

Results Review

**NBAD**

ST Rating: Market Perform

LT Rating: Outperform

**NBAD – 2Q09 Results**

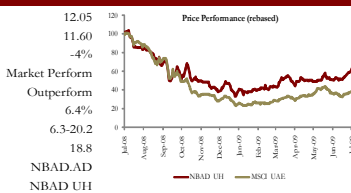
- NBAD reported 2Q09 net profit of AED 907mm (-9.5% yoy, +17.7% qoq) beating our expectations of AED 691mm. Although Interest income has shown resilience - AED 1.0bn a quarter for the last three quarters, the primary area of improvement was on the unfunded business. **Non-interest income grew 70.8% qoq, and was only 7.6% below last years' record second quarter numbers.** A strong recovery on fees and commission income and a reversal in the investment losses of the last three quarters were the main reasons of non-interest income rising to AED 583mm from AED 341mm in Q1.

**Balance sheet expanding** – Total assets over the quarter rose by close to AED 19.8bn, partly due to a rise in loans, but mainly due to deposits with banks which rose by AED 10.5 bn. Loans and customer deposits grew by AED 8.4bn and AED 13.8bn chalking up qoq gains of 7.2% and 14.1%, respectively. We believe the strong qoq gains, in the face of lackluster banking sector growth came in the form of linked borrowing, whereby deposits were linked to new loans. With the lack of detailed financials available, we can only speculate that this growth was government entity related. The loans/deposits ratio has improved to 111% from 118% at the end of Q1. CAR at the end of Q2 is 17.9% rising to approximately 22-23% once the of MOF deposits (AED 5.6bn) are converted to Tier II capital

- **High levels of provisioning while NPL's flat** – In H109, NBAD has taken total provisions of AED 500mm, with the bank accelerating provisions in Q2 although the NPL ratio stayed flat at 1.1%. While the NPL ratio was undoubtedly helped by the AED 8.4bn expansion in the loan book, we are encouraged to see provisions for future loan losses continue to build. The loan loss coverage ratio has improved to 153% from 140% in Q109. The bank has also disclosed minimal Saad and Gosaibi exposures totaling USD 10.9mm.
- **Cost efficiency helped by strong revenues** – While qoq costs stayed flat at AED 436mm, the 14.7% increase in revenues, helped improve the efficiency ratio to 26.5% from 30.3% in the previous quarter. H109 efficiency ratio was 28.2% below the banks 35% cap in the medium term.
- Going forward we expect NPL's to rise and the bank to continue with the prudent level of provisions displayed this quarter. As revenues flatten out and provisions pick up, we believe the bottom line will continue to be stressed in H2. NBAD currently trades at a P/B of 1.4x, a significant premium to other UAE banks. **However, with its balanced business profile, strong capital base, government related deposit and lending activities and the recently announced 10% share buyback, we believe the stock may have some room for growth.** The stock has risen 42% ytd, and 22% since we changed our TP in June and now trades through our TP of AED 11.6. We maintain our LT 'Outperform' rating on the stock and will look to revising estimates once full financials are available.

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Equity Data					
Current Price (AED)	12.05	Price Performance (rebased)			
Target Price (AED)	11.60				
Upside/downside	-4%	Market Perform	Outperform		
Short-Term Rating					
Long-Term Rating					
YTD Performance	6.4%				
52-Week Range (AED)	6.3-20.2				
Market Cap. (AED bn.)	18.8				
RIC	NBAD.AD				
Bloomberg	NBAD UH				
AED Millions, except per share data					
	2Q08	1Q09	2Q09	yoy	qoq
Net Interest Income	825	1097	1066	29.4%	-2.8%
Non-Interest Income	631	341	583	-7.6%	70.8%
Total Income	1455	1438	1649	13.4%	14.7%
Non-Interest Expense	(357)	(435)	(436)	22.3%	0.3%
Provisions	(77)	(214)	(286)	273.0%	33.6%
Net Profit	1002	770	907	-9.5%	17.7%
Net Loans	106,460	115,872	124,250	16.7%	7.2%
Total Assets	165,418	161,135	181,029	9.4%	12.3%
Customer Deposit	89,275	97,868	111,674	25.1%	14.1%
Loans/Deposits	119%	118%	111%		
Efficiency Ratio	-24.5%	-30.3%	-26.5%		

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