

- The corporate sector, which represents the majority of lending, is yet to benefit from the size and number of infrastructure, housing, tourism and manufacturing projects, along with the growth in other sectors of the economy
- Unexploited potential in profitable segments including retail, mortgage, SMEs, Islamic lending and wealth management

Risks & Challenges

- Experienced human resources deficiency
- Credit concentration in certain sectors or high exposure to certain big names
- Competition is yet to intensify, putting pressure on spreads, margins and market shares
- Rising cost of funding, with higher reliance on the medium-term notes to close the funding gap

Economic Overview

Strong Growth Driven by Hydrocarbon & Services sectors

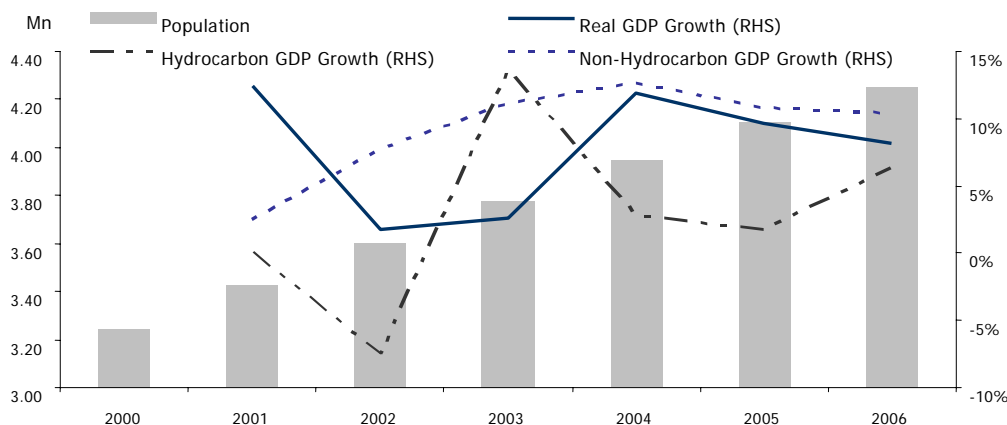
The United Arab Emirates (UAE) is the GCC's second largest economy, after Saudi Arabia, and home to the region's fifth largest oil reserves. Driven by growth in the hydrocarbons sector, mainly in the Abu Dhabi emirate, real GDP has been rising steadily, with growth reaching 9.4% in 2006, up from 1.7% in 2001. Lower hydrocarbon resources and a change in political leadership in recent years have prompted efforts to diversify the economy in the less endowed Emirates, with growth in the construction, tourism and the financial sectors. While Dubai has been highly successful in marketing its investment story, the other smaller Emirates are each starting their own reform programmes and the diversification of local growth drivers.

There are several factors, however, which challenge the sustainability of the current levels of growth in the UAE. These factors include:

- i) the high dependency on hydrocarbons, possibly resulting in a slowdown in the event of a drop in energy prices;
- ii) the relatively slow pace of liberalisation of the economy;
- iii) the need for high growth in infrastructure and utilities, to support the growth in population and the services sector;
- iv) the need for more rigorous monetary and fiscal reform to improve non-hydrocarbon sustainability and better manage the growth-inflation trade-off.

We expect overall real growth to average 7% in the medium term.

Figure 4 | Growth & population



Sources: Central Bank of UAE, IMF, UAE Census 2005 and Beltone Financial

With Abu Dhabi generating 60%, on average, of the UAE's GDP and being the main contributor to the UAE budget, the recent spike in international oil prices has generated significant surpluses which are being invested both abroad and domestically in mega-projects, further stimulating returns on investments, domestic demand and growth. Growth in Dubai, on the other hand, has been more organic in terms of large companies, combining government and ruling family ownership, laying a foundation of infrastructure, housing, tourism, financial and manufacturing projects to expand the Emirate geographically and economically. While the growth in the services sector has been booming, the pick-up in industrial activity, financed by local and foreign investments and supported by the government, has been gaining momentum. Projects in petrochemicals and heavy industry (including aluminum, cement and steel, and consumer goods, especially) have been expanding in most Emirates, with a concentration in the growing free zone areas, boosting non-hydrocarbon growth. This

Management of growth determines pace going forward

Abu Dhabi accounts for 60% of the UAE's GDP

diversification would serve to maintain the momentum in non-hydrocarbon growth, which we believe is necessary to maintain overall economic growth in the UAE and to hedge against any slowdown in the hydrocarbon and services sectors.

The majority of the UAE population is a mix of foreign expatriates and Asian labour, collectively constituting at least 70% of the UAE population, according to the latest census in 2005. Both the government and the private sector in Abu Dhabi and Dubai have been increasingly capitalising on the growing foreign population in the development of the services sector and infrastructure to support this growth. Although the population growth rate is slowing, dropping from 6% in the mid-1990s to 3.5% in 2006, the current level of growth is still high, with a bias to the younger age groups. We believe, however, that the Emirates will need to focus on attracting more resident foreigners, through incentives and policy changes, to cover the supply from the ambitious housing and tourism projects currently in the pipeline.

High population growth dominated by foreign community

Fiscal Surplus Sustained by Hydrocarbons

The rise in international oil prices, with the UAE Murban oil blend price rising from US\$20 per barrel in 2002 to US\$93 per barrel at the end of November 2007, also resulted in a fiscal turnaround with the overall budget balance improving from a deficit of 17% in 1998 to a surplus of 12% in 2006, according to IMF figures. While the rise in the value of hydrocarbon revenues has been overshadowing the growth in non-hydrocarbon revenues (hydrocarbon revenues constituted 80% of total revenues in 2006 compared to 60% in 1998), growth in non-hydrocarbon revenues has been rising on the back of higher trade, corporate growth and investments. The non-hydrocarbon budget deficit improved, registering 10% in 2006, compared to 27% in 2001. With each Emirate maintaining a separate budget, increased revenues in Abu Dhabi and Dubai are being used to finance higher domestic spending on services, manufacturing and infrastructure projects. The divide between the local and federal budgets, however, has led to a lag in the development of some of the smaller Emirates, and has negatively impacted the ability to analyse public finances.

Going forward, we expect the non-hydrocarbon budget balance to continue to improve as growth in the non-hydrocarbon sectors gain momentum and the returns on the government's investments increase. We believe, however, that the bias in the overall budget to hydrocarbon revenues undermines the speed at which fiscal reforms are implemented. Plans to implement more comprehensive fiscal reforms, especially a value-added tax in the UAE, have been lagging. Implementation of the VAT and fiscal consolidation would, in our opinion, help curb inflation given the Dirham's peg to the US dollar and the ensuing limited capacity of monetary policy to control liquidity in the market.

VAT not yet been introduced

Monetary Policy Effectiveness Undermined by Dollar Peg

According to the UAE monetary policy, the UAE Dirham is pegged to the US dollar, at AED3.673/US\$1, with the Central Bank of the UAE (CBUAE) managing money supply mainly through the minimum reserve requirement, currently at 14% on current, savings and call accounts and 1% only on time deposits, and certificates of deposits. Interest rates on certificates of deposits are used by the Central Bank of the UAE as their policy rate and they move in tandem with the US Federal funds interest rate. With the rise in oil revenues, the ensuing rise in public spending and higher investment flows, broad money growth rose from 11% at the end of 2002 to 34% in June 2007, peaking at 39% in July 2005, on the back of a rise in domestic currency deposits. We expect broad money growth to continue at high levels as public spending and the flow of funds to the UAE's financial sector remain high.

Inflation spikes fueled by rents & transportation costs

The high growth in money supply fueled a rise in inflation to 9.3% in 2006, up from 3% in 2002. The main culprits were rents and transportation costs which soared due to a shortage in supply, despite the 15% and 7% caps on rent rises instigated in 2006 and 2007 respectively, and more liberal regulations facilitating foreign ownership of real estate. With inflation on the rise, real interest rates have been negative since 2002 putting pressure on banks to compete in providing better quality retail services, given their limited ability to compete on interest rates. The negative real interest rates further channeled investments to the real estate sector further exacerbating the liquidity situation. Inflationary pressure from wage increases has been rising as the foreign labour force is offered higher packages, and government wages being revised upwards by 70%, effective January 2008. We also expect the

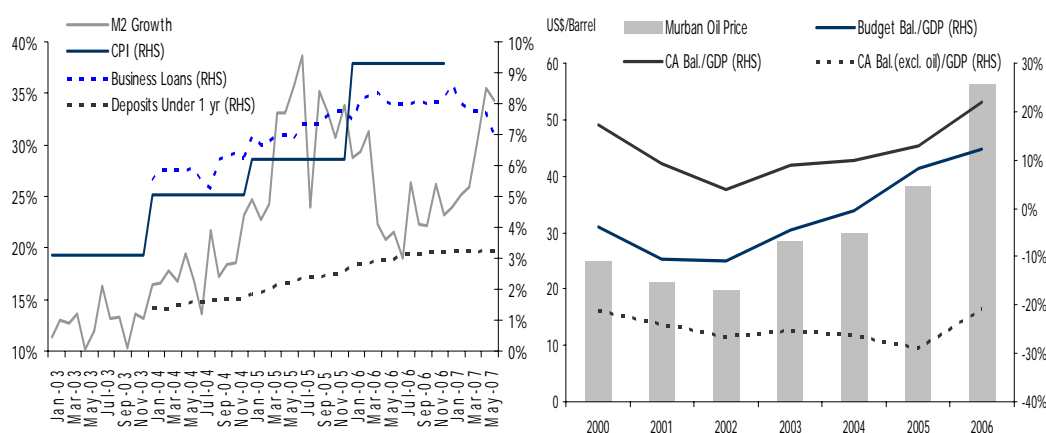
High growth in money supply also fueled inflation

housing shortage to continue in the short term and for liquidity to remain high, sustaining high inflation in 2008. The challenge presented by the current situation of a loose monetary policy, mirroring the US policy, and high inflation, places a greater emphasis on the need for a tighter fiscal policy, specifically the introduction of taxes, and addressing loopholes in the current rental regulations to prevent further price hikes.

In an effort to enhance the UAE central bank's ability to manage liquidity in the market, the CBUAE altered on November 28th, 2007 the certificates of deposits (CDs) system to an auction-based system whereby banks would submit requests for CDs for maturities ranging between one week to five years for varying amounts and interest rates on the Dirham, US dollar and Euro. The CBUAE would then accept the amount and interest rate it deems appropriate. This system replaces one where the CBUAE determined the funds and rates at which it will accept funds.

Figure 5 | M2 & key rates

Figure 6 | External & fiscal receipts



Sources: Central Bank of UAE, IMF and Beltone Financial

Strong Growth in Non-Hydrocarbon Trade

Despite the negative impact of the Dirham's tracking of the US dollar on domestic monetary policy, the US dollar, and hence the Dirham's, weakness against most currencies helped boost UAE exports which have been rising by an annual average of 29% since 2002. The gradual expansion in the industrial sector in the UAE led to an increase in imports of raw and intermediary goods from 55% of total imports in 2000 to 69% in 2005 approximately. Growth in non-hydrocarbon exports has been robust as well, with non-hydrocarbon exports rising from AED6.5 billion in 2000 to AED23.2 billion in 2006. The merchandise trade balance, historically in surplus due to revenues from hydrocarbon exports, rose from US\$19 billion in 2000 to US\$57 billion in 2006. Consequently, the current account surplus tripled over the same period, rising from US\$12 billion to US\$36 billion 2006, with the surplus representing 22% of GDP in 2006. The positive merchandise trade balance is counterbalanced by the outflow of funds for services, especially travel and freight and insurance, and workers remittances from the UAE.

Non-hydrocarbon export growth has been robust

Reflecting the rise in both foreign direct and portfolio investments in the UAE and local companies' investments abroad, net portfolio and direct investments rose to US\$3 billion in 2006, from US\$700 million in 2001, peaking at US\$13.3 billion in 2005. Public enterprises' investments abroad, on the other hand, rose from a net outflow of US\$200 million to US\$40 billion over the same period. The higher net outflow led to the capital account deficit rising from US\$4 billion in 2001 to US\$24 billion in 2006.

Portfolio and direct investments reached US\$3 billion in 2006

With the UAE monetary policy tracking that of the US, the CBUAE has recently been subject to pressure to revalue the currency, given the US dollar's increasing weakness. While an appreciation of the Dirham against the US dollar would render UAE exports less attractive, the concentration of UAE exports to European and Asian countries and the US dollar's weakness against those countries'

currencies would positively impact the UAE exports to those countries. We do not expect the Dirham to be revalued significantly in the short term, however, due to:

- i) the high revenues generated from USD-denominated hydrocarbon exports,
- ii) the bias in the Gulf countries' reserves and investments in US dollar,
- iii) the need for additional economic and financial reforms to prevent destabilisation of the economy in the event of a significant revaluation.

Going forward, we do expect a revaluation to occur gradually over the medium term, to reflect the Gulf countries' increased diversification of trade and pressure from foreign investment, with the peg to the US dollar being substituted with a link to a trade-weighted basket of currencies.

Figure 7 | AED Vs. US\$ & Euro

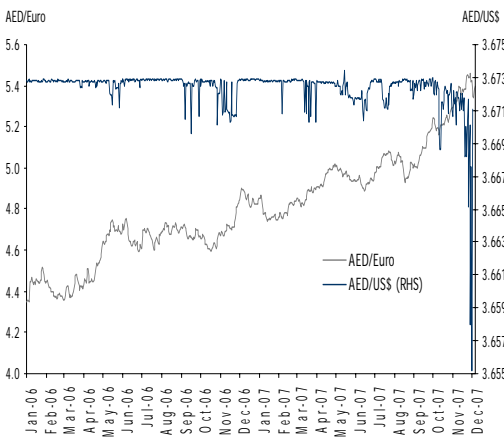
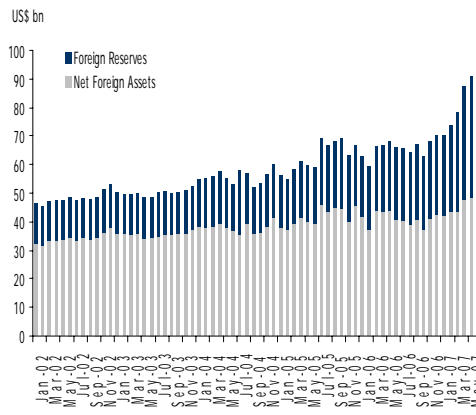


Figure 8 | Foreign reserves & assets



Sources: Central Bank of UAE, IMF, Oanda and Beltone Financial

UAE Banking Sector – An Overview

Disarray in the 1980s and 1990s

The UAE banking sector started to witness real growth with the exploration of oil reserves in the early 1960s. At the time, the banking sector witnessed a wave of new banks entering the country. The rulers of the UAE stepped in as the regulators in 1975 and prohibited the opening of any new foreign banks in the UAE for a two-year period. It was not until 1980 that the Federal Currency Board became the Central Bank of the UAE and put a new law in place (Union law (10) for 1980) which empowered the Central Bank's functions. In 1981, the licencing of new banks was allowed again and the country saw a number of banks entering the market. However, in the mid-1980s, several banks failed due to mismanagement and fraud, as a result of collapsing oil prices (1982-86) and a real estate crash resulted in high non-performing loan levels. In 1984, the Central Bank of the UAE decided, for the second time, that it would not grant new branch licences, and already operating foreign bank branches were restricted to eight branches each. The Central Bank also took several measures in the 1980s to strengthen the banking structure through expanding audits and inspections, increasing bank-reporting requirements, establishing a computerised loan risk department, and setting minimum capital requirements. In 1998, the Central Bank established a special unit to monitor money-laundering activities and inspect suspicious deals.

The UAE's banking sector started to see real growth with oil exploration in 1960s

UAE banking sector: regional perspective

The UAE outperformed most of its peers in the MENA region, in terms of loan and deposit growth in 2006. The UAE's banking sector total assets reached AED860 million (US\$234.3 billion) in 2006, creating the biggest asset base in the region, surpassing Saudi Arabia (previously the largest asset base) which had SAR861.1 billion (US\$230 billion) in banking assets in 2006. In addition, the UAE scored higher than MENA average loan/deposit, loan/asset and loan/GDP ratios in 2006.

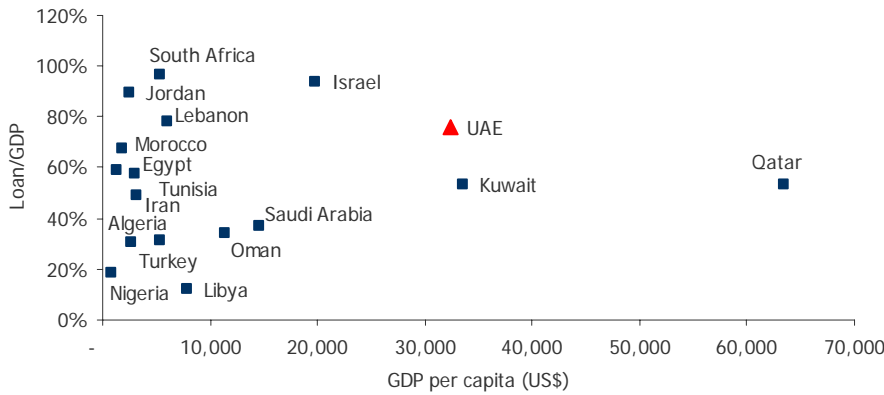
The UAE has recorded one of the fastest growth levels in the MENA region

Figure 9 | UAE compared to MENA and emerging market peers (2006)

	Loan/ deposit ratio	Loan/ asset ratio	Loan/ GDP ratio	Growth in assets	Growth in loans	Growth in deposits	GDP per capita (US\$)	Total per capita deposits (US\$)
Algeria	56.5%	51.6%	30.7%	17.3%	9.2%	16.9%	2,699	1,469
Bahrain	122.6%	30.7%	410.3%	34.5%	42.0%	33.1%	18,709	62,638
Egypt	57.9%	39.7%	58.8%	13.7%	7.1%	8.4%	1,327	1,348
Iran	98.5%	44.8%	51.4%	26.8%	35.0%	37.2%	3,217	1,678
Israel	81.1%	64.2%	102.8%	4.0%	1.7%	4.1%	19,840	25,136
Jordan	107.8%	39.3%	89.2%	14.9%	24.5%	15.4%	2,558	2,118
Kuwait	89.4%	55.3%	53.4%	24.9%	15.4%	23.7%	33,617	20,062
Lebanon	28.3%	22.6%	79.2%	8.3%	6.0%	6.5%	6,011	16,807
Libya	38.8%	30.7%	11.7%	24.2%	14.6%	27.7%	7,914	2,387
Morocco	77.1%	61.9%	68.3%	11.7%	16.8%	16.8%	1,793	1,573
Nigeria	106.7%	40.2%	18.8%	43.6%	34.3%	-6.1%	793	140
Oman	100.5%	65.2%	34.0%	27.9%	20.5%	24.2%	11,410	3,864
Qatar	85.2%	54.1%	53.5%	45.8%	47.2%	41.1%	63,494	39,871
Saudi Arabia	80.5%	55.3%	37.1%	13.4%	9.2%	3.8%	14,616	6,743
South Africa	112.2%	83.3%	96.1%	23.7%	28.7%	24.9%	5,357	4,587
Tunisia	115.2%	64.3%	56.6%	7.6%	7.5%	11.8%	3,089	1,517
Turkey	60.3%	39.4%	30.3%	21.4%	38.3%	22.3%	5,431	2,730
UAE	103.6%	62.5%	90.0%	35.0%	36.1%	27.0%	32,398	21,294
Eurozone	126.4%	50.6%	119.3%	10.5%	9.4%	9.4%	9,165	33,436
United States	92.4%	61.0%	54.6%	9.0%	7.7%	9.6%	44,503	26,239
Av. Universe	87.0%	50.8%	77.3%	20.9%	20.6%	17.9%	14,397	13,782
Av. MENA	82.04%	46.99%	77.05%	22.14%	19.56%	17.18%	12,925	12,349

Source: Business Monitor International, Egypt Commercial Banking Report Q3-2007

Figure 10 | Loan/GDP versus GDP per capita (2006)



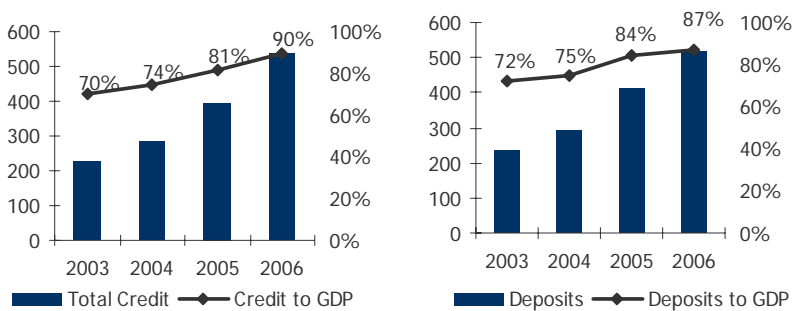
Source: Business Monitor International, Beltone Financial

Recently, the sector has been witnessing strong performance levels

The banking sector in the UAE has, in the last four years, been capitalising on the recent robust growth witnessed in the UAE's economy, boosted by the surge in oil prices, the major investments in infrastructure and real estate, and the rise in capital market activity, specifically in 2005. Banks and financial institutions comprised almost 7% of the UAE's GDP in 2006 and, over the past four years, the sector registered strong performance, with total banking assets growing at a CAGR of 33% to reach AED860 million (US\$234.3 billion) in 2006. Gross credit reached AED537 billion in 2006, up from AED226 billion in 2003, to register a CAGR of 33.5% and represent around 90% of GDP in 2006. Deposits grew at a 2003-06 CAGR of 30.6%, to reach AED519 billion in 2006, comprising 87% of GDP, while banks' profits climbed significantly over the past four years from AED6.5 billion in 2003 to AED19.8 billion in 2006. We believe that the UAE's banking sector is set to see further growth, particularly in the medium term, fueled by population growth, the increasing flow of the expatriate workforce into the country, lower interest rates, the population's high purchasing power (with a GDP per capita of US\$32,398) in addition to the sustained investment in other industries.

The surge in oil prices, major infrastructure investments and capital market activity contributed to the growth in the UAE banking sector

Figure 11 | Credit and deposit penetration levels



Source: Central Bank of the UAE, Beltone Financial

Industry Main Features

Local banks hold the reins

There are currently 51 banks, of which 23 banks are local (15 conventional and eight Islamic) and 28 are foreign, registered with the Central Bank of the UAE as at September 2007. These figures take into account the merger of Emirates Bank International and National Bank of Dubai (forming Emirates NBD), as well as the recent establishment of three Islamic banks and three Gulf banks. Although foreign banks exceed national banks in number, local banks account for the major share of the total sector assets, with a combined share of 78% of total banking assets. In 2006, the top nine players were local banks and controlled 71%, 72% and 76% of the total assets, loans and deposits in the banking system, respectively. Local dominance is partially attributed to the limitations imposed by the UAE Central Bank on foreign banks (discussed later). Another driving force is the significant endorsement and support provided to the local banks by the government and ruling families that own majority stakes in most of them. These factors have enabled local banks to record high profitability levels and stay ahead of foreign banks in terms of market share.

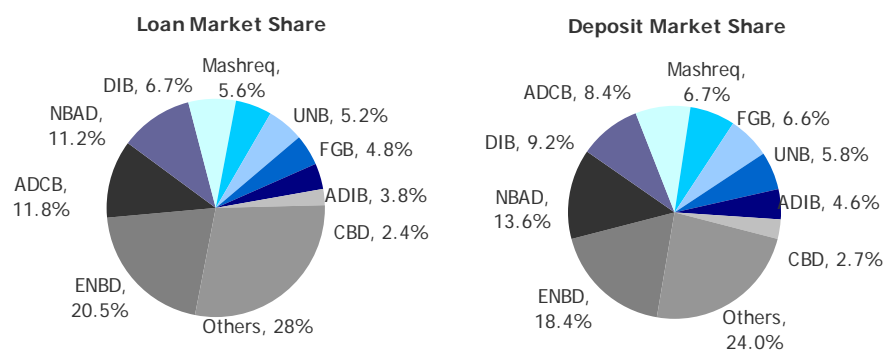
Local banks comprise 78% of total banking assets

Over-banked and fragmented structure

In our view, the banking sector in the UAE is over-banked, with 51 banks (around 637 branches), serving a population of 4 million, (effectively 6,280 people per branch). The biggest five banks in the UAE, ranked by 2006 assets, were: Emirates NBD; National Bank of Abu Dhabi (NBAD); Abu Dhabi Commercial Bank (ADCB); Dubai Islamic Bank (DIB) and Mashreqbank respectively. The sector is largely fragmented, although its structure has started to alter, following the EBI-NBD merger, which raises the question of whether this is the spark of a catalyst that could lead to a consolidation wave in the UAE (see the discussion point below). The newborn entity (Emirates NBD) created the UAE's long-awaited national champion, the biggest bank in the country, with an 18.4% market share of total deposits and 20.5% of total loans. Emirates NBD is the fifth largest in the GCC by market capitalisation, with around AED173 billion (US\$47 billion) in assets at the end of 2006.

Emirates NBD is currently the biggest bank in the UAE by far and the fifth largest in the GCC by market capitalisation

Figure 12 | Top nine banks by loan and deposit market share (2006)



Source: Banks financial statements, Belltone Financial

Discussion Point: Are more mergers and acquisitions within the banking sector on the way?

The UAE's banking sector did not experience bank mergers or acquisitions until very recently. Previously, several M&As took place as a result of bank failures. Emirates Bank International (EBI) and National Bank of Dubai (NBD) merged in 2007 (enforced by the government of Dubai) to create the UAE's biggest bank, in the fragmented and over-banked sector.

It is highly probable that this merger will spark a wave of mergers and acquisitions in the sector to allow domestic banks to compete more effectively, not just with the new giant, but also against the rising competition. It is possible that smaller banks will join to form larger entities, hoping for synergies. Banks might also consider mergers or acquisitions to benefit from a higher single obligor limit, which is currently capped at 7% for private sector borrowers and 25% for public sector companies. It is worth noting that the top three banks control a market share of 41%, which is low compared to 65% in other markets.

However, it can be also argued that domestic banks are already well consolidated, with 71% of the UAE banking assets concentrated within the top nine biggest banks. In addition, the acquisition of UAE banks is unlikely to take place, hindered by restrictions imposed by the Central Bank on the entry of foreign banks. It is clear, however, that some banks' management teams across the industry view that their banks can compete effectively on their own, even in a more competitive environment, and without the need to merge.

Our opinion

We do not expect to see a significant wave of consolidation across the UAE's banking sector in the short term since the EBI-NBD merger was not entirely driven by competition; it was a governmental decision. A similar consolidation may take place in Abu Dhabi, however, we still believe there is enough business for everyone in the short term. In our view, consolidation is highly probable in the medium to long term. The success of EBI-NBD merger will be a key determinant factor of whether the sector will witness further mergers and acquisitions.

Foreign banks face restrictions

Foreign banks, looking to set up branches in the UAE, usually face a number of restrictions. For instance, foreign banks are required to have a local agent and they are not permitted to establish more than eight branches. Foreign banks also bear a 20% corporate tax rate, as opposed to zero taxation paid by local banks. Furthermore, foreign ownership in a UAE-registered bank cannot exceed 49%; limiting foreign capital participation. The elected or legally appointed Board of Directors should include a majority of UAE nationals, including the Chairman, a demonstration of less favourable treatment of non-nationals.

The Central Bank limited the issuance of new banking licences, and in some cases, it only issued licences on a reciprocal basis, i.e. to banks of countries, where central banks grant operating licences to UAE banks. In 2006, it was announced that there were 15 applications for new licences pending with the Central Bank. The Central Bank's Governor has been sending mixed signals about adopting a non-discriminatory policy with foreign banks and the alleviation of restrictions imposed upon them, following the start of the UAE-US Free Trade Agreement (FTA), negotiations in 2005. However, FTA talks were delayed for an indefinite time in July 2007.

Foreign banks are not permitted to open more than eight branches and bear a 20% corporate tax rate

Discussion Point: The FTA Impact

In line with its commitments to the General Agreement of Trade in Services (GATS) under the World Trade Organization (WTO) umbrella, the UAE has been taking steps towards signing a Free Trade Agreement (FTA) with the USA. The UAE has been considering further liberalisation of its overall marketplace, which will, in turn, affect the banking and financial services sector.

Key demands: FTA negotiations tackle key issues including Emiratisation, ownership, shareholding and board representation, asset security, and encouragement and support for growth in the private financial sector. The USA demands equal treatment for both national and foreign banks and companies in different sectors, with taxes and fees topping the list. Key issues that the Central Bank has to face under FTA negotiations is the removal of bank licencing restrictions, limitations on establishing foreign bank branches, on ownership of foreign banks, and on the employment of board members and senior management.

Benefits: In the context of the FTA, liberalisation is believed to enhance efficiency and increase the level of competitiveness in the banking and financial services sector by opening the door to additional entrants, upgrading the available financial options for investors and depositors, and improving the process of determining interest rates. Banking customers are also expected to benefit from the reduced net interest margins, lower costs of fee-based services, and the availability of a greater variety of services. Other positive effects of liberalisation may involve the faster growth of the economy, and its protection from external, as well as domestic shocks.

Costs: For the local banks, foreseen implications on the cost side can be summarised by reduced profitability in the short term due to competition. Banks will compete to offer the highest return to savers, but will face more risks resulting from a possible increase in non-performing loans, due to excessive lending, and fiercer competition owing to lower entry barriers on foreign banks, which might lead, in the medium-term, to mergers and take-overs.

Time frame: The FTA talks with the United States were put on hold after two years of ongoing negotiations. Talks were delayed indefinitely in July 2007, following the DP World takeover of P&O and the resulting political issues in the USA, which forced DP World to sell the US Ports included in the P&O portfolio.

Competition is to intensify on a number of factors

The UAE banks' margins have been going down over the last few years, however they still stand at healthy levels, which suggests that price competition has not yet intensified. During our discussions with banks' management, it was highlighted that price competition had always existed between banks, but that it had not been a key concern. Banks relied on the quality of service, distinctive product offering and convenience levels to create a competitive edge.

In terms of local expansion, banks have started venturing strongly into other business lines besides corporate banking to gain market share and withstand an expected increase in competition. UAE banks have been widening their product schemes. Some have applied for Islamic window licences or to set up Islamic finance subsidiaries. Many banks have also started to offer mortgage financing or establish mortgage finance subsidiaries to tap this nascent segment.

In addition, the Central Bank has granted licences to three Gulf banks; Saudi American Bank (SAMBA), Doha Bank of Qatar and National Bank of Kuwait (NBK). In addition, three new Islamic banks are set to commence operations in the UAE in 2008. We anticipate that competition will become tougher with new banks entering the UAE market, eyeing unexplored opportunities. We also expect imminent

Competition will become tougher with the entry of new banks

competition will put pressure on spreads and margins, especially in retail banking and this might also trigger a faster wave of consolidation, to create larger entities, which are organically capable of competing in an international marketplace.

Corporate governance might be a concern

The key ruling families in the UAE, namely the Al Nahyan and Al Maktoum families, and the governments of Dubai or Abu Dhabi hold majority stakes in almost all of the UAE's main domestic banks. For instance, the Abu Dhabi Investment Authority owns 73% of National Bank of Abu Dhabi and 64% of Abu Dhabi Commercial Bank. In addition, Dubai Islamic Bank is 30%-owned by the government of Dubai. Union National Bank is partially-owned by both governments of Abu Dhabi and Dubai, amongst other banks. Mashreqbank is owned by the AlGhurair family, which is also one of the biggest business groups in the UAE. We argue that this type of concentrated ownership raises corporate governance concerns. A clear issue is that it encourages high levels of interbank transactions, single name lending and credit concentration. We also view it as an unfair ground for competition, where these banks obtain easier access to government projects. However, it is worth noting that using the "Transparency International Corruption Perception Index", the UAE outperforms its GCC peers (Qatar, Bahrain, Oman, Kuwait and Saudi Arabia).

The governments of Abu Dhabi and Dubai and the ruling families hold majority stakes in almost all of the UAE's main domestic banks

Figure 13 | Corruption Perception Index 2006

	CPI Score	Country Rank
Finland	9.6	1
UAE	6.2	31
Qatar	6.0	32
Bahrain	5.7	36
Oman	5.4	39
Kuwait	4.8	46
Saudi Arabia	3.3	70

Source: Transparency International

Cross border expansion on the agenda

In addition to organic expansion within the UAE, a higher foreign presence is a key goal on almost all the UAE banks' agenda. Emirati banks are actively seeking international acquisitions, setting up overseas branches or representative offices. National Bank of Abu Dhabi is an example of strong international exposure, with 38 overseas branches in different countries, while Mashreqbank is present in nine countries other than the UAE, as seen in Figure 14. Dubai Islamic Bank (DIB) established operations in Pakistan in 2005 and signed an agreement with the Government of Sudan to acquire a 52% stake in Al Khartoum Bank. Apart from DIB, Dubai Bank (a subsidiary of Emaar) has also taken an exposure in Pakistan through the acquisition of an 18.75% stake in Bank Islami Pakistan. Abu Dhabi Commercial Bank has operations in India and has also launched its operations in Turkey by opening a representative office. Union National Bank acquired Alexandria Commercial and Maritime Bank, thus gaining presence in Egypt, while Abu Dhabi Islamic Bank acquired National Bank for Development (NBD) in Egypt as well. In addition, Al Sharjah Bank has recently acquired a banking licence in Lebanon.

Figure 14 | Banks' overseas branches and subsidiaries

	Overseas branches/representative offices	Overseas subsidiaries	Countries
NBAD	38	2	Egypt Oman Bahrain Kuwait France UK US Switzerland Sudan
Mashreq	14	0	Egypt Qatar Bahrain Hong Kong India UK US Bangladesh Pakistan
DIB	12	10	Pakistan Turkey Iran Sudan Lebanon Egypt Bahamas Ireland
Emirates NBD	10	2	KSA Qatar UK Jersey India Iran Singapore
ADCB	2	0	India
FGB	1	0	Singapore
UNB	0	1	Egypt
ADIB	0	3	Egypt BVI Cayman Island
CBD	0	0	

Source: Banks annual reports, Beltone Financial

Banks in good shape for Basel II

All UAE-based banks are currently gearing up to implement the first phase of the Basel II Accord, where banks are expected to be compliant with at least the standardised approach for credit risk by December 31st, 2007. The implementation is not expected to have a dramatic impact on credit ratings, but it will improve transparency and risk management systems in the banking sector, and will allow for an increased focus on quantitative information and analysis through the increased provision of accurate economic and fiscal data. For the second phase, the UAE banks will be compliant with the Internal Ratings Based (IRB) approach for credit risk by January 1st, 2011. All UAE-based banks are already adequately capitalised (if not over-capitalised), where the average capital adequacy ratio (CAR) levels in the total banking system exceed the minimum percentage set by the Central Bank (10%), which is 2% above the 8% Basel recommended minimum requirement. The average CAR for the first half of 2007 reached 15.2%.

Banks are expected to be compliant with at least the standardised approach for credit risk by December 31st, 2007

A new banking law may be underway

A number of discussions about creating a new banking law subsequent to the current banking law, which was passed in 1980, have taken place. There is pressure to amend the current law in 2008. In the meantime, the Central Bank is to issue two sets of regulations governing wholesale banking and investment banking in the first quarter of 2008.

Two sets of regulations governing wholesale and investment banking are to be out in the first quarter of 2008

Human resources challenge

During our talks with banks' management, a consensus has been reached amongst banks, that the human resources issue is a significant challenge. It has become difficult for banks to find employees of a good calibre and to retain efficient staff, given the intensifying competition in the sector for a limited talent pool.

Human resources deficiency is a challenge for all banks

Central Bank Regulations

International accounting standards	Banks adopted IAS starting 1999
Minimum paid in capital requirement	AED40 million
Statutory reserve	Banks are required to transfer 10% of net profit each year into a statutory reserve until this makes up 50% of paid up capital.
Minimum capital adequacy ratio	10% of Risk Weighted Assets
Cash reserve requirement	14% on transaction accounts 1% of fixed deposits
Real estate exposure	Banks may lend up to 20% of their deposits for commercial or residential building purposes.
Single obligor limit	Funding private sector borrowers should not exceed 7% to the bank's capital. Funding public sector companies should not exceed 25% of the bank's equity.
Emiratisation ratio	Banks are required to employ UAE Nationals at a rate of 4% per year.
Advances to stable resources	All banks in the UAE should maintain a ratio not higher than 1:1 <ul style="list-style-type: none"> ▪ Advances means net loans and advances together with the amount of interbank placements with more than three months remaining life ▪ Stable resources comprise free own funds (including subordinated loans), due to banks of more than six months remaining life, in addition to stable customer deposits (100% of deposits with remaining life of more than six months and 85% of all other deposits)
Establishing real estate subsidiaries	Banks are allowed to establish real estate subsidiaries only in the business of financing and managing real estate projects. The Central Bank allows finance companies owned by banks to establish joint real estate companies provided that the bank's ownership does not exceed 40%.
Personal loan limit	Against salaries, end of service and retirement pension Maximum: AED250 per borrower
Investment limits	Banks are prohibited from holding corporate securities in excess of 25% of the bank's fund, unless acquired for debt settlement and, in this case, these securities must be sold within two years from the acquisition date.

Source: Central Bank of the UAE

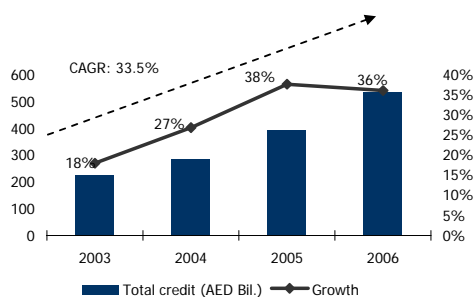
Business Performance

Lending

The past four years have witnessed a proliferation of credit in the UAE's banking sector, where gross credit reached AED537 billion in 2006, up from AED226 billion in 2003, registering a CAGR of 33.5% and representing around 90% of GDP in 2006. The significant increase in credit is a result of the economic boom which the UAE has experienced over the past few years, primarily caused by a very clear economic direction set by the ruler of Dubai, which then resulted in rising public and private investment, infrastructure and industrial projects as well as benefiting from increased liquidity from rising oil prices which have flown into the UAE. In the Abu Dhabi Emirate, which remains the economic heart of the UAE, economic and commercial development and infrastructure projects have also had a major impact upon the banking sector. In addition, the credit surge in 2005 resulted from a significant number of initial public offering (IPOs) and the use of IPO financing.

Gross credit grew at a CAGR of 33.5% to reach AED537 billion over 2003-2006

Figure 15 | Credit growth in the UAE banking system



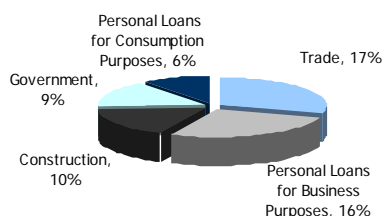
Source: Central Bank of the UAE, Beltone Financial

Credit Breakdown

Credit is highly concentrated in the personal, trade and construction sectors. Personal credit accounted for the biggest portion of total extended credit, comprising 22% in 2006. Meanwhile, trade sector credit came next accounting for 17% of the total. Bank exposure to the booming construction market grew at a compounded rate of 26.5% between 2003 and 2006. As a percentage of total credit, the construction sector comprised 10%, while government lending accounted for 9%. In 2006, 88% of credit was granted to residents, while the remaining 12% was directed to non-residents. We believe this is probably likely to change as banks realise the potential and demand of expatriates or non-residents, which account for around 78% of the UAE population. Banks have already started to increase their non-resident product offering.

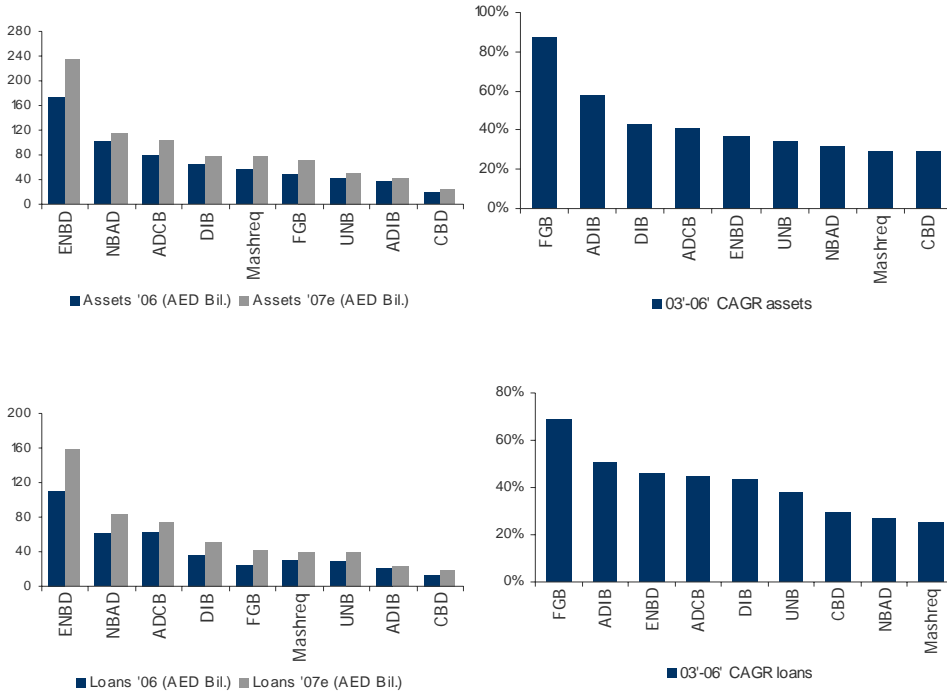
Personal credit accounted for the biggest portion of total extended credit

Figure 16 | Credit breakdown by key segments (2006)



Source: Central bank of the UAE, Beltone Financial

Figure 17 | Assets and credit growth amongst our UAE coverage universe



FGB is the fastest growing bank between 2003 and 2006, followed by ADIB

Mashreqbank achieved the least loan book compounded growth over the same period

In terms of total assets and loan book, ENBD is the largest, followed by NBAD, ADCB, and DIB

Source: Banks' financial statements, Beltone Financial

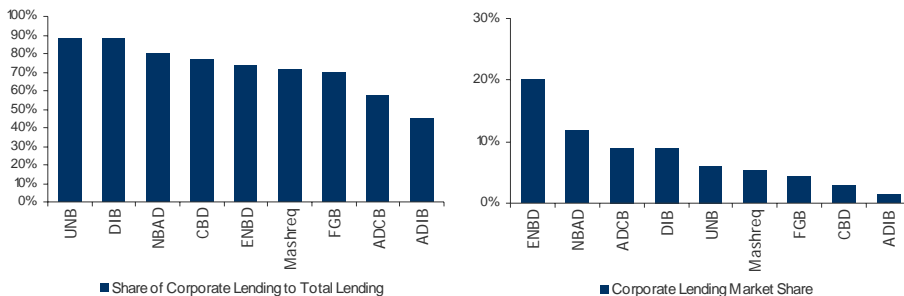
Segments Overview

Corporate banking is still the largest

We still foresee strong activity in corporate banking, which will, in our view, continue to hold a prime position versus total lending, given the enormous size of infrastructure and oil-related projects that are being currently undertaken or planned by the government and the private sector. Projects planned over the next three years are estimated at US\$227 billion, out of which US\$120 billion are in the infrastructure sector alone.

Corporate lending dominates lending portfolios

Figure 18 | Corporate lending amongst our UAE coverage universe (2006)



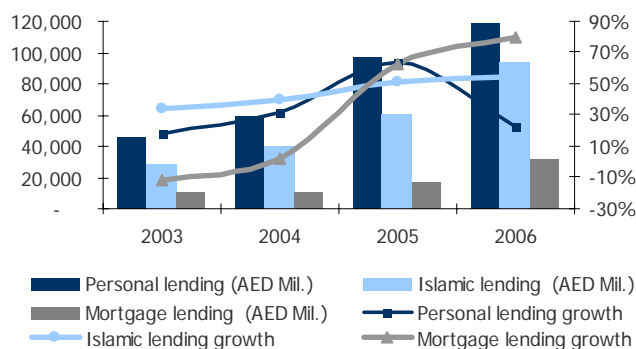
Consequently, the banks with the highest loan book have the highest corporate lending market shares

Source: Banks' financial statements, Beltone Financial

Areas of further growth for UAE banks, in our opinion, are retail banking, mortgage financing and Islamic banking. These segments have been growing steadily over the past four years. Islamic lending demonstrated the fastest growth levels, with a 2003-06 CAGR of 48% to reach AED94 billion. Mortgage finance grew significantly, recording a CAGR of 44% over the same period, to reach AED31.5 billion in 2006. Personal loans have been increasing at a rapid rate, but witnessed a decline in 2006. The reason was the capital markets boom in 2005, when bank clients borrowed and invested in the capital markets, which were then hit in 2006, leading to many personal losses. As a percentage of gross credit, personal lending accounted for 22%, Islamic lending for 17% and mortgage finance for 6% in 2006. As a percentage of GDP, personal lending comprised 20%, Islamic lending accounted for 16% and mortgage lending encompassed 5% of GDP in 2006.

Retail, mortgage, and Islamic lending are key growth areas

Figure 19 | Personal, Islamic and mortgage lending growth



Source: Central bank of the UAE, Beltone Financial

Retail banking on the right track

Market size. Retail banking is a key business line offered by all banks. Personal deposits accounted for 32% of total deposits in the banking system, while personal lending for both businesses and personal consumption comprised 22% of total credit facilities in 2006 and 20% of GDP. Personal lending stood at AED119 billion in 2006, with 74% directed towards business purposes.

Personal lending accounted for 22% of total credit in 2006

Wide range of products. The market is already sophisticated in terms of products offered. Some banks have as many as 20 retail banking products, ranging from simple saving accounts to customised loans (car loans, education loans ...etc). Some banks established branches that are especially tailored for women, including "Johara", offered by Dubai Islamic Bank. As for credit card offerings, it has been estimated that, on average, each person in the UAE holds 2 to 3 credit cards from different banks. There are currently 1.6 million credit cards in circulation amongst UAE population, growing at 15% to 30% per year. Average indebtedness in the UAE is around US\$32,000. However, we argue that there is still potential for growth in this segment given the high purchasing power, the increasing number of expatriates and banks are aware of this opportunity, which would result in sharper competition.

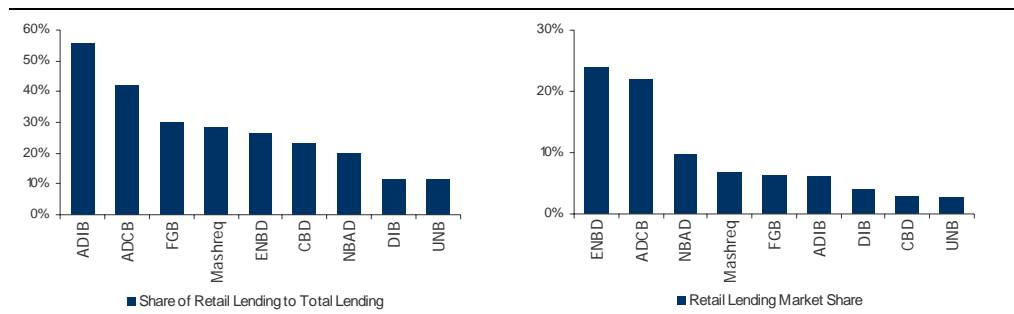
Retail segment is sophisticated in terms of product offering and is yet to witness further competition

Competition. In addition to product pricing, which is not yet the key element of competition, banks also compete on the quality, the variety of products and convenience of service. Cross-selling is currently a key focus for all banks in the UAE. Most banks reported a 2-3 cross-selling ratio (products per client), which suggests the growth potential for retail banking based on cross-selling alone. Local and foreign banks compete fiercely in this specific segment. Foreign banks lead local banks in terms of credit card offerings, while local banks have an upper hand in personal loans and high net worth lending. UAE banks will not only face competition from foreign banks entering the market, but also from consumer lending companies, which have recently entered the UAE market. In 2007, GE Money (the global consumer-lending unit of General Electric Company), along with the Al-Futtaim Group, signed an agreement to establish a strategic joint venture in the UAE.

Consumer lending companies have started entering the UAE recently

Dubai First, is another example of another consumer finance company which was established by Dubai Holding. In addition, Asia Financial Holdings, a subsidiary of Temasek, the Singapore Government's investment arm, is currently in the process of gaining final approvals from the regulators. These developments confirm the increasingly fierce competition the UAE's retail finance market has yet to witness, with new entrants eyeing untapped opportunities, which is likely, in turn, to put pressure on margins and spreads.

Figure 20| Retail lending amongst our UAE coverage universe (2006)



ADIB and ADCB are highly focused on retail banking

ENBD and ADCB hold the largest retail banking market shares

Source: Banks' financial statements, Beltone Financial

Mortgage Finance in the nascent stage

Market overview. Mortgage lending has flourished over the last few years in the UAE on the back of the real estate and construction sectors' boom and the UAE saw the establishment of the first mortgage company, Amlak, in 2000. Real estate mortgage loans have been growing at a fast pace, registering a CAGR of 44% between 2003 and 2006, to reach AED31.5 billion. This figure accounts for almost 6% of total granted credit, compared to around 70% in the USA and 80% in the UK, which demonstrates ample room for growth in the UAE. We believe that this segment is set to prosper further, given the very large number of projects under development in the real estate across the UAE in general and in Abu Dhabi specifically. In addition, Dubai passed a new property Law (Law No. 7) last year, which legalised freehold ownership of land and property for UAE and GCC citizens, while allowing the same rights to non-GCC expatriates for pre-designated areas only, which is yet to be approved by the Ruler of Dubai. Historically, foreigners were only allowed 99-year leases. It is likely that Abu Dhabi will witness a similar take-off in terms of real estate development as Dubai witnessed in its real estate sector over the past decade.

Real estate mortgage loans have been growing at a fast pace, registering a 44% CAGR between 2003 and 2006

Key players. Amlak and Tamweel dominate the mortgage finance market, with a market share of around 35% each. Since 2002, most banks have started offering mortgage financing, either through direct lending or through the establishment of mortgage finance subsidiaries. Approximately 15 banks are active in mortgage financing in the UAE. Several institutions currently offer Shari'a-compliant financing, including Amlak, Tamweel, Dubai Islamic Bank and HSBC (Amanah).

Mortgage finance companies, namely Amlak and Tamweel dominate the mortgage market, but face funding problems

Banks versus mortgage finance companies. Both banks and mortgage finance companies offer mortgages with similar terms. Specialised mortgage finance companies can offer a wider range of tailored products and can compete in terms of the level of customised packages and services. However, mortgage finance companies face funding problems, due to the lack of cheap sources of funds. As a result, they resort to borrowing, which obviously places pressure on margins. In an effort to solve this problem, Amlak and Tamweel applied for a banking licence last year, to be able to accept customer deposits, which would be cheaper sources of finance, compared to corporate sukuk and securitized financing. However, their efforts did not succeed. This funding problem does not hold for conventional banks by nature, because of their access to cheaper funds through deposits, and their natural advantage of reaching their target clients through widespread branch networks.

Mortgage terms. Mortgage finance ranges from 60% to 90% of the original purchase price with a few arrangements of 90% to 100% on selected developments. Mortgage terms are usually up to 15 years for foreigners and 25 years for nationals. Meanwhile, some banks and companies have started to offer 25-year loans to expatriates, such as Tamweel, NBAD and ADCB.

Challenges and concerns. The mortgage market is still, in our view, nascent. One challenge, which faces banks in the UAE, is that the country's Civil Law disallows banks from legally foreclosing on a property owner who is residing in his property. In addition, according to the Central Bank's regulations, banks' real estate exposure should not exceed 20% of their customer deposits, but given the segment's currently small size, this should not be problematic in the short to medium term. We have some concerns regarding the real estate sector in the UAE, which stem from the fact that a large number of people purchase properties as investment tools, rather than for residential purposes. The Dubai Marina development is a clear example for this, with unoccupied units accounting for 35% of the project allegedly. We are concerned about Dubai showing some signs of a real estate slowdown in the medium term. If this happens, depending on the magnitude of the slowdown, we believe that the banks' share of profits in associates and accordingly non-interest income will be negatively affected, given that most banks in our UAE coverage universe hold controlling stakes in real estate development companies.

Strong appetite for Islamic banking

Market overview. Islamic banking is one of the fastest-growing segments in the financial sector globally, with around US\$300 billion in assets, growing at a rate of 10-15%, over the past 10 years. The UAE was the first country in the world to establish an Islamic bank, namely Dubai Islamic Bank, in 1975. Islamic lending recorded a 2003 - 2006 CAGR of 48% to reach AED94 billion, accounting for 13% of gross credit and Islamic assets comprised 14% of the total sector's assets in 2006. We believe that Islamic banking in the UAE is set to grow at a faster pace, as the number of Islamic products offered increases.

Key players. The UAE has four purely Islamic banks in place, and four Islamic banks will commence operations within a year, bringing the total number of Islamic banks to eight. Dubai Islamic Bank (DIB) and Abu Dhabi Islamic Bank (ADIB) are the key players, with a 53% and 30% Islamic lending market share respectively, in addition to Sharjah Islamic Bank (the former National Bank of Sharjah) and Emirates Islamic Bank (previously Middle East Bank). The other four banks are Dubai Bank, a conventional bank which converted to a purely Islamic institution in 2006, Al Noor Islamic Bank launched by Dubai Holding, and Al Hilal Bank set up by the government of Abu Dhabi. Ajman has also received initial approval from the UAE Central Bank to set up Ajman Islamic Bank. In addition to purely Islamic banks, most conventional commercial banks started to offer Islamic services in the last few years, capitalising on the recent strong growth trends. Many conventional banks established fully dedicated Islamic finance companies (for example, Badr Al Islami by Mashreqbank). Others, including Citibank, Barclays, and HSBC, have set up Islamic windows within their conventional branches across the country. Islamic windows mainly focus on "deal to deal" business or sukuk trading for mega-projects. Competition is likely to intensify because of the growing appetite for Islamic products. However, we believe that new banks will take some time to establish themselves properly in the market, probably in two years' time. It is worth noting that the CBUAE is not granting any further full-fledged Islamic banking licences, and will approve only Islamic windows or specialised subsidiaries.

Islamic banks target unexploited clients. Customers can be classified into three main categories: Those who strongly believe in pure Islamic banking; those who do not give much importance to the bank they use, but are encouraged to use Islamic banks, and those who do not have a particular preference, and their choice of banks depends on product and service quality. Islamic banks in the UAE target all three categories to broaden their reach, through innovative product offerings including Islamic personal finance, Islamic credit cards and Islamic auto finance, Shari'a-complaint mortgages, and a growing range of investment funds.

Long history of Islamic finance in the UAE

There are currently four Islamic banks in the UAE, in addition to four newly established Islamic banks, bringing the total number to eight

Higher cost-to-income ratios than conventional banks. Islamic banks are characterised by higher cost-to-income ratios, compared to conventional banks, partially due to the lack of non-standard legal contracts in many areas, in addition to the extra overheads pertaining to various Islamic finance operations, which are more human resource intensive. Other reasons include the unavailability of hidden fees or charges for late payments, and the higher cost of capital due to the high dividend pay-out ratio in Islamic banks. In addition, Islamic banks divert any non-Shari'a compliant income to the charity accounts that may result from some operational lapses. Finally, the higher ratio also results from paying the depositors according to a profit-sharing scheme.

Islamic banks suffer from high cost-to-income ratios partially due to the lack of non-standard legal contracts in addition to extra overhead costs

Challenges. There are several challenges facing Islamic financial institutions. The shortage of trained and experienced experts in Islamic banking has hindered its expansion. This has led to a significant increase in the cost of trained Islamic finance experts.

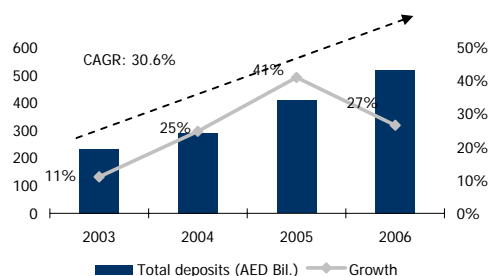
Excess liquidity is also a key challenge facing Islamic banks, due to the shortage of short-term investment vehicles. In the UAE, Islamic banks also face some regulatory problems since there is no Islamic banking supervision committee within the Central Bank.

Funding

Deposits grew at a slightly slower 2003 - 06 CAGR than credit, equivalent to 30.6%, to reach AED519 billion in 2006. Funds mainly come from the business and industry sectors, followed by individual deposits, which comprised 32% of total deposits in 2006. 90% of the total sectors' deposits in 2006 were placed by residents, while only 10% were non-residents' deposits.

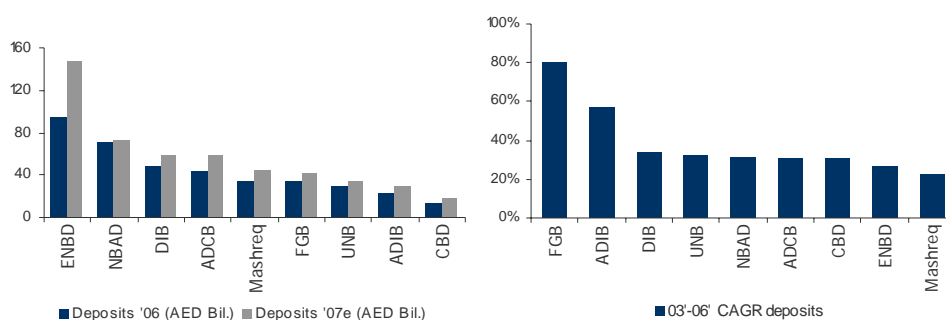
Deposits grew at a 2003-06 CAGR of 30.6% to reach AED519 billion

Figure 21 | Deposit growth



Source: Central Bank of the UAE, Beltone Financial

Figure 22 | Deposit growth amongst our UAE coverage universe



Source: Banks' financial statements, Beltone Financial

FGB and ADIB achieved the highest compounded growth in deposits amongst our coverage universe

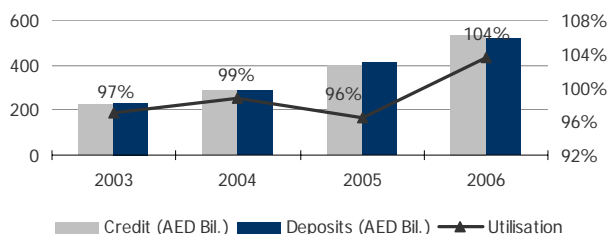
Funding Gap

UAE banks have been recording a high utilisation ratio (gross loans/total deposits), with some banks exceeding 100%. The average utilisation in the sector stood at 104% in 2006. It is worth noting that the Central Bank of the UAE requires banks to maintain an advances to stable resources ratio at a maximum of 100% (see Central Bank Regulations). As a result of this, banks in the UAE face a funding gap and have resorted to raising funds, through the Euro medium-term note programme (EMTN), syndicated borrowings, subordinated debt and Islamic sukuk. EMTNs have generally been issued with a five-year tenor and at interest rates in the range of 30 to 50 basis points over LIBOR. The UAE banks' favourable ratings allow them to borrow at lower rates. Borrowed funds are expected to grow further, given the trend towards diversifying funding schemes.

Another issue faced by banks in the UAE is the asset/liability maturity mismatch, where there is a need for longer term funding among banks in the UAE, given that most banks' deposits are short term. With mortgage lending becoming a key focus for UAE banks over the next few years, banks will require sources of funds with a longer maturity to solve the maturity mismatch, which can be solved through longer-term notes.

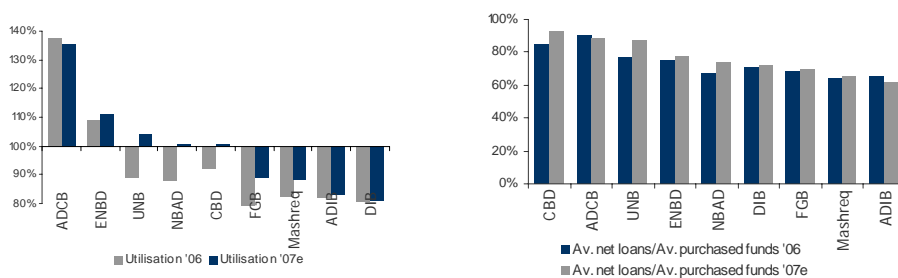
UAE banks resort to medium-term notes to bridge the funding gap and reach a better asset/liability maturity match

Figure 23 | Utilisation in the UAE banking system



Source: Central Bank of the UAE, Beltone Financial

Figure 24 | Utilisation amongst our UAE coverage universe



Source: Banks' financial statements, Beltone Financial

CBD and ADCB have the highest average net loans to average total funding, which creates funding pressures on these banks in the medium-term

Figure 25 | Outstanding medium-term funding as at September 2007

AED Billion	EMTNs	Sub. Debt	Syn. Loans	ECP	Sukuk
Abu Dhabi Commercial Bank	13.1	1.5	9.2	–	–
Emirates NBD	13.2	–	–	–	–
National Bank of Abu Dhabi	7.4	2.4	–	0.1	–
Mashreqbank	5.2	–	–	–	–
First Gulf Bank	–	–	2.8	–	–
Union National Bank	2	–	3.7	–	–
Abu Dhabi Islamic Bank	–	–	–	–	2.9
Dubai Islamic Bank	–	–	–	–	2.8
Commercial Bank of Dubai	–	–	–	–	–

Source: Banks' Financials, Beltone Financial

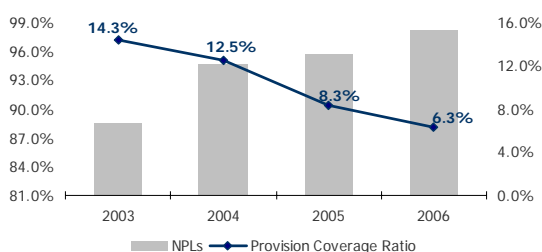
Almost all banks in our UAE coverage universe revert to medium term funding to complement deposits, except CBD

Asset Quality and Capitalization

Recently, UAE banks have been enjoying low levels of non-performing loans (NPLs), with an average of 6.3% for the whole sector and 1.8% for the 9 banks in our coverage universe in 2006, following high levels witnessed four years ago, which reached 14.3%. These low levels have been helped by the favourable economic environment in the UAE. In the corporate sector, a sizable portion of the loan book is accounted for by government-owned companies, the leading national corporate champions, and companies belonging to large family-owned business groups. These corporate exposures represent relatively low risk and have sound credit track records. Similarly, in the retail sector, UAE banks have employed generally conservative approaches to growing their loan book. Mandatory salary assignments to the loan accounts ensure that banks have a high level of visibility over the account transactions. Although UAE banks enjoy low NPL levels, they are over-provisioning because they are building adequate levels of provisions should the market worsen (for example, stock market corrections). The UAE's first credit bureau, Emcredit, opened in November 2006, with the aim of promoting a more sound credit culture in the financial system to monitor the market more efficiently. We believe that asset quality could deteriorate if real estate or oil prices fall.

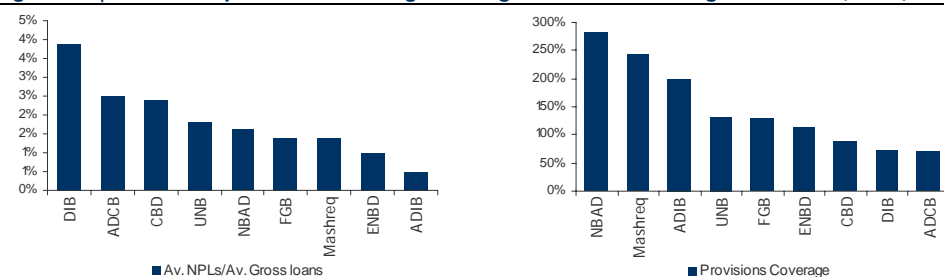
Banks in the UAE enjoy high asset quality and adequate provisions

Figure 26 | NPLs versus provision coverage (2006)



Source: IMF, Beltone Financial

Figure 27 | NPLs and provision coverage amongst our UAE coverage universe (2006)

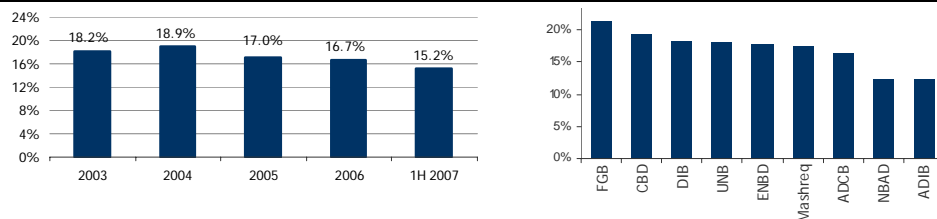


All banks in our UAE coverage universe have very high asset quality, with the maximum average NPL to gross loans ratio of 4%, and are over-covered with provisions

Source: Banks' financial statements, Beltone Financial

All UAE-based banks are adequately capitalised, where the average capital adequacy ratio (CAR) levels in the total banking system exceed the minimum percentage set by the Central Bank (10%). The average CAR for the first half of 2007 reached 15.2%. High CAR levels shed light on the strength of banks in the UAE, and their ability to withstand shocks. However, we argue that over-capitalisation might show weakness in profitability levels affecting the banks' ROE ratios.

Figure 28 | CAR for the system and amongst our UAE coverage universe (2006)



Source: Central Bank of the UAE, Beltone Financial

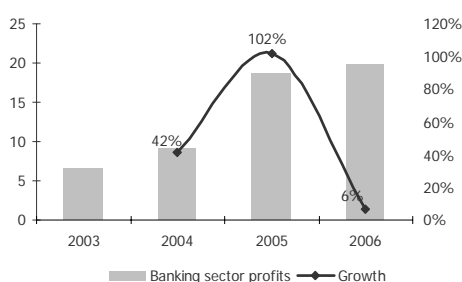
Profitability

Profitability partially boosted by non-interest income, fees and commissions

UAE banks have maintained strong profitability levels over the past four years. Profits at UAE banks climbed significantly over the past four years from AED6.5 billion in 2003 to AED19.8 billion in 2006, recording a CAGR of 45%. The capital market played a vital role in boosting banks' profits in 2005, due to the wave of IPOs, which took place that year. Banks benefited from brokerage activities, investment in securities, or IPO financing. However, the surge in capital markets was short-lived, ending in 2006, when the market hit a bottom. The securities and commissions authority then cut the brokerage fees by half, and as a result, banks' profits were slightly squeezed in 2006 versus 2005. However, the second half of 2007 started to see clear signs of capital markets recovery, witnessing three large IPOs, namely Air Arabia, Al Deyaar Development and DP World.

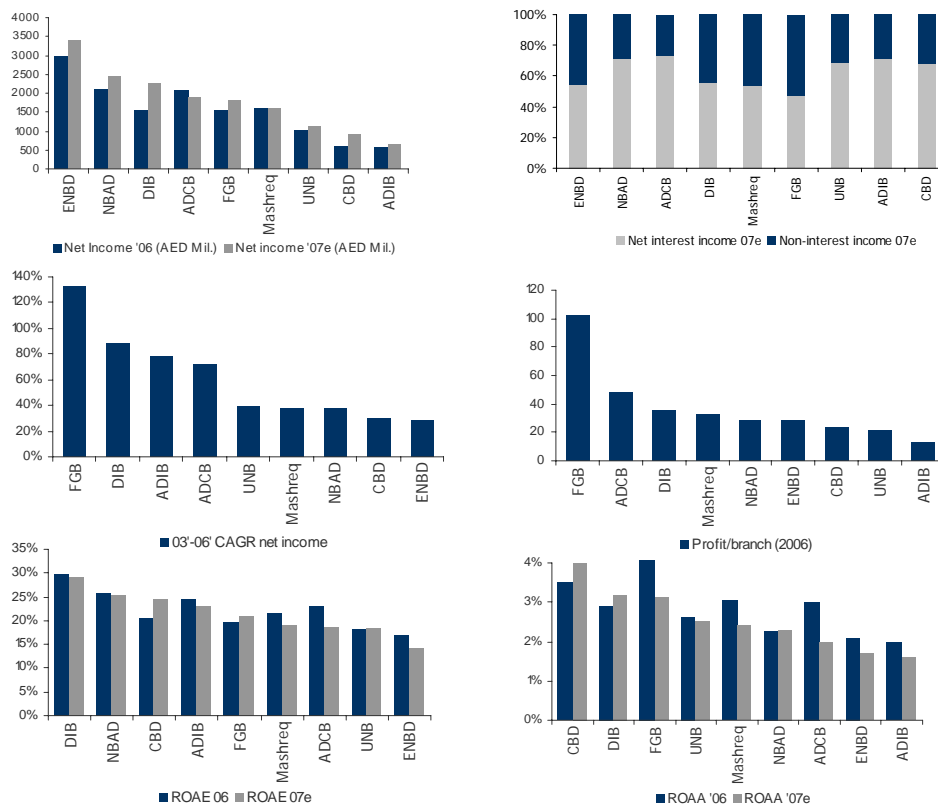
Strong profitability over the last four years

Figure 29 | Banking profits growth



Source: Central Bank of the UAE, Beltone Financial

Figure 30 | Profitability amongst our UAE coverage universe



Source: Banks' financial statements, Beltone Financial

ENBD and NBAD have achieved the highest profits in 2006 and 2007

FGB, Mashreqbank, and DIB have the highest non-interest income as a percentage of operating income

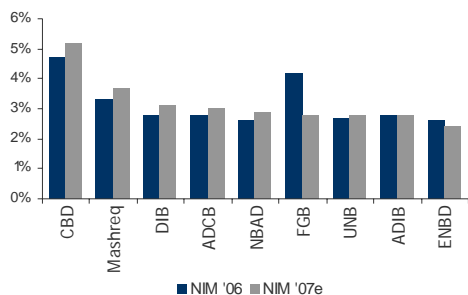
FGB, DIB and ADIB achieved the highest compounded earnings growth between 2003 and 2006

CBD and DIB to deliver the highest ROAE in 2007, in our estimates

Relatively high margins

Margins have been going down over the past few years in the UAE. However, they still stand at relatively high levels. Spreads and margins experienced a slight drop in 2006 versus 2005. However, they rebounded once more in 2007. The average net interest margin for the nine banks in our coverage universe is around 3.2% in 2007. We expect margins to be squeezed further going forward as competition escalates.

Figure 31 | Net Interest Margin amongst our UAE coverage universe



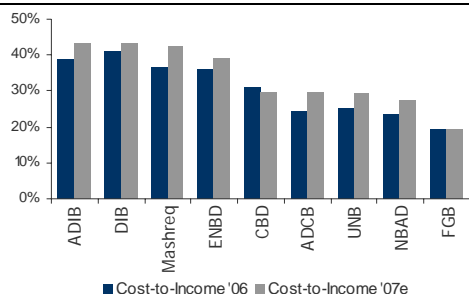
CBD has the best margins in our UAE coverage universe

Source: Banks' financial statements, Beltone Financial

Efficiency

UAE banks enjoy low cost-to-income ratios, with a coverage universe average of 30.6% in 2006 and 33.7% estimated in 2007. Islamic banks scored the highest cost-to-income ratio due to the reasons mentioned earlier. Nevertheless, we expect this ratio to increase over the next few years, on the back of rising competition, increasing product offering, rising staff costs, in addition to banks' expansion plans.

Figure 32 | Efficiency amongst our UAE coverage universe



FGB is the most efficient bank in our UAE coverage universe

Source: Banks' financial statements, Beltone Financial

Business Performance: Going Forward

On the balance sheet, we expect deposits to grow at a slower pace than loans, thus pushing utilisation upward, as banks implement their expansion plan, whether locally, regionally, or internationally. We have assumed a stable funding and investment mix for our forecast period, which focuses on deposits and medium-term notes or sukuk for Islamic banks as the major source of funds, and loans and investments in financial instruments as the major sources of investments.

We estimate a squeeze in the net interest margin for banks in the sector, driven by competition and the lower interest rate expectations. In addition, we forecast a higher cost-to-income ratio on the back of planned expansion. However, we estimate non-interest income as a percentage of total operating income to increase steadily, to alleviate the effects of the lower NIM and the higher cost-to-income ratios on the bottom line.

Recommendation

Hold*

Upside/Downside

1.6%

One-Year Fair Value

AED23.50

Current Price

AED23.20**



National Bank of Abu Dhabi (NBAD)

Banking sector | UAE | Abu Dhabi

Slowly but surely

DCF Target Price

AED25.40

Comparative Valuation Price

AED21.70

EPS FY07E

AED1.50

Reuters Code

NBAD.AD

Bloomberg Code

NBAD UH

Market Cap

AED36.8 billion
US\$10.0 billion

Number of Shares Outstanding

1,591 million

Average Daily Turnover

AED 5.1 million

52-Week high/ low

AED25.30/15.55

YTD Price Change

11.84%

Shareholder Structure

73% | Abu Dhabi Investment

Authority

27% | Free Float

Foreign Ownership Limit

25%

* Refer to back cover for investment recommendations

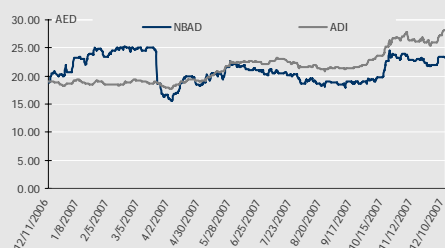
** Closing of December 13th, 2007

- **National Bank of Abu Dhabi (NBAD) is the largest bank in Abu Dhabi, with strong government ties.** NBAD enjoys a very strong name in the UAE, and has attained the prime position in the country until Emirates Bank International and National Bank of Dubai merged. However, it is still the largest bank in Abu Dhabi (which still accounts for around two thirds of the economy of the UAE). The bank relies on its name, ownership, rating, and on its relatively larger local and international presence to attract and maintain clients. The bank is considered 'the government bank,' which secures a significant source of business for the bank, but at the same time also reduces diversification in the bank's loan and deposit portfolios.
- **The bank has been growing slowly, but at a steady pace.** NBAD has been growing slowly but steadily over the past four years. The bank's total assets have grown at a CAGR of 32% between 2003 and 2006, while loans and deposits grew at a CAGR of 27% and 31% over the same period, respectively. We estimate, however, that the bank will witness moderate growth, compared to its peers in the UAE.
- **NBAD has a solid strategy.** NBAD is set to expand its retail and Islamic Banking services, through its newly-established Islamic Banking subsidiary. The bank will focus on improving and developing the SME financing business. It is also likely to expand its investment banking and real estate operations more aggressively. The bank will expand organically, through opening more branches within and outside the UAE. However, with the merger of Emirates Bank International and National Bank of Dubai, NBAD is now likely to be pressed to search for merger partners, especially since Abu Dhabi may need another large banking champion, similar to the one recently created in Dubai with the NBD and Emirates Bank merger. We believe that Union National Bank may be a good candidate for a merger with NBAD, given its small size and retail focused strategy. Another attractive option would be a merger with First Gulf Bank, which, in our view, would create another good match, with its high growth and non-government focused strategy.
- **DCF target price and comparative value are very close to current market price.** NBAD's DCF target price is AED25.10, and given the bank's ROAE FY08E (25.1%), the bank is trading at a high P/B FY08E (3.4x). NBAD is trading at a P/E FY08E of 13.5x, compared to a regional and emerging market average of 13.5x.

Selected Indicators

FY ends December	2006a	2007e	2008e	2009e	2010e	2011e
NII (AED million)	2,021	2,476	2,804	3,144	3,521	3,915
NIM (%)	2.6	2.9	3.0	2.8	2.7	2.6
Operating income (AED million)	2,956	3,551	4,035	4,569	5,176	5,822
Net income (AED million)	2,106	2,462	2,734	3,017	3,323	3,699
Net income growth (%)	(18.4)	16.9	11.0	10.4	10.2	11.3
EPS (AED)	1.3	1.5	1.7	1.9	2.1	2.3
P/E (x)	17.5	15.0	13.5	12.2	11.1	10.0
ROAA (%)	2.3	2.3	2.3	2.2	2.1	2.1
ROAE (%)	25.8	25.4	25.1	25.3	25.2	25.3
BVPS (AED)	5.1	6.1	6.8	7.5	8.3	9.2
P/BV (x)	4.5	3.8	3.4	3.1	2.8	2.5
DPS (AED)	0.4	0.2	0.3	0.3	0.2	0.2
Dividend yield (%)	1.7	1.0	1.1	1.2	0.9	1.0
Net loans/Deposits	83.6	95.7	109.8	109.9	112.6	117.8
Net Loans/Avg. Purchased Funds	67.2	73.8	87.3	92.9	93.8	94.3
Cost/Income (%)	23.4	27.7	28.4	30.1	31.8	32.5
CAR (%)	12.2	13.4	12.6	11.7	11.5	11.2
Av. NPLs/Av. Gross loans (%)	1.6	1.4	1.2	1.1	1.0	0.9
Provisions Coverage (%)	281.7	319.8	346.2	373.3	396.2	419.1

Source: NBAD, BelTone Financial.



Investment Considerations

Strengths

- NBAD is the largest bank in Abu Dhabi and the second largest in the UAE, with a 2006 loan and deposit market share of 11.2% and 13.6%, respectively.
- NBAD is the prime bank for the Abu Dhabi government, since it is the largest shareholder of the bank, providing it with very large and secured business, with a lower risk profile, compared to its peers.
- Four of the bank's five subsidiaries provide additional financial services that complement its traditional commercial banking activities, and provide the bank with diversified income sources.
- NBAD has a strong credit rating assigned by the different agencies.
- The bank has a large branch network, within and outside the UAE. It has the largest number of branches overseas.
- The bank has been operating very efficiently, reflected by its low cost-to-income ratio (23.4% in 2006).
- NBAD has high asset quality with an NPL/Gross loans ratio of 1.6% in 2006, and high provisions coverage of 282%.

Weaknesses & Challenges

- NBAD is majority-owned by the government, which raises corporate governance issues, highlighted earlier in this report.
- NBAD has an undiversified business portfolio, because of its strong alliance with the government. Most of the bank's deposits and loans are sourced from and channeled to the government. Even its retail lending is based on government employees. However, this reduces the overall risk profile of the bank's loan portfolio.
- NBAD is more of a corporate bank (80% of the loan portfolio), with a lower focus on retail business.
- In 2006, NBAD lost market share, because of tougher competition and the number of banks seeking a greater market share. We estimate a rebound in the bank's market share in lending for 2007, because of the significant growth achieved up to September 2007.
- Competition is a challenge for all banks in the sector.
- Attracting and retaining professional bankers will be a significant challenge. Banks have been losing staff to regional and international banks, because of competition and the limited availability of professionals.

Differentiation and Future Growth Strategy

NBAD has the highest rating in the UAE, and its geographical dispersion and branch network provide it with wide access and high reach to existing and potential customers both domestically and overseas. The bank is trusted by the market for its strong rating, balance sheet and profitability.

BANK PROFILE

Brief History

The National Bank of Abu Dhabi (NBAD) was established in 1968 to serve as the bank to the United Arab Emirates Government and the Emirate of Abu Dhabi. It also fulfilled the role of the Central Bank until the formation of the currency board in 1975, which subsequently became the Central Bank.

Ownership

Abu Dhabi Investment Authority	73%
Free Float	27%
Foreign Ownership Limit	25%
Current Foreign Participation	2%

Activities

Activities:	% of op. income	% of assets	% of liabilities
- Domestic Banking	53%	24%	24%
- International Banking	19%	23%	24%
- Investment Banking	18%	40%	43%
- Head Office Support	10%	13%	9%

Subsidiaries:

Subsidiaries:	Country of inc.	% Ownership
- Abu Dhabi Financial Services LLC	Abu Dhabi, UAE	100%
- Abu Dhabi National Leasing LLC	Abu Dhabi, UAE	100%
- Abu Dhabi International Bank Inc.	Curacao, Netherlands Antilles	100%
- NBAD Trust Company (Jersey) Limited	Jersey, Channel Islands	100%
- Abu Dhabi National Islamic Finance	Abu Dhabi, UAE	100%

Network

Domestic Branches	74 (includes 14 cash offices)
Overseas Branches	38 (includes 2 cash offices)
Domestic ATMs	170+
Overseas ATMs	40
Number of Accounts	242,205 (UAE) & 41,477 (Overseas)

Credit Rating

	Long term	Outlook	Short term
S&P	A+	Stable	A1
Moody's	Aa3	Stable	P1
Fitch	AA-	Stable	F1+
Capital Intelligence	AA-		A1

Employees

Number of Employees	2,880 (UAE & Overseas)
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Market Share and Ranking

	2007E	2006	2005	2004
Total Loans (in AED MM)	83,375	60,199	54,001	36,142
Loans Market Share	12.4%	11.2%	13.7%	12.6%
Growth	38.5%	11.5%	49.4%	
Total Deposits (in AED MM)	72,860	70,738	59,573	38,748
Deposits Market Share	10.4%	13.6%	14.5%	13.3%
Growth	3.0%	18.7%	53.7%	
Total Assets (in AED MM)	114,784	100,966	84,960	56,331
Assets Market Share	10.1%	11.7%	13.3%	12.5%
Growth	13.7%	18.8%	50.8%	

For future growth, the bank intends to:

- Expand regionally and internationally, with a focus on specific segments within certain countries. For example, the bank has 20 branches in Egypt focusing on high net worth individuals. In line with the same strategy, NBAD's branches in London, Paris, Washington, Kuwait, Oman, Sudan, and Switzerland focus on corporate and high net work clients, rather than mass retail banking. Management plans to increase NBAD's presence in all of these countries and initiate a presence in Bahrain, Qatar, Libya, Jordan, and Hong Kong by the end of 2008.
- Focus on expanding its Islamic Banking services, which are now offered through Islamic windows within its conventional branches. The bank has recently set up its own Islamic Financing subsidiary, Abu Dhabi National Finance Company, which is 100%-owned by the bank and will be consolidated.

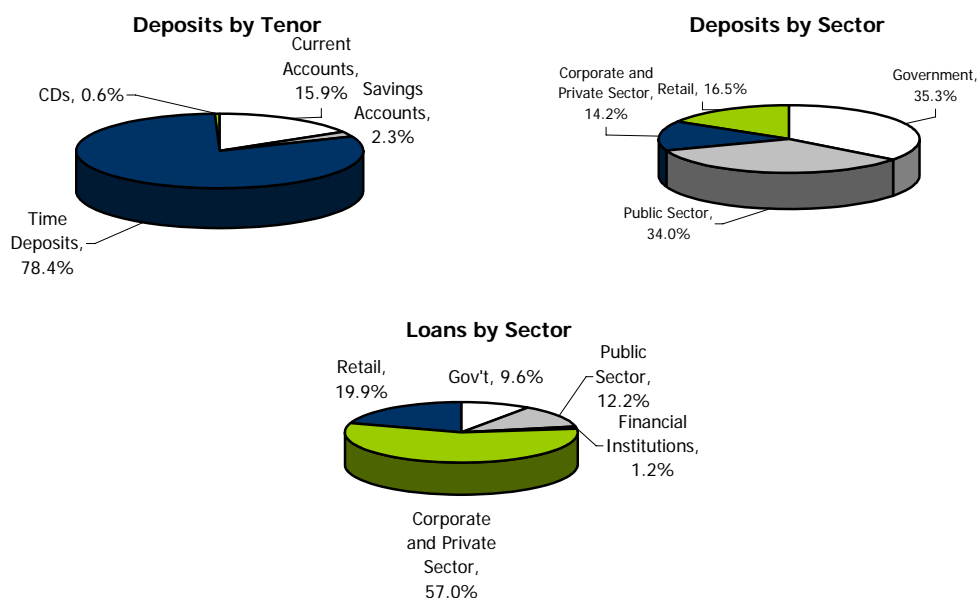
- Focus on improving and developing the SME financing business, which used to operate under the corporate banking umbrella, and which has recently been separated. It will be developed further.
- Develop private banking through the bank's subsidiary in Switzerland.
- Expand its investment banking operations, within all its sub-divisions: brokerage, asset management, corporate finance and advisory. However, one of the challenges facing expansion in this area will be finding the right professionals to expand the business.
- Expand its real estate management and financing, through establishing a new real estate subsidiary. The request has been submitted to the UAE Central Bank for approval. In addition, the bank will establish a property management-engineering department, which will streamline and expand the real estate business for it.

Business Performance and Forecasts Summary

Balance Sheet

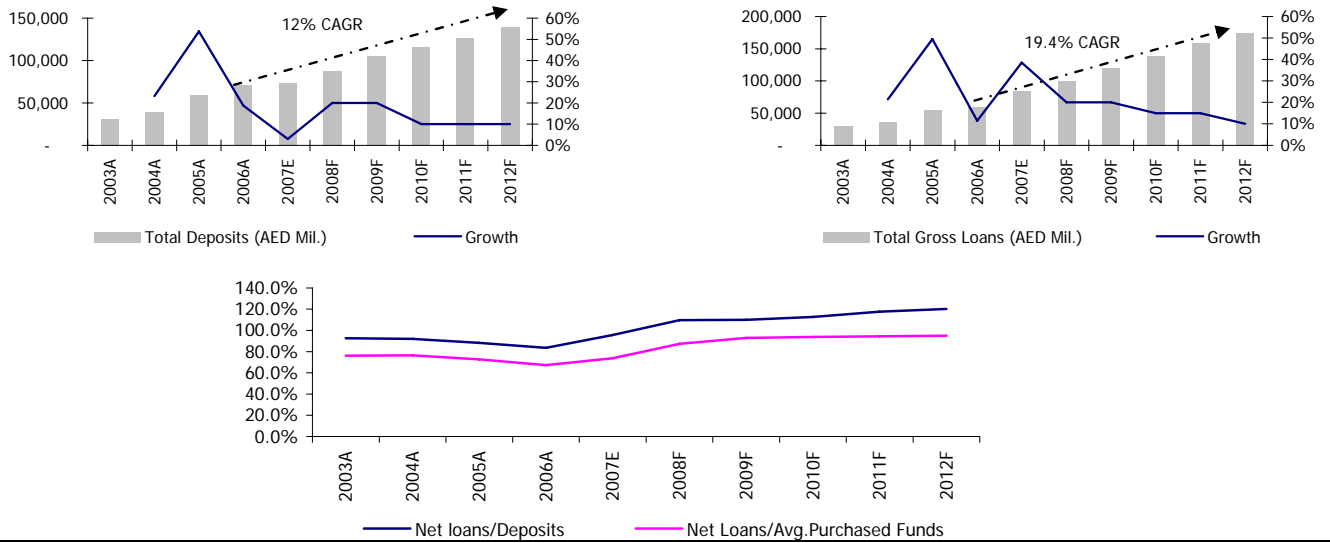
Regarding the balance sheet, we expect deposits to grow at a 2006–2012 CAGR of 12% and loans to grow at a compounded rate of 19.4% over the same period, thus pushing utilisation up further. The bank is currently a corporate bank, with corporate lending comprising around 80% of the bank's portfolio. We expect a greater focus on retail lending, especially given the focus on Islamic Banking, mortgage lending and private banking, coupled with planned expansion within the UAE, and regionally.

Figure 33 | Loan and Deposit Classification (2006)



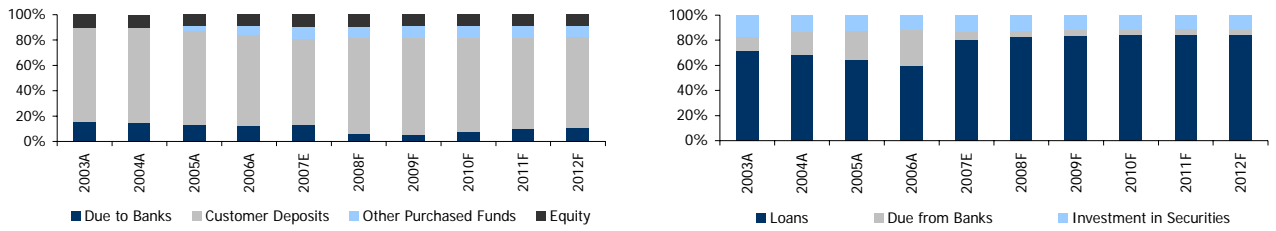
Source: NBAD, Beltone Financial estimates

Figure 34 | Loan and Deposit Growth, and Utilisation



Source: NBAD, Beltone Financial estimates

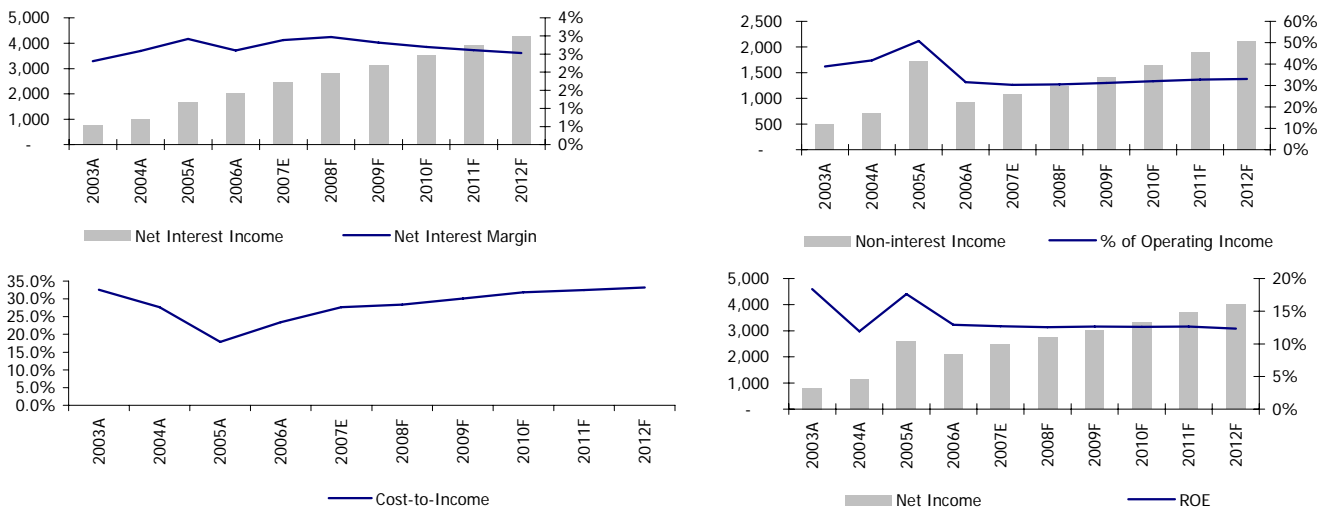
Figure 35 | Funding and Investment Mix



Source: NBAD, Beltone Financial estimates

Income Statement

Figure 36 | Profitability and Efficiency



Source: NBAD, Beltone Financial estimates

Financial Statements

Balance Sheet

Fiscal Year Ends December (AED Million)	2006A	2007F	2008F	2009F	2010F	2011F
Assets						
Cash & Short Term Assets	2,665	11,932	3,617	3,025	3,428	4,273
Inter-bank Deposits	27,364	6,841	5,815	6,396	7,036	7,740
Short-Term Investments in Securities	408	817	980	1,176	1,293	1,423
Gross Loans & Advances	60,199	83,375	100,050	120,060	138,069	158,780
(Loan-Loss Provisions)	-2,713	-3,451	-4,024	-4,713	-5,359	-6,103
Net Loans & Advances	57,486	79,924	96,026	115,347	132,710	152,677
Investments in Securities	10,527	11,790	13,205	14,789	16,564	18,552
Net Fixed Assets	424	551	584	615	633	652
Other Assets	2,092	2,929	3,808	4,569	5,254	5,780
Total Assets	100,966	114,784	124,034	145,918	166,918	191,096
Liabilities						
Due to Banks	12,079	14,494	7,247	6,522	12,067	18,100
Customer Deposits	70,738	72,860	87,432	104,918	115,410	126,951
Other Purchased Funds	6,022	9,952	9,501	11,876	13,658	16,389
Total Liabilities	91,961	104,388	112,645	133,435	153,065	175,728
Total Net Worth	9,005	10,396	11,389	12,483	13,853	15,368
Total Liabilities & Net Worth	100,966	114,784	124,034	145,918	166,918	191,096
Contra Accounts	54,583	54,583	55,675	56,788	57,924	59,082

Source: Beltone Financial, NBAD

Income Statement

Fiscal Year Ends December (AED Million)	2006A	2007F	2008F	2009F	2010F	2011F
Interest Income	5,458	6,948	7,544	8,496	9,610	10,731
Interest Expense	-3,437	-4,472	-4,740	-5,352	-6,089	-6,815
Net Interest Income	2,021	2,476	2,804	3,144	3,521	3,915
Fees & Commissions, Net	732	794	844	897	935	976
Investment Income, Net	163	235	335	467	651	851
Other Operating Income	39	45	52	60	69	79
Net Operating Income	2,956	3,551	4,035	4,569	5,176	5,822
Administrative Expenses	-634	-917	-1,071	-1,291	-1,557	-1,792
Depreciation	-59	-67	-76	-84	-91	-99
Total Operating Expenses	-693	-984	-1,148	-1,375	-1,648	-1,891
Loan-Loss Provisions	-99	-32	-73	-88	-106	-122
Net Operating Profit	2,164	2,535	2,814	3,106	3,421	3,808
Income Taxes	-51	-72	-80	-88	-97	-109
Net Profit After Taxes	2,106	2,462	2,734	3,017	3,323	3,699

Source: Beltone Financial, NBAD

Financial Ratios

Fiscal Year Ends December	2006A	2007F	2008F	2009F	2010F	2011F
Growth Ratios						
Loans	11.5%	38.5%	20.0%	20.0%	15.0%	15.0%
Deposits	18.7%	3.0%	20.0%	20.0%	10.0%	10.0%
Net Income	-18.4%	16.9%	11.0%	10.4%	10.2%	11.3%
Contingent Liabilities	10.6%	0.0%	2.0%	2.0%	2.0%	2.0%
Profitability Ratios						
Return on Average Assets	2.3%	2.3%	2.3%	2.2%	2.1%	2.1%
Return on Average Shareholders Equity	25.8%	25.4%	25.1%	25.3%	25.2%	25.3%
Net Spread	2.8%	3.3%	3.3%	2.9%	2.7%	2.6%
Net Interest Margin	2.6%	2.9%	3.0%	2.8%	2.7%	2.6%
Efficiency Ratios						
Cost-to-Income	23.4%	27.7%	28.4%	30.1%	31.8%	32.5%
Liquidity Ratios						
Average Gross Loans-to-Average Customer Deposits	87.6%	100.0%	114.4%	114.4%	117.2%	122.5%
Average Net Loans-to-Average Customer Deposits	83.6%	95.7%	109.8%	109.9%	112.6%	117.8%
Average Net Loans-to-Average Total Purchased Funds	67.2%	73.8%	87.3%	92.9%	93.8%	94.3%
Asset Quality Ratios						
Average Net Loans-to-Average Assets	58.6%	63.7%	73.7%	78.3%	79.3%	79.7%
Average NPLs-to-Average Gross Loans	1.6%	1.4%	1.2%	1.1%	1.0%	0.9%
Provisions Coverage	281.7%	319.8%	346.2%	373.3%	396.2%	419.1%
Capitalisation Ratios						
Capital Adequacy Ratio	14.1%	13.4%	12.6%	11.7%	11.5%	11.2%
Dividend Payout Ratio	17.9%	15.0%	15.0%	15.0%	10.0%	10.0%

Source: Beltone Financial, NBAD

Recommendation

Add*

Upside/Downside

10.7%

One-Year Fair Value

AED25.10

Current Price

AED22.70**



First Gulf Bank (FGB)

Banking sector | UAE | Abu Dhabi

The Fast Tracker

DCF Target Price

AED26.50

Comparative Valuation Price

AED23.70

EPS FY07E

AED1.50

Reuters Code

FGB.AD

Bloomberg Code

FGB UH

Market Cap

AED28.4 billion

US\$7.7 billion

Number of Shares Outstanding

1,250 million

Average Daily Turnover

AED20.8 million

52-Week high/ low

AED26.6/18.5

YTD Price Change

86.1%

Shareholder Structure

61.4% | Al Nahyan Family

38.6% | Free Float

Foreign Ownership Limit

30%

* Refer to back cover for investment recommendations

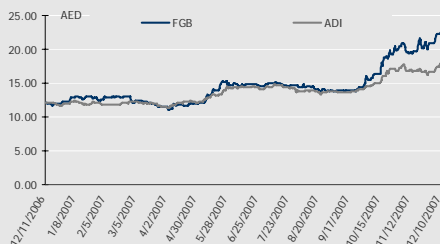
** Closing of December 13th, 2007

- **First Gulf Bank (FGB) is the fastest growing bank in the UAE.** FGB underwent a significant change of management in 1999, with the bank's senior management all attracted from Citibank, bringing about a major restructuring of the bank's operations. As a consequence, the bank successfully grew its assets between 2002 and 2006, at a compounded rate of 76%, and its profits at 109%, over the same period.
- **FGB key performance indicators have significantly improved between 2001 and 2006.** Comparing key performance indicators for the bank between 2001 and 2006, ROAA doubled from 2.1% to 4.1%, ROAE went up from 12% to 19.6%, efficiency significantly improved with the cost-to-income ratio going down from 44% to 19.4%, and the quality of the loan portfolio has improved significantly with the NPL/Gross Loans ratio, going down from 23.7% to 1.4%.
- **In 2006, FGB achieved very strong results.** FGB showed the highest asset growth (82%) within the UAE banking sector, and the highest net profit growth (45%) within the UAE conventional (non-Islamic) banking sector. Deposits doubled from AED17.3 billion (US\$4.6 billion) in 2005 to AED34.4 billion (US\$9.3 billion) in 2006, and Fitch upgraded its rating for the bank from BBB+ to A.
- **The bank has a very solid strategy to continue to drive strong growth in the short to medium term.** FGB has loftier goals and a more ambitious strategy than other banks in the UAE. Management is also targeting a better revenue generation structure from three main sources: core intermediation operations, revenue from subsidiaries, and from additional market opportunities, as they arise. The bank is targeting a stronger market position and penetration through the launch of a greater number and more innovative products.
- **FGB plans to increase its international presence.** FGB intends to open representative offices in Singapore, London and Shanghai, in addition to reviewing international acquisitions. The bank's management is also focused on strengthening risk management tools and processes through investment in Basel II automated systems.
- **DCF and Multiples valuation still has room for price escalation.** Despite the 86.1% YTD price appreciation, the DCF offers 16.9% upside potential to the current market price, and the stock is trading at a reasonable P/B FY08E (2.9x), given its ROAE FY08E (23.1%).

Selected Indicators

FY ends December	2006a	2007e	2008e	2009e	2010e	2011e
NII (AED million)	1,208	1,143	1,285	1,494	1,664	1,804
NIM (%)	4.2	2.8	2.4	2.2	2.0	1.8
Operating income (AED million)	2,068	2,467	3,154	3,955	4,670	5,295
Net income (AED million)	1,536	1,819	2,275	2,897	3,419	3,860
Net income growth (%)	45.5	18.4	25.1	27.3	18.0	12.9
EPS (AED)	1.2	1.5	1.8	2.3	2.7	3.1
P/E (x)	18.5	15.6	12.5	9.8	8.3	7.4
ROAA (%)	4.1	3.1	2.7	2.6	2.5	2.5
ROAE (%)	19.6	21.0	23.1	25.5	25.6	24.3
BVPS (AED)	6.3	6.9	7.9	9.1	10.7	12.7
P/BV (x)	3.6	3.3	2.9	2.5	2.1	1.8
DPS (AED)	0.7	0.4	0.5	0.7	0.5	0.6
Dividend yield (%)	3.1	1.9	2.4	3.1	2.4	2.7
Net loans/Deposits	74.9	87.4	110.5	122.7	128.0	130.5
Net Loans/Avg. Purchased Funds	68.9	69.3	72.3	72.5	72.6	73.1
Cost/Income (%)	19.4	19.3	21.5	22.5	23.1	24.1
CAR (%)	21.3	15.9	13.1	12.2	12.3	12.8
Av. NPLs/Av. Gross loans (%)	1.4	1.2	1.1	1.0	0.9	0.9
Provisions Coverage (%)	129.6	131.6	133.6	135.6	137.6	139.6

Source: FGB, Beltoné Financial.



Investment Considerations

Strengths

- FGB has an experienced management team with a long track-record. Since new management was installed in 1999, the bank's management has been successfully strengthening its position in the UAE market and gaining higher market share year-on-year, showing strong balance sheet and earnings growth.
- In addition to strong revenue from core banking activities, the bank has five subsidiaries that provide it with a wider access to different financial services and diversified sources of income.
- FGB has a strong credit rating assigned by three different agencies.
- FGB established a strong IT infrastructure, which enables the bank to reach out to its customers through a smaller number of branches (diversified delivery channels). The bank ranks first among its peers in terms of 2006 profitability per branch (AED102 million).
- Diversified lending portfolio, with loans distributed among real estate, services, energy, trading, construction, transport, and retail.
- High focus on retail lending, with extremely high growth targets across all business segments, but with retail achieving first rank.
- High efficiency reflected by the bank's low cost-to-income ratio (19.4% in 2006).
- The bank has started to diversify its operations and invest in real estate. Until September 2007, FGB increased its investment in real estate by AED2.4 billion, compared to December 2006. Although the real estate sector entails risk, it does add to the different investment and business lines of the bank and enhances the bank's future investment income. We are positive on the real estate sector outlook in Abu Dhabi.
- High-asset quality with 1.4% of NPL/Gross loans ratio and high provisions coverage of 130%.

Weaknesses & Challenges

- The bank is majority-owned by the ruling family, which could bring up corporate governance issues, highlighted earlier in this report. However, it is worth noting that the bank has been working on enhancing corporate governance through the creation of a Risk and Compliance Committee of the Board, and has improved transparency and disclosure across its activities. The bank is currently managing a Basel II project to enhance the bank's overall Risk Management capabilities, including the purchase of new risk management and business systems to have a best-in-class risk management process.
- FGB has minimal international presence, compared to peers.
- The bank has a very high capital adequacy ratio (21.3% in 2006), which highlights a capital inefficiency and lower ROAE.

BANK PROFILE

Year Established

Incorporated in 1979. Headquarters in Abu Dhabi.

Ownership

Al Nahyan Family	61%
Free Float	39%
Foreign Ownership Limit	30%
Current Foreign Participation	16%

Activities & Subsidiaries

Activities:	% of op. income	% of assets	% of liabilities
- Corporate Banking	46%	45%	77%
- Treasury	30%	44%	6%
- Retail Banking	16%	8%	16%
- Other operations	8%	3%	2%

Subsidiaries:

- **Enshaa (Green Emirates)**- 40% owned by FGB and 60% equally distributed among three major real estate developers Al Dar, Sorouh and Reem Investment. Activity: Property management and brokerage
- **Aseel Islamic Finance**- 40% owned by FGB and 60% owned by Al Dar, Sorouh and Reem Investment. Activity: Mortgage Financing
- **First Gulf Brokerage**- 45% owned by FGB. Activity: Securities Brokerage
- **MisMak**- 100% owned by FGB. Activity: Real estate development
- **First Merchant Bank**- 100% owned by FGB. Activity: Private Equity

Network

Domestic Branches	15
Overseas Branches/Offices	1 (Singapore Office)
ATMs	20+
No. of Accounts	Not disclosed

Credit Rating

	Long term	Outlook	Short term
S&P	NA	NA	NA
Moody's	A2		
Fitch	A+	Stable	F1
Capital Intelligence	A+	Stable	A1

Employees

Number of Employees 780 (+1,200 outsourced sales agents)

Market Share and Ranking

	2007E	2006	2005	2004
Total Loans (in AED MM)	42,285	25,628	14,019	6,859
Loans Market Share	6.3%	4.8%	3.6%	2.4%
Growth	65.0%	82.8%	104.4%	
Total Deposits (in AED MM)	42,010	34,434	17,314	9,977
Deposits Market Share	6.0%	6.6%	4.2%	3.4%
Growth	22.0%	98.9%	73.5%	
Total Assets (in AED MM)	70,831	47,759	26,282	12,797
Assets Market Share	6.2%	5.6%	4.1%	2.8%
Growth	48.3%	81.7%	105.4%	

However, we expect this to change with the bank's channeling of investments into real estate, and with the further growth in the balance sheet.

- Due to the very fast growth in 2007, the bank has started to show a funding gap, and will need to divert to the capital market for further funds. FGB has signed a US\$825 million, five-year syndicated club loan with a number of mandated lead arrangers.
- Competition in addition to attracting and retaining highly qualified finance and banking professionals is a challenge for the financial sector in the UAE.

Differentiation and Future Growth Strategy

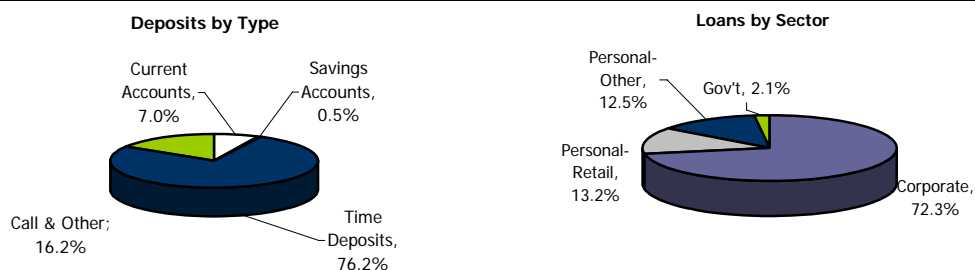
- Structure the revenue stream of the bank into two main drivers, namely corporate, retail and treasury activities, in addition to subsidiaries and associate companies, through building a solid base for each of the subsidiaries for future revenue generation
- Expand the core businesses through deeper market penetration, innovation and the launch of new products
- Open three new branches by the end of this year, to reach a total of 18. It is worth noting that the bank expands in IT infrastructure, rather than expanding the number of local branches, to reach out to its clients. The bank also plans to expand beyond existing geographical borders through opening representative offices in Singapore, London and Shanghai, in addition to international acquisitions.
- Maintain a consistent growth year-on-year and target a Return on Equity in excess of 18%
- Continue to invest in people and infrastructure
- Strengthen risk management tools and processes through investment in Basel II automated systems
- Strengthen Islamic banking operations through opening more windows within the existing conventional branches

Business Performance and Forecasts Summary

Balance Sheet

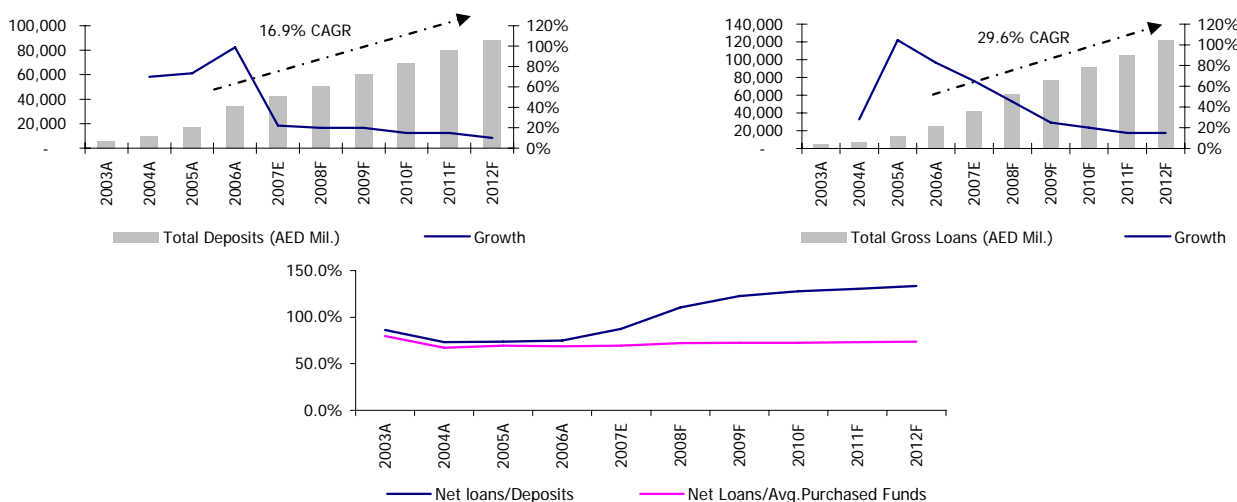
On the balance sheet, we expect deposits to grow at a 2006-2012 CAGR of 16.9%, and loans to grow at a compounded rate of 29.6% over the same period, thus pushing the utilisation ratio further up. The bank is currently a corporate bank, with corporate lending comprising around 74% of the bank's portfolio. We expect FGB to further expand its retail banking focus, in addition to Islamic Banking, and develop its product offering in order to achieve the target growth.

Figure 37 | Loan and Deposit Classifications (2006)



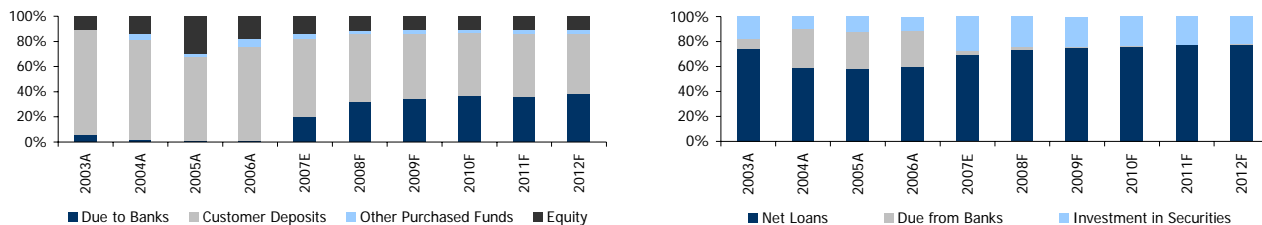
Source: FGB, Beltone Financial estimates

Figure 38 | Loan and Deposit Growth, and Utilisation



Source: FGB, Beltone Financial estimates

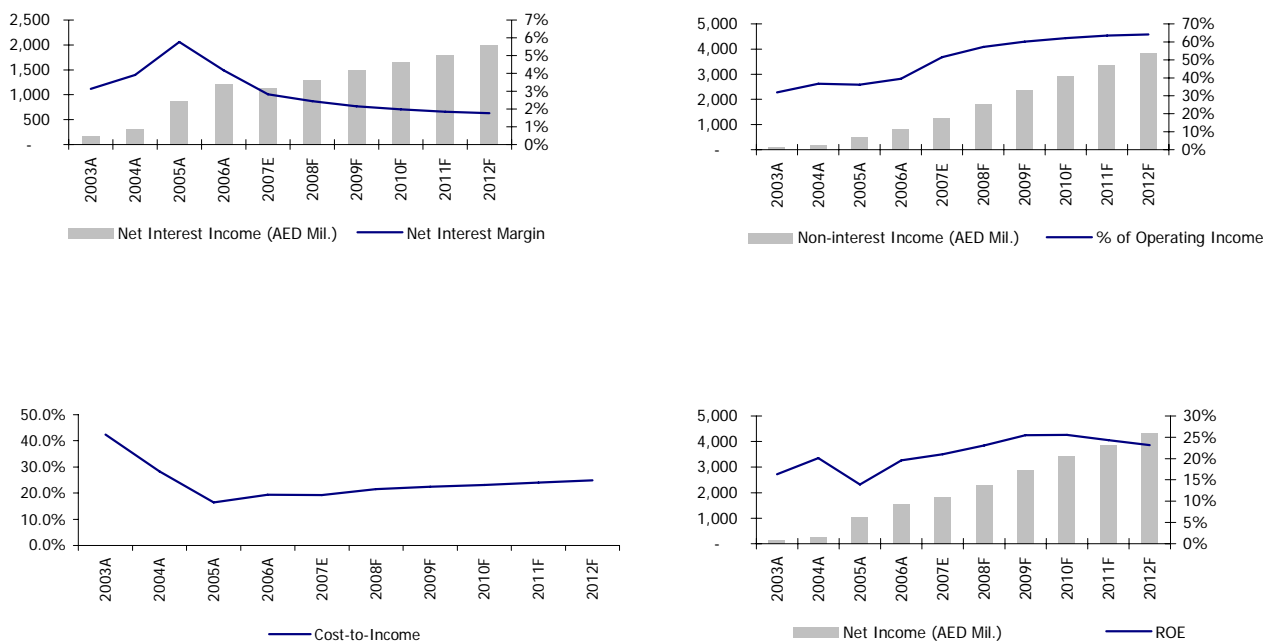
Figure 39 | Funding and Investment Mix



Source: FGB, Beltone Financial estimates

Income Statement

Figure 40 | Profitability and Efficiency



Source: FGB, Beltone Financial estimates

Financial Statements

Balance Sheet

Fiscal Year Ends December (AED Mil.)	2006A	2007F	2008F	2009F	2010F	2011F
Assets						
Cash & Short Term Assets	4,172	5,083	6,373	7,866	9,351	10,875
Inter-bank Deposits	12,212	1,832	1,465	1,172	938	750
Short-Term Investments in Securities	1,271	2,543	3,560	4,272	4,913	5,404
Gross Loans & Advances	25,628	42,285	61,314	76,642	91,971	105,766
(Loan-Loss Provisions)	-467	-638	-839	-1,007	-1,180	-1,342
Net Loans & Advances	25,161	41,647	60,475	75,635	90,790	104,424
Investments in Subsidiaries	255	301	355	419	494	583
Investments in Securities	3,451	13,803	16,563	19,876	22,857	25,143
Net Fixed Assets	334	673	792	916	1,066	1,245
Other Assets	903	4,949	8,860	12,807	15,307	18,306
Total Assets	47,759	70,831	98,443	122,964	145,716	166,730
Liabilities						
Due to Banks	297	13,477	29,783	40,506	51,442	57,744
Customer Deposits	34,434	42,010	50,412	60,494	69,568	80,004
Other Purchased Funds	3,398	2,755	2,755	3,670	3,670	4,588
Total Liabilities	39,650	61,655	87,937	110,766	131,180	149,556
Common Stock	1,250	1,250	1,250	1,250	1,250	1,250
Total Reserves	5,864	5,876	5,889	5,904	5,920	5,937
Total Net Worth	8,110	9,175	10,506	12,198	14,536	17,174
Total Liabilities & Net Worth	47,760	70,831	98,443	122,964	145,716	166,730
Contra Accounts	24,918	32,393	38,871	42,759	47,034	51,738

Source: Beltone Financial, FGB

Income Statement

Fiscal Year Ends December (AED Mil.)	2006A	2007F	2008F	2009F	2010F	2011F
Interest Income	2,884	3,358	4,618	5,869	6,880	7,859
Interest Expense	-1,676	-2,214	-3,333	-4,376	-5,216	-6,055
Net Interest Income	1,208	1,143	1,285	1,494	1,664	1,804
Fees & Commissions, Net	282	473	730	963	1,181	1,385
Investment Income, Net	536	798	1,072	1,416	1,722	1,977
Other Operating Income	42	53	66	83	103	129
Net Operating Income	2,068	2,467	3,154	3,955	4,670	5,295
Administrative Expenses	-380	-447	-637	-839	-1,018	-1,202
Depreciation	-20	-30	-41	-50	-60	-72
Total Operating Expenses	-400	-477	-678	-889	-1,078	-1,274
Loan-Loss Provisions	-132	-172	-200	-168	-173	-162
Net Operating Profit	1,536	1,819	2,275	2,897	3,419	3,860
NPAUI	1,536	1,819	2,275	2,897	3,419	3,860

Source: Beltone Financial, FGB

Financial Ratios

Fiscal Year Ends December	2006A	2007F	2008F	2009F	2010F	2011F
Growth Ratios						
Loans	82.8%	65.0%	45.0%	25.0%	20.0%	15.0%
Deposits	98.9%	22.0%	20.0%	20.0%	15.0%	15.0%
Net Income	45.5%	18.4%	25.1%	27.3%	18.0%	12.9%
Contingent Liabilities	79.3%	30.0%	20.0%	10.0%	10.0%	10.0%
Profitability Ratios						
Return on Average Assets	4.1%	3.1%	2.7%	2.6%	2.5%	2.5%
Return on Average Shareholders Equity	19.6%	21.0%	23.1%	25.5%	25.6%	24.3%
Net Spread	4.0%	3.7%	4.0%	3.8%	3.6%	3.4%
Net Interest Margin	4.2%	2.8%	2.4%	2.2%	2.0%	1.8%
Efficiency Ratios						
Cost -to- Income	19.4%	19.3%	21.5%	22.5%	23.1%	24.1%
Liquidity Ratios						
Average Gross Loans -to- Average Customer Deposits	76.6%	88.8%	112.1%	124.4%	129.6%	132.2%
Average Net Loans -to- Average Customer Deposits	74.9%	87.4%	110.5%	122.7%	128.0%	130.5%
Average Net Loans -to- Average Total Purchased Funds	68.9%	69.3%	72.3%	72.5%	72.6%	73.1%
Asset Quality Ratios						
Average Net Loans -to- Average Assets	52.4%	56.3%	60.3%	61.5%	61.9%	62.5%
Average NPLs -to- Average Gross Loans	1.4%	1.2%	1.1%	1.0%	0.9%	0.9%
Provisions Coverage	129.6%	131.6%	133.6%	135.6%	137.6%	139.6%
Capitalization Ratios						
Capital Adequacy Ratio	21.3%	15.9%	13.1%	12.2%	12.3%	12.8%
Dividend Payout Ratio	57.0%	30.0%	30.0%	30.0%	20.0%	20.0%

Source: Beltone Financial, FGB

Recommendation

Add*

Upside/Downside

20.0%

One-Year Fair Value

AED8.10

Current Price

AED6.80**

DCF Target Price

AED8.70

Comparative Valuation Price

AED7.60

EPS FY07E

AED0.50

Reuters Code

ADCB.AD

Bloomberg Code

ADCB UH

Market Cap

AED27.2 billion
US\$7.4 billion

Number of Shares Outstanding

4,000 million

Average Daily Turnover

AED13.4 million

52-Week high/ low

AED7.80/5.20

YTD Price Change

18.1%

Shareholder Structure

64.8% | Abu Dhabi Investment
Authority
12.8% | Abu Dhabi Ruling Family
22.4% | Free Float

Foreign Ownership Limit

25%

* Refer to back cover for investment recommendations

** Closing of December 13th, 2007



Abu Dhabi Commercial Bank (ADCB)

Banking sector | UAE | Abu Dhabi

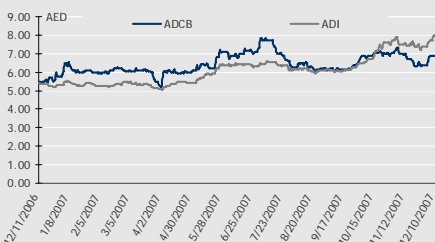
Local Focus

- **With a 9% market share of the total UAE banking assets, Abu Dhabi Commercial Bank (ADCB) is placed to benefit from the growth in the UAE economy.** ADCB is the third largest bank by total assets amongst our coverage universe, with a loan and deposits market share of 11% and 8%, respectively. ADCB has access to secured corporate business through the government and an alliance with Macquarie Bank, which has historically helped the bank build its loan book to be the third largest in our UAE coverage universe. The bank has a high focus on retail lending, which enhances the bank's margins.
- **Second highest profitability per branch.** In 2006, ADCB scored the second highest profits per branch (AED50 million) after First Gulf Bank, which demonstrates the bank's strong IT infrastructure and capability to reach out to customers, with a limited number of branches.
- **High efficiency.** The bank has been operating at a cost-to-income ratio below 30%.
- **Locally focused strategy, whilst scanning international expansion opportunities.** ADCB will continue to concentrate on the local market, strengthening its retail market share and expanding its client base. The bank will focus on its mortgage and Islamic products, in addition to the investment banking and treasury division. ADCB is open to international expansion, as the opportunity arises.
- **Strong capitalisation.** In 2006, ADCB had a CAR of 16.3%, which is much higher than the 10% required by the Central Bank of UAE. The large capital base provides the bank with a strong base to pursue its expansion plans.
- **Attractive DCF and comparative valuation.** ADCB's DCF offers a 27.8% upside potential to the current market price. Given the bank's ROAE FY08E (20.2%), ADCB is still trading at a relatively attractive P/B FY08E, 2.4x. In addition, ADCB is trading at a P/E FY08E of 11.8x, compared to a regional and emerging market average of 13.5x. The weighted average target price offers 20.0% upside potential to the current market price.

Selected Indicators

FY ends December	2006a	2007e	2008e	2009e	2010e	2011e
NII (AED million)	1,774	2,388	2,688	3,055	3,288	3,504
NIM (%)	2.8	3.0	2.9	2.8	2.6	2.4
Operating income (AED million)	3,097	3,288	3,857	4,550	5,143	5,636
Net income (AED million)	2,082	1,887	2,308	2,791	3,161	3,512
Net income growth (%)	8.9	(9.3)	22.3	20.9	13.3	11.1
EPS (AED)	0.5	0.5	0.6	0.7	0.8	0.9
P/E (x)	13.0	14.4	11.8	9.7	8.6	7.7
ROAA (%)	3.0	2.0	2.1	2.2	2.1	2.1
ROAE (%)	23.1	18.7	20.2	21.5	21.4	21.0
Avg. BVPS (AED)	2.3	2.5	2.9	3.2	3.7	4.2
P/BV (x)	3.0	2.7	2.4	2.1	1.8	1.6
DPS (AED)	0.3	0.2	0.2	0.3	0.3	0.4
Dividend yield (%)	4.5	2.8	3.4	4.1	4.7	5.2
Net loans/Deposits	135.2	133.4	122.7	120.4	120.4	120.5
Net Loans/Avg. Purchased Funds	90.4	88.8	88.5	89.2	87.7	87.8
Cost/Income (%)	24.3	29.6	29.8	29.5	30.5	31.3
CAR (%)	16.3	13.6	13.2	12.9	12.7	13.1
Av. NPLs/Av. Gross loans (%)	2.5	2.3	2.4	2.3	2.3	2.2
Provisions Coverage (%)	69.3	70.0	70.0	70.0	70.0	70.0

Source: ADCB, Beltone Financial.



Investment Considerations

Strengths

- ADCB has the third largest loan book, after Emirates NBD and NBAD. The majority of the bank's loan portfolio is channeled towards retail lending (42.3%), which has the highest margins. The bank's ranking by total deposits is 4th among our coverage universe.
- The bank is majority-owned by the government, which provides it with secured and less risky business.
- ADCB has an alliance with the Australian Macquarie Bank, which provides the base for growth in project financing.
- In 2003, ADCB started a major restructuring with a change of management. New management emphasised strengthening the market position and gaining a larger market share through improving the bank's product offering, focusing on widening its customer base and depending on a large number of outsourced sales staff.
- The bank's three subsidiaries provide additional services that complement its traditional commercial banking activities and, consequently, operating income.
- ADCB has the second largest (after First Gulf Bank) profits per branch which stood at AED50 million per branch, compared to peers whose average was AED30-35 million per branch.
- ADCB is operating at high efficiency reflected by its low cost-to-income ratio (24.3% in 2006).
- ADCB scored a high capital adequacy ratio of 16.3% in 2006.

Weaknesses & Challenges

- ADCB has the second highest average net loans to average total purchased funds amongst our UAE coverage universe. This will create a funding pressure on the bank in the short to medium term.
- The bank has to expand the trade finance business, and its cross-selling within the corporate banking segment.
- The bank has a tenor mismatch within the one to three years tenor, where the value of liabilities within this tenor is lower than that of assets.
- The investment portfolio of ADCB was negatively affected by the US sub-prime mortgage turmoil. The bank charged AED70 million to 3Q 2007 profits and AED213 million to the bank's capital, to cover the losses. Management announced that after these charges, the quality and value of the bank's investment portfolio are adequately represented. However, we are concerned about future losses that may arise for the same reason.
- Competition is always a challenge for the sector.
- Attracting and retaining professional bankers will be a major challenge, going forward.

Differentiation and Future Growth Strategy

The bank's strategy is to strengthen further its local market position, through focusing on the following business segments:

BANK PROFILE

Year Established

The bank is the product of a 1985 merger of three banks, namely Khaleej Commercial Bank, Emirates Commercial Bank and Federal Commercial Bank. A restructuring of the bank started in 2003, with new management on board.

Ownership

Abu Dhabi Investment Authority	64.8%
Ruling Family	12.8%
Free Float	22.4%
Foreign Ownership Limit	25%
Current Foreign Participation	4%

Activities & Subsidiaries

Activities:	% op. income	% of assets	% of liabilities
-Commercial banking (retail, corporate and private banking)	87%	80%	77%
-Investment banking	13%	20%	23%

Subsidiaries:

Subsidiaries:	Country	Ownership
Abu Dhabi Brokerage Services LLC	UAE	100%
Agent in trading of financial instruments and stocks		
Abu Dhabi Risk Treasury Solutions LLC	UAE	51%
Provides for computer software and design in relation with risk and treasury solutions		
Abu Dhabi Commercial Properties	UAE	100%
Real estate property management and investments		

Network

Domestic Branches	42
Overseas Branches/Offices	2 (in India)
ATMs	112
No. of Accounts	1 million accounts (305,000 customers)

Credit Rating

	Long term	Outlook	Short term
S&P	A	Stable	A-1
Fitch	N/A	N/A	N/A
Moody's	D+		
Capital Intelligence	N/A	N/A	N/A

Employees

Number of Employees	1,700 (+30 in India)
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Market Share and Ranking

	2007E	2006	2005	2004
Total Loans (in AED MM)	74,821	63,408	42,878	29,295
Loans Market Share	11.1%	11.8%	10.9%	10.2%
Growth	18.0%	47.9%	46.4%	
Total Deposits (in AED MM)	58,586	43,397	33,937	29,812
Deposits Market Share	8.4%	8.4%	8.3%	10.3%
Growth	35.0%	27.9%	13.8%	
Total Assets (in AED MM)	104,011	81,088	57,725	38,393
Assets Market Share	9.2%	9.4%	9.0%	8.5%
Growth	28.3%	40.5%	50.4%	

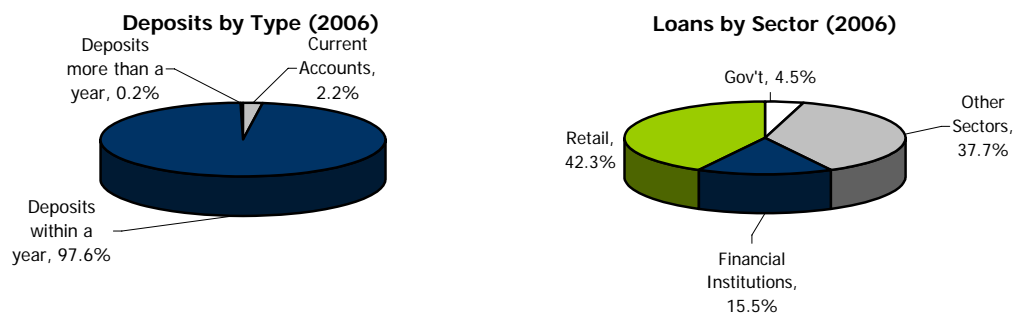
- The bank will continue to emphasise retail-banking focus through product development and cross-selling enhancement.
- Corporate banking is a very significant portion of the market, with the high growth in the economy and the significant infrastructure spending that Abu Dhabi is witnessing. Management is planning to expand its trade finance business and improve the cross selling ratio within corporate banking.
- ADCB will focus on strengthening and expanding its treasury and investment banking activities.
- Management is seeking a stronger presence in the Islamic banking segment, which the bank has started to venture into in early 2007.
- In the long run, ADCB will increase its focus on SME financing.
- The bank is reviewing international expansion opportunities, with a higher possibility of acquiring an operational entity than establishing one.

Business Performance and Forecasts Summary

Balance Sheet

In 2006, the majority of ADCB's deposits fell within the one-year tenor. However, the bank relied on other sources of funds to create a better tenor match between its funding and investing portfolios. ADCB is very focused on retail lending, which had the largest share of its loan portfolio in 2006, 42.3%. Project Finance comes next, with an approximate share of 25%.

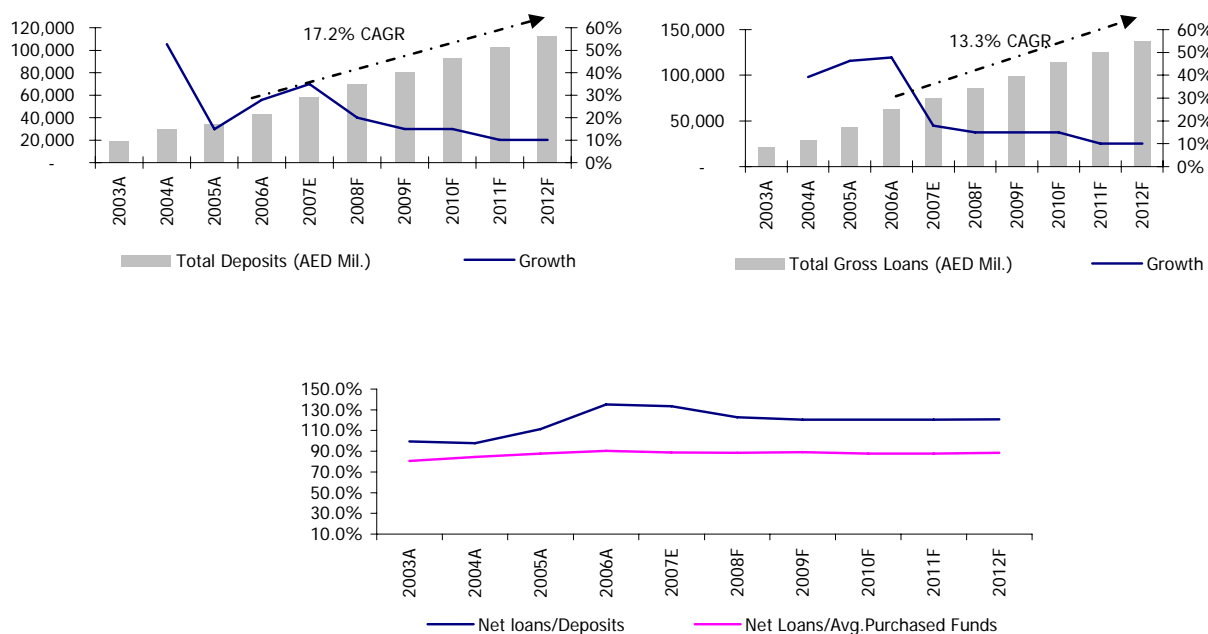
Figure 41 | Loan and Deposit Classifications



Source: ADCB, Beltone Financial estimates

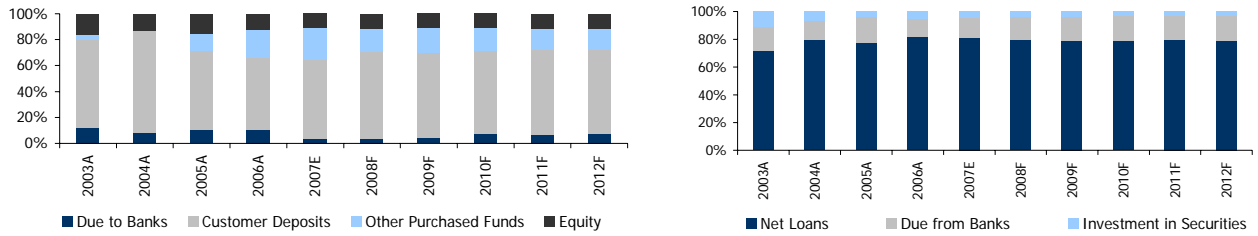
On the balance sheet, we expect deposits to grow at a 2006-2012 CAGR of 17.2%, and loans to grow at a compounded rate of 13.3% over the same period, thus reducing utilisation slightly, with most of the effect coming from the 2007 estimated growth figures.

Figure 42 | Loan and Deposit Growth and Utilisation



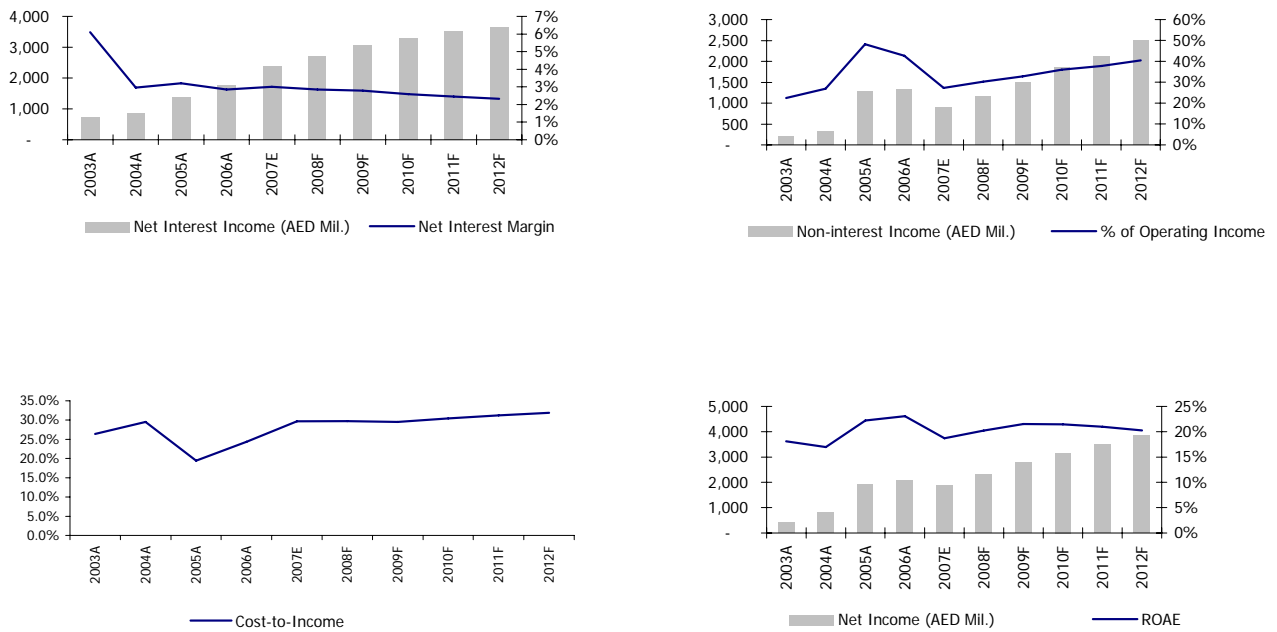
Source: ADCB, Beltone Financial estimates

Figure 43 | Funding and Investment Mix



Source: ADCB, Beltone Financial estimates

Figure 44 | Profitability and Efficiency



Source: ADCB, Beltone Financial estimates

Financial Statements

Balance Sheet

Fiscal Year Ends December (AED Mil.)	2006A	2007F	2008F	2009F	2010F	2011F
Assets						
Cash & Short Term Assets	1,945	7,645	1,975	2,664	2,716	2,706
Inter-bank Deposits	10,019	13,025	16,932	20,318	24,382	26,820
Short-Term Investments in Securities	3,516	3,868	4,177	4,512	4,737	4,974
Gross Loans & Advances (Loan-Loss Provisions)	63,408 -983	74,821 -1,232	86,044 -1,428	98,951 -1,609	113,793 -1,765	125,173 -1,845
Net Loans & Advances	62,425	73,589	84,616	97,342	112,028	123,328
Investments in Securities	262	220	242	266	280	294
Net Fixed Assets	512	559	615	676	733	782
Other Assets	2,410	5,106	8,385	11,917	15,228	17,957
Total Assets	81,088	104,011	116,942	137,695	160,104	176,860
Liabilities						
Due to Banks	7,970	3,188	4,208	5,681	10,226	11,249
Customer Deposits	43,397	58,586	70,303	80,848	92,976	102,273
Other Purchased Funds	16,610	23,366	19,123	23,904	25,099	26,354
Other Liabilities	3,663	8,154	11,180	13,453	16,099	19,177
Total Liabilities	71,640	93,294	104,814	123,886	144,400	159,052
Total Net Worth	9,448	10,717	12,128	13,809	15,705	17,808
Total Liabilities & Net Worth	81,088	104,011	116,942	137,695	160,104	176,860
Contra Accounts	39,233	49,041	56,397	64,857	71,342	78,477

Source: Beltone Financial, ADCB

Income Statement

Fiscal Year Ends December (AED Mil.)	2006A	2007F	2008F	2009F	2010F	2011F
Interest Income	4,128	6,140	6,934	7,749	8,600	9,270
Interest Expense	-2,354	-3,751	-4,246	-4,694	-5,312	-5,766
Net Interest Income	1,774	2,388	2,688	3,055	3,288	3,504
Fees & Commissions, Net	1,129	670	900	1,182	1,497	1,731
Investment Income, Net	157	197	234	276	318	360
Other Operating Income	37	33	35	37	38	40
Net Operating Income	3,097	3,288	3,857	4,550	5,143	5,636
Administrative Expenses	-440	-553	-645	-744	-851	-908
Depreciation	-41	-54	-62	-71	-80	-90
Other Operating Expenses	-273	-368	-442	-530	-636	-763
Total Operating Expenses	-754	-975	-1,148	-1,344	-1,567	-1,761
Loan-Loss Provisions	-193	-249	-196	-181	-156	-80
Net Operating Profit	2,150	2,065	2,512	3,025	3,419	3,795
Minority Interest and Other Expenses	-66	-173	-199	-228	-252	-275
Income Taxes	-3	-4	-5	-6	-7	-7
NPAUI	2,082	1,887	2,308	2,791	3,161	3,512

Source: Beltone Financial, ADCB

Financial Ratios

Fiscal Year Ends December	2006A	2007F	2008F	2009F	2010F	2011F
Growth Ratios						
Loans	47.9%	18.0%	15.0%	15.0%	15.0%	10.0%
Deposits	27.9%	35.0%	20.0%	15.0%	15.0%	10.0%
Net Income	8.9%	-9.3%	22.3%	20.9%	13.3%	11.1%
Contingent Liabilities	55.2%	25.0%	15.0%	15.0%	10.0%	10.0%
Profitability Ratios						
Return on Average Assets	3.0%	2.0%	2.1%	2.2%	2.1%	2.1%
Return on Average Shareholders Equity	23.1%	18.7%	20.2%	21.5%	21.4%	21.0%
Net Spread	2.6%	2.8%	2.6%	2.5%	2.3%	2.2%
Net Interest Margin	2.8%	3.0%	2.9%	2.8%	2.6%	2.4%
Efficiency Ratios						
Cost -to- Income	24.3%	29.6%	29.8%	29.5%	30.5%	31.3%
Liquidity Ratios						
Average Gross Loans -to- Average Customer Deposits	137.4%	135.5%	124.8%	122.4%	122.4%	122.4%
Average Net Loans -to- Average Customer Deposits	135.2%	133.4%	122.7%	120.4%	120.4%	120.5%
Average Net Loans -to- Average Total Purchased Funds	90.4%	88.8%	88.5%	89.2%	87.7%	87.8%
Asset Quality Ratios						
Average Net Loans -to- Average Assets	75.5%	73.5%	71.6%	71.5%	70.3%	69.8%
Average NPLs -to- Average Gross Loans	2.5%	2.3%	2.4%	2.3%	2.3%	2.2%
Provisions Coverage	69.3%	70.0%	70.0%	70.0%	70.0%	70.0%
Capitalization Ratios						
Capital Adequacy Ratio	16.3%	13.6%	13.2%	12.9%	12.7%	13.1%
Dividend Payout Ratio	58.1%	40.0%	40.0%	40.0%	40.0%	40.0%

Source: Beltone Financial, ADCB

Recommendation

Buy*

Upside/Downside

28.1%

One-Year Fair Value

AED11.90

Current Price

AED9.30**



Union National Bank (UNB)

Banking sector | UAE | Abu Dhabi

Solid Domestic Presence

DCF Target Price

AED12.50

Comparative Valuation Price

AED11.40

EPS FY07E

AED0.70

Reuters Code

UNB.AD

Bloomberg Code

UNB UH

Market Cap

AED14.6 billion
US\$3.8 billion

Number of Shares Outstanding

1,563 million

Average Daily Turnover

AED6.1 million

52-Week high/ low

AED9.79/5.95

YTD Price Change

32.8%

Shareholder Structure

40% | Finance Department
(Government of Abu Dhabi)

10% | Government of Dubai

10% | Abu Dhabi Investment
Council

40% | Free Float

Foreign Ownership Limit

40%

* Refer to back cover for investment recommendations

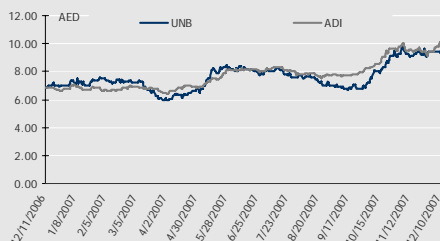
** Closing of December 13th, 2007

- **Union National Bank (UNB) is ideally placed to benefit from the UAE's economic growth.** The bank is jointly owned by the governments of Abu Dhabi and Dubai, providing UNB with the support of both governments, a secured source of business and, therefore, a less risky asset profile. Between 2003 and 2006, the bank grew its assets, loans, and deposits at a compounded rate of 34%, 38%, and 33%, respectively. The bank has been operating very efficiently, with the cost-to-income ratio below 30%.
- **UNB is focused on solid domestic presence.** UNB's focus is to gain an improved domestic presence through enhancing its retail, treasury, and investment banking products. In addition, UNB intends to tap the unexploited Islamic financing sector via its newly-established subsidiary, Al Wifaq Finance Company.
- **UNB is eyeing international expansion.** Besides the UAE, UNB plans to have a strong regional presence, which is a key part of the bank's vision. In line with other UAE banks, UNB started to put this vision into application, through acquiring a 94.9% stake in Alexandria Commercial & Maritime Bank (ACMB) in Egypt. Meanwhile, UNB has applied for licenses in Qatar and other markets.
- **Attractive DCF and P/B FY08E (2.1x), given its ROAE FY08E (19.6%).** UNB is one of our top picks in the UAE, with the DCF price offering 34.4% upside potential to the current market price. In terms of multiples, the bank has very attractive multiples, trading at P/B FY08E and P/E FY08E of 2.1x and 10.9x, respectively, compared to a regional and emerging market sector average of 2.6x (for similar ROAE) and 13.5x.

Selected Indicators

FY ends December	2006a	2007e	2008e	2009e	2010e	2011e
NII (AED million)	889	1,098	1,263	1,429	1,592	1,719
NIM (%)	2.7	2.8	2.7	2.6	2.5	2.4
Operating income (AED million)	1,535	1,671	2,062	2,458	2,781	3,047
Net income (AED million)	1,008	1,145	1,338	1,591	1,789	1,962
Net income growth (%)	(12.6)	13.6	16.8	18.9	12.5	9.6
EPS (AED)	0.6	0.7	0.9	1.0	1.1	1.3
P/E (x)	14.5	12.7	10.9	9.2	8.1	7.4
ROAA (%)	2.6	2.5	2.4	2.4	2.3	2.3
ROAE (%)	18.0	18.4	19.6	21.1	21.4	21.2
Avg. BVPS (AED)	3.6	4.0	4.4	4.8	5.3	5.9
P/BV (x)	2.6	2.3	2.1	1.9	1.7	1.6
DPS (AED)	0.3	0.4	0.4	0.5	0.6	0.6
Dividend yield (%)	3.8	3.9	4.6	5.5	6.1	6.7
Net loans/Deposits	86.3	102.4	109.6	105.4	103.6	103.6
Net Loans/Avg. Purchased Funds	76.4	87.7	94.3	93.8	94.2	95.0
Cost/Income (%)	25.2	29.1	30.7	31.2	32.1	32.6
CAR (%)	18.2	15.2	13.7	12.9	12.6	12.7
Av. NPLs/Av. Gross loans (%)	1.8	1.5	1.4	1.2	1.1	1.0
Provisions Coverage (%)	130.8	100.0	105.0	110.0	115.0	120.0

Source: UNB, Beltone Financial.



Investment Considerations

Strengths

- UNB is the only bank which is jointly owned by the Governments of Abu Dhabi and Dubai, giving the bank more access to secured business throughout the country.
- UNB managed to register strong compounded growth levels over the past four years. Loans grew at a CAGR of 38% to reach AED28 billion, while deposits went up by a 33% CAGR to AED30 billion from 2003-06. Net income increased from AED375 million in 2003 to AED1 billion in 2006.
- UNB set up a specialised Islamic banking subsidiary to tap this fast-growing segment.
- The acquisition of 94.9% of the Egyptian Alexandria Commercial & Maritime Bank (which operates through nine branches) shows UNB's commitment to international expansion and diversifying its sources of income.
- UNB has strong ties with the UAE government and the public sector, accounting for 33.2% of the bank's loan portfolio in December 2006.
- The cost-to-income ratio has been kept under control, reaching 25.2% in 2006, down from 33.6% in 2003.
- UNB has a strong capital adequacy ratio, which stood at 18% in 2006, which supports the bank's future expansion.
- UNB enjoys good asset quality, with an NPL/Gross loans ratio of 1.8%, in addition to a high provision coverage ratio equivalent to 131% in 2006.

Weaknesses & Challenges

- UNB's loan portfolio is highly concentrated within the government, public sector, and corporate lending. We believe that the bank should focus more on retail lending, as it will enhance the bank's profitability and spreads.
- The restructuring and streamlining of the Alexandria Commercial and Maritime Bank operations might add some pressure on the bank's cost-to-income ratio.
- In 2006, UNB had the lowest net spread amongst our UAE coverage universe.
- UNB scored the third largest average net loans to average total purchased funds ratio amongst our UAE coverage universe, which makes the bank under funding pressure in the short to medium term.
- Similar to its peers in the sector, competition will be a key challenge given the new players entering the sector.
- Attracting and retaining good calibre staff is difficult given tougher competition.

Differentiation and Future Growth Strategy

Union National Bank will focus on diversifying its operations, achieving a solid domestic presence, in addition to becoming a

BANK PROFILE

Year Established

Established in 1982. Headquarters in Abu Dhabi.

In 1999, UNB started a restructuring plan of its operations with new management in place. UNB has since been actively growing other lines of businesses like retail, treasury, private banking & wealth management, investment and capital market related activities and has grown its branch network to reach 47 branches. In 2006, the bank also launched its Islamic banking subsidiary to tap this fast growing segment. The bank successfully grew its assets between 2003 and 2006 at a compounded rate of 34%, and its profits at 39%, during the same period to reach AED41.5 billion and AED1 billion respectively.

Ownership

Finance Department (Government of Abu Dhabi)	40%
Abu Dhabi Investment Council	10%
Dubai Government	10%
Free Float	40%
Foreign Ownership Limit	40%
Current Foreign Participation	6%

Activities & Subsidiaries

Activities:	% of Op. income	% of Assets	% of Liabilities
-Commercial Banking	74%	61%	78%
-Treasury and Investments	26%	39%	22%

Commercial banking includes the Group's corporate, retail and Islamic banking services in two geographic areas.

Treasury and Investments includes treasury, investment and capital market related activities.

Subsidiaries:

Subsidiaries:	Ownership	Location	Year of Inc.
Union Brokerage LLC	99.0%	UAE	2001
Broker for those trading in shares and securities on Dubai Financial Market and Abu Dhabi Securities Market.			
Al Wifaq Finance Company	79.6%	UAE	2006
A subsidiary established with the purpose of offering Sharia compliant financial, commercial and investing services to both organizations and individuals in compliance with the rules and principles of the Islamic Law.			

Alexandria Commercial and Maritime Bank 94.9% Egypt 1981
Commercial banking providing a presence in the Egyptian banking sector.

Network

Domestic Branches	47
Overseas Branches/Offices	0
ATMs	Above 100
No. of Accounts	Not disclosed

Credit Rating

	Long term	Outlook	Short term
S&P	N/A	N/A	N/A
Fitch	A+	Stable	F1
Moody's	A1	Stable	P-1
Capital Intelligence	A+	Stable	A1

Employees

Number of Employees 1200+

Market Share and Ranking

	2007E	2006	2005	2004
Total Loans (in AED MM)	39,252	28,037	21,533	17,064
Loans Market Share	5.8%	5.2%	5.5%	6.0%
Growth	40.0%	30.2%	26.2%	
Total Deposits (in AED MM)	34,553	30,046	25,787	17,891
Deposits Market Share	4.9%	5.8%	6.3%	6.2%
Growth	15.0%	16.5%	44.1%	
Total Assets (in AED MM)	49,658	41,539	34,932	24,113
Assets Market Share	4.4%	4.8%	5.5%	5.4%
Growth	19.5%	18.9%	44.9%	

key player in the region, which is clearly highlighted in management's vision.

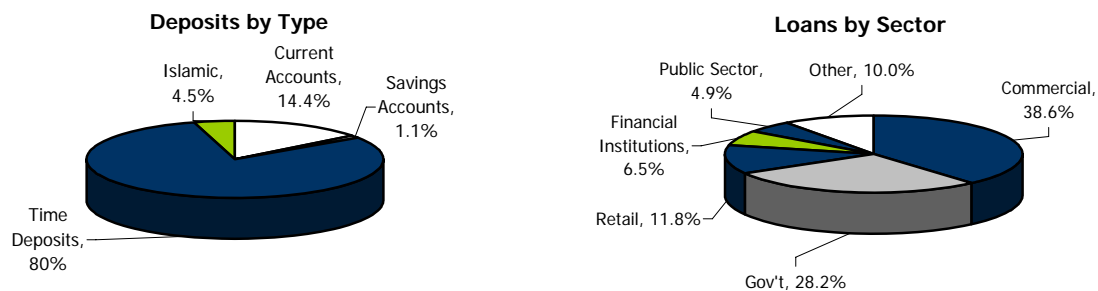
There will be an enhancement of all UNB's business lines, specifically retail, investment banking and capital market activities, with controlled exposure to mortgage financing, since management believes that specialised mortgage finance (Amlak and Tamweel) firms will always have the upper hand in this segment. UNB will tap Islamic banking through its newly-created subsidiary, Al Wifaq Finance Company. Acquiring Alexandria Commercial and Maritime Bank in Egypt was the bank's first move to gain regional presence, yet UNB is eyeing more cross border expansion in the region and North Africa. Management's strategy is to focus on the local market, to be the main contributor to the consolidated bottom line, with international presence as the diversifier to the sources of revenues.

Business Performance and Forecasts Summary

Balance Sheet

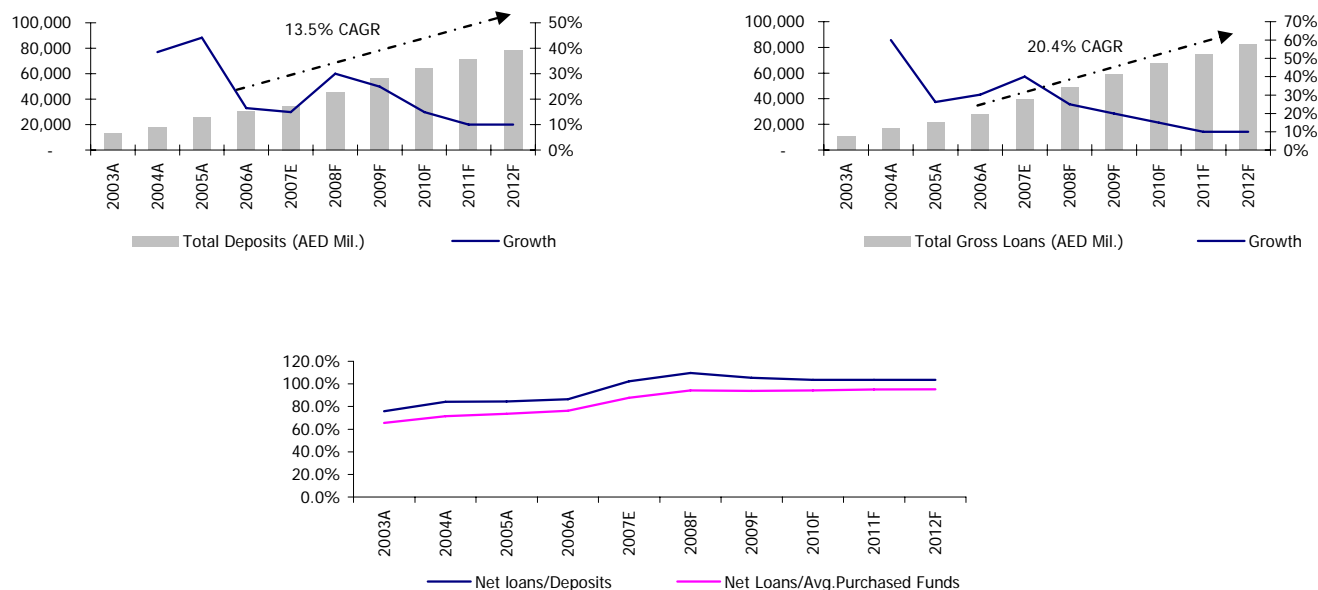
On the balance sheet, we expect deposits to grow at a 2006-2012 CAGR of 13.5% and loans at a compounded rate of 20.4% over the same period, thus pushing utilisation up further. UNB is currently a corporate bank, with corporate lending comprising around 78% of the bank's portfolio, but we anticipate that it will further expand its retail banking focus, in addition to treasury driven profits, and restructure its Egyptian banking subsidiary, in order to achieve higher growth.

Figure 45 | Loan and Deposit Classifications (2006)



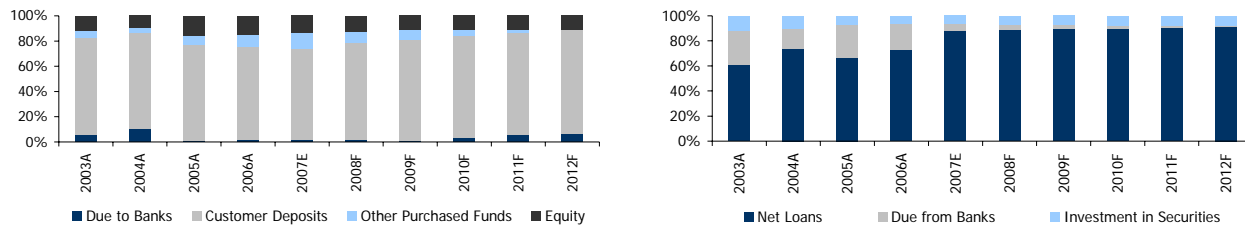
Source: UNB, Beltone Financial estimates

Figure 46 | Loan and Deposit Growth, and Utilisation



Source: UNB, Beltone Financial estimates

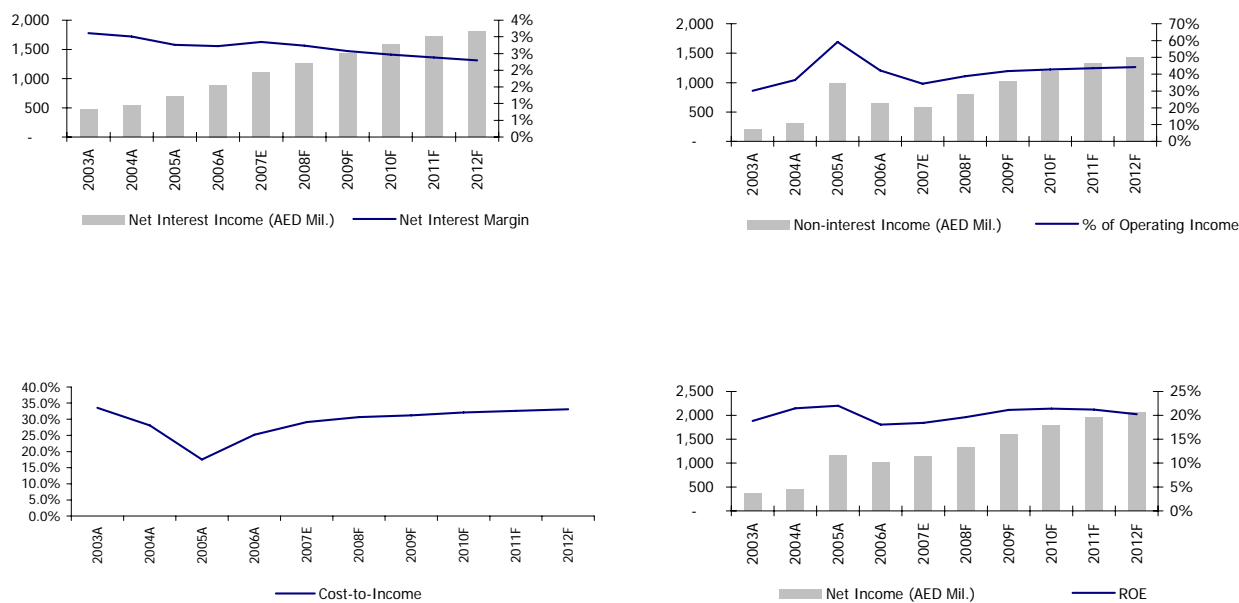
Figure 47 | Funding and Investment Mix



Source: UNB, Beltone Financial estimates

Income Statement

Figure 48 | Profitability and Efficiency



Source: UNB, Beltone Financial estimates

Financial Statements

Balance Sheet

Fiscal Year Ends December (AED Millions)	2006A	2007F	2008F	2009F	2010F	2011F
Assets						
Cash & Short Term Assets	2,635	3,983	4,336	5,712	5,406	6,250
Interbank Deposits	7,719	2,316	2,084	1,876	1,688	1,519
Short-Term Investments in Securities	841	379	341	307	276	248
Gross Loans & Advances	28,037	39,252	49,064	58,877	67,709	74,480
(Loan-Loss Provisions)	-543	-572	-652	-737	-821	-898
Net Loans & Advances	27,494	38,680	48,412	58,140	66,888	73,582
Long-Term Treasury & Other G-secs	339	339	339	339	339	339
Investments in Securities	977	2,148	3,223	4,028	5,035	5,539
Net Fixed Assets	230	243	255	270	283	299
Other Assets	1,122	1,572	1,975	2,238	2,439	2,660
Total Assets	41,539	49,658	60,966	72,910	82,354	90,437
Liabilities						
Due to Banks	523	784	862	905	2,264	4,527
Customer Deposits	30,046	34,553	44,919	56,149	64,571	71,028
Other Purchased Funds	3,855	5,700	5,550	5,150	3,681	1,844
Total Liabilities	35,612	43,174	53,831	65,001	73,575	80,703
Total Net Worth	5,927	6,484	7,135	7,909	8,779	9,734
Total Liabilities & Net Worth	41,539	49,658	60,966	72,910	82,354	90,437
Contra Accounts	21,733	23,255	24,882	26,624	28,488	30,482

Source: Beltone Financial, UNB

Income Statement

Fiscal Year Ends December (AED Millions)	2006A	2007F	2008F	2009F	2010F	2011F
Interest Income	2,444	2,890	3,226	3,558	3,749	3,753
Interest Expense	-1,555	-1,792	-1,963	-2,129	-2,157	-2,034
Net Interest Income	889	1,098	1,263	1,429	1,592	1,719
Fees & Commissions, Net	559	361	436	527	579	632
Investment Income, Net	39	144	274	395	482	555
Other Operating Income	49	68	89	107	128	141
Net Operating Income	1,535	1,671	2,062	2,458	2,781	3,047
Administrative Expenses	-294	-361	-484	-592	-686	-749
Depreciation	-24	-30	-35	-38	-41	-45
Other Operating Expenses	-68	-96	-115	-138	-165	-198
Total Operating Expenses	-387	-487	-633	-768	-892	-992
Loan-Loss Provisions	-139	-29	-80	-85	-84	-76
Net Operating Profit	1,010	1,155	1,349	1,605	1,805	1,979
Income Taxes	0	-8	-9	-11	-13	-14
NPAUI	1,008	1,145	1,338	1,591	1,789	1,962

Source: Beltone Financial, UNB

Financial Ratios

Fiscal Year Ends December	2006A	2007F	2008F	2009F	2010F	2011F
Growth Ratios						
Loans	30.2%	40.0%	25.0%	20.0%	15.0%	10.0%
Deposits	16.5%	15.0%	30.0%	25.0%	15.0%	10.0%
Net Income	-12.6%	13.6%	16.8%	18.9%	12.5%	9.6%
Contingent Liabilities	36.3%	7.0%	7.0%	7.0%	7.0%	7.0%
Profitability Ratios						
Return on Average Assets	2.6%	2.5%	2.4%	2.4%	2.3%	2.3%
Return on Average Shareholders Equity	18.0%	18.4%	19.6%	21.1%	21.4%	21.2%
Net Spread	2.6%	2.8%	2.8%	2.7%	2.6%	2.5%
Net Interest Margin	2.7%	2.8%	2.7%	2.6%	2.5%	2.4%
Efficiency Ratios						
Cost -to- Income	25.2%	29.1%	30.7%	31.2%	32.1%	32.6%
Liquidity Ratios						
Average Gross Loans -to- Average Customer Deposits	88.8%	104.2%	111.1%	106.8%	104.9%	104.9%
Average Net Loans -to- Average Customer Deposits	86.3%	102.4%	109.6%	105.4%	103.6%	103.6%
Average Net Loans -to- Average Total Purchased Funds	76.4%	87.7%	94.3%	93.8%	94.2%	95.0%
Asset Quality Ratios						
Average Net Loans -to- Average Assets	63.0%	72.6%	78.7%	79.6%	80.5%	81.3%
Average NPLs -to- Average Gross Loans	1.8%	1.5%	1.4%	1.2%	1.1%	1.0%
Provisions Coverage	130.8%	100.0%	105.0%	110.0%	115.0%	120.0%
Capitalization Ratios						
Capital Adequacy Ratio	18.2%	15.2%	13.7%	12.9%	12.6%	12.7%
Dividend Payout Ratio	54.3%	50.0%	50.0%	50.0%	50.0%	50.0%

Source: Beltone Financial, UNB

Recommendation

Add*

Upside/Downside

24.5%

One-Year Fair Value

AED78.50

Current Price

AED63.00**



Abu Dhabi Islamic Bank (ADIB)

Banking sector | UAE | Abu Dhabi

Strong Player in Islamic Banking

DCF Target Price

AED79.80

Comparative Valuation Price

AED77.10

EPS FY07E

AED4.40

Reuters Code

ADIB.AD

Bloomberg Code

ADIB UH

Market Cap

AED9.5 billion

US\$2.6 billion

Number of Shares Outstanding

150 million

Average Daily Turnover

AED28.4 million

52-Week high/ low

AED69.1/46.0

YTD Price Change

22.0%

Shareholder Structure

37% | Emirates International Investment Company (to reach 51% in 2008)
29% | Ruling Family
14% | Abu Dhabi Investment Authority & other government units
20% | Free Float

Foreign Ownership Limit

Not open to foreign investors

* Refer to back cover for investment recommendations

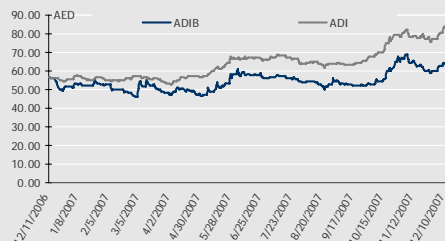
** Closing of December 13th, 2007

- **Abu Dhabi Islamic Bank (ADIB) is ideally placed to benefit from the UAE's Islamic banking sector growth.** Abu Dhabi Islamic Bank is the fastest growing and second biggest player in Islamic banking in the UAE, with a 31% market share of total Islamic banking assets. Islamic banking has been achieving a faster earnings growth rate than conventional banks over the last few years. ADIB has achieved the highest earnings growth in 2006 (66%) within our coverage universe, in addition to the second highest 2003-2006 compounded growth in assets, loans and deposits, after First Gulf Bank.
- **The bank's new board, which was appointed in 2007, and management has a very ambitious expansion plan, that should enhance the bank's position in the sector and increase its market share, in our view.** The bank has a new board following the change in its ownership. Emirates International Investment Company (EIIC) has 37% ownership in the bank and intends to raise the stake to 51%. EIIC currently holds convertible sukuk worth AED2 billion, and upon the conversion, EIIC's stake in the bank will become a controlling one. The management has aggressive expansion plans through all business segments: corporate; retail; and commercial; although the focus will be to invest across the MENA region. The first initiative in expansion involved the acquisition of National Bank for Development in Egypt, and armed with a thorough turnaround plan for the bank, ADIB aims to become the major Islamic bank in Egypt.
- **ADIB has diversified sources of income.** ADIB has diversified its investments and sources of income, through its different subsidiaries operating in brokerage, real estate, investment, and sukuk issuance. In 2006, the bank's non-interest income as a percentage of operating income stood at 30.1%, and which we believe will reach close to 40% by 2012. We believe that non-interest income will be a main contributor to bottom line growth as competition intensifies.
- **The bank's target price offers 24.5% upside potential to the current market price.** The bank's DCF is AED79.8, and given the bank's ROAE FY08E of 21.8%, the bank is still trading at a relatively attractive level, with a P/B FY08E of 2.7x. ADIB is trading at a P/E FY08E of 12.2x, compared to a regional and emerging market average of 13.5x.

Selected Indicators

FY ends December	2006a	2007e	2008e	2009e	2010e	2011e
Net Income from Islamic Operations (AED million)	706	930	1,064	1,201	1,325	1,436
NIM (%)	2.8	2.8	2.7	2.6	2.5	2.3
Operating income (AED million)	1,011	1,318	1,582	1,857	2,137	2,347
Net income (AED million)	571	654	773	907	1,027	1,131
Net income growth (%)	65.7	14.6	18.2	17.3	13.2	10.1
EPS (AED)	3.8	4.4	5.2	6.0	6.8	7.5
P/E (x)	16.5	14.4	12.2	10.4	9.2	8.4
ROAA (%)	2.0	1.6	1.7	1.7	1.6	1.6
ROAE (%)	24.7	23.1	21.8	20.9	20.6	19.8
BVPS (AED)	15.4	18.8	23.6	28.9	33.2	38.1
P/BV (x)	4.1	3.3	2.7	2.2	1.9	1.7
DPS (AED)	1.0	1.1	1.3	1.5	1.7	1.9
Dividend yield (%)	1.6	1.7	2.0	2.4	2.7	3.0
Net Islamic & Ijara Financing/Deposits	80.7	81.9	78.6	78.8	79.7	79.4
Net Islamic & Ijara Financing/Avg. Purchased Funds	65.2	62.0	60.8	60.6	59.5	57.9
Cost/Income (%)	38.7	43.4	43.2	43.1	43.7	45.5
CAR (%)	12.2	14.3	16.3	16.2	16.2	16.6
Av. NPLs/Av. Gross Islamic & Ijara Financing (%)	0.5	0.7	0.8	0.9	1.0	1.0
Provisions Coverage	198.5	200.0	205.0	210.0	215.0	220.0

Source: ADIB, Beltone Financial.



Investment Considerations

Strengths

- ADIB enjoys a prime position in the relatively faster-growing Islamic banking sector, providing the bank with a higher rate of profit growth than conventional banks. The bank achieved in 2006 the highest growth in earnings amongst our coverage universe, with a 66% y-o-y growth in net profits. This was attributable to the growth in fees, commissions, and investment income, which jumped by 169% y-o-y in 2006.
- Historically, the bank achieved very strong balance sheet growth, with 2003-2006 compounded growth rates of 58%, 50.5%, and 57% for assets, Islamic lending, and deposits, respectively. ADIB achieved the second highest compounded balance sheet growth amongst our UAE coverage universe, after First Gulf Bank.
- EIIC currently owns 37% of the bank's capital, which will increase to 51% when it converts the sukuks worth AED2 billion, in 2008. EIIC envisions significantly aggressive growth targets; including tripling the bank's bottom line by 2010. We believe this is an exceptionally challenging target, which requires large expansion to be implemented as soon as possible.
- ADIB intends to expand across the region and into different business lines, recently acquiring National Bank for Development (NBD) in Egypt. ADIB plans to turn NBD around and position it as the premier Islamic bank in Egypt.
- ADIB has the lowest non-performing loans in our UAE coverage universe. The NPL level stood at 0.5% in 2006.
- The bank has diversified operations through its different subsidiaries, and its operating income is well-distributed between the different business segments.

Weaknesses & Challenges

- Islamic banking margins are lower than conventional banks. In addition, they achieve weaker fees and commissions income and higher costs, compared to conventional banks. Within dominant Islamic banks, ADIB achieved a lower NIM ratio, compared to Dubai Islamic Bank.
- The bank's cost-to-income ratio is relatively high, 38.7% in 2006, which is common, however, amongst Islamic banks.
- The bank's board has changed four times over eight years, which has consumed considerable time and financial resources and has created numerous changes in the bank's strategy and long-term business plan.
- In 2006, ADIB scored the lowest profitability per branch amongst our coverage universe and the lowest ROAA.
- Competition will intensify for Islamic banks, with the entrance of three more players. It will, however, require some time, for these banks to build market presence and brand recognition.

BANK PROFILE

Year Established

Was established in 1997 as a Public Joint Stock Company Inaugurated by His Highness Sheikh Abdullah bin Zayed Al Nahyan.

Ownership

Emirates International Investment Company & Ruling Family	37%
Ruling Family	29%
Abu Dhabi Investment Authority & other Gov't Units	14%
Free Float	20%
Foreign Ownership Limit	Not open to foreign investors
Current Foreign Participation	0%

Activities & Subsidiaries

Activities:	Op. Income	% of Assets	% of Liabilities
-Retail & Commercial*	32%	20%	25%
-Corporate	36%	35%	50%
-Investment & Treasury	32%	44%	25%

*Commercial refers to Medium Size Enterprises

Subsidiaries:	Activity	Country of inc.	Ownership
Abu Dhabi Islamic Financial Services LLC	Brokerage Services	UAE	95%
Burooj properties LLC	Real Estate	UAE	100%
ADIB Invest	Investment	BVI	100%
ADIB Sukuk Company Ltd	Issuance of Sukuk	Cayman Island	100%
National Bank for Development	Banking	Egypt	51%

Network

Domestic Branches	44
Overseas Branches/Offices	0
Domestic ATMs	90
No. of Accounts	200,000

Credit Rating

	Long term	Outlook	Short term
S&P	N/A	N/A	N/A
Fitch	A	Stable	F1
Moody's	A2	Stable	
Capital Intelligence	A	Stable	A2

Employees

Number of Employees 1,450 (bank and subsidiaries)

Market Share and Ranking

	2007E	2006	2005	2004
Total Islamic & Ijara Financing (in AED MM)	23,786	20,684	13,572	7,790
Loans Market Share	3.5%	3.8%	3.4%	2.7%
Growth	15.0%	52.4%	74.2%	
Total Deposits (in AED MM)	29,778	23,822	18,031	9,569
Deposits Market Share	4.3%	4.6%	4.4%	3.3%
Growth	25.0%	32.1%	88.4%	
Total Assets (in AED MM)	43,494	36,290	22,189	12,687
Assets Market Share	3.8%	4.2%	3.5%	2.8%
Growth	19.9%	63.5%	74.9%	

- Attracting and retaining qualified Islamic banking staff is a challenge for all players in the sector, given the shortage of experienced talent.

Differentiation and Future Growth Strategy

The bank has set an aggressive expansion plan in the Middle East and North Africa, with an initial focus on Egypt and Algeria. ADIB is hoping to become a complete financial solutions provider, with the UAE being the hub.

The bank's new board is intent upon expanding investments in the region and expansion in different business segments (real estate, insurance, brokerage, and leasing). It is targeting to become the leading provider of Islamic financial services in the UAE and in Egypt.

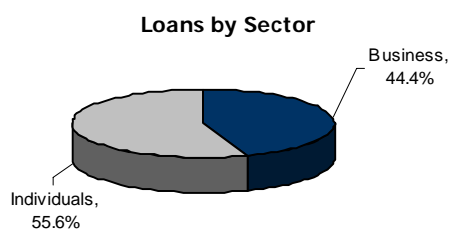
ADIB relies on its ownership (Al Nahyan family, EIIC and ADIA), its reputation for strong shari'a compliance, and focused management to build its strong market image.

Business Performance and Forecasts Summary

Balance Sheet

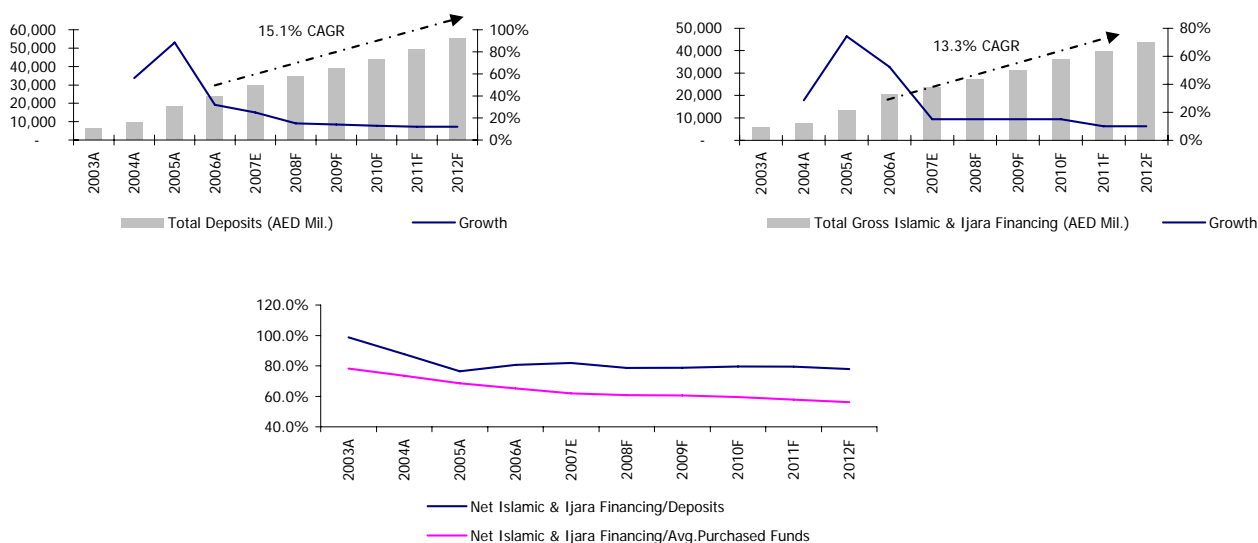
On the balance sheet, we expect deposits to grow at a 2006-2012 CAGR of 15.1%, and Islamic lending to grow at a compounded rate of 13.3% over the same period, thus maintaining utilisation at almost the same levels. ADIB has a balanced strategy, with operating income generated almost equally between corporate banking, retail banking, and other banking activities and business segments. We expect the bank to continue with its balanced approach and focus on expanding internationally, in Egypt and in Algeria, as the opportunity arises.

Figure 49 | Loan Classification (2006)



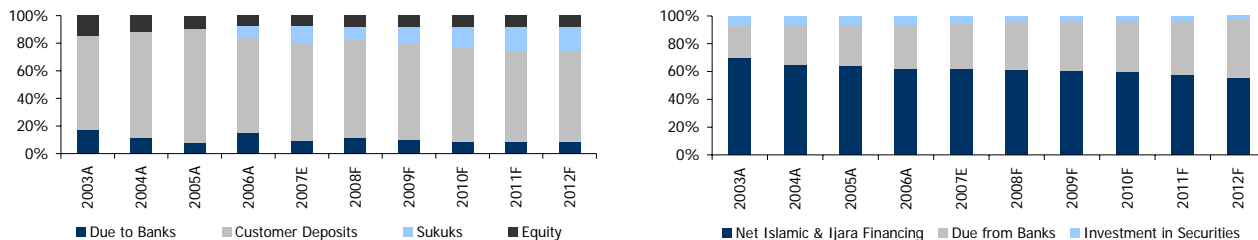
Source: ADIB, Beltone Financial

Figure 50 | Loan and Deposit Growth



Source: ADIB, Beltone Financial estimates

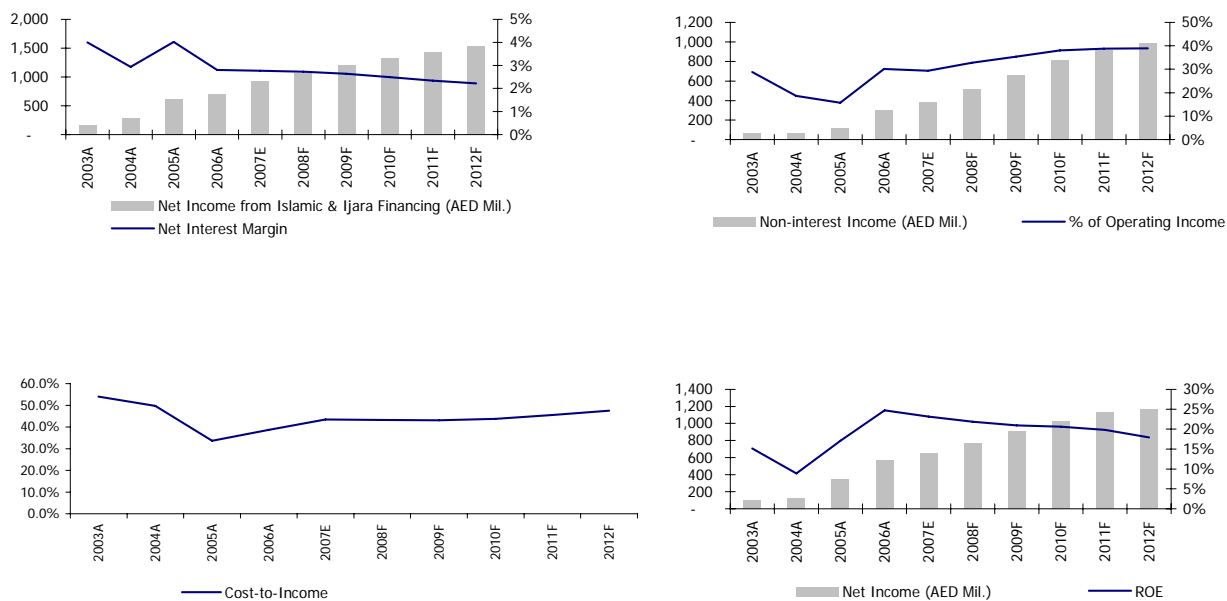
Figure 51 | Funding and Investment Mix



Source: ADIB, Beltone Financial estimates

Income Statement

Figure 52 | Profitability and Efficiency



Source: ADIB, Beltone Financial estimates

Financial Statements

Balance Sheet

Fiscal Year Ends December (AED Million)	2006A	2007F	2008F	2009F	2010F	2011F
Assets						
Cash & Short Term Assets	1,408	3,070	2,688	2,812	3,465	4,064
Murabaha & Mudaraba with Financial Institutions	10,559	12,671	15,205	18,246	21,895	26,274
Short-Term Investments in Securities	1,972	1,577	1,735	1,822	1,913	2,009
Islamic & Ijara Financing	20,684	23,786	27,354	31,457	36,176	39,793
(Provision for Impairment)	-247	-342	-460	-601	-767	-904
Net Islamic & Ijara Financing	20,437	23,444	26,894	30,857	35,409	38,889
Investments in Subsidiaries	63	210	252	302	363	435
Investments in Securities	81	65	72	75	79	83
Net Fixed Assets	213	319	427	509	564	611
Other Assets	385	694	1,040	1,352	1,758	1,934
Total Assets	36,290	43,494	50,046	57,969	67,738	76,820
Liabilities						
Due to Banks	5,346	4,009	5,413	5,683	5,967	6,266
Customer Deposits	23,822	29,778	34,244	39,038	44,113	49,407
Sukuk Payable & Convertible Sukuk	2,938	4,938	4,444	6,489	9,992	12,490
Total Liabilities	33,683	40,447	46,010	53,325	62,408	70,733
Total Net Worth	2,607	3,047	4,036	4,643	5,330	6,087
Total Liabilities & Net Worth	36,290	43,494	50,046	57,969	67,738	76,820
Contra Accounts	4,146	6,426	8,353	10,024	12,029	13,232

Source: Beltone Financial, ADIB

Income Statement

Fiscal Year Ends December (AED Million)	2006A	2007F	2008F	2009F	2010F	2011F
Income from Islamic & Ijara Financing, Murabaha & Mudaraba	2,058	2,382	2,679	2,964	3,272	3,552
Distribution to depositors & Sukuk holders	-1,351	-1,452	-1,615	-1,763	-1,947	-2,116
Net Income from Islamic Operations	706	930	1,064	1,201	1,325	1,436
Fees & Commissions, Net	107	70	87	98	116	131
Investment Income, Net	197	316	431	557	695	779
Other Operating Income	1	1	1	1	2	2
Net Operating Income	1,011	1,318	1,582	1,857	2,137	2,347
Administrative Expenses	-360	-536	-643	-756	-883	-1,012
Depreciation	-19	-24	-28	-33	-38	-44
Other Operating Expenses	-12	-12	-12	-12	-12	-12
Total Operating Expenses	-391	-572	-683	-801	-934	-1,068
Loan-Loss Provisions	-48	-95	-118	-140	-166	-137
Net Operating Profit	572	650	781	916	1,036	1,141
Income Taxes	0	5	-6	-7	-8	-9
Net Attributable Income	571	654	773	907	1,027	1,131

Source: Beltone Financial, ADIB

Financial Ratios

Fiscal Year Ends December	2006A	2007F	2008F	2009F	2010F	2011F
Growth Ratios						
Islamic & Ijara Financing	52.4%	15.0%	15.0%	15.0%	15.0%	10.0%
Deposits	32.1%	25.0%	15.0%	14.0%	13.0%	12.0%
Net Income	65.7%	14.6%	18.2%	17.3%	13.2%	10.1%
Contingent Liabilities	48.5%	55.0%	30.0%	20.0%	20.0%	10.0%
Profitability Ratios						
Return on Average Assets	2.0%	1.6%	1.7%	1.7%	1.6%	1.6%
Return on Average Shareholders Equity	24.7%	23.1%	21.8%	20.9%	20.6%	19.8%
Net Spread	3.0%	3.0%	3.0%	2.8%	2.7%	2.5%
Net Interest Margin	2.8%	2.8%	2.7%	2.6%	2.5%	2.3%
Efficiency Ratios						
Cost -to- Income	38.7%	43.4%	43.2%	43.1%	43.7%	45.5%
Liquidity Ratios						
Average Gross Islamic & Ijara Financing-to- Average Deposits	81.8%	83.0%	79.9%	80.3%	81.3%	81.2%
Average Net Islamic & Ijara Financing -to- Average Deposits	80.7%	81.9%	78.6%	78.8%	79.7%	79.4%
Average Net Islamic & Ijara Financing-to- Average Total Purchased Funds	65.2%	62.0%	60.8%	60.6%	59.5%	57.9%
Asset Quality Ratios						
Average Net Islamic & Ijara Financing-to-Average Assets	57.8%	55.0%	53.8%	53.5%	52.7%	51.4%
Average NPLs -to- Average Gross Islamic & Ijara Financing	0.5%	0.7%	0.8%	0.9%	1.0%	1.0%
Provisions Coverage	198.5%	200.0%	205.0%	210.0%	215.0%	220.0%
Capitalization Ratios						
Capital Adequacy Ratio	12.2%	14.3%	16.3%	16.2%	16.2%	16.6%
Dividend Payout Ratio	26.3%	25.0%	25.0%	25.0%	25.0%	25.0%

Source: Beltone Financial, ADIB

Recommendation

Add*

Upside/Downside

16.8%

One-Year Fair Value

AED16.20

Current Price

AED13.90**



Emirates NBD (ENBD)

Banking sector | UAE | Dubai

The National Champion

DCF Target Price

AED18.20

Comparative Valuation Price

AED14.30

EPS FY07E

AED0.80

Reuters Code

ENBD.DU

Bloomberg Code

ENBD UH

Market Cap

AED61.1 billion

US\$16.6 billion

Number of Shares Outstanding

4,394 million

Average Daily Turnover

AED16.9 million

52-Week high/ low

AED16.00/8.50

YTD Price Change

49.5%

Shareholder Structure

56% | Investment Corporation of Dubai

44% | Free Float

Foreign Ownership Limit

5%

* Refer to back cover for investment recommendations

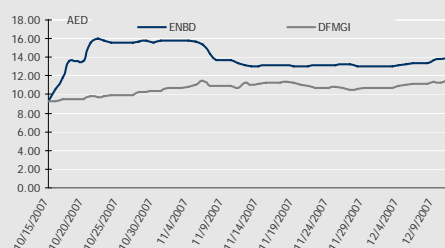
**Closing of December 13th, 2007

- **Emirates NBD is positioned to benefit from the UAE's robust economic growth.** Emirates NBD is the largest bank in the UAE. Given its size and large capitalisation, the bank is positioned to seize further opportunities and achieve higher growth.
- **Management has a clear strategy in place and is focused on maintaining its local dominance, while expanding its regional and international presence.** ENBD is set to become a leading regional financial institution with an increasing international presence. ENBD is targeting a global presence in Saudi Arabia, Qatar, the United Kingdom and Jersey Island, and plans to open representative offices in India, Iran and Singapore. The bank is determined to leverage its financial strength, scale and market positioning to capture domestic and regional opportunities. Wealth management, SME financing, and Islamic banking are the key areas of expansion for ENBD, along with the bank's plan to venture aggressively into retail banking, capitalising on its extensive branch network and its large customer base. Furthermore, with a strong capital base, Emirates NBD would have a higher single obligor limit, facilitating the bank's access to increased corporate business.
- **ENBD is the largest banking stock on the DFM, with a market capitalisation of AED61 billion.** Emirates NBD held a market share of 21% of loans, 18% of deposits and 20% of assets in 2006, the biggest in the UAE. Emirates NBD has the first place in the UAE and fifth place in the GCC by market capitalisation.
- **ENBD has a diversified income mix.** In addition to net interest income, 46.7% of the bank's non-operating income stems from fees and commissions and investment income, which includes the bank's share of profits in associates. This makes the bank less susceptible to low growth in the bottom line, as a result of the natural squeeze in the net interest margin, and the higher cost-to-income ratio.
- **Adequately Capitalised.** The bank has a capital adequacy ratio of 17.9%, which is much higher than the 10% required by the Central Bank of the UAE and provides the bank with a strong base for an aggressive expansion.
- **ENBD's target DCF offers a high upside potential to the current market price.** ENBD's DCF target is AED18.20, which offers 31.1% upside potential to the current market price. On a regional and emerging market comparison, ENBD is trading close to its fair price (AED14.3), given its ROAE FY08E of 16.4%.

Selected Indicators

FY ends December	2006a	2007e	2008e	2009e	2010e	2011e
NII (AED million)	2,695	3,667	4,614	5,471	6,337	7,063
NIM (%)	2.6	2.4	2.3	2.1	2.0	1.9
Operating income (AED million)	5,058	6,793	8,968	10,717	12,601	14,266
Net income (AED million)	2,995	3,388	4,507	5,463	6,643	7,938
Net income growth (%)	5.6	13.1	33.0	21.2	21.6	19.5
EPS (AED)	0.7	0.8	1.0	1.2	1.5	1.8
P/E (x)	20.4	18.0	13.6	11.2	9.2	7.7
ROAA (%)	2.1	1.7	1.7	1.7	1.7	1.8
ROAE (%)	16.9	14.1	16.4	17.3	18.1	18.5
Avg. BVPS (AED)	4.0	5.5	6.2	7.2	8.4	9.8
P/BV (x)	3.5	2.5	2.2	1.9	1.7	1.4
DPS (AED)	0.2	0.3	0.4	0.5	0.6	0.7
Dividend yield (%)	1.6	2.2	3.0	3.6	4.4	5.2
Net loans/Deposits	107.4	109.9	107.0	109.4	111.4	111.3
Net Loans/Avg. Purchased Funds	74.6	77.9	82.6	85.7	87.1	88.3
Cost/Income (%)	36.0	39.4	40.5	41.1	40.2	39.4
CAR (%)	17.9	14.9	13.2	12.5	12.3	13.1
Av. NPLs/Av. Gross loans (%)	1.0	0.9	0.8	0.8	0.8	0.8
Provisions Coverage (%)	114.8	120.0	125.0	130.0	135.0	140.0

Source: ENBD, Belton Financial.



Investment Considerations

Strengths

- ENBD is the largest bank in the UAE, seizing the biggest market share of total assets, total loans and total deposits, equivalent to 20%, 21% and 18%, respectively in 2006. The new combined entity is the fifth largest by market capitalisation in the GCC, thus competing on a higher level with large regional and international banks, in addition to its wider global presence.
- ENBD is a major player in the corporate banking sector with a combined market share of almost one fifth of corporate loans. The bank also capitalises on its strong capital base, thus a higher single obligor limit, and consequently, this facilitates the bank's access to bigger business.
- ENBD's retail banking business capitalises on its extensive branch network, larger customer base, and wider range of products, which in turn improves cross-selling opportunities.
- With a larger, more diversified balance sheet, the bank has greater competitive power in the marketplace.
- With more than ten merged subsidiaries, the bank has better access to diversified business lines with special emphasis on Islamic banking, investment banking, brokerage, and mortgage financing.
- The bank now has a stronger management team along with a diversified pool of human resources, which should enable it to attract and retain a high-calibre talent pool.
- ENBD has a solid asset management business, with assets under management of AED8.5 billion.
- Both banks enjoy very strong ratings.
- The value-added behind the merger comes from the strength of both EBI and NBD, in addition to the difference in strategy between both banks which, when combined, creates a balanced approach. EBI had a more aggressive business strategy, with higher focus on retail lending, whereas NBD had a more conservative approach, which focused on corporate lending to big names.

Challenges & Risks

- Business integration risks resulting from the fact that the merger might lead to a duplication of some responsibilities and business functions. In addition, unifying the system in both banks might take time or face challenges.
- The risk of a conflict of interest is not improbable as the boards of both banks may have conflicting opinions and/or interests; or internal conflicts with the shareholders, which could cause problems and impediments.
- There are uncertainties in the assumption of the synergies such as the overlap between products and customer bases that create the synergies.

BANK PROFILE

Year Established

EBI was incorporated as a public limited liability company by H.H. Sheikh Rashid Bin Saeed Al Maktoum, Ruler of Dubai in 1977. Later in 1995 it was registered as a Public Joint Stock Company.

NBD was incorporated in Dubai in 1963 under a charter granted by H.H. Sheikh Rashid Bin Saeed Al Maktoum, Ruler of Dubai. NBD was registered as a Public Joint Stock Company in 1994.

Ownership

Investment Corporation of Dubai	56%
Free Float	44%
Foreign Ownership Limit	5%
Current Foreign Participation	2%

Activities & Subsidiaries

EBI Subsidiaries:

EBI Subsidiaries:	Ownership
<u>Emirates Islamic Bank PJSC</u>	99.8%
Middle East Bank was converted into an Islamic Bank and its name was changed to EIB. This bank has 18 branches through which it offers Sharia'a compliant products.	
<u>Emirates Investment Services Ltd.</u>	100%
Was established in 1997 and offers a wide range of Sharia'a compliant investment products and services	
<u>Emirates International Services LLC</u>	99%
<u>Network International LLC</u>	90%
Specializes in credit and debit card processing services, ATM sharing and management facilities.	
<u>E-Commerce and Trade Services LLC</u>	100%
Engages in the business of trade finance administration and processing services.	
<u>Buzz Contact Centre Solutions LLC</u>	100%
Provides services to EBI and third party customers.	
<u>Emirates Financial services</u>	100%
<u>Diners Club</u>	100%
<u>Emirates Funds Manager (Jersey) limited</u>	100%
<u>Emirates Loyalty Company LLC</u>	100%

EBI Activities	% of tot. income	% of assets	% of liabilities
-Government, Corporate & Commercial	52%	55%	22%
-Retail banking	27%	14%	27%
-Investment & Funds Management	11%	19%	38%
-Islamic banking	10%	10%	11%
-Other	-	3%	3%

NBD Subsidiaries:

<u>NBD Investment Bank Limited</u>	100%
A fully serviced investment bank which offers a wide range of financial products that is focused on the MENA region	
<u>NBD Securities LLC</u>	99.99%
Provides brokerage services	
<u>Al Watani Al Islami PJSC</u>	99.99%
An Islamic finance company that provides for Sharia'a compliant financial products	
<u>National Bank of Dubai Trust Company (Jersey) Limited</u>	99.99%
Was incorporated in Jersey, the Channel Islands in 2001. This subsidiary offers trustee, trust and company administration in the field of offshore trusts	
<u>NBD Properties LLC</u>	99.99%
Engages in the development and management of real estate projects.	

NBD Activities	% of net profit	% of assets	% of liabilities
- Commercial banking	91.74%	68%	72%
-Treasury and others	8.26%	32%	28%

Network

Domestic Branches	107
Overseas Branches/Offices	10 (includes Rep. offices)
ATMs	429
No. of Accounts	NA

Credit Rating

	Long term	Outlook	Short term
EBI			
S&P	A	Positive	A-1
Fitch	AA-		
Moody's	A1		P-1
Capital Intelligence	AA-		AA-
NBD			
S&P	A	Positive	A-1
Fitch	NA	NA	NA
Moody's	A1		P-1
Capital Intelligence	AA-		AA-

Employees

Number of Employees 6,000

Market Share and Ranking	2007E	2006	2005	2004
Total Loans (in AED MM)	158,650	110,174	69,600	45,315
Loans Market Share	23.6%	20.5%	17.6%	15.8%
Growth	44.0%	58.3%	53.6%	
Total Deposits (in AED MM)	146,824	95,341	70,150	52,135
Deposits Market Share	21.0%	18.4%	17.1%	17.9%
Growth	54.0%	35.9%	34.6%	
Total Assets (in AED MM)	234,645	172,859	110,821	78,736
Assets Market Share	20.7%	20.1%	17.4%	17.5%
Growth	35.7%	56.0%	40.8%	

- ENBD, similar to its peers, will be facing higher competition due to the sector's rapid growth.
- Attracting and retaining qualified banking professionals will remain a challenge for all banks in the sector.

Differentiation and Future Growth Strategy

ENBD is positioning itself as the UAE's national champion, with a special focus on retail banking. The bank intends to build on its extensive branch network and its large customer base to pursue profitable growth, a bigger market share and an enhancement of its cross-selling activities.

The bank also aims to expand wealth management services, SME financing and Islamic banking. For wealth management services, the bank is targeting high net worth and ultra high net worth individuals with an aim to act as their trusted advisor. Regarding the fast growing mid-cap and SME sector, the bank plans to develop strong relationships with the segment to be able to capture a significant market share. ENBD will leverage on the existing EBI Islamic banking portfolio in addition to the search of new sharia'a compliant products and services that are likely to be spread across retail, corporate and investment banking customers.

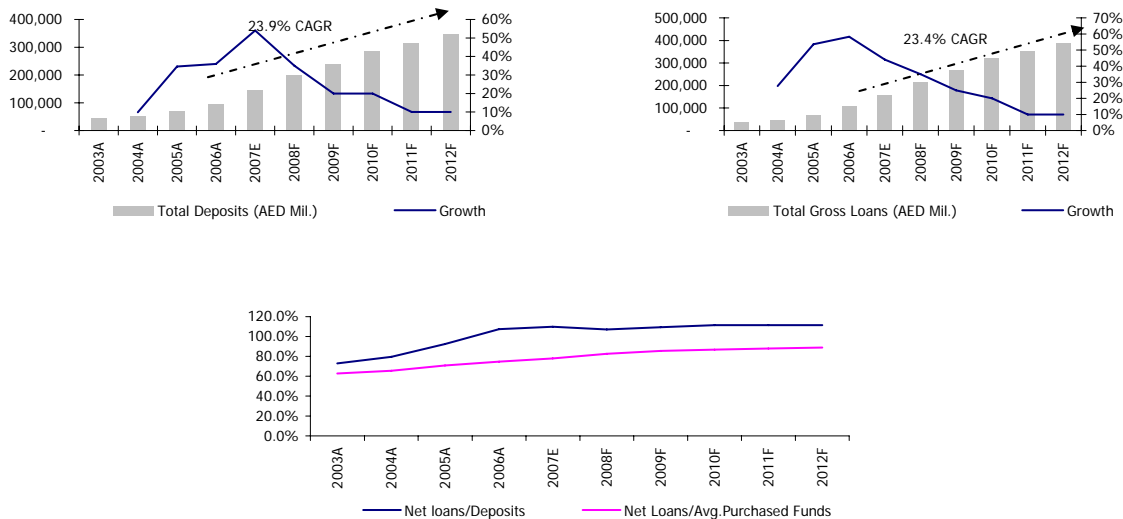
ENBD should improve its well-established market position in corporate banking, benefiting from the higher single obligor limit. The leveraging of the balance sheet and capital will be important to enable it to finance larger projects and attract new corporate clients. The bank is targeting to be a key regional bank and will pursue further expansion in the GCC and other key targets. ENBD is likely to strengthen its presence in Saudi Arabia and Qatar in particular.

Business Performance and Forecasts Summary

Balance Sheet

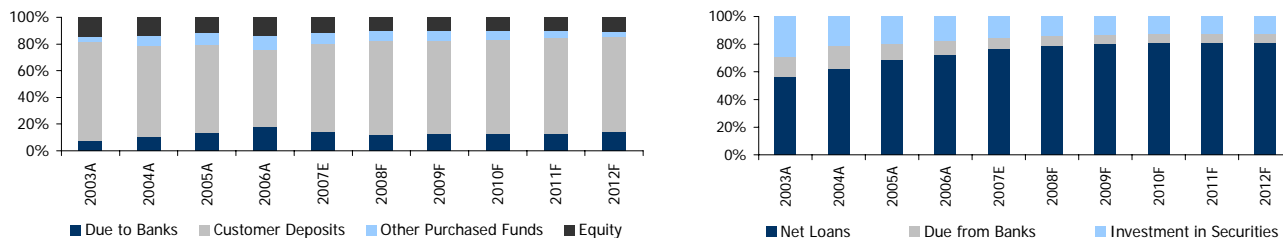
On the balance sheet, we expect deposits to grow at a 2006-2012 CAGR of 23.9%, and loans to grow at a compounded rate of 23.4% over the same period, thus maintaining utilisation at almost the same levels.

Figure 53 | Loan and Deposit Growth, and Utilisation



Source: ENBD, Beltone Financial estimates

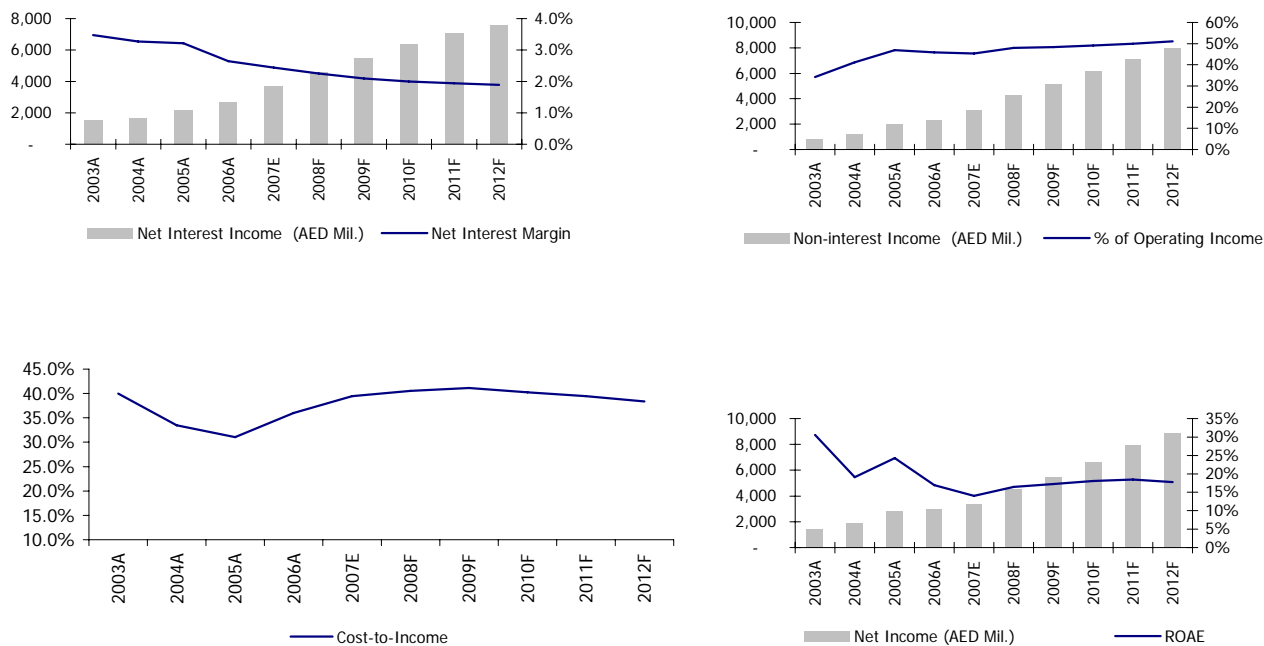
Figure 54 | Funding and Investment Mix



Source: ENBD, Beltone Financial estimates

Income Statement

Figure 55 | Profitability and Efficiency



Source: ENBD, Beltone Financial estimates

Financial Statements

Balance Sheet

Fiscal Year Ends December (AED Millions)	2006A*	2007F	2008F	2009F	2010F	2011F
Assets						
Cash & Short Term Assets	5,647	10,195	7,877	9,656	11,644	12,735
Inter-bank Deposits	14,636	16,832	19,356	22,260	24,486	26,934
Short-Term Investments in Securities	22,300	26,760	30,774	35,390	38,929	42,822
Gross Loans & Advances	110,174	158,650	214,178	267,723	321,267	353,394
(Loan-Loss Provisions)	-1,119	-1,606	-2,194	-2,803	-3,453	-3,919
Net Loans & Advances	109,055	157,044	211,984	264,919	317,814	349,475
Investments in Subsidiaries	2,297	2,595	2,855	3,140	3,454	3,627
Investments in Securities	4,101	4,921	6,151	7,689	9,611	10,572
Net Fixed Assets	812	994	1,171	1,337	1,435	1,399
Other Assets	14,013	15,304	17,233	18,873	20,889	22,003
Total Assets	172,859	234,645	297,401	363,264	428,263	469,568
Liabilities						
Due to Banks	30,618	32,148	32,791	42,301	49,069	57,656
Customer Deposits	95,341	146,824	198,213	237,856	285,427	313,969
Other Purchased Funds	18,471	18,369	18,553	26,901	27,439	21,951
Total Liabilities	150,234	209,145	268,075	329,302	388,663	423,230
Total Net Worth	22,625	25,501	29,326	33,962	39,600	46,337
Contra Accounts	40,168	52,218	65,272	78,327	93,992	103,391

Source: Beltone Financial, Emirates NBD

Income Statement

Fiscal Year Ends December (AED Millions)	2006A*	2007F	2008F	2009F	2010F	2011F
Interest Income	7,529	10,861	13,575	16,074	18,412	19,944
Interest Expense	-4,834	-7,194	-8,960	-10,604	-12,075	-12,881
Net Interest Income	2,695	3,667	4,614	5,471	6,337	7,063
Fees & Commissions, Net	1,800	1,899	2,390	2,761	3,194	3,663
Investment Income, Net	519	1,179	1,910	2,426	3,005	3,469
Other Operating Income	44	49	54	59	65	71
Net Operating Income	5,058	6,793	8,968	10,717	12,601	14,266
Administrative Expenses	-1,687	-2,498	-3,394	-4,099	-4,695	-5,185
Depreciation	-133	-419	-478	-543	-611	-675
Other Operating Expenses	-1	-1	-2	-2	-2	-2
Total Operating Expenses	-1,822	-2,918	-3,874	-4,644	-5,308	-5,862
Loan-Loss Provisions	-242	-487	-587	-610	-650	-465
Net Operating Profit	2,995	3,388	4,507	5,463	6,643	7,939
NPAUI	2,995	3,388	4,507	5,463	6,643	7,938

Source: Beltone Financial, Emirates NBD

Financial Ratios

Fiscal Year Ends December	2006A*	2007F	2008F	2009F	2010F	2011F
Growth Ratios						
Loans	58.3%	44.0%	35.0%	25.0%	20.0%	10.0%
Deposits	35.9%	54.0%	35.0%	20.0%	20.0%	10.0%
Net Income	5.6%	13.1%	33.0%	21.2%	21.6%	19.5%
Contingent Liabilities	35.3%	30.0%	25.0%	20.0%	20.0%	10.0%
Profitability Ratios						
Return on Average Assets	2.1%	1.7%	1.7%	1.7%	1.7%	1.8%
Return on Average Shareholders Equity	16.9%	14.1%	16.4%	17.3%	18.1%	18.5%
Net Spread	3.3%	3.1%	2.7%	2.4%	2.2%	2.1%
Net Interest Margin	2.6%	2.4%	2.3%	2.1%	2.0%	1.9%
Efficiency Ratios						
Cost -to- Income	36.0%	39.4%	40.5%	41.1%	40.2%	39.4%
Liquidity Ratios						
Average Gross Loans -to- Average Customer Deposits	108.6%	111.0%	108.1%	110.5%	112.6%	112.6%
Average Net Loans -to- Average Customer Deposits	107.4%	109.9%	107.0%	109.4%	111.4%	111.3%
Average Net Loans -to- Average Total Purchased Funds	74.6%	77.9%	82.6%	85.7%	87.1%	88.3%
Asset Quality Ratios						
Average Net Loans -to- Average Assets	62.7%	65.3%	69.4%	72.2%	73.6%	74.3%
Average NPLs -to- Average Gross Loans	1.0%	0.9%	0.8%	0.8%	0.8%	0.8%
Provisions Coverage	114.8%	120.0%	125.0%	130.0%	135.0%	140.0%
Capitalization Ratios						
Capital Adequacy Ratio	17.9%	14.9%	13.2%	12.5%	12.3%	13.1%
Dividend Payout Ratio	32.3%	40.0%	40.0%	40.0%	40.0%	40.0%

Source: Beltone Financial, Emirates NBD

* Note: 2006 figures represent a pro-forma consolidation

Recommendation

Hold*

Upside/Downside

-4.2%

One-Year Fair Value

AED10.40

Current Price

AED10.90**



Dubai Islamic Bank (DIB)

Banking sector | UAE | Dubai

First Mover Advantage

DCF Target Price

AED11.20

Comparative Valuation Price

AED9.60

EPS FY07E

AED0.80

Reuters Code

DISB.DU

Bloomberg Code

DIB UH

Market Cap

AED32.5 billion

US\$8.8 billion

Number of Shares Outstanding

2,996 million

Average Daily Turnover

AED 74.1 million

52-Week high/ low

AED11.45/6.10

YTD Price Change

34.3%

Shareholder Structure

30% | **Dubai Government**
7% | **Mr. Saeed Ahmed Lootah**
4% | **General Pensions and Social Security Authority**
1% | **Kuwait Finance House**
58% | **Free Float**

Foreign ownership Limit

15%

* Refer to back cover for investment recommendations

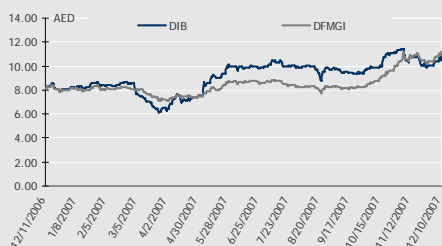
** Closing of December 13th, 2007

- **Dubai Islamic Bank (DIB) is the leader in Islamic banking in the UAE.** Being the first Islamic bank in the UAE is certainly advantageous for DIB. The bank dominates Islamic banking in the UAE, with a market share of 53% in Islamic lending and a 6.7% share of the total UAE banking sector's lending. DIB is a fully-fledged Islamic bank, offering a wide range of products, in addition to ten subsidiaries mostly specialised in real estate and property development. DIB has also moved into the Pakistani market with 12 branches. DIB's well-established infrastructure also enables it to offer more innovative products to the market and reach a larger client base.
- **Strong profitability and healthy margins, but with higher cost-to-income and NPL ratios in 2006.** DIB enjoys healthy spreads and margins, boosted by the high retail banking contribution to the bank's revenues, which accounts for 38%. The bank has been achieving strong profitability levels in terms of growth in net interest income, non-interest income and the bottom line. DIB's net income grew at a 2003-06 CAGR of 88%. DIB has a strong return on average equity ratio, which reached 30% in 2006 and is the highest in our coverage universe. In 2006, DIB's cost-to-income ratio was on the high side, because of setting up the Pakistani operations. DIB's NPL/gross loans ratio is also the highest amongst our coverage universe, equivalent to 4% in 2006. However, in absolute terms, the ratio is not high.
- **We believe that competition will intensify further for purely Islamic banks.** DIB will be facing higher competition going forward, given ADIB's aggressive expansion strategy, and the three new Islamic banking licenses that have been issued, to raise the total of pure Islamic banks in the UAE to eight from the current five. DIB will need to focus on product development and widening its client base, in order to defend its market share.
- **Multiples and DCF Valuation leave minimal room for price escalation.** Our target DCF price is AED11.20, which is close to the current market price. Given DIB's ROAE FY08E (25.5%), DIB is currently trading at a high P/B FY08E (3.9x). In terms of P/E FY08E, DIB is trading at 15.3x, which is higher than the regional and emerging market average of 13.5x.

Selected Indicators

FY ends December	2006a	2007e	2008e	2009e	2010e	2011e
Net Income from Islamic financing (AED million)	1,209	1,719	2,047	2,302	2,557	2,790
NIM (%)	2.8	3.1	3.1	3.0	2.9	2.8
Operating income (AED million)	2,819	3,228	3,932	4,513	5,106	5,668
Net income (AED million)	1,560	2,255	2,122	2,399	2,713	2,928
Net income growth (%)	47.0	44.6	(5.9)	13.0	13.1	7.9
EPS (AED)	0.5	0.8	0.7	0.8	0.9	1.0
P/E (x)	20.8	14.4	15.3	13.6	12.0	11.1
ROAA (%)	2.9	3.2	2.6	2.6	2.6	2.4
ROAE (%)	29.8	29.2	25.5	27.0	28.6	28.0
BVPS (AED)	1.7	2.6	2.8	3.0	3.2	3.5
P/BV (x)	6.2	4.2	3.9	3.7	3.4	3.1
DPS (AED)	0.3	0.4	0.4	0.4	0.5	0.3
Dividend yield (%)	3.0	3.5	3.3	3.7	4.2	2.7
Net Islamic financing/Deposits	78.4	79.0	88.9	96.3	99.6	102.3
Net Islamic financing/Avg. Purchased Funds	70.7	72.7	83.2	90.3	92.1	92.8
Cost/Income (%)	41.1	43.1	39.9	41.4	42.0	43.3
CAR (%)	18.3	16.9	14.4	13.1	12.3	12.2
Av. NPLs/Av. Gross Islamic financing (%)	3.9	3.1	2.6	2.3	2.1	2.0
Provisions Coverage (%)	71.8	76.8	81.8	86.8	91.8	96.8

Source: DIB, Beltone Financial.



Investment Considerations

Strengths

- DIB capitalises on its prominent name, being the largest Islamic bank in the UAE (with a 55% market share of Islamic lending). DIB is the fourth largest bank in terms of assets and loans among all banks in the UAE, holding a 7.5% asset market share.
- DIB provides a wide range of products, including corporate, retail, investment, private, and Johara banking (targeting women), in addition to ten subsidiaries with diversified financial activities.
- The bank's 32 years of Islamic banking experience enable it to offer innovative financial solutions to the market. Islamic credit cards and Islamic mortgage financing are examples of new products offered in 2007.
- The bank was one of the first to venture into the Pakistani market and benefit from its potential in Islamic finance.
- Historically, DIB has achieved a strong balance sheet growth (assets and loans), with assets growing at a 2003-06 CAGR of 43%, and loans recording a CAGR of 43.5% over the same period. In addition, DIB posted strong profitability levels, with its net income increasing at a 2003-06 CAGR of 88%.
- Retail banking is a major contributor to the bank's revenues (38%) despite its smaller share in the bank's loan portfolio (12%), which, in turn, enhances the bank's spreads and margins compared to its counterpart, Abu Dhabi Islamic Bank (ADIB).
- DIB scored the highest ROAE in 2006 amongst our coverage universe, equivalent to 30%.

Weaknesses & Challenges

- DIB suffers from the highest cost-to-income ratio in our coverage universe at 41% in 2006, although this is common amongst Islamic banks. However, this ratio should tail off, given that the bank has launched its Pakistani operations and has been spending heavily on technology.
- Competition will intensify for Islamic banks, with the entrance of three more players in the UAE. However, it will take some time for these banks to build market presence and brand recognition.
- There is a significant shortage of qualified Islamic banking staff, which is a challenge for all banks in this sector.
- DIB is highly exposed to the real estate sector. Several of the bank's subsidiaries are specialised in real estate and property development. In addition, real estate financing comprises the biggest portion of DIB's loan portfolio, accounting for 34%, and its contribution of revenues is 13%. To mitigate that risk, DIB has secured these exposures with significant collateral.

BANK PROFILE

Year Established

World's first fully-fledged Islamic bank, formed in 1975.

Ownership

Dubai Government	30%
Mr. Saeed Ahmed Lootah	7%
General Pensions and Social Security Authority	4%
Kuwait Finance House	1%
Free Float	58%
Foreign Ownership Limit	15%
Current Foreign Participation	11%

Activities & Subsidiaries

Activities:

-Retail Banking	38%
-Corporate	12%
-Business Banking	12%
-Investment Banking	26%
-Real Estate Finance, Private Banking and Contracting Finance	25%

Subsidiaries:

The following Subsidiaries are majority owned by the bank and represent a selection of the total bank subsidiaries.

Name	Prime Activities	Location	Ownership
Bank of Khartoum	Banking	Sudan	52%
Islamic Financial Services LLC	Brokerage Services	UAE	96%
Dubai Islamic Bank Pakistan Ltd.	Banking	Pakistan	100%
Deyaar Development P.S.C.	Real estate development	UAE	96%
Dubai Insaat Gayrimenkul Sanayi Ve Ticaret Limited Sirketi	Property Development	Turkey	100%
DIB Tower SAL	Investment in Real Estate	Lebanon	100%
Beirut Bay SAL	Property Development	Lebanon	100%
Millennium Capital Limited	Investment and financial services	UAE	100%
Millennium Financial Advisory	Financial Advisory	UAE	65%
Al Tatweer Al Hadith Real Estate	Real estate development	Egypt	96%
Al Tameer Modern Real Estate Investment	Real estate development	Egypt	96%
Al Tanmia Modern Real Estate Investment	Real estate development	Egypt	100%
Al Islami Trade Finance	Investments	UAE	100%
DIB Lease One Ltd.	Investments	Bahamas	100%
DIB Lease One (Dublin) Ltd.	Investments	Ireland	100%
Islamic Investment Company P.S.C.	Financing & Investing	UAE	96%

Network

Domestic Branches	42-45
Overseas Branches/Offices	10-12 (Pakistan), Rep. Office in Turkey and Iran
ATMs	230
No. of Accounts	300-400 corporate clients

Credit Rating

	Long term	Outlook	Short term
S&P	A	Stable	A-1
Fitch	N/A	N/A	N/A
Moody's	D+		
Capital Intelligence	N/A	N/A	N/A

Employees

Number of Employees	>1000
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Market Share and Ranking

	2007E	2006	2005	2004
Total Islamic & Ijara Financing (in AED MM)	50,630	36,164	29,148	18,212
Loans Market Share	7.5%	6.7%	7.4%	6.4%
Growth	40.0%	24.1%	60.0%	
Total Deposits (in AED MM)	59,666	47,732	33,392	24,941
Deposits Market Share	8.5%	9.2%	8.2%	8.6%
Growth	25.0%	42.9%	33.9%	
Total Assets (in AED MM)	76,921	64,434	42,998	30,613
Assets Market Share	6.8%	7.5%	6.7%	6.8%
Growth	19.4%	49.9%	40.5%	

Differentiation and Future Growth Strategy

Over the next 2-3 years, DIB's focus will be on exploring the potential for Islamic financial products in the UAE, in addition to the bank's Pakistani operations. Overseas expansion is also key to the management long-term strategy.

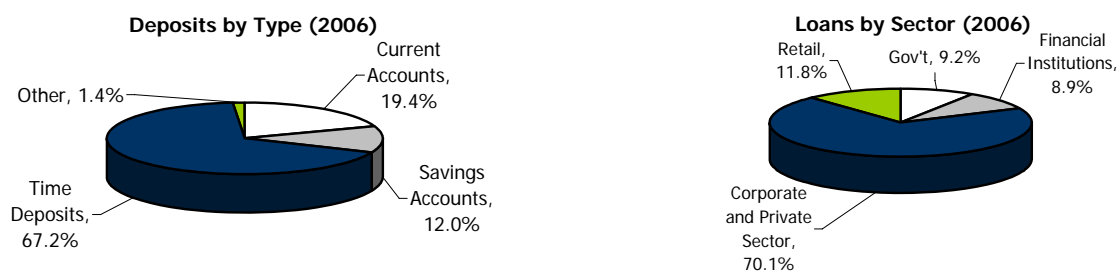
DIB's main target is retail banking in the medium term, looking for unexplored market opportunities, with a special emphasis on the growing expatriate population in the UAE. The bank will further build on its large customer base to enhance its cross-selling activities. DIB is set to offer new full-fledged Islamic treasury products and derivatives. Meanwhile, overseas expansion will target Saudi Arabia, Bahrain and Turkey.

Business Performance and Forecasts Summary

Balance Sheet

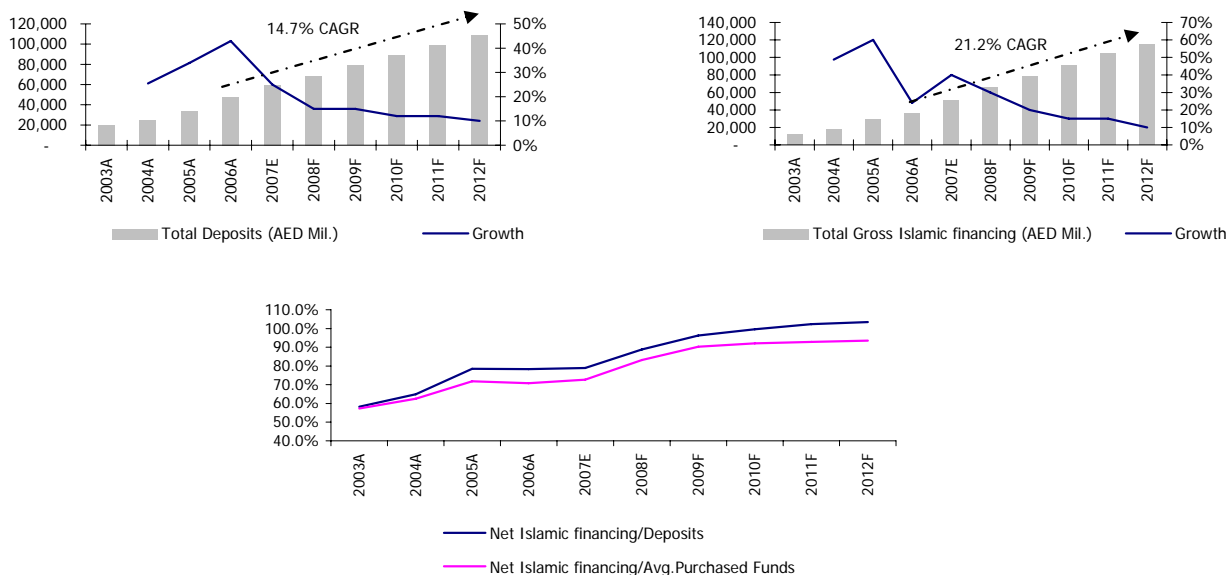
Regarding the balance sheet, we expect deposits to grow at a 2006-2012 CAGR of 14.7% and loans to grow at a compounded rate of 21.2% over the same period, thus increasing utilisation further. The bank has a balanced strategy, with operating income well distributed amongst the retail banking, corporate banking, and other banking activities and business segments. We expect DIB to continue with its balanced approach and to focus on further expanding its retail lending, whilst also looking for further international expansion.

Figure 56 | Loan and Deposit Classification



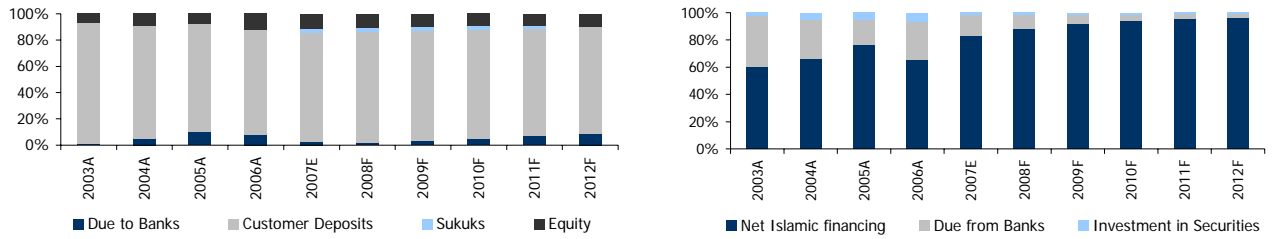
Source: DIB, Beltone Financial estimates

Figure 57 | Loan and Deposit Growth



Source: DIB, Beltone Financial estimates

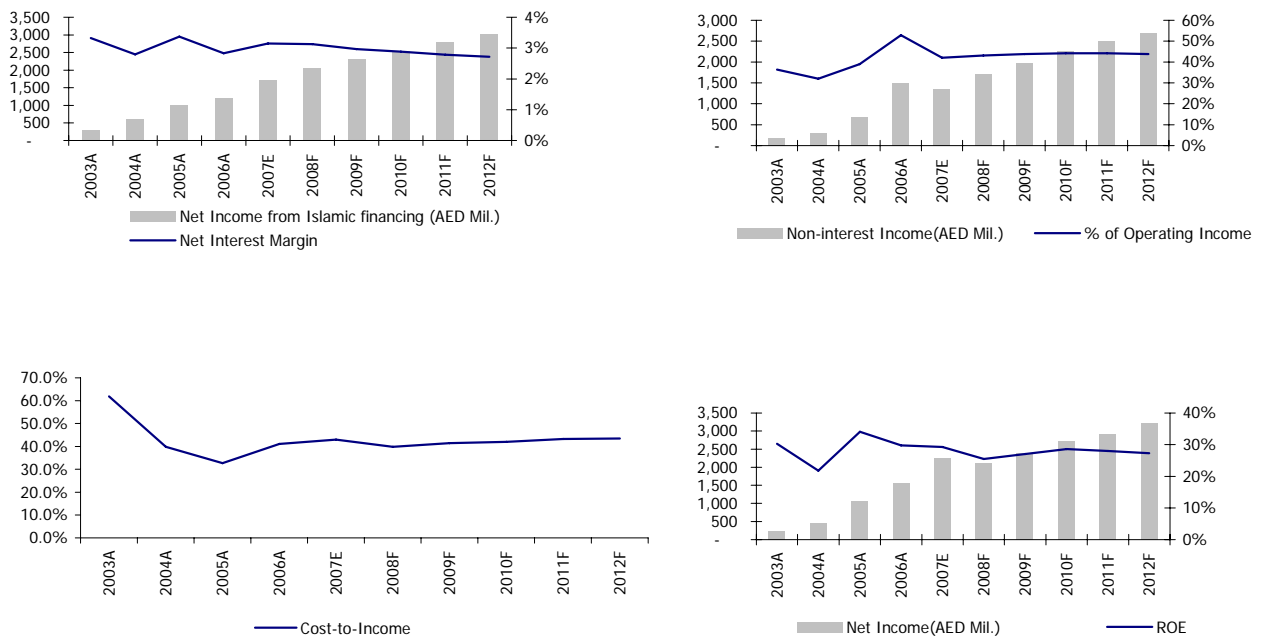
Figure 58 | Funding and Investment mix



Source: DIB, Beltone Financial estimates

Income Statement

Figure 59 | Profitability and Efficiency



Source: DIB, Beltone Financial estimates

Financial Statements

Balance Sheet

Fiscal Year Ends December (AED Million)	2006A	2007F	2008F	2009F	2010F	2011F
Assets						
Cash & Short Term Assets	3,112	9,087	4,485	4,481	5,993	6,628
International murabaha	15,398	9,239	7,391	5,913	4,730	3,784
Short-Term Investments in Securities	2,503	0	0	0	0	0
Islamic financing and investing assets (Impairment Provisions)	36,164	50,630	65,819	78,983	90,830	104,454
Net Islamic financing and investing assets	-909	-1,094	-1,302	-1,507	-1,714	-1,952
Investments in Subsidiaries	35,255	49,536	64,517	77,475	89,116	102,502
Investments in Securities	1,078	4,096	4,915	5,898	7,078	8,494
Net Fixed Assets	1,021	1,072	1,126	1,182	1,241	1,304
Other Assets	496	593	686	803	949	1,131
Total Assets	64,434	76,921	86,280	98,846	112,205	127,013
Liabilities						
Due to Banks	4,650	1,860	1,488	2,678	5,357	8,303
Customer Deposits	47,732	59,666	68,615	78,908	88,377	98,982
Other Purchased Funds	0	2,755	2,755	2,755	2,755	2,755
Total Liabilities	57,073	68,839	77,688	89,682	102,398	115,922
Total Net Worth	7,361	8,083	8,592	9,164	9,808	11,090
Contra Accounts	12,174	15,827	18,992	21,841	25,117	27,629

Source: Beltone Financial, DIB

Income Statement

Fiscal Year Ends December (AED Million)	2006A	2007F	2008F	2009F	2010F	2011F
Income from Islamic financing and murabaha	2,967	3,994	4,378	4,581	5,450	6,404
Depositors' share of profits	-1,758	-2,275	-2,331	-2,279	-2,893	-3,614
Net Income from Islamic financing	1,209	1,719	2,047	2,302	2,557	2,790
Fees & Commissions, Net	907	845	1,061	1,261	1,451	1,602
Investment Income, Net	582	512	635	714	804	906
Other Operating Income	121	151	189	236	295	369
Net Operating Income	2,819	3,228	3,932	4,513	5,106	5,668
Administrative Expenses	-1,148	-1,378	-1,554	-1,855	-2,125	-2,434
Depreciation	-10	-12	-13	-15	-17	-20
Total Operating Expenses	-1,158	-1,390	-1,568	-1,871	-2,143	-2,454
Loan-Loss Provisions	-76	-185	-208	-205	-206	-238
Net Operating Profit	1,584	1,653	2,157	2,438	2,757	2,976
Unusual Gain (Loss)	0	617	0	0	0	0
Income Taxes	-6	5	-9	-10	-11	-12
NPAUI	1,560	2,255	2,122	2,399	2,713	2,928

Source: Beltone Financial, DIB

Financial Ratios

Fiscal Year Ends December	2006A	2007F	2008F	2009F	2010F	2011F
Growth Ratios						
Islamic financing and investing assets	24.1%	40.0%	30.0%	20.0%	15.0%	15.0%
Deposits	42.9%	25.0%	15.0%	15.0%	12.0%	12.0%
Net Income	47.0%	44.6%	-5.9%	13.0%	13.1%	7.9%
Contingent Liabilities	50.6%	30.0%	20.0%	15.0%	15.0%	10.0%
Profitability Ratios						
Return on Average Assets	2.9%	3.2%	2.6%	2.6%	2.6%	2.4%
Return on Average Shareholders Equity	29.8%	29.2%	25.5%	27.0%	28.6%	28.0%
Net Spread	3.0%	3.4%	3.3%	3.0%	3.0%	2.9%
Net Interest Margin	2.8%	3.1%	3.1%	3.0%	2.9%	2.8%
Efficiency Ratios						
Cost -to- Income	41.1%	43.1%	39.9%	41.4%	42.0%	43.3%
Liquidity Ratios						
Average Gross Islamic financing-to- Average Customer Deposits	80.5%	80.8%	90.8%	98.2%	101.5%	104.2%
Average Net Islamic financing -to- Average Customer Deposits	78.4%	79.0%	88.9%	96.3%	99.6%	102.3%
Average Net Islamic financing -to- Average Total Purchased Funds	70.7%	72.7%	83.2%	90.3%	92.1%	92.8%
Asset Quality Ratios						
Average Net Islamic financing -to- Average Assets	59.2%	60.0%	69.9%	76.7%	78.9%	80.1%
Average NPLs -to- Average Gross Loans	3.9%	3.1%	2.6%	2.3%	2.1%	2.0%
Provisions Coverage	71.8%	76.8%	81.8%	86.8%	91.8%	96.8%
Capitalization Ratios						
Capital Adequacy Ratio	18.3%	16.9%	14.4%	13.1%	12.3%	12.2%
Average Shareholders Equity -to- Average Total Assets	9.8%	10.9%	10.2%	9.6%	9.0%	8.7%
Dividend Payout Ratio	62.8%	50.0%	50.0%	50.0%	50.0%	30.0%

Source: Beltone Financial, DIB

Recommendation

Hold*

Upside/Downside

0.4%

One-Year Fair Value

AED309.20

Current Price

AED308.00**



Mashreqbank

Banking sector | UAE | Dubai

Dawn or Dusk

DCF Target Price

AED297.50

Comparative Valuation Price

AED320.90

EPS FY07E

AED18.40

Reuters Code

MASB.DU

Bloomberg Code

MASQ UH

Market Cap

AED26.7 billion
US\$7.3 billion

Number of Shares Outstanding

86.6 million

Average Daily Turnover

AED3.3 million

52-Week high/ low

AED308.00/184.80

YTD Price Change

14.1%

Shareholder Structure

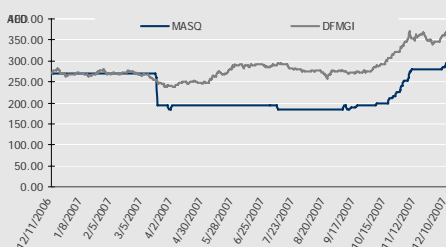
87% | **Al Ghurair Family**
13% | **Free Float**

Foreign Ownership Limit

Not open to foreign investors

* Refer to back cover for investment recommendations

**Closing of December 13th, 2007



- Mashreqbank has a strong local position and a wide geographic presence.** Mashreqbank is one of the largest and oldest banks in the UAE. Mashreqbank is characterised by its wide global diversification, with its presence in nine countries besides the UAE, including Bahrain, Qatar, Egypt, Hong Kong, India, UK, US, Bangladesh and Pakistan. Mashreqbank is on the right track to benefit from further growth, with its newly-established Islamic banking subsidiary, and the SME lending division being the short-term main focus.
- Mashreqbank has a strong retail banking business and has an innovative product offering, which bodes well for further profitability growth.** Mashreqbank could also benefit from its wide branch network and international diversification. Organic growth and cross-border expansion are the key features of Mashreqbank's management strategy in the short to medium term.
- Mashreqbank has witnessed slow growth, compared to its peers.** The bank has been growing steadily over the past four years. The bank's total assets have grown at a CAGR of 29% between 2003 and 2006, while loans and deposits grew at a CAGR of 25% and 23% over the same period, respectively. Net income grew at 37.8% during 2003-06. However, Mashreqbank has achieved the lowest compounded growth for loans between 2003 and 2006, amongst our UAE coverage universe. Mashreqbank held a rather modest market share, with 6.6% of assets, 5.6% of loans and 6.7% of deposits in 2006.
- Target price offers minimal room for price appreciation, but still has attractive multiples.** Mashreqbank's DCF valuation yielded a fair value of AED297.50, which is below the current market price. Comparative valuation based on P/E and P/B FY08E yielded AED320.90, which offers a moderate upside of 4%. Given Mashreq's ROAE FY08E (20.2%), the bank is trading at a low P/B FY08E (2.5x). In addition, the bank is trading at a P/E FY08E of 12.6x, compared to a regional and emerging market average of 13.5x.

Selected Indicators

FY ends December	2006a	2007e	2008e	2009e	2010e	2011e
NII (AED million)	1,118	1,551	1,871	2,191	2,463	2,710
NIM (%)	3.3	3.7	3.6	3.6	3.4	3.4
Operating income (AED million)	2,827	3,299	4,170	5,045	5,823	6,667
Net income (AED million)	1,571	1,597	2,111	2,553	3,012	3,476
Net income growth (%)	(9.7)	1.7	32.2	21.0	18.0	15.4
EPS (AED)	18.1	18.4	24.4	29.5	34.8	40.1
P/E (x)	17.0	16.7	12.6	10.4	8.9	7.7
ROAA (%)	3.0	2.4	2.6	2.8	2.8	2.8
ROAE (%)	21.5	19.1	20.2	19.9	19.3	18.4
BVPS (AED)	84.5	96.6	120.9	148.4	180.5	217.9
P/BV (x)	3.6	3.2	2.5	2.1	1.7	1.4
DPS (AED)	-	1.8	2.4	2.9	3.5	4.0
Dividend yield (%)	-	0.6	0.8	1.0	1.1	1.3
Net loans/Deposits	79.9	85.6	88.2	91.9	95.5	96.6
Net Loans/Avg. Purchased Funds	63.9	64.8	70.1	76.3	77.8	78.5
Cost/Income (%)	36.5	42.2	39.6	40.5	40.9	41.8
CAR (%)	17.5	11.2	10.9	10.9	11.0	11.9
Av. NPLs/Av. Gross loans (%)	1.4	1.2	1.2	1.1	1.1	1.1
Provisions Coverage (%)	243.8	245.0	255.0	265.0	270.0	275.0

Source: Mashreqbank, Beltone Financial.

Investment Considerations

Strengths

- Mashreqbank is one of the oldest private banks in the UAE.
- Mashreq is 87% owned by the most prominent business groups in the UAE, the Al Ghurair Group.
- The bank provides its clients with a full range of products targeting individuals, SMEs, corporates and financial institutions.
- The bank has access to diversified financial services through its eight subsidiaries that provide brokerage, asset management, investment banking, technology management, Sharia compliant banking products and insurance.
- Mashreqbank enjoys geographic diversification, being present in nine countries besides the UAE, including Bahrain, Qatar, Egypt, Hong Kong, India, UK, US, Bangladesh and Pakistan.
- Mashreqbank has the third largest branch and ATM network in the UAE, providing it with a strong reach for existing and prospective clients.
- The bank enjoys balanced and diversified sources of income, well-distributed among the different business lines.
- The bank has high asset quality with an NPLs/Gross loans ratio of 1.4% and high provisions coverage of 244%.
- With a utilisation ratio (gross loans/deposits) of around 83% in 2006, the bank does not suffer from a funding gap, compared to peers, providing more room for lending.

Weaknesses & Challenges

- Being privately-owned, Mashreqbank might not enjoy strong government ties, as opposed to its peers.
- The bank has a moderate market share, compared to our coverage universe, in spite of the bank's early presence and extensive branch network.
- Mashreqbank achieved the least compounded growth in loans between 2003 and 2006 amongst our UAE coverage universe.
- Attracting and retaining qualified banking professionals will remain a challenge for all banks in the sector.
- Mashreqbank, similar to its peers, will be facing higher competition due to the sector's rapid growth and may suffer more given its smaller market share.

Differentiation and Future Growth Strategy

Mashreqbank relies on the quality of service and the range of products offered to distinguish itself from other banks in the UAE market. Mashreqbank uses technology to extend its reach to customers and focuses on offering better and more sophisticated e-banking solutions to its customers. The bank uses knowledge-based marketing and segmentation to further cross-sell its products and leverage on its current client base. For example, the bank uses chip-based credit cards to identify shopping patterns and uses these patterns in marketing for their banking products.

BANK PROFILE

Year Established

Mashreq Bank was established as the Bank of Oman, based in Dubai, in 1967.

Ownership

Al Ghurair	87%
Free Float	13%
Foreign Ownership Limit	Not open to foreign investors
Current Foreign Participation	0%

Activities & Subsidiaries

Activities:	% of Op. income	% of Assets	% of liabilities
-Corporate Banking	33%	12%	16%
-Retail Banking	29%	34%	59%
-Financial Institutions	6%	11%	4%
-Islamic Banking	0%	2%	2%
-Treasury and Investment Banking	8%	30%	5%
-Insurance	10%	5%	3%
-Head Office and Others	13%	6%	13%

Subsidiaries:

Mashreq Securities, a 99.9% owned subsidiary of Mashreq, offering full brokerage services for all UAE equities.

Makasab is a 99.9% owned subsidiary of Mashreq, which is specialised in asset management.

Mashreq Capital is a 100% owned subsidiary of Mashreq offering investment and brokerage services. **Osool** is a private, joint-stock company, a fully owned subsidiary of Mashreq, providing general financing including personal and auto loans. Mashreq Bank owns 98% of its capital.

Badr Al-Islami is the Islamic banking division of Mashreq and offers a broad range of Shariah compliant corporate and retail products. Mashreq has a 99.7% stake.

Mindscape is a 99% owned subsidiary of Mashreq. It is an advanced technology management firm.

Injaz is a 100% owned subsidiary of Mashreq.

Oman Insurance is a subsidiary of Mashreq, and one of the premier insurance companies in the UAE, with an established presence in every emirate. Mashreq owns 63.65% of its capital.

Network

Domestic Branches	48
Overseas Branches/Offices	12 (+2 representative offices)
ATMs	75+
No. of Accounts	300,000+

Credit Rating

	Long term	Outlook	Short term
S&P	A	Stable	A-1
Fitch	A	Stable	F1
Moody's	A2		C-
Capital Intelligence	N/A	N/A	N/A

Employees

Number of Employees 4,000 (2,000 direct employees and the rest indirect)

Market Share and Ranking

	2007E	2006	2005	2004
Total Loans (in AED MM)	39,423	30,325	23,097	18,431
Loans Market Share	5.9%	5.6%	5.8%	6.4%
Growth	30.0%	31.3%	25.3%	
Total Deposits (in AED MM)	44,360	34,656	30,005	21,107
Deposits Market Share	6.3%	6.7%	7.3%	7.3%
Growth	28.0%	15.5%	42.2%	
Total Assets (in AED MM)	76,070	56,745	46,543	31,949
Assets Market Share	6.7%	6.6%	7.3%	7.1%
Growth	34.1%	21.9%	45.7%	

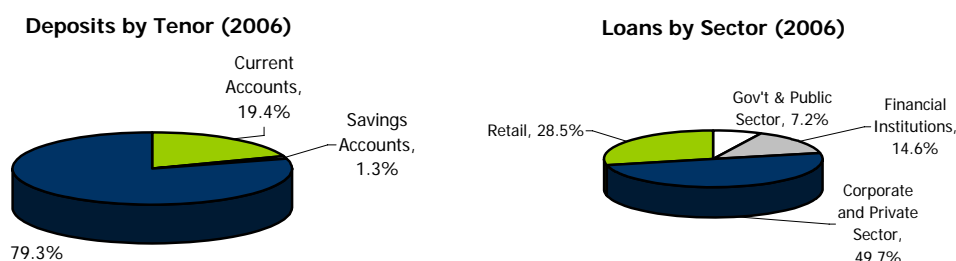
In terms of growth, the management intends to grow its investment banking activities aggressively, and aims to improve the bank's focus on SME financing, which was established two years ago, but still needs more effort to take off. The bank will focus on organic and international expansion to increase its market share. Mashreqbank was one of the bidders for Bank of Alexandria, the fourth largest public bank in Egypt. Mashreqbank has also revealed its intention to bid for Banque du Caire – the third largest bank in Egypt. In the meantime, Mashreqbank intends to reinforce its presence in Egypt, and plans to open 10 branches upon securing approvals from regulators in Egypt and UAE. Management plans to focus, next, on expanding in Qatar.

Business Performance and Forecasts Summary

Balance Sheet

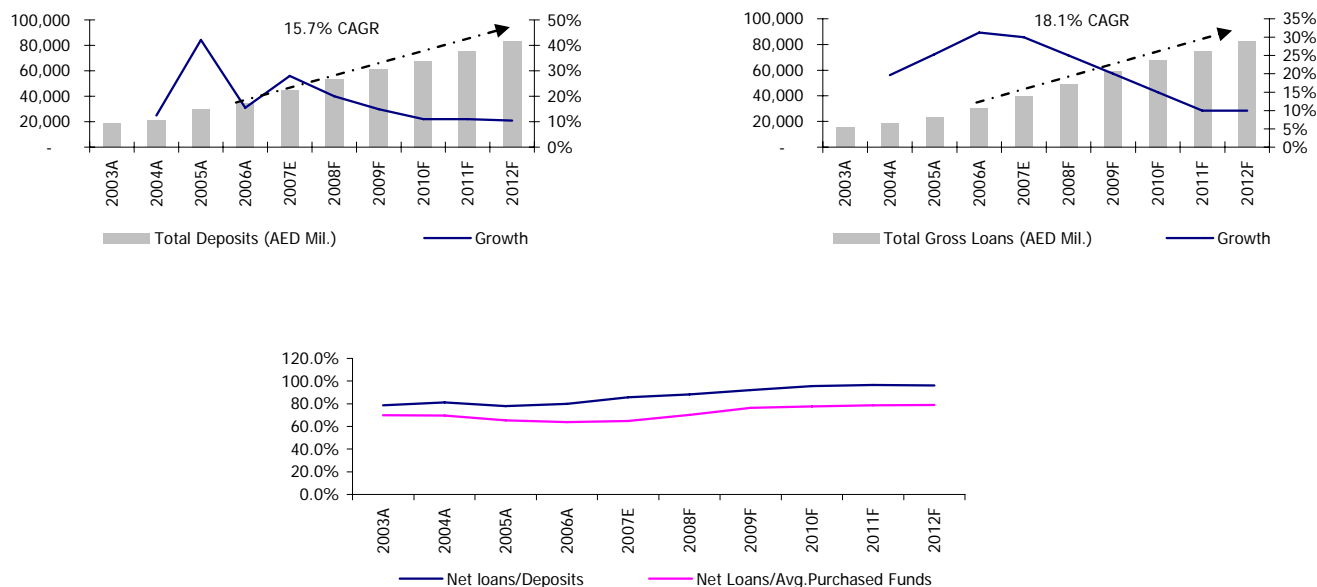
Regarding the balance sheet, we expect deposits to grow at a 2006-2012 CAGR of 15.7% and loans to grow at a compounded rate of 18.1% over the same period, thus pushing utilisation further up. The bank has a balanced strategy, with operating income generated almost equally between corporate banking, retail banking, and other banking activities and business segments. We expect Mashreqbank to continue with its balanced approach and focus on expanding its SME financing, retail lending, Islamic banking, and to monitor closely its international expansion opportunities in Egypt and Qatar.

Figure 60 | Loan and Deposit Classification



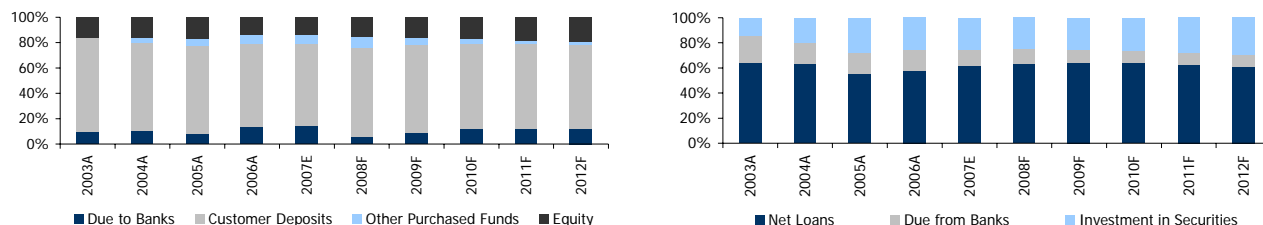
Source: Mashreqbank, Beltone Financial estimates

Figure 61 | Loan and Deposit Growth, and Utilisation



Source: Mashreqbank, Beltone Financial estimates

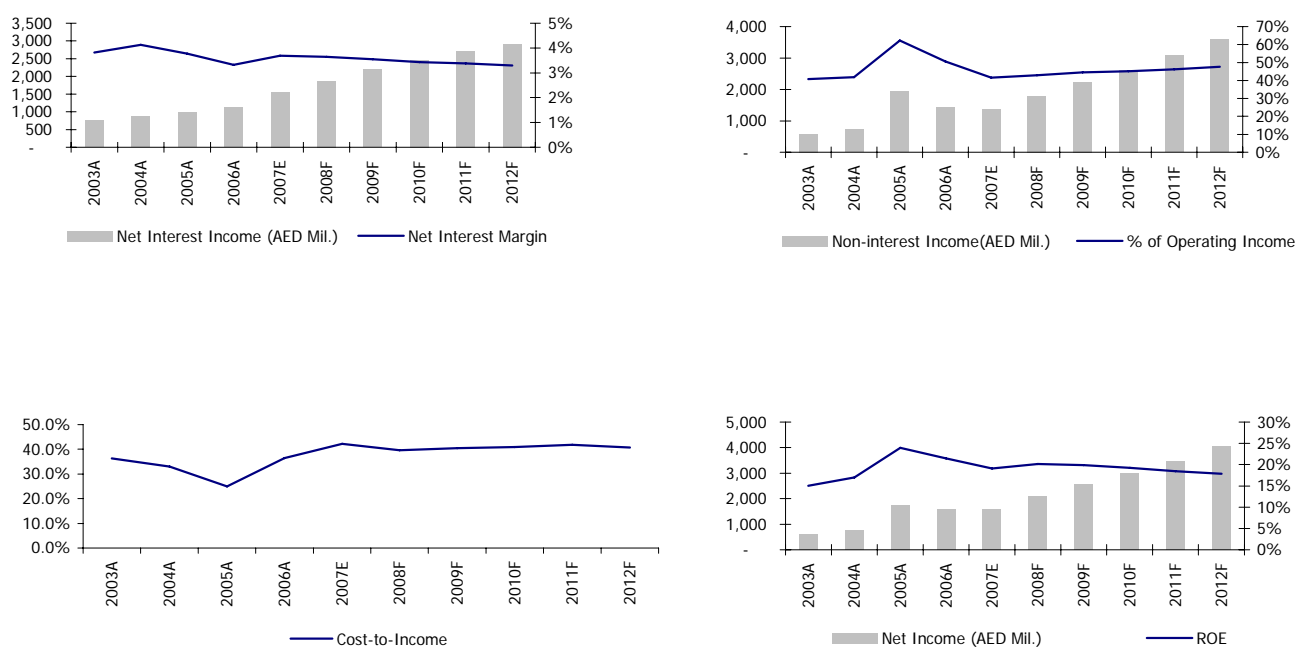
Figure 62 | Funding and Investment Mix



Source: Mashreqbank, Beltone Financial estimates

Income Statement

Figure 63 | Profitability and Efficiency



Source: Mashreqbank, Beltone Financial estimates

Financial Statements

Balance Sheet

Fiscal Year Ends December (AED Millions)	2006A	2007F	2008F	2009F	2010F	2011F
Assets						
Cash & Short Term Assets	2,406	8,968	2,936	3,425	3,928	4,736
Inter-bank Deposits	8,557	7,872	8,660	9,526	10,478	11,526
Short-Term Investments in Securities	12,916	15,499	18,598	22,318	26,782	32,138
Gross Loans & Advances	30,325	39,423	49,278	59,134	68,004	74,804
(Loan-Loss Provisions)	-924	-1,151	-1,450	-1,768	-2,041	-2,265
Net Loans & Advances	29,401	38,271	47,829	57,366	65,963	72,539
Investments in Securities	20	138	165	198	238	285
Net Fixed Assets	302	383	399	402	408	418
Other Assets	1,158	1,181	1,204	1,228	1,253	1,278
Total Assets	56,745	76,070	84,921	100,551	115,714	130,219
Liabilities						
Due to Banks	6,988	9,783	3,913	8,022	12,194	13,474
Customer Deposits	34,656	44,360	53,232	61,217	67,950	75,425
Other Purchased Funds	3,421	5,252	6,302	5,200	4,007	3,305
Total Liabilities	49,368	66,705	73,339	86,419	98,576	109,613
Total Net Worth	7,378	9,365	11,582	14,132	17,138	20,606
Contra Accounts	178,255	267,383	347,598	434,498	543,122	597,434

Source: Beltone Financial, Mashreqbank

Income Statement

Fiscal Year Ends December (AED Millions)	2006A	2007F	2008F	2009F	2010F	2011F
Interest Income	2,910	4,440	4,938	5,769	6,368	7,066
Interest Expense	-1,792	-2,888	-3,066	-3,577	-3,905	-4,356
Net Interest Income	1,118	1,551	1,871	2,191	2,463	2,710
Fees & Commissions, Net	707	352	385	405	427	443
Investment Income, Net	722	1,018	1,404	1,837	2,199	2,632
Other Operating Income	280	378	510	612	734	881
Net Operating Income	2,827	3,299	4,170	5,045	5,823	6,667
Administrative Expenses	-978	-1,332	-1,580	-1,961	-2,293	-2,685
Depreciation	-54	-61	-73	-81	-91	-102
Total Operating Expenses	-1,031	-1,393	-1,653	-2,043	-2,383	-2,787
Loan-Loss Provisions	-147	-228	-298	-318	-273	-225
Net Operating Profit	1,649	1,679	2,219	2,684	3,167	3,655
Income Taxes	-7	-6	-8	-10	-12	-14
NPAUI	1,571	1,597	2,111	2,553	3,012	3,476

Source: Beltone Financial, Mashreqbank

Financial Ratios

Fiscal Year Ends December	2006A	2007F	2008F	2009F	2010F	2011F
Growth Ratios						
Loans	31.3%	30.0%	25.0%	20.0%	15.0%	10.0%
Deposits	15.5%	28.0%	20.0%	15.0%	11.0%	11.0%
Net Income	-9.7%	1.7%	32.2%	21.0%	18.0%	15.4%
Contingent Liabilities	308.5%	50.0%	30.0%	25.0%	25.0%	10.0%
Profitability Ratios						
Return on Average Assets	3.0%	2.4%	2.6%	2.8%	2.8%	2.8%
Return on Average Shareholders Equity	21.5%	19.1%	20.2%	19.9%	19.3%	18.4%
Net Spread	4.2%	5.0%	4.6%	4.2%	4.0%	3.9%
Net Interest Margin	3.3%	3.7%	3.6%	3.6%	3.4%	3.4%
Efficiency Ratios						
Cost -to- Income	36.5%	42.2%	39.6%	40.5%	40.9%	41.8%
Liquidity Ratios						
Average Gross Loans -to- Average Customer Deposits	82.6%	88.3%	90.9%	94.7%	98.4%	99.6%
Average Net Loans -to- Average Customer Deposits	79.9%	85.6%	88.2%	91.9%	95.5%	96.6%
Average Net Loans -to- Average Total Purchased Funds	63.9%	64.8%	70.1%	76.3%	77.8%	78.5%
Asset Quality Ratios						
Average Net Loans -to- Average Assets	50.0%	51.0%	53.5%	56.7%	57.0%	56.3%
Average NPLs -to- Average Gross Loans	1.4%	1.2%	1.2%	1.1%	1.1%	1.1%
Provisions Coverage	243.8%	245.0%	255.0%	265.0%	270.0%	275.0%
Capitalization Ratios						
Capital Adequacy Ratio	17.5%	11.2%	10.9%	10.9%	11.0%	11.9%
Average Shareholders Equity -to- Average Total Assets	14.2%	12.6%	13.0%	13.9%	14.5%	15.3%
Dividend Payout Ratio	0.0%	10.0%	10.0%	10.0%	10.0%	10.0%

Source: Beltone Financial, Mashreqbank

Recommendation

Buy*

Upside/Downside

29.6%

One-Year Fair Value

AED13.20

Current Price

AED10.20**



Commercial Bank of Dubai (CBD)

Banking sector | UAE

The Focused Approach

DCF Target Price

AED13.30

Comparative Valuation Price

AED13.10

EPS FY07E

AED0.80

Reuters Code

CBD.DU

Bloomberg Code

CBD UH

Market Cap

AED10.7 billion

US\$2.9 billion

Number of Shares Outstanding

1,052 million

Average Daily Turnover

AED1.9 million

52-Week high/ low

AED10.20/6.30

YTD Price Change

34.2%

Shareholder Structure

20% | Government of Dubai

80% | Free Float

Foreign Ownership Limit

Not open to foreign investors

* Refer to back cover for investment recommendations

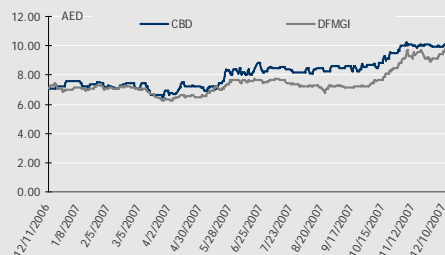
** Closing of December 13th, 2007

- Commercial Bank of Dubai has a unique and very profitable strategy.** Commercial Bank of Dubai (CBD) underwent a full revamp of its strategy when Chief Executive Officer, Peter Baltussen, took over in 2006. The bank's strategy has since been driven towards becoming more client-focused, and is based on a sophisticated segmentation approach with distinct propositions for each client segment.
- The bank's strategy involves: asset management products; debt capital markets; wealth management; mortgage lending and customised banking products.** CBD is currently a strong player in the mid-market family business and is the bank least exposed to government and public sector lending in our UAE coverage universe, which is clearly reflected in the bank's healthy margins and spreads. One of CBD's main focus areas is to tap the growing number of high net worth individuals, after launching its Al Dana Wealth Management Programme in 2007, targeting this segment and offering them a wide range of Shari'a-compliant investment funds; mortgage financing; customised loan facilities and online brokerage services through designated relationship managers. CBD should also benefit from its newly formed joint venture Rasmala CBD Asset Management, to tap into a new client base. CBD will also launch a specialised Islamic window in the first quarter of 2008.
- The bank is targeting a 5% market share across all segments over the next three years.** The bank plans to acquire at least 5% market share in the commercial banking, corporate banking and retail segments over the next three years. CBD is planning to open five additional branches in the UAE in 2008 in addition to the existing 25 branches. CBD is also reviewing a number of markets overseas to possibly expand within them, should opportunities arise. We believe that CBD's target is achievable, given its relatively smaller size, which makes high growth rates easier to achieve. In addition, CBD's focus on certain segments makes it less vulnerable to competition.
- Adequately Capitalised.** The bank had a capital adequacy ratio of 19.5% in 2006, which is a solid base for CBD's future expansion.
- CBD is trading at a very attractive price, compared to the target DCF and comparative fair value.** CBD has a target DCF price of AED13.30, and given its ROAE FY08E (25.9%), the bank is still undervalued, with a P/B FY08E of 2.7x. CBD is trading at a P/E FY08E of 10.3x, compared to a regional and emerging market average of 13.5x.

Selected Indicators

FY ends December	2006a	2007e	2008e	2009e	2010e	2011e
NII (AED million)	626	878	1,036	1,183	1,294	1,343
NIM (%)	4.7	5.2	4.8	4.5	4.3	4.0
Operating income (AED million)	901	1,308	1,589	1,854	2,066	2,208
Net income (AED million)	597	887	1,042	1,212	1,327	1,414
Net income growth (%)	9.2	48.6	17.5	16.3	9.4	6.6
EPS (AED)	0.6	0.8	1.0	1.2	1.3	1.3
P/E (x)	18.0	12.1	10.3	8.9	8.1	7.6
ROAA (%)	3.5	4.0	3.7	3.5	3.2	2.9
ROAE (%)	20.7	24.6	25.9	28.1	28.6	28.3
BVPS (AED)	2.7	3.4	3.8	4.1	4.4	4.7
P/BV (x)	3.7	3.0	2.7	2.5	2.3	2.2
DPS (AED)	0.5	0.5	0.6	0.7	0.8	0.8
Dividend yield (%)	4.4	5.0	5.9	6.8	7.5	8.0
Net loans/Deposits	90.1	98.2	107.7	111.7	111.6	111.6
Net Loans/Avg. Purchased Funds	84.9	92.7	96.7	94.9	89.5	85.2
Cost/Income (%)	30.9	29.7	30.4	31.2	32.3	33.3
CAR (%)	19.5	16.6	13.8	12.6	11.6	11.1
Av. NPLs/Av. Gross loans (%)	2.4	1.9	1.6	1.5	1.4	1.4
Provisions Coverage (%)	87.6	87.6	92.6	97.6	100.0	100.0

Source: CBD, Beltone Financial.



Investment Considerations

Strengths

- CBD stands out with its strategy targeting medium enterprises, family businesses, second tier large corporates and high net worth individuals.
- CBD enjoys the healthiest spreads and margins in our coverage universe driven by the bank's strong exposure to the SME segment, its slim exposure to the public sector, in addition to the low portion of high cost funding. The bank has no borrowing through the EMTN Programme, which saves the bank the high cost of funding.
- The bank recorded a high ROAA as opposed to peers, equivalent to 3.5% in 2006.
- Despite being relatively small in terms of balance sheet size, compared to peers in our UAE coverage universe, CBD recorded strong top line growth levels (net interest income growth) of 40.3% in 2006.
- The bank benefits from its strong ties with Al Rasmala Investments, which could help better tap the profitable high net worth individuals segment, through their Joint Venture asset management subsidiary.
- CBD is the only bank among our UAE coverage universe whose cost-to-income ratio declined from 31% in the first nine months of 2006 to 29% in the same period this year.

Weaknesses & Challenges

- CBD's strategy is locally concentrated. Currently, CBD has no international presence and is, therefore, more vulnerable to local shocks.
- The bank might have to enhance its fees and commissions income, which is a key determinant for profitability among UAE banks.
- We estimate that CBD will have the highest average net loans to average total purchased funds amongst our UAE universe in 2007, which will put the bank under a funding pressure. The bank will have to resort to high cost medium-term funding, especially since the bank recently introduced mortgage-financing products.
- Similar to its peers in the sector, intensifying competition might pose problems for CBD, especially given its relatively smaller balance sheet and profitability versus the top eight peers.
- In line with all banks, the human resources challenge remains valid.

Differentiation and Future Growth Strategy

Following the addition of Peter Baltussen as Chief Executive Officer, in 2006, a total revamp of strategy took place during the latter half of 2006. The strategy's main focus was client segmentation, after carrying out extensive client engagement reviews to assess clients' needs, based on a specific set of criteria. The bank segmented its client base into three main segments: corporate banking (more than or equal to US\$50 million turnover); mid size corporates or commercial banking (less than US\$50 million turnover); and an affluent retail segment (of net worth more than or equal to US\$100,000). Accordingly, the bank redesigned its products and processes to offer innovative products including: asset management products; debt capital markets; wealth management;

BANK PROFILE

Year Established

In 1969, Commercial Bank of Dubai started out as a joint venture of Commerzbank, Chase Manhattan Bank and Commercial Bank of Kuwait. A minority stake was held by a few UAE businessmen. By 1982, the bank evolved into a National Public shareholding company. Over the decades, the bank has transformed itself into a progressive and modern banking institution. The bank experienced a full revamp of its strategy with a new Chief Executive Officer, Peter Baltussen, taking over in 2006.

Ownership

Dubai Government	20%
Free Float	80%
Foreign Ownership Limit	Not open to foreign investors
Current Foreign Participation	0%

Activities & Subsidiaries

Activities:

-Wealth Management and E- Services	11%
-Corporate	66%
-Retail	23%

Subsidiaries:

	% Ownership	Location
-Al Dana Wealth Management	100%	UAE
-CBD Financial Services	100%	UAE
-Rasmala CBD Asset Management	30%	UAE
-National General Insurance	20%	UAE
-Dubai Investments	1.37%	UAE

Network

Domestic Branches	25 (in addition to 3 cash offices)
Overseas Branches/Offices	None
ATMs	120
No. of Accounts/Clients	12,000 Corporate and 150,000 Retail

Credit Rating

	Long term	Outlook	Short term
S&P	N/A	N/A	N/A
Fitch	A	Stable	F1
Moody's	N/A	N/A	N/A
Capital Intelligence	A-	Stable	A2

Employees

Number of Employees	1,100
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Market Share and Ranking

	2007E	2006	2005	2004
Total Loans (in AED MM)	18,833	12,899	9,578	7,734
Loans Market Share	2.8%	2.4%	2.4%	2.7%
Growth	46.0%	34.7%	23.8%	
Total Deposits (in AED MM)	18,020	13,756	10,636	7,478
Deposits Market Share	2.6%	2.7%	2.6%	2.6%
Growth	31.0%	29.3%	42.2%	
Total Assets (in AED MM)	25,173	18,705	15,284	10,570
Assets Market Share	2.2%	2.2%	2.4%	2.4%
Growth	34.6%	22.4%	44.6%	

mortgage financing and personalised banking products. The bank also obtained an Islamic window permit from the UAE Central Bank, which will be introduced in the first quarter of 2008.

The bank views the growing number of affluent customers who pursue innovative wealth management opportunities as a key element of its strategy. CBD launched the Al Dana Wealth Management Programme, targeting the bank's high net worth customers, which offers a wide range of Shari'a-compliant investment funds, mortgage financing, customized loan facilities and online brokerage services through designated relationship managers. CBD estimates that it has currently 4,500 customers who can afford to invest the entry-level amount needed for Al Dana, adding that the number would grow as a result of the healthy economic environment. The bank's target is to capture 5% of the UAE market for business segment over the next three years.

CBD and Rasmala Investments formed a joint venture to establish Rasmala CBD Asset management Ltd, 70% of which is owned by Rasmala Investments and 30% by CBD.

In terms of expansion and target market shares, CBD is planning to open an additional five branches in 2008, in addition to the current 25. The bank plans to acquire at least 5% in the three target segments, namely commercial banking, corporate banking and high net worth retail over the next three years. The bank's current commercial banking market share is 3.7%, and slightly higher than 3% for the corporate banking, while the retail segment's share accounts for 3%. Regarding international expansion, CBD is still reviewing several markets, looking for fitting opportunities.

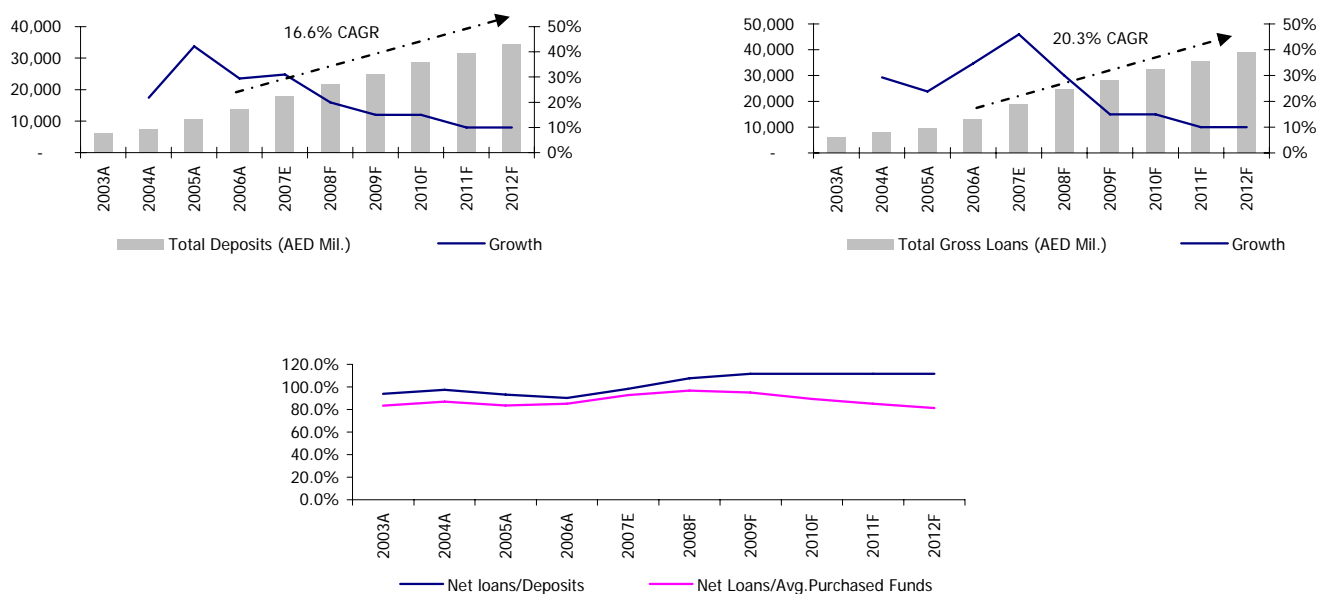
We believe that the bank's strategy is the main reason behind its healthy margins and bottom line growth. CBD is the sole bank in our UAE coverage universe, whose margins have been steadily going up, despite the competitive environment.

Business Performance and Forecasts Summary

Balance Sheet

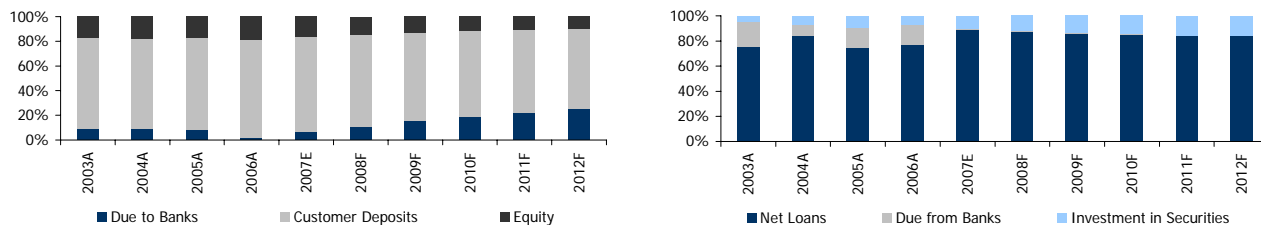
On the balance sheet, we expect deposits to grow at a 2006-2012 CAGR of 16.6% and loans to grow at a compounded rate of 20.3% over the same period, thus pushing utilisation further up. The bank is currently focused on medium-sized enterprises and high net-worth individuals. We expect a greater focus on these segments, especially with the introduction of Islamic Banking and mortgage lending.

Figure 64 | Loan and Deposit Growth and Utilisation



Source: CBD, Beltone Financial estimates

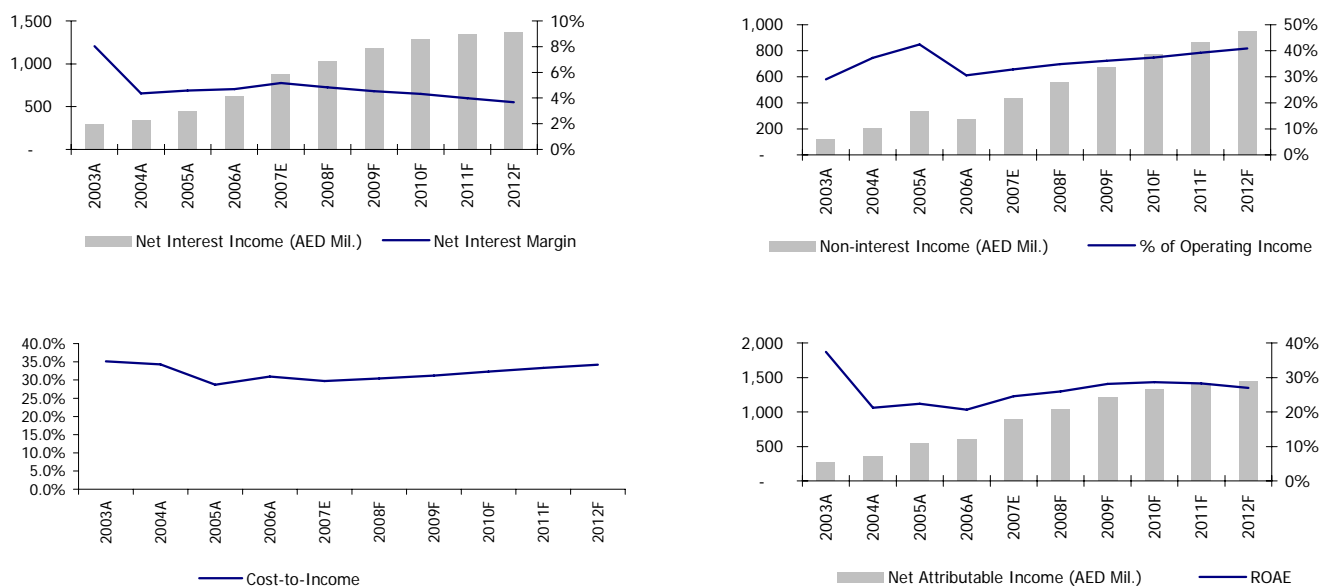
Figure 65 | Funding and Investment Mix



Source: CBD, Beltone Financial estimates

Income Statement

Figure 66 | Profitability and Efficiency



Source: CBD, Beltone Financial estimates

Financial Statements

Balance Sheet

Fiscal Year Ends December (AED Millions)	2006A	2007F	2008F	2009F	2010F	2011F
Assets						
Cash & Short Term Assets	1,252	2,966	1,795	3,417	5,194	7,186
Interbank Deposits	2,640	106	127	152	182	219
Short-Term Investments in Securities	838	1,634	2,452	3,064	3,677	4,229
Gross Loans & Advances	12,899	18,833	24,483	28,155	32,379	35,617
(Loan-Loss Provisions)	-257	-283	-338	-392	-455	-503
Net Loans & Advances	12,643	18,550	24,145	27,763	31,924	35,113
Investments in Securities	217	478	861	1,378	1,791	2,149
Net Fixed Assets	382	412	444	479	516	555
Other Assets	734	1,027	1,284	1,540	1,772	1,949
Total Assets	18,705	25,173	31,105	37,791	45,052	51,395
Liabilities						
Due to Banks	336	1,548	2,940	5,293	7,939	10,718
Customer Deposits	13,756	18,020	21,624	24,868	28,598	31,457
Total Liabilities	15,372	21,293	26,952	33,326	40,246	46,221
Total Net Worth	3,333	3,880	4,153	4,465	4,807	5,175
Contra Accounts	12,710	15,251	18,302	21,962	26,355	31,625

Source: Beltone Financial, CBD

Income Statement

Fiscal Year Ends December (AED Millions)	2006A	2007F	2008F	2009F	2010F	2011F
Interest Income	1,010	1,366	1,621	1,840	2,011	2,091
Interest Expense	-384	-488	-585	-657	-717	-748
Net Interest Income	626	878	1,036	1,183	1,294	1,343
Fees & Commissions, Net	215	277	312	349	388	437
Investment Income, Net	55	141	227	306	366	408
Other Operating Income	6	12	14	16	19	21
Net Operating Income	901	1,308	1,589	1,854	2,066	2,208
Administrative Expenses	-251	-342	-429	-515	-593	-648
Depreciation	-28	-34	-41	-49	-59	-72
Other Operating Expenses	0	-13	-14	-14	-15	-16
Total Operating Expenses	-279	-388	-484	-578	-667	-735
Loan-Loss Provisions	-21	-26	-55	-54	-62	-49
Net Operating Profit	601	894	1,050	1,221	1,337	1,424
Profit Before Taxes	601	894	1,050	1,221	1,337	1,424
Income Taxes	0	0	0	0	0	0
Net Profit After Taxes	601	894	1,050	1,221	1,337	1,424
NPAUI	601	894	1,050	1,221	1,337	1,424
Non-Shareholder Appropriations	-4	-7	-8	-9	-10	-11
Net Attributable Income	597	887	1,042	1,212	1,327	1,414

Source: Beltone Financial, CBD

Financial Ratios

Fiscal Year Ends December	2006A	2007F	2008F	2009F	2010F	2011F
Growth Ratios						
Loans	34.7%	46.0%	30.0%	15.0%	15.0%	10.0%
Deposits	29.3%	31.0%	20.0%	15.0%	15.0%	10.0%
Net Income	9.2%	48.6%	17.5%	16.3%	9.4%	6.6%
Contingent Liabilities	34.6%	20.0%	20.0%	20.0%	20.0%	20.0%
Profitability Ratios						
Return on Average Assets	3.5%	4.0%	3.7%	3.5%	3.2%	2.9%
Return on Average Shareholders Equity	20.7%	24.6%	25.9%	28.1%	28.6%	28.3%
Net Spread	4.6%	5.2%	4.9%	4.7%	4.6%	4.3%
Net Interest Margin	4.7%	5.2%	4.8%	4.5%	4.3%	4.0%
Efficiency Ratios						
Cost -to- Income	30.9%	29.7%	30.4%	31.2%	32.3%	33.3%
Liquidity Ratios						
Average Gross Loans -to- Average Customer Deposits	92.2%	99.9%	109.3%	113.2%	113.2%	113.2%
Average Net Loans -to- Average Customer Deposits	90.1%	98.2%	107.7%	111.7%	111.6%	111.6%
Average Net Loans -to- Average Total Purchased Funds	84.9%	92.7%	96.7%	94.9%	89.5%	85.2%
Asset Quality Ratios						
Average Net Loans -to- Average Assets	64.7%	71.1%	75.9%	75.3%	72.0%	69.5%
Average NPLs -to- Average Gross Loans	2.4%	1.9%	1.6%	1.5%	1.4%	1.4%
Provisions Coverage	87.6%	87.6%	92.6%	97.6%	100.0%	100.0%
Capitalization Ratios						
Capital Adequacy Ratio	19.5%	16.6%	13.8%	12.6%	11.6%	11.1%
Dividend Payout Ratio	78.7%	60.0%	60.0%	60.0%	60.0%	60.0%

Source: Beltone Financial, CBD

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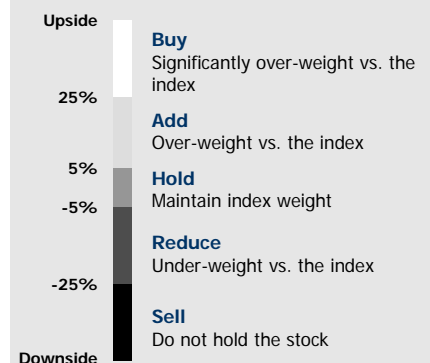
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