July 10th, 2008

Research Note

AL MAL CAPITAL

First Gulf Bank 2Q08 – Preliminary Results

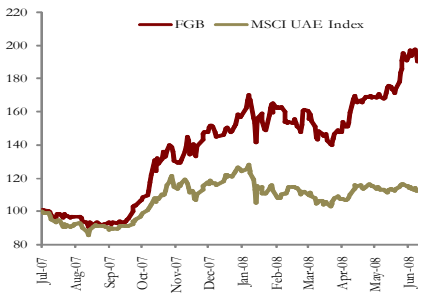
First Gulf Bank

Rating: Outperform

Based on preliminary results released by FGB this afternoon, there is a strong rise in both interest and non-interest income, while costs are constant to Q1 results.

- Extremely strong quarterly net income at AED 808mn vs. our expectation of AED 716 mm , up 70% yoy and 20% qoq. First half 08 ROAE is a healthy 26% vs. 21% in 2007
- We are especially pleased with the rise in interest income to AED 622 mm, a rise of 47% and 108%, qoq and yoy respectively.
- Core banking operations are healthy with loan book growing by AED 11.7bn to AED 66 bn, growing at 21.5% over Q1. We continue to watch for product mix of loans when detailed Q2 results are released. Most of this growth was funded by approximately AED 10bn growth in customer deposits
- Non-interest income at AED 591 mn is even with Q1 08 results and probably includes another big gain from 'Investment Properties'.
- Non-interest expense and Provisions for loan losses totaling AED 405mm in Q2. We will be interested in seeing if the provisions in Q2 are on the high end similar to the 1.14% annualized provisioning charge in Q1.
- We maintain our Outperform rating on the stock with a 12 month target price of AED 32.0

Key Numbers	
Current Price (AED)	27.10
Target Price (AED)	32.00
Upside/downside	18.1%
52 Week High/Low (AED)	30.0/12.3
Market Cap. (AED bn.)	37.3
Permitted Foreign Ownership(%)	30%
Foreign Ownership Headroom (%)	11%
Bloomberg Code	FGB UH
Reuters Code	FGB.AD



Financials (AED Millions)	2007A	2008E	2009E	2010E
Net Interest Income	1,331	1,770	2,187	2,515
Non-Interest Income	1,494	1,922	2,332	2,798
Non-Interest Expense	(255)	(344)	(430)	(529)
Net Income to Common	2,008	2,535	3,066	3,507
ROAE (%)	21.0	22.6	22.4	21.1
Net Interest Margin (%)	2.16	2.22	2.26	2.20
Dividend Yield (%)	1.0	0.7	0.9	0.9
Capital Adequacy Ratio	15.0	18.3	17.5	17.3
Adjusted EPS (AED)	1.46	1.84	2.23	2.55
Valuation Multiples				
PE	18.6	14.7	12.2	10.6
BVPS	7.4	9.0	10.9	13.2
P/BV	3.7	3.0	2.5	2.1

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