Abu Dhabi Commercial Bank

Undervalued but High Risk

NBK CAPITAL

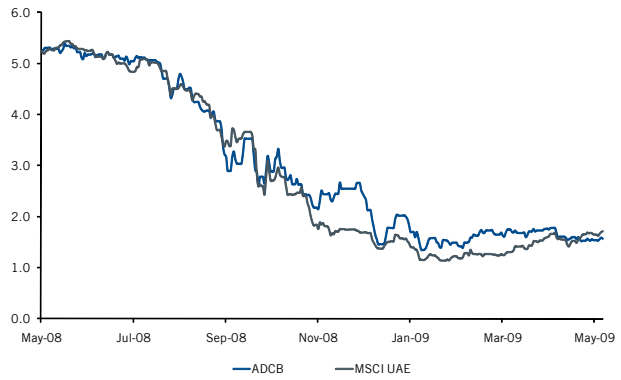
May 21, 2009

Key Data

Closing Price*	Avg. Value Traded per Day
AED 1.59	AED 16.9 million
52-Week High	**Market Cap**
AED 5.39	AED 7.6 billion
52-Week Low	**Shares Outstanding**
AED 1.35	4810 million
Reuters	**Bloomberg**
ADCB.AD	ADCB DH
Ownership Structure	
Closely Held: 78%	Public: 22%

** As of May 21, 2009. Sources: Reuters, Abu Dhabi Securities Exchange, and NBK Capital*

Rebased Performance



Sources: Reuters and NBK Capital

Key Ratios

	2008 a	2009 f	2010 f	2011 f	2012 f
P/B	0.5	0.5	0.4	0.5	0.4
P/E	6.2	7.8	5.0	4.1	3.4
Dividend Yield	6.3%	6.3%	6.3%	7.5%	7.5%
Net Profit Growth	-38%	-20%	57%	32%	24%
Net Interest Margin	2.2%	2.2%	2.2%	2.2%	2.3%
RoAE	9.1%	6.2%	9.3%	11.4%	12.9%
RoAA	1.0%	0.7%	1.0%	1.2%	1.4%

1Q2009 IBP a	1Q2009 IBP f
AED 631 million	AED 625 million
2Q2009 IBP f	**3Q2009 IBP f**
AED 655 million	AED 618 million

IBP = income before provisions, a = actual, f = forecast. Sources: Reuters and NBK Capital

Highlights

12-Month Fair Value: AED 1.90

Recommendation: Accumulate–Risk Level**: 4

Reason for Report: 1Q2009 Update

- Our estimate of the 12-month fair value of Abu Dhabi Commercial Bank (ADCB) stands at AED 1.90 per share, 19% above the share's closing price on May 21, 2009; hence, our "Accumulate" recommendation. This value is 44% lower than our prior fair value of AED 3.40 per share. The decrease in fair value is driven mainly by lower operating income and higher provisioning than previously forecasted, as well as an increase in the cost of equity used.
- We believe the main risks facing ADCB relate to the bank's loan book, sizable credit default swap (CDS) exposure, ongoing (though decreasing) exposure to structured finance instruments, and the bank's investment in RHB Capital Berhad.
- We now forecast loans to grow by a CAGR of 7% in the coming five years as opposed to our prior forecast of 12%. Furthermore, we expect net interest income to grow by a CAGR of 10% in the coming five years and to be the main earning driver. We expect non-performing loans (NPLs) to increase to 2.4% and 3.1% of gross loans by end-2009 and end-2010, respectively. All in all, we forecast operating income to drop by 6% in 2009 and later increase by a CAGR of 9% in the following four years. We expect net profit to drop by 20% in 2009 on higher provisioning before a rebound takes place in 2010.
- ADCB recorded an income before provisions (IBP) of AED 631 million in 1Q2009, 17% over 1Q2008 and in line with our AED 625 million forecast. Net profit stood at AED 354 million in 1Q2009 following an AED 264 million loss in 4Q2008. Operating income was far more stable, registering AED 1.1 billion and AED 1 billion in 4Q2008 and 1Q2009, respectively. Total provisioning stood at AED 888 million and AED 277 million in 4Q2008 and 1Q2009, respectively. Loan growth plummeted to a mere 1.3% in 1Q2009, which is so far in line with our 5% growth forecast for full 2009.

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*** Please refer to page 9 for recommendations and risk ratings.*

VALUATION

Our estimate of ADCB's 12-month fair value per share stands at AED 1.90, 19% above the share's closing price on May 21, 2009; hence, our "Accumulate" recommendation. This value is 44% lower than our prior fair value of AED 3.40 per share. The decrease in fair value is driven mainly by lower operating income growth, higher provisioning than previously forecasted, and an increase in the cost of equity. We have increased the latter from 12% to 13.5% to account for the increased risks facing the bank. We believe that ADCB's exposure to structured finance instruments has significantly impacted the bank's share price. Even though the current differential between our fair value and the share price (19%) results in an "Accumulate" recommendation, we believe that investors will continue to treat ADCB's share with extreme caution due to the bank's ongoing exposure to structured finance instruments.

We now forecast loans to grow by a CAGR of 7% in the five years ending in 2013 compared to our previous forecast of 12%. Lower income from fees and commissions and higher loan loss provisioning as asset quality weakens will put further pressure on net profit. Profitability can be further dampened by additional provisioning on subprime-related instruments and provisioning on the significant portfolio of credit default swaps (AED 2.3 billion as of March 2009) that ADCB has.

Our fair value for ADCB is AED 1.90 per share

Figure 1 Weighted Average Fair Value per Share

Valuation Method	Value (AED)	Weight (%)
Discounted Equity Cash Flow (DECF)	2.20	60%
Dividend Discount Model (DDM)	1.50	30%
Peer-Based Valuation	1.90	10%
Weighted Average Fair Value	**1.90**	**100%**

Source: NBK Capital

Performance in 2008

ADCB recorded a net profit of AED 1.24 billion in 2008, 38% below that of 2007. The major reason behind this significant drop in net profit is an AED 264 million loss incurred in 4Q2008 on the back of an increase in provisioning on the loan book (AED 332 million), on structured finance instruments (AED 112 million), and on credit default swaps (AED 444 million). In the first nine months of 2008, ADCB's net profit was nearly flat compared with the same period in 2007.

Notwithstanding the results of 4Q2008, ADCB's bottom line in 2008 was affected by a dampened growth in net interest income, significant cost expansion, and heavy provisioning. Net interest income grew by 8% in 2008, compared to 29% in each of the previous two years. The slowdown in net interest income growth can be mainly attributed to a drop in spreads and margins as average asset yields dropped more than average funding costs in 2008. Costs expanded by a very high 51%, driven by a 56% swelling of staff expenses and a 49% increase in other operating expenses. This drove the cost-to-income ratio up from 27% in 2007 to 35% in 2008.

Provisioning, as previously mentioned, soared in 2008. Net credit loss provisions stood at AED 758 million. Of this, 44% were taken in 4Q2008 alone. However, NPLs were still very much under control as of December 2008, standing at AED 1.26 billion, representing 1.1% of gross loans, and 179% covered by provisions. Of the AED 2.26 billion in loan provisions as of December 2008, 59% were collective or general provisions while the remaining 41% were

specific provisions. This results in a specific provisions-to-NPLs ratio of 74% and a general provisions-to-performing loans ratio of 1.2%. However, we note that "other loans exceptionally monitored" stood at AED 5.2 billion (4.7% of gross loans) at the end of 2008. These loans do not necessarily have to become NPLs in due course and may, in fact, become fully performing again. However, we believe this gives an indication of the potential risk embodied in ADCB's loan book. It is important to mention that during 2008, ADCB changed the definition of NPLs from "over 180 days past due" to "over 90 days past due" and implemented similar changes to the definitions of performing loans and "other loans exceptionally monitored" to comply with Central Bank of the UAE (CBUAE) and Basel II guidelines. Hence, December 2007 and December 2008 asset quality indicators are not actually comparable.

Provisions on structured finance instruments amounted to AED 296 million in 2008. Of this, 38% were taken in 4Q2008. ADCB also took a general provision of AED 444 million on its CDS portfolio, which amounted to AED 2.4 billion as of December 2008.

Net fee and commission income increased by 12% in 2008, but that was largely attributed to soaring fees (year-on-year basis) in 1H2008 and not in 2H2008. Net fee and commission income in 4Q2008 was 4% below 4Q2007 and around 1% below 3Q2008. ADCB witnessed a decline in its brokerage commissions, corporate banking fees, and fees from trust and other fiduciary activities. However, this was countered by strong growth in retail and investment banking fees, which expanded in 2008 by 49% and 77%, respectively. Retail banking fees accounted for 66% of the total increase in fee and commission income. Net gains from foreign exchange were a boost to ADCB's bottom line in 2008, growing by 139%. However, these gains moderated in 2H2008 and in fact dropped by 28% in both 3Q2008 and 4Q2008 (quarter-on-quarter basis).

ADCB has been aggressive in terms of lending, with net loans growing by 5.5% in 4Q2008 and resulting in a full–year loan growth of 44%. Loans given to the services sector expanded by 84% in 2008, accounting for 27% of the increase in gross loans, to represent 19% of ADCB's gross loans as of December 2008. Development and construction loans expanded by 76% in 2008, accounting for 19% of the increase in gross loans, to represent 15% of ADCB's gross loans as of December 2008. Loans against securities grew by 38% in 2008, accounting for 11% of the increase in gross loans, to represent 13% of ADCB's gross loans as of December 2008. Finally, retail loans expanded by 91% in 2008, accounting for 19% of the total increase in gross loans, to represent 13% of ADCB's gross loans as of December 2008.

Deposits expanded by 48% in 2008, slightly exceeding the 44% growth in net loans. However, during 2008, ADCB received AED 6.6 billion in deposits from the UAE's government. Excluding those, deposit growth in 2008 would have stood at 36%. Deposits soared by AED 14 billion (20%) in 4Q2008 alone to account for 53% of the total yearly increase in deposits. The surge in deposits in 4Q2008 pulled the loans-to-deposits ratio (LDR) down to 129% from a high of 147% in September 2008. Nevertheless, the LDR, albeit lower than its 2007 level of 132%, was still one of the highest in the UAE banking sector. The deposit breakdown shows that government deposits more than doubled in 2008 to stand at AED 30.2 billion (representing 36% of total deposits), corporate deposits expanded by 53% to stand at AED 38.7 billion (46% of total deposits), and retail deposits dropped by 13% in 2008. We look unfavorably on this drop in the relatively cheaper and stickier retail deposits in relation to the significant expansion in the more expensive and volatile corporate and government deposits. A related performance was the moderate growth (+10%) in call and demand deposits as opposed to the 66% surge in the more costly time deposits. This shift in the deposit breakdown, if permanent, will have a negative impact on spreads and margins going forward.

ADCB's net profit dropped by 38% in 2008 as the bank incurred a loss in 4Q2008 on the back of a significant increase in provisioning

Figure 2 Performance in 2008

Figures in '000 AED	2007	2008	Change %
Net Loans and Advances	75,676,082	108,812,970	43.8%
Customer Deposits	57,160,820	84,360,821	47.6%
Shareholders' Equity	11,297,512	15,807,549	39.9%
Total Assets	106,213,849	147,728,210	39.1%
Net Interest Income	2,288,415	2,480,611	8.4%
Net Fees and Commissions	873,960	982,094	12.4%
Net Gains from Foreign Exchange	116,566	278,558	139.0%
Share of Profit of Associates	-	171,557	n/m
Total Operating Income	3,799,874	4,390,299	15.5%
Total Costs	(1,008,630)	(1,525,161)	51.2%
Provisions for Credit Losses, net	(143,363)	(758,440)	429.0%
Provisions on Investments	(493,535)	(296,070)	-40.0%
Provisions on Credit Default Swaps	(66,060)	(443,637)	571.6%
Net Profit	**1,987,518**	**1,236,592**	**-37.8%**

Sources: ADCB's financial statements and NBK Capital

Performance in 1Q2009

ADCB recorded an IBP of AED 631 million in 1Q2009, 17% over 1Q2008 and in line with our AED 625 million forecast. Net profit stood at AED 354 million in 1Q2009, 23% below 1Q2008, but compared to an AED 264 million loss in 4Q2008, as previously mentioned. Operating income stood at AED 1 billion, 9% over 1Q2008, with that growth driven strictly by net interest income. The latter reached a record AED 708 million, 40% over 1Q2008 and 2% over 4Q2008. The re-pricing of the loan book was one major reason for the record net interest income achieved in 1Q2009.

Total non-interest income stood at AED 299 million, 28% below both 1Q2008 and 4Q2008. All components of non-interest income were weak in 1Q2009. Net fees and commissions stood at AED 204 million, 22% below 1Q2008 and 13% below 4Q2008. This level of fees and commissions is the lowest for ADCB since the second quarter of 2007. All fee components dropped, with market-related fees being affected more than retail and corporate banking fees. Net gains from foreign exchange plummeted to a mere AED 12 million after averaging AED 70 million per quarter in 2008. Similarly, net gains from dealing in derivatives fell to AED 4 million after averaging AED 27 million per quarter in the past two years.

Cost expansion moderated significantly, with total costs standing at AED 375 million, 17% over 1Q2008 but 22% below the record AED 481 million witnessed in 4Q2008. The cost-to-income ratio increased to 37% in 1Q2009, up from 35% in 2008, as cost growth was ahead of operating income growth during that quarter.

Total provisions (for loans, investments, and the CDS portfolio) reached AED 277 million in 1Q2009. Net loan loss provisions stood at AED 135 million, lower than the provisions figure for the previous three quarters. However, no data on NPLs was disclosed. Provisions relating to the investment book continued to weigh on the bottom line for the seventh quarter in a row, standing at AED 111 million. An additional AED 31 million provision was taken on ADCB's CDS portfolio.

Operating income increased in 1Q2009, but net profit dropped on higher provisioning

Figure 3 Performance in 1Q2009

	Dec-08	Mar-09	Q-on-Q Change %
Net Loans and Advances	108,812,970	110,272,697	1.3%
Customer Deposits	84,360,821	73,235,657	-13.2%
Shareholders' Equity	15,807,549	15,892,667	0.5%
Total Assets	147,728,210	144,297,289	-2.3%
	1Q2008	**1Q2009**	**Y-on-Y Change %**
Net Interest Income	506,223	708,389	39.9%
Net Fees and Commissions	262,557	203,969	-22.3%
Total Operating Income	921,018	1,007,687	9.4%
Total Costs	(321,343)	(375,254)	16.8%
Provisions for Credit Losses	(7,533)	(135,401)	1697.4%
Provisions on Investments	(71,730)	(111,253)	55.1%
Provisions on Credit Default Swaps	-	(30,738)	n/m
Net Profit	**459,887**	**353,705**	**-23.1%**

Sources: ADCB's financial statements and NBK Capital

Loans grew marginally (+1.3%) in 1Q2009, reaching AED 110.3 billion. Loans given to the services sector expanded by 17% in 1Q2009 to account for 55% of the increase in loans during that quarter. Loans for real estate investment expanded by 16% in 1Q2009 to represent 16% of the increase in loans in 1Q2009.

Deposits dropped by AED 11.1 billion (13%) in 1Q2009. This was partly due to the conversion of the AED 6.6 billion government deposits (received in 2008) into Tier II capital. Even with the exclusion of those deposits, deposits would have dropped by 6% in 1Q2009. The LDR ratio increased to 151% by March 2009 (one of the highest in the UAE banking sector), compared with 129% in December 2008. However, ADCB disclosed the advances-to-stable resources ratio (a ratio that should remain below 100%, according to the CBUAE), which stood at 94.6% at the end of March 2009.

In February 2009, ADCB received an AED 4 billion capital injection in the form of Tier I capital notes from the Abu Dhabi government. ADCB was one of five Abu Dhabi-based banks to get the capital injection, which ranged from AED 2 billion to AED 4 billion per bank. The notes are non-voting and callable, subject to certain conditions, and will pay a fixed interest rate of 6% per annum for five years and then a floating rate of 6-month EIBOR plus 235 basis points. The capital injection and conversion of deposits have given a significant boost to ADCB's capital adequacy ratio (CAR), which was over 17% at the end of March 2009. It is important to mention that the CBUAE has required banks to have a minimum Tier I ratio of 11% by June 2009 and 12% by June 2010.

Outlook and Forecasts

We believe the main risks facing ADCB are derived from the bank's loan book, ongoing (although decreasing) exposure to structured finance instruments, sizable CDS portfolio, and RHB Capital Berhad (RHB).

At the end of March 2009, 13% of ADCB's gross loans were for "loans against securities," while another 21% were for development and construction and real estate investment. Furthermore, 13% of the bank's gross loans were consumer loans. We believe these categories carry a relatively high risk, especially during the current times of low economic growth, falling real estate markets, and weak stock markets.

Another source of concern is the exposure to structured finance assets. As previously mentioned, ADCB has taken provisions on these instruments for seven quarters in a row (from 3Q2007 to 1Q2009), which has dropped the bank's exposure to these instruments. At the end of March 2009, we estimate the non-provisioned exposure to these instruments stood at AED 416 million. We are assuming a 70% loss (AED 291 million) on that exposure, with 50% to be taken during the remainder of 2009 and 50% to be taken in 2010.

Furthermore, ADCB's significant CDS exposure brings its own risks. At the end of March 2009, the bank's CDS exposure stood at AED 2.3 billion. Although ADCB's management has indicated that this exposure was all performing, we are still assuming that ADCB will take additional provisions on that portfolio. The reason for this is that the global financial crisis has led to the bankruptcy of some of the largest companies in the world. These companies used to enjoy excellent ratings and the fact that some of them are feeling financial distress was previously "unthinkable." We are assuming a 10% loss on that exposure, with 50% to be taken during the remainder of 2009 and 50% to be taken in 2010. This translates to AED 115 million in additional provisions in each of these two periods.

Another area of concern is ADCB's investment in RHB. The carrying value of the investment as of March 2009 stood at AED 4.1 billion, while the latest market value of that investment stood at AED 2.3 billion. ADCB's management indicated that they do not expect to incur impairment on this investment despite the wide divergence between the carrying value and the market value. The reason they believe so is because the cash flows derived from this investment still live up to their expectations. We believe that incurring an impairment loss on the investment in RHB is a possibility in 2009. We have assumed that in 2009, ADCB will incur 10% impairment on the AED 2 billion goodwill recorded at the time of that investment.

We have reduced our forecast for loan growth from a CAGR of 12% to 7% for the five years ending in 2013. Slower economic growth, tighter liquidity, real estate market troubles, and increased risk-averseness on ADCB's part are the main factors behind the reduction. Recent IMF projections assume a slight contraction (0.6%) in the UAE's real GDP in 2009, followed by a marginal growth of 1.6% in 2010. Other than the overall economic environment, ADCB will face pressure on its lending capabilities due to the bank's high LDR ratio. ADCB's management indicated that bringing down the LDR ratio to 100% is a long-term objective for the bank. Medium term, they would like to trend it down towards that level. This is very much related to ADCB's wholesale funds. At the end of March 2009, ADCB had close to AED 44 billion (30% of assets) in unsecured notes, syndicated loans, subordinated loans, Tier I notes, Tier II loans, and mandatory convertible securities. Despite difficult times in global credit markets, ADCB will continue to issue fixed income securities and will not strictly rely on customer deposits to fund its lending business. As much as AED 6.2 billion in unsecured notes and syndicated loans will mature between March 2009 and March 2010, while a total of AED 15 billion will mature between March 2010 and March 2012. Despite additional issuances by ADCB, we do expect a drop in the share of borrowed funds out of total assets, which will coincide with a drop in the LDR.

We expect net interest income to drive earnings going forward. The ongoing re-pricing of the loan book will be, or already is, the means by which ADCB (as well as most other banks) expands its net interest income in the face of slower balance sheet growth and low interest rate levels. The record AED 708 million net interest income achieved in 1Q2009 is testimony to that. We believe there will continue to be pressure on all sources of fee income, be those lending-related fees or other market-related fees. We also believe foreign exchange-related earnings and gains from dealing in derivatives will be under pressure going forward, as seen in 1Q2009. All in all, we expect operating income to drop by 6% in 2009 before expanding by 8% both in 2010 and 2011.

As for costs, we believe there will be a sizable reduction in cost expansion compared with the sky-high growth rates of 40% or more in the past few years. The bursting of the real estate bubble will help in limiting cost growth going forward due to less pressure from renting costs and housing allowances. A better management of costs will also help in limiting cost expansion going forward, as banks better appreciate the importance of being cost efficient in this low-growth environment. We forecast that the cost-to-income ratio will hover in the 39%–40% range during our forecast horizon, increasing from the 37% recorded in 1Q2009.

We expect operating income to drop by 6% in 2009 and net profit to fall by 20% as provisions take their toll

Figure 4 Forecasts

	2009 Forecasts ('000 AED)			2009	5-year
	Old	New	Change %	Change %	CAGR
Net Loans and Advances	116,403,912	114,585,550	-1.6%	5.3%	6.8%
Customer Deposits	87,979,697	83,842,449	-4.7%	-0.6%	8.0%
Net Interest Income	2,777,480	2,838,205	2.2%	14.4%	9.9%
Net Fees and Commissions	1,042,100	846,973	-18.7%	-13.8%	5.2%
Total Operating Income	4,530,211	4,134,677	-8.7%	-5.8%	6.1%
Total Costs	(1,841,199)	(1,632,427)	-11.3%	7.0%	8.9%
Provisions for Credit Losses	(241,158)	(856,633)	255.2%	12.9%	-4.8%
Provisions on Investments	(339,076)	(256,853)	-24.2%	-13.2%	
Provisions on CDS	-	(145,516)	n/m	-67.2%	
Net Profit	1,921,045	985,387	-48.7%	-20.3%	18.8%

Source: NBK Capital

We expect an increase in credit loss provisioning on the back of lower economic growth and troubles in the stock and real estate markets. We expect the NPLs-to-gross loans ratio to increase to around 2.4% by the end of 2009 and to 3.1% by the end of 2010. We also expect a drop in NPL coverage. However, we believe heavy provisioning will maintain that ratio over 100% during our forecast horizon. All in all, we expect net profit to drop by 20% in 2009 as provisions take their toll.

We stress that the level of provisioning and impairments relating to the major risks that ADCB faces is naturally difficult to predict and can significantly sway ADCB's net profit. Hence, we believe that our forecasts might deviate significantly from actual results.

We expect ADCB will be able to maintain a Tier I ratio in excess of 12% in our forecast horizon, as required by the CBUAE starting in June 2010. Finally, we view the fact that ADCB is an Abu Dhabi-based bank with majority ownership by the Abu Dhabi government as extremely valuable, especially in the current period of economic turbulence. Indeed, we believe the Abu Dhabi government will step in to support ADCB if help is ever needed.

FINANCIAL STATEMENTS

Balance Sheet (AED Thousands)			Forecast					
Fiscal Year Ends December	2007	2008	2009	2010	2011	2012	2013	2014
ASSETS								
Cash and Balances with Central Banks	15,657,588	3,911,009	3,823,960	3,939,517	4,406,647	5,024,130	5,741,027	6,279,558
Due from Banks	6,030,364	17,528,422	13,812,390	14,469,558	15,337,517	16,197,288	17,017,726	18,313,614
Investments	3,536,351	4,055,286	3,929,113	4,226,471	4,710,290	5,262,787	5,894,105	7,069,584
Investment in Associates	-	4,427,529	4,012,933	4,168,111	4,339,579	4,519,622	4,708,666	4,907,162
Net Loans and Advances	75,676,082	108,812,970	114,585,550	121,309,156	131,283,024	141,275,034	150,856,353	160,698,252
Net Fixed Assets	492,501	580,186	962,240	1,001,198	1,044,053	1,091,193	1,143,047	1,200,087
Other Assets	4,820,963	8,412,808	9,021,656	9,586,483	10,240,108	10,947,577	11,697,750	12,498,181
TOTAL ASSETS	**106,213,849**	**147,728,210**	**150,147,842**	**158,700,494**	**171,361,219**	**184,317,631**	**197,058,674**	**210,966,438**
LIABILITIES & EQUITY								
Due to Banks	5,598,376	6,905,263	5,347,735	6,106,957	7,009,143	7,968,035	8,712,501	9,744,151
Customer Deposits	57,160,820	84,360,821	83,842,449	92,057,053	102,906,537	113,653,675	123,909,156	134,708,219
Other Purchased Funds	27,370,264	30,566,548	33,500,895	31,490,841	30,231,208	29,021,959	27,861,081	26,746,638
Other Liabilities	4,672,646	9,980,426	11,347,231	11,844,598	12,430,411	13,024,321	13,649,201	14,315,771
Total Liabilities	**94,802,106**	**131,813,058**	**134,038,310**	**141,499,449**	**152,577,299**	**163,667,990**	**174,131,939**	**185,514,778**
Minority Interest	**114,231**	**107,603**	**66,184**	**94,946**	**116,332**	**104,468**	**116,768**	**129,829**
Total Shareholders' Equity	**11,297,512**	**15,807,549**	**16,043,349**	**17,106,100**	**18,667,587**	**20,545,173**	**22,809,966**	**25,321,831**
TOTAL LIABILITIES AND EQUITY	**106,213,849**	**147,728,210**	**150,147,842**	**158,700,494**	**171,361,219**	**184,317,631**	**197,058,674**	**210,966,438**

Income Statement (AED Thousands)			Forecast					
Fiscal Year Ends December	2007	2008	2009	2010	2011	2012	2013	2014
Net Interest Income	2,288,415	2,480,611	2,838,205	3,003,966	3,197,633	3,599,301	3,972,618	4,298,374
Income from Fees and Commissions	873,960	982,094	846,973	947,187	1,070,092	1,168,063	1,263,849	1,372,105
Other Operating Income	637,499	927,594	449,499	531,562	581,052	619,405	658,179	698,121
Total Operating Income	**3,799,874**	**4,390,299**	**4,134,677**	**4,482,716**	**4,848,777**	**5,386,769**	**5,894,645**	**6,368,599**
Provisions for Credit Losses	(143,363)	(758,440)	(856,633)	(834,630)	(782,847)	(667,528)	(593,832)	(576,214)
Salaries and Employee-Related Expenses	(543,743)	(848,110)	(890,516)	(952,852)	(1,038,608)	(1,132,083)	(1,222,650)	(1,308,235)
General and Administrative Expenses	(414,635)	(619,721)	(663,101)	(722,781)	(802,286)	(890,538)	(979,592)	(1,067,755)
Depreciation	(50,252)	(57,330)	(78,810)	(99,300)	(109,230)	(120,153)	(132,169)	(145,386)
Other Provisions	(559,595)	(739,707)	(607,208)	(260,378)	-	-	-	-
Total Operating Expenses	**(1,711,588)**	**(3,023,308)**	**(3,096,268)**	**(2,869,940)**	**(2,732,972)**	**(2,810,302)**	**(2,928,242)**	**(3,097,589)**
Net Operating Profit	**2,088,286**	**1,366,991**	**1,038,409**	**1,612,775**	**2,115,805**	**2,576,467**	**2,966,403**	**3,271,010**
Other Income / (Expenses)	(3,356)	(8,518)	(5,963)	(6,380)	(6,827)	(7,304)	(7,816)	(8,363)
Minority Interest	(97,412)	(121,881)	(47,060)	(62,645)	(66,491)	(36,010)	(38,227)	(40,584)
Net Profit	**1,987,518**	**1,236,592**	**985,387**	**1,543,751**	**2,042,488**	**2,533,153**	**2,920,361**	**3,222,063**
EPS (AED)	**0.41**	**0.26**	**0.20**	**0.32**	**0.39**	**0.46**	**0.53**	**0.59**

Key Ratios			Forecast					
Fiscal Year Ends December	2007	2008	2009	2010	2011	2012	2013	2014
Growth in Loans	21.2%	43.8%	5.3%	5.9%	8.2%	7.6%	6.8%	6.5%
Growth in Deposits	31.7%	47.6%	-0.6%	9.8%	11.8%	10.4%	9.0%	8.7%
Growth in Net Profit	-4.5%	-37.8%	-20.3%	56.7%	32.3%	24.0%	15.3%	10.3%
Growth in Operating Income	22.7%	15.5%	-5.8%	8.4%	8.2%	11.1%	9.4%	8.0%
Loans-to-Assets	71.2%	73.7%	76.3%	76.4%	76.6%	76.6%	76.6%	76.2%
Loans-to-Deposits	132.4%	129.0%	136.7%	131.8%	127.6%	124.3%	121.7%	119.3%
NPLs-to-Gross Loans	1.4%	1.13%	2.4%	3.1%	3.4%	3.5%	3.6%	3.6%
NPL Coverage	109.0%	179.2%	108.3%	100.3%	101.1%	103.9%	106.4%	107.9%
Capital Adequacy	13.5%	10.2%	17.6%	17.1%	16.5%	15.2%	14.4%	13.7%
Growth in Costs	33.8%	51.2%	7.0%	8.7%	9.9%	9.9%	8.9%	8.0%
Non-Interest Expense-to-Average Assets	1.8%	2.4%	2.1%	1.9%	1.7%	1.6%	1.5%	1.5%
Cost-to-Income	26.5%	34.7%	39.5%	39.6%	40.2%	39.8%	39.6%	39.6%
Non-Interest Income-to-Operating Income	39.8%	43.5%	31.4%	33.0%	34.1%	33.2%	32.6%	32.5%
Dividend Payout	20.1%	38.9%	48.8%	31.2%	32.1%	25.9%	24.3%	22.0%
Net Interest Margin	2.6%	2.2%	2.2%	2.2%	2.2%	2.3%	2.3%	2.4%
RoAE	18.1%	9.1%	6.2%	9.3%	11.4%	12.9%	13.5%	13.4%
RoAA	2.1%	1.0%	0.7%	1.0%	1.2%	1.4%	1.5%	1.6%

Sources: Company financials and NBK Capital

RISK AND RECOMMENDATION GUIDE

Recommendation	Upside (Downside) Potential
Buy	more than 20%
Accumulate	between 10% and 20%
Hold	between -5% and 10%
Reduce	between -10% and -5%
Sell	less then -10%

RISK LEVEL				
Low Risk				High Risk
1	2	3	4	5

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