



National Bank of Dubai

Banking Sector

FY06 Update

Ready to Merge

UAE

March 27, 2007

- NBD reported somewhat disappointing net interest income growth for FY06, pertaining to a below anticipated 17.2%, despite a 66.7% leap in interest income, definitely at the top end of peer group performance, as a concerted effort to expand lending activities saw the loan book settle at AED43.2 billion, up 54.8% y-o-y. Noteworthy, the bank has outperformed in net lending growth over the past 5 years, recording an associated 43.2% CAGR over the period. While NBD did report a solid 100 bps improvement in its GEY over 2006, on the back of an increase in aggregate domestic lending rates and improved asset utilization, it continued to come in below the sector average, which has been buoyed by select player participation in IPO financing, an activity NBD has for the most part avoided.
- Looking ahead, we have forecast net interest income of just under AED1.4 billion in FY07, with associated 16.6% annual growth to be fuelled by a similar annual expansion in net loans. While we are bullish on lending opportunities on the basis of a benign macro environment and the bank's solid positioning we believe that joint effects of increased sector competition and funding constraints will make it unlikely the bank will witness the exceptional annual expansions in lending witnessed over the previous few years.
- As a welcome change from reporting on other sector players in this respect, NBD illustrated a moderate, though nonetheless healthy, 7.3% increase in non interest income in FY06, to settle at AED666.1 million. The out performance this year essentially stemmed from underperformance last year, wherein the bank's exclusion for the most part from IPO financing compounded by far lesser capital market exposure, saw to exempt it from the extraordinary gains prevalent in this respect in 2005. We have been conservative in our non interest income estimates, on the back of aforementioned lower lending growth estimate and the fact that a number of future key drivers, covered in a later section in this note, remain in their infancy stage. We estimate 11.1% growth in FY07, and a marginally higher CAGR of 12.4% over the remainder of our forecast period.
- While we view the news on a merge between NBD and Emirates Bank International (EBIL.DU) as fundamentally positive on the surface, it is early days to provide any quantitative analysis on the decision. We have included a brief section in this note outlining our views on the decision and possible outcomes, however are choosing to continue looking at NBD as a stand alone entity until further details are released.
- Our revised valuation model on NBD has yielded a DECF value pertaining to AED15/share. On the basis of a current 36% upside potential we assign a Strong Buy recommendation.

(AED mn)	2005a	2006a	2007f	2008f	2009f
Net Int. Inc.	1,020.0	1,195.3	1,394.2	1,618.6	1,822.5
Growth	25.1%	17.2%	16.6%	16.1%	12.6%
Net Banking Inc.	1,641.0	1,861.4	2,134.3	2,469.9	2,783.5
Growth	20.3%	13.4%	14.7%	15.7%	12.7%
Provisions	6.6	74.9	79.9	92.0	106.1
Net Attributable Income	1,096.8	1,106.3	1,317.2	1,552.6	1,776.3
EPS (AED)	0.8	0.9	1.0	1.2	1.4
EPS Growth	18.6%	0.9%	19.1%	17.9%	14.4%
DPS (AED)	0.4	0.4	0.5	0.6	0.75
Dividend Yield	3.6%	3.6%	4.5%	5.5%	6.8%
P/E x	13.0	12.9	10.8	9.2	8.0
BVPS (AED)	3.8	4.3	4.8	5.4	6.0
P/BV x	2.9	2.6	2.3	2.0	1.8

STRONG BUY

DECF Price	AED15
Recent Price	AED11
Upside Potential	36%
Investment Grade	Value

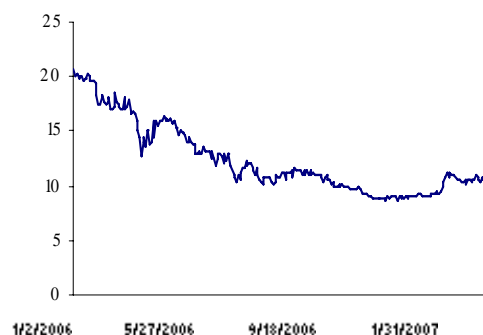
Share Data

Exchange Rate	AED3.67/US\$
Reuters Code	NBDD.DU
Market	DFM
Most Recent Shares (000)	1,296,778.9
Par Value/share	AED 1
Financial Year	December
Mkt. Cap (AED mn)	14,264.6
Free Float	85.8%
52 Wk. High - Low (AED)	16.5-8.7

Shareholders

Government of Dubai	14.2%
Free Float	85.8%

Stock Performance (AED)



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Financial Assessment & Growth Drivers

Interest Income

Somewhat disappointing net interest income occurred despite a 66.7% leap in interest income, definitely at the top end of peer group performance, as the bank's concerted effort to expand lending activities, saw net loans settle at AED43.2 billion, up a significant 54.8% y-o-y.

Net interest income witnessed a moderate 17.2% increase in FY06 results, settling just over AED1.1 billion, below what we had anticipated. Somewhat disappointing net interest income occurred despite a 66.7% leap in interest income, definitely at the top end of peer group performance, as the bank's concerted effort to expand lending activities, saw net loans settle at AED43.2 billion, up a significant 54.8% y-o-y. Noteworthy, the bank has outperformed in net lending growth over the past 5 years, recording an associated 43.2% CAGR over the period.

NBD reported a solid 100 bps improvement in its Gross Earning Yield-GEY over 2006, on the back of a rise in aggregate domestic lending rates, in turn a response to continued monetary policy tightening in the US. Moreover this occurred in conjunction with continued improvement in terms of asset utilization, with Net Loans/Total Assets having increased to 62.3%, up from 54.3% in the previous year, and as low as 28.7% in 2001, when financial investments held a far superior weighting within the overall asset base. Nevertheless, yields continued to come in below the peer group average, which has been buoyed by select player participation in IPO financing, an activity NBD has for the most part avoided. Inter-bank assets were pretty much flat over the period, reporting AED3.6 billion, while it is feasible that aforementioned higher interest rates in conjunction with sector wide tightening of balance sheet liquidity, nevertheless resulted in an annual advance in associated interest income earned, although NBD does not provide said breakdowns within their financial statements.

Interest Expense

As has been pointed out in previously released bank updates, the sector witnessed a trend of interest expense growth outpacing that of interest income, as increased competition on the aggregate level and aggressive extension of credit exerted pressure on sources of funding and accordingly associated pricing.

As has been pointed out in previously released bank updates, the sector witnessed a trend of interest expense growth outpacing that of interest income, as increased competition on the aggregate level and aggressive extension of credit over the past few years exerted pressure on sources of funding and accordingly associated pricing. NBD was shielded in some respect here due to an absence of associated costs related to the participation of IPO funding, which drove up various competitor Break Even Yields-BEYs to a significant premium over NBD's reported 3.1%, which itself was up 122 bps y-o-y.

Interest expense reported a 123.1% leap to settle at AED2 billion, with customer deposits up a relatively moderate 22.4% over the associated period to settle at AED45.4 billion. That said, a relatively tight balance sheet, reflected in a Net Loan/Deposit ratio of over 95% saw NBD tap the interbank market for a significant AED10.6 billion worth of funding, up 90.9% over the year, which in a rising interest rate environment undoubtedly proved expensive.

Additionally, and partially in response to liquidity risk stemming from over 96% of the customer deposit base, equivalent to AED43.8 billion, falling under the tenor of below 3 months, NBD expanded its medium term borrowings by 66.7% to AED4.6 billion. In addition to the US\$750 million Floating Rate Note-FRN issued in 2005, the bank raised a further US\$500 million in subordinated debt last year, following approval on the decision to increase its Euro Medium Term Note Program to US\$3 billion from a previous US\$1 billion. Noteworthy here is the fact that the initial FRN was issued in December FY05, with 2006 accordingly the first full year of accompanying interest expense, reported by the bank at an effective rate of 5.7% p.a. NBD also tapped the short term borrowing market last year, issuing Euro Commercial Papers valued at ca. US\$489.8 million as of FY06 close, out of a US\$1 billion approved program.

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Looking ahead, we have forecast net interest income of just under AED1.4 billion in FY07, with associated 16.6% annual growth to be fuelled by a similar annual expansion in NBD's net loan book. While we are bullish on lending opportunities on the basis of a benign macro environment, the bank's positioning as a key mortgage and retail service provider in addition to expectations it will successfully capitalize on heightened growth expected within the real estate, tourism and retail sectors in Dubai, we believe that joint effects of increased sector competition and constraints in funding will make it unlikely the bank will witness the exceptional lending growth rates witnessed over the previous few years. With its Net Loan/Total Assets ratio now slightly above the average for its peer group, in contrast to its placing at the bottom end of the scale 5 years prior at under 30%, we are foreseeing a far more normalized 15.1% net loan CAGR over our forecast period.

Similarly, interest expense should also moderate somewhat, although it is still expected to outpace interest income, with our customer deposit numbers illustrating an 18% annual increase in FY07, while inter-bank liabilities are projected to commence a downward trend effective this year. Moreover, while we do expect NBD to continue tapping its EMTN program over our forecast period, the rate of funding increases is set to slow, while our medium terms view on monetary easing in the US, translating into lower rates here, should lessen the accompanying expense burden going forward. Margins are expected to remain firm relative to 2006 numbers, with the bank not likely to suffer the absence of IPO financing distortions we are expecting for various competitors.

Non Interest Income

As a welcome change from reporting on other sector players in this respect, NBD illustrated a moderate though nonetheless healthy 7.3% increase in non interest income in FY06, to settle at AED666.1 million. The out performance this year essentially stemmed from underperformance last year, wherein the bank's exclusion for the most part from IPO financing, compounded by far lesser capital market exposure, saw it exempt from the extraordinary gains prevalent in this respect in 2005.

As a welcome change from reporting on other sector players in this respect, NBD illustrated a moderate though nonetheless healthy 7.3% increase in non interest income in FY06, to settle at AED666.1 million. The out performance this year essentially stemmed from underperformance last year, wherein the bank's exclusion for the most part from IPO financing, compounded by far lesser capital market exposure, saw it exempt from the extraordinary gains prevalent in this respect in 2005. Indeed it was in FY03 and FY04, when NBD played the capital gain game to the maximum, disposing of available for sale securities and booking non recurring gains of AED264.4 million and AED308.4 million, respectively.

Indeed, excluding the bank's reported AED25.2 million disposal of available for sale securities loss from non interest income in 2006, and the associated AED129.1 million gain clocked up in this respect in FY05, shows NBD growing core non interest income an impressive 40.6% y-o-y. Encouragingly, the bulk AED421.1 million of total non interest income for FY06, pertaining to 60.9% of the aforementioned normalized total stemmed from fee and commission income. The 48.5% annual growth is directly correlated to the positive net loan growth which occurred over the period, in addition to the bank's continued penetration of the vast and expanding retail market. NBD has positioned itself as one of the most prominent retail providers within Dubai, sporting an impressive branch and ATM network totaling 39 and 150 respectively, with the contribution of retail/personal loans to the overall lending mix at ca. 21.5%, up 66% y-o-y. NBD's unique wealth management service "The Private Office" has further allowed it to continue taping the lucrative high net worth individual segment within the UAE, with a range of customized and standard investment alternatives allowing for unique cross selling opportunities.

The bank, not totally immune from the downturn in capital market performance in 2006, did witness gains from trading securities shrink 34.5% in FY06 to record AED77.6 million, nevertheless having outperformed local indices and the majority of competitors by a long shot, suggesting NBD's securities composition includes a higher money market component, and or exposure to oversea bourses. Moreover, the bank continued to perform well on the treasury side of operations with FX gains reporting AED104.8 million, up an impressive 75.3% y-o-y, while NBD also reported AED60.9 million in investment properties gains, versus zero in this respect last year.

That said, a closer look at business unit analysis breakdown shows net profit generated from the division the bank categorizes as "Treasury and Others", essentially including treasury, investments, asset management and brokerage suffered a significant 77% fall, to contribute a marginal 8.3% to the bottom line, down from 35.8% in 2005.

Key Drivers

Looking ahead, while the bank chooses not to provide a breakdown of securities brokerage income generated from subsidiary National Financial Services, one of the largest in the UAE, and or asset management service fees, these undoubtedly also saw a downturn, specifically in light of the 2006 mandatory slashing of brokerage commissions. With our outlook on the local equity markets and wider GCC bullish effective 2H FY07, we expect a pick up in associated contributions this year, going forward.

Additionally, the bank has also recently acquired necessary licensing for its 100% subsidiary NBD Investment Bank from the DIFC to conduct a complete range of investment banking services. NBD intends to growth this line of business significantly over the period to come, limiting exposure to the GCC within the initial launch phase, with the opening of its inaugural branch in Qatar having occurred in March 2007, prior to expanding services to include the wider Middle East, in addition to powerhouse markets of India and China. With regards to geographical concentration risk on the aggregate business level, NBD is already relatively well diversified in this respect, with a breakdown of assets reflecting 67% domestically based, with the balance spread relatively evenly among other Middle Eastern states, the UK, Europe and the USA.

In a separate dimension to its expansion drive, NBD also recently applied for an Islamic Banking license. We reiterate our well documented view here that with Islamic based retail deposit and loan growth outpacing that of conventional counterparts, and the increasing sophistication and range of Sharia compliant value added financial services on offer, we view this as not only a wise, but an increasingly necessary undertaking by conventional banking players.

With a history of various tie ups on the real estate financing side, perhaps most famously its exclusive agreement to finance home loans within the Executive Tower of The Business Bay project, NBD has recently taken this strategy a stage further, launching mortgage loans for commercial properties under the NBD Office Loans brand. The scheme offers individuals purchasing freehold office space in Dubai mortgages of up to AED4 million for either off-plan or completed properties from an approved panel of developers. With concerns over a possible oversupply of residential properties in Dubai within the coming 2-3 years, and the well documented shortage of office space, this allows NBD to both diversify

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domestic real estate risk, whilst remaining entrenched within the most dynamic sector within Dubai.

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Going forward, we have been conservative in our non interest income estimates, with NBD projected to witness 11.1% growth in FY07, and a marginally higher CAGR of 12.4% over the remainder of our forecast period. In short, more moderate loan growth forecasts, versus what was witnessed over the past 5 year growth spurt, translate into equivalent loan arrangement fees, while the bulk of NBD's future fee income generators, mentioned above, all remain in their infancy phases. We have accordingly heeded on the side of conservatism in this respect, although these could require upward revision in the near future.

Non Interest Expenses, Provisions & Credit Quality

NBD reported a 27.9% increase in non interest expense in FY06, to settle at AED680.1 million, with as proved the case across the sector, staff costs fuelling the increase, up 28.1% at AED335.5 million, constituting 49.3% of aggregate costs. This comes as a tight market for qualified banking professionals drives up retention costs.

NBD reported a 27.9% increase in non interest expense in FY06, to settle at AED680.1 million, with as proved the case across the sector, staff costs fuelling the increase, up 28.1% at AED335.5 million, constituting 49.3% of associated aggregate costs. This comes as a tight market for qualified banking professionals drives up retention costs, while expansions and branch openings have also pushed up necessary staffing numbers to a premium over 2005 levels. The bank booked AED259.7 million in unspecified general & administrative expenses, which we are assuming may be related to the new NBD Academy which opened in December of 2006, a training facility set to cater to the training and development of UAE nationals. It is expected to provide a platform for UAE nationals enrolled in the bank's "Al Misha'al Program", for high school graduates, and fresh graduate "Program for Accelerated Learning" to improve their skills. We have accordingly brought down this other expense item in terms of contribution to net banking income, on the basis that inauguration costs are likely to prove higher than ongoing running costs. This in turn has brought down overall non interest expense growth for FY07 to 7.4%, while bulk items pertaining to SGA/Net Banking Income ratio and the depreciation rate were maintained at FY06 levels.

NBD's Cost Income Ratio-CIR recorded 36.5% in FY06, which although positions it within the mid range of Dubai competitors, proves a significant premium to average CIRs for Abu Dhabi counterparts, which come in a good 1,000 bps below this level.

AED71.4 million of impairment charges were directed toward loans and advances, which in conjunction with a reported AED483 million recognized as NPLs, equivalent to a 1.1% NPL/Gross Loan ratio translates into a 64.6% coverage ratio.

The bank reported impairment charges of AED74.9 million, up a significant 11.3x from the AED6.6 million recorded in FY05. The bulk AED71.4 million were directed toward loans and advances, which in conjunction with a reported AED483 million recognized as NPLs, equivalent to a 1.1% NPL/Gross Loan ratio translates into a 64.6% coverage ratio. The latter proves at the bottom end of the spectrum, and could in part be due to the fact that NBD has grown its loan book so aggressively over the past 5 years, at a CAGR of 43.2%, while opting not to do the same with associated provisioning levels. Indeed NBD appears not to have an obvious provisioning strategy with the amount booked varying considerably from year to year. Going forward, we have sustained Loan Provisions/Total Loans at 0.15%, which simultaneous to our forecasts on a stable 1% NPL/Gross Loan ratio, equates into an increasing coverage ratio, culminating at over 100% by the end of our forecast horizon.

Net Income

NBD reported a bottom line of AED1.1 billion for FY06, unchanged from what was reported the previous year, despite a 13.4% increase in net banking income, down in large part to the aforementioned 11.3x hike in provisioning for the year.

NBD reported a bottom line of AED1.1 billion for FY06, unchanged from what was reported the previous year, despite a 13.4% increase in net banking income, down in large part to the aforementioned 11.3x hike in provisioning for the year. Looking ahead we are forecasting NBD to continue generating solid core income, both interest and fee/commission based, with net banking income expected to report a modest increase in annual growth, relative to last year, pertaining to 14.7%. That said, slower foreseen non interest expense growth, coupled with a more stable, and very moderate, increase in provisioning results in a bottom line estimate of AED1.3 billion, up 19%. Our FY07-11 CAGR meanwhile comes in at a more modest 15.1%, as the benefits of an aggressive balance sheet growth strategy over the past 5 years, rectification of asset liability mismatch, compounded by solid state support and its positioning as a premier Dubai lender in an extremely conducive environment, bear fruit.

Merger Effects

Following the initial announcement on the upcoming merger between National Bank of Dubai and Emirates Bank International (EBIL.DU), the largest bank in Dubai, relatively little with regards to details have since been disclosed. In short a press release was released on March 21st, confirming the establishment of a steering committee, assigned the responsibility of ensuring a successful merger process, which will create the largest financial institution in the UAE and GCC, in asset terms, set to total in excess of AED165 billion. The committee is reported to have met on March 14, wherein it was decided that the initial phase will focus on delivering, what was termed a “financial closing” of the merger before steps required for operational integration are commenced.

The key decisions taken by the committee as outlined on NBD's website are as follows:

1. Financial Closing Process : EBI and NBD will appoint a joint financial advisor to guide the overall financial closing process including the valuation. A Request for Proposal [RFP] was sent to four institutions. The two banks may also appoint independent advisors to provide fairness of opinion on the valuation provided by the jointly appointed financial advisor. This is to provide assurance to shareholders that the valuation for both banks is serving their best interests.
2. Due Diligence Process : To serve the interests of the shareholders, customers and employees, both banks have agreed to carry out due diligence on respective parties in line with international best practices. EBI has appointed KPMG to carry out due diligence on NBD, while NBD in turn has appointed Ernst & Young to carry out the due diligence on EBI. The two banks, assisted by the two audit firms, are finalizing the terms of reference for this due diligence which will commence shortly.
3. Strategic Initiatives : Management of both banks highlighted that it is of the essence that both EBI and NBD maintain focus on their business activities and continue to deliver value to all stakeholders. They noted that both banks are presently planning and undertaking various strategic initiatives. The Steering Committee has agreed that the two banks will review these initiatives to ensure that synergies can be derived from the merged entity.

Our View

The UAE's fragmented and over banked sector has been calling out for a bold move toward consolidation like this for quite some time. Spearheaded by the government, the merged entity will be far better placed to compete effectively with the influx of large multinational banking institutions, widely expected to penetrate the UAE market under the World Trade Organization agreement, as well as various other bilateral free trade agreements the UAE has with individual nations, both complete and in the pipeline. In short the move can be viewed as a strategic repositioning by sector players in a pre-emption of a foreseen modified operating environment, which is set to include international players, sooner rather than later. Moreover a significant capital base by regional standards will also allow the new entity better footing to compete for the large scale infrastructure projects on offer across the GCC, as well those being generated domestically, in turn a function of aggressive economic growth witnessed over the past couple of years.

An inherent part of the merger process will be the aligning of strategies to ensure potential economies of scale and synergies are full capitalized on, both in the domestic market and also abroad. The true fruition of this however may be a couple of years in the making, although official comments are likely to point to value accretion in a much shorter time frame. A recent comment by Fitch Rating agency has pointed to the fact that integration risks exist, with a strong likelihood of the new entity proving internally focused in the short term.

While we view the move to merge as fundamentally positive on the surface, it is early days to provide any quantitative analysis on the decision. That said the 2 entities do complement each other in a variety of ways, with NBD particularly renowned for its corporate, private banking and more recently consumer/mortgage lending, and investment banking services, while EBI has positioned itself as a prominent lender to the state as well as the local corporate and retail sector, the latter through its “me” brand. EBI further sports an established Islamic banking subsidiary, Emirates Islamic Bank, and associated branch network, an arena NBD has expressed substantial interest in tapping into. Ultimately, the merged entity should provide relative diversification, in a very concentrated domestic market.

Essentially for the time being, in our opinion, the major benefit of the merger is on the aggregate level, in terms of setting a precedent for further consolidation, and accordingly strengthening of the banking sector in the UAE, with larger institutions superiorly positioned to absorb sector and bank specific shocks, should any occur, as well as allowing for simplification of regulatory issues for governing bodies. Many are now eagerly anticipating the rumored uniting of National Bank of Abu Dhabi (NBAD.AD) and Abu Dhabi Commercial Bank (ADCB.AD), which if occurs, and seems both likely and feasible in our view specifically in light of common shareholder, Abu Dhabi government's, majority stake, would result in an even larger financial player, with combined assets totaling AED182 billion as of December 31st, 2006.

Valuation

Our revised valuation model has yielded a DECF value for NBD pertaining to AED15/share. With the stock trading at AED11, this provides investors with 36% upside potential. We accordingly reassert our Strong Buy recommendation on the stock.

The Cost of Equity-COE was calculated by utilizing the Capital Asset Pricing Model-CAPM, and based on a risk free rate of 5.7%, which is the current yield on the 10 year US Treasury benchmark bonds, inclusive of a UAE country risk premium of 110 bps, in line with the premium present on the 30 year Qatar sovereign bond over its US equivalent. In the absence of UAE denominated sovereign bonds as a benchmark, and the popularity of US sovereign debt as a haven investment in times of uncertainty across the GCC as a whole, we believe this to be a fair proxy for a UAE risk free investment alternative.

We have assigned an equity risk premium of 5%, below that of the corporate sector comparable of 7%, in light of

- Significant government support the banking sector is afforded by the nature of shareholdings, with NBD's case in specific seeing the Government of Dubai enjoying a 14% stake in the bank.
- A healthy regulatory framework as well as solid sector and bank capitalization and asset quality.
- Vast growth potential for the sector on the back of a benign macro economic environment, fuelled by social demographics and foreseen continued robust GDP growth, with oil prices expected to remain firm and petrodollars to translate into aggressive fiscal expenditure. NBD's positioning as one of larger banks in Dubai, in addition to its solid branding within the corporate and private banking segments, and more recently consumer lending and investment banking services ensures it sound positioning to capitalize on the emirate of Dubai's foreseen continued real estate, tourism, and retail boom currently ongoing.

Finally we have maintained our sector side beta of 1 and have reduced our perpetual growth rate for the banking sector to that which we apply for the corporate sector, a more conservative 4.5%, in line with what we believe is a sustainable long term GDP growth rate for the UAE.

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FINANCIAL SUMMARY

Figures in AED million

Fiscal year ending December

Income Statement	2005a	2006a	2007f	2008f	2009f
Interest Income	1,916.0	3,194.6	3,895.4	4,365.8	4,805.1
Interest Expense	896.0	1,999.3	2,501.2	2,747.2	2,982.6
Net Interest Income	1,020.0	1,195.3	1,394.2	1,618.6	1,822.5
Non-Interest Income	621.0	666.1	740.1	851.3	961.0
Non-Interest Expenses	531.6	680.1	730.6	817.5	892.2
Operating Income	1,109.4	1,181.3	1,403.7	1,652.4	1,891.3
Provisions	6.6	74.9	79.9	92.0	106.1
Net Profit Before Tax	1,102.8	1,106.3	1,323.8	1,560.4	1,785.2
Income Tax	-	-	-	-	-
Net Profit After Tax	1,102.8	1,106.3	1,323.8	1,560.4	1,785.2
Non Appropriation	6.0	-	6.6	7.8	8.9
Net Attributable Income	1,096.8	1,106.3	1,317.2	1,552.6	1,776.3
Balance Sheet	2005a	2006a	2007f	2008f	2009f
Cash and Cash Items	2,549.4	3,128.1	3,450.2	4,275.0	4,759.7
Inter-bank Assets	3,529.1	3,553.8	3,020.7	2,567.6	2,182.4
Treasuries/ Marketable Securities	16,184.2	7,629.4	18,753.6	20,687.8	22,543.5
Net Loans & Advances	27,936.7	43,218.2	50,514.0	58,452.1	67,778.2
Debtors /Int. Rec./Other Assets	814.8	1,215.9	1,314.0	1,420.7	1,536.9
Other Direct Investments	-	157.1	165.0	173.2	181.9
Net Fixed Assets	394.1	373.7	354.8	331.5	305.6
Total Assets	51,408.3	69,276.2	77,572.2	87,908.0	99,288.3
Claims on Assets	2005a	2006a	2007f	2008f	2009f
Inter-bank Liabilities	5,574.7	10,642.3	9,578.0	9,099.1	8,644.2
Customer Deposits	37,091.5	45,408.1	53,581.6	62,690.4	72,720.9
Credit Balances & Other Liabilities	376.1	685.7	361.4	408.5	462.5
Dividend Payable	518.7	518.7	655.3	788.0	981.9
Other Provisions	113.8	108.2	111.8	115.4	119.0
MTNs/Other Notes	2,754.4	6,388.2	7,090.6	7,840.6	8,590.6
Long Term Debt	-	-	-	-	-
Total Liabilities	46,429.3	63,751.2	71,378.8	80,942.1	91,519.1
Total Shareholders' Equity	4,979.0	5,524.9	6,193.4	6,965.8	7,769.2
Total Liab. & Shareholders	51,408.3	69,276.2	77,572.2	87,908.0	99,288.3
Contingent Liabilities	11,632.1	15,934.7	17,528.2	19,281.0	21,209.1
Total Footings	63,040.4	85,210.9	95,100.4	107,189.0	120,497.4

Size Items	2005a	2006a	2007f	2008f	2009f
Total Revenues	2,537.0	3,860.7	4,635.5	5,217.1	5,766.1
Net Banking Income	1,641.0	1,861.4	2,134.3	2,469.9	2,783.5
Earning Assets	47,650.0	64,401.4	72,288.2	81,707.5	92,504.1
Liquid Assets	22,262.7	24,311.2	25,224.4	27,530.4	29,485.6
Total Invested Capital	7,733.3	11,913.2	13,284.1	14,806.5	16,359.8
Non-Performing Loans (NPLs)	329.2	483.0	509.0	589.3	683.6
Specific Loan Provisions	250.8	312.2	388.5	476.9	579.5
Profitability Ratios	2005a	2006a	2007f	2008f	2009f
Yr/Yr Net Interest Income Growth	25.1%	17.2%	16.6%	16.1%	12.6%
Yr/Yr Non-Interest Income Growth	13.1%	7.3%	11.1%	15.0%	12.9%
Gross Earning Yield (GEY)	4.0%	5.0%	5.4%	5.3%	5.2%
Breakeven Earning Yield (BEY)	1.9%	3.1%	3.5%	3.4%	3.2%
Net Interest Margin (NIM)	2.1%	1.9%	1.9%	2.0%	2.0%
Cost of Funds (exc. equity)	2.0%	3.2%	3.6%	3.5%	3.3%
Cost of Funds (inc. equity)	2.8%	3.8%	4.1%	4.0%	3.9%
ROA	2.1%	1.6%	1.7%	1.8%	1.8%
ROE	22.1%	20.0%	21.4%	22.4%	23.0%
ROIC (after-tax)	14.3%	9.3%	9.9%	10.5%	10.9%
Asset Quality Ratios	2005a	2006a	2007f	2008f	2009f
NPLs/Total Loans	1.2%	1.1%	1.0%	1.0%	1.0%
Loan Provisions/NPLs	76.2%	64.6%	76.3%	80.9%	84.8%
Loan Provision Balance/Total Loans	0.9%	0.7%	0.8%	0.8%	0.8%
Productivity Ratios	2005a	2006a	2007f	2008f	2009f
T. Loans & Adv./ Total Deposits	76.0%	95.9%	95.0%	94.0%	94.0%
Liquid Assets/Total Deposits	60.0%	53.5%	47.1%	43.9%	40.5%
Interbank Ratio	63.3%	33.4%	31.5%	28.2%	25.2%

Stock Recommendation Guidelines

Recommendation	Target to Market price (x)
Strong Buy	$x > 25\%$
Buy	$15\% < x < 25\%$
Accumulate	$5\% < x < 15\%$
Hold	$-5\% < x < 5\%$
Reduce	$-15\% < x < -5\%$
Sell	$-25\% < x < -15\%$
Strong Sell	$x < -25\%$

Investment Grade	Explanation
Growth	3 Yr. Earnings CAGR > 20%
Value	Company Positioned Within Maturity Stage of Cycle
Income	Upcoming Dividend Yield > Average LCY IBOR
Speculative	Quality Earnings Reflect Above Normal Risk Factor

HEAD OFFICE

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