April 17, 2008

United Arab Emirates: Banks

Oiling a virtuous banking cycle

We see robust structural momentum in UAE banking

Banking profits have bounced back strongly in the UAE against a backdrop of high oil prices, robust economic growth and a resilient real estate sector. We argue that earnings growth will remain strong in the medium term as banks continue to benefit from an exceptionally supportive economic environment. We screen banks for domestic real estate growth opportunities, strong corporate relationships and exposure to Islamic finance. We initiate on five banks in Abu Dhabi and four banks in Dubai with a Buy rating on First Gulf Bank and Union National Bank, and a Sell rating on Mashreqbank.

Convergence and strong growth supports valuation

Based on NAV, we value UAE banks on 14.5x 2009E earnings. We reached this conclusion by using a c.10% cost of equity (CoE) and 5% long-term growth rate. Our 12-month price targets suggest significant upside from current levels for most banks in our UAE coverage universe with the exception of Mashreqbank, which offers only 10% upside. We believe that as domestic exchanges mature and economic diversification broadens, lower levels of volatility will justify UAE's relatively low CoE when compared with most of its developing markets peers, thus providing strong support for UAE bank valuation.

We add FGB and UNB to our Buy List

We have added First Gulf Bank and Union National Bank to our Pan-European Buy List. Based on our 12-month NAV-based price targets, both banks offer c. 50% upside. We believe that growth and profitability will be supported by solid funding trends, growing participation in Islamic finance, rapidly expanding international operations and potential to increase their exposure to Abu Dhabi's attractive real estate sector.

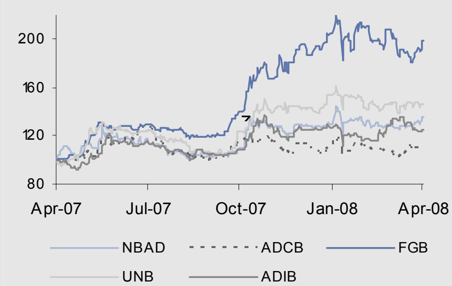
Risks

Growing inflationary pressure could ultimately result in higher operating expenses, deteriorating asset quality and slower retail loan growth. Due to the UAE's high economic concentration in the oil industry and the real estate sector, any developments resulting in sharp weakening of oil and real estate prices will negative affect banking activity. In addition, UAE's strong economic links with Iran could result in slower trade finance growth and higher CoE, should geopolitical tensions in the region emerge.

Abu Dhabi banks

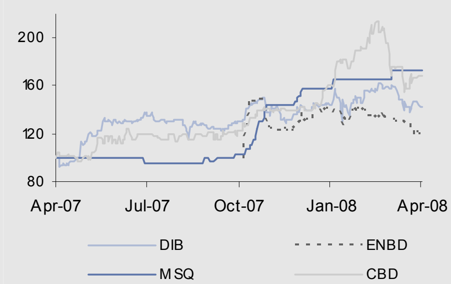
	UNB	FGB	ADCB	ADIB	NBAD
Rating	Buy	Buy	Neutral	Neutral	Neutral
12m PT (AED)	12.4	31.5	9.4	8.6	27.5
Potential upside	57%	50%	39%	37%	36%

Relative performance – AED index, 100 = April 07, 2007



Dubai banks

	ENBD	CBD	DIB	MSQ
Rating	Neutral	Neutral	Neutral	Sell
12m PT (AED)	14.9	13.0	12.7	283.1
Potential upside	35%	35%	34%	10%



Coverage view (EMEA New Market Banks): NEUTRAL

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The prices in the body of this report are based on the market close of April 10, 2008

UAE banks: We believe a valuation premium is justified

Our 12-month NAV-derived price targets indicate that on average the UAE banks under our coverage offer an attractive c. 35% potential upside. We screen banks for exposure to real estate and Islamic finance, corporate relationships and liquidity. As a result, we add First Group Bank (FGB) and Union National Bank (UNB) to our Buy List and Mashreqbank to our Sell List. We believe that UAE banks offer relatively low risk in relation to peers in similar markets; hence, given their profitability and growth outlook, they should trade at a premium to peers. However, we calculate that UAE banks are trading merely in line with banks in New Markets, as illustrated in Exhibit 6.

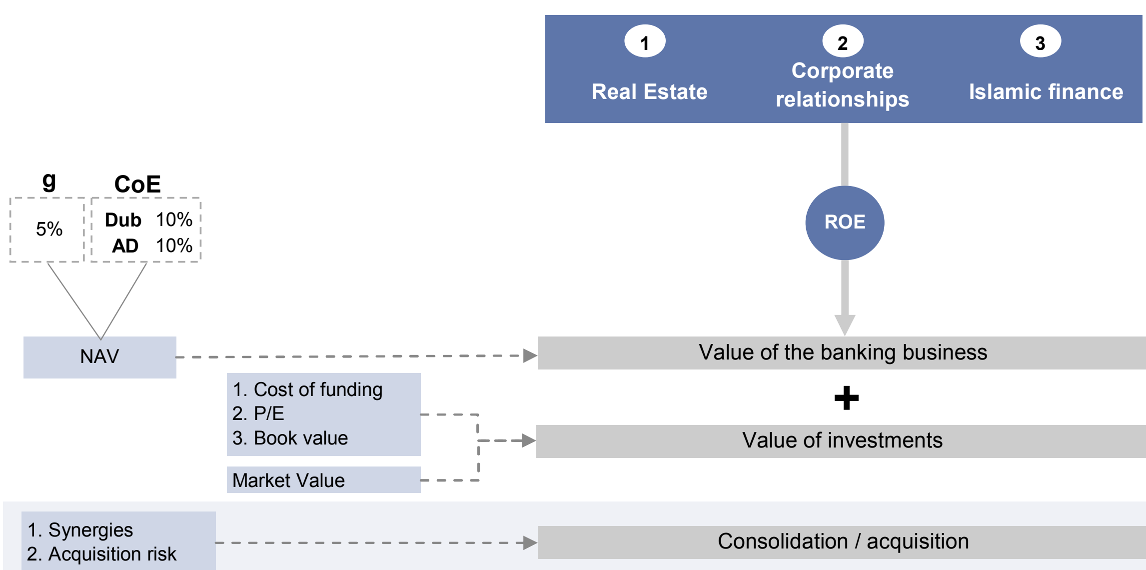
Real estate, corporate relationships and Islamic finance key drivers

We believe that returns in the UAE banking sector will be closely linked to three key drivers: (1) exposure to real estate; (2) corporate relationships; and (3) Islamic finance. Our valuation methodology captures these aspects through company-specific estimates, which we use to derive our valuation of the banking business. We describe in detail each of this aspects in following chapters of this report.

Given the significant participation of banks in the real estate sector, either indirectly through lending or by direct investments, we have split valuation in two parts. First in order to facilitate the valuation of banking assets, we calculate bank-only ROE and derive the value of this part of the business based on net asset value. To that we add the value of other investments, mainly assets in the real estate sector, by taking into consideration: (1) cost of funding; (2) equity allocation and book value; (3) banking business P/E multiples; and (4) market value if listed. Please refer to pages 26-52 for a detailed description of this methodology by bank.

Finally, although not directly incorporated in our methodology, we believe that consolidation and acquisition risk may serve as an important catalyst for valuation (please refer to page 23 for our views on this topic). Exhibit 1 summarizes our valuation approach.

Exhibit 1: UAE bank valuation = NAV-derived banking value + participations/investment properties



Source: Goldman Sachs Research, Datastream.

FGB and UNB offer superior exposure to key sectors at a discount

We add FGB and UNB to our Pan-European Buy List. As seen in Exhibit 2, based on our 12-month NAV-based price targets, both banks offer c. 50% upside. We believe that growth and profitability will be supported by solid funding trends, growing participation in Islamic finance, rapidly expanding international operations and potential to increase their exposure to Abu Dhabi's attractive real estate sector. Both banks also screen high in terms of "investment availability"; as we describe below, liquidity could be a key differentiating factor behind stock performance.

Exhibit 2: Offering significant potential upside, FGB and UNB are our top picks in the UEA banking sector

(2009E)	NBAD	FGB	ADCB	UNB	ADIB	ENDB	MSQ	DIB	CBD
Headline ROE	22.6%	21.9%	18.5%	18.2%	19.8%	17.4%	21.5%	25.6%	19.5%
Headline P / B	2.6x	1.9x	1.8x	1.6x	1.4x	1.7x	2.8x	2.4x	2.1x
Headline P / E	12.2x	9.4x	10.6x	9.6x	9.9x	10.4x	14.0x	10.1x	11.5x
GS Bank ROE	22.6%	15.8%	18.2%	18.2%	14.7%	15.7%	21.3%	15.4%	19.5%
GS P / E (at price target)	16.0x	14.1x	14.8x	15.1x	13.5x	14.0x	13.6x	13.5x	15.5x
Estimated mkt cap at price target (AED mn)	54,440	43,271	37,653	23,322	16,983	75,333	41,438	43,638	18,331
12-m price target (AED)	**27.5**	**31.5**	**9.4**	**12.4**	**8.6**	**14.9**	**283.1**	**12.7**	**13.0**
# Shares (mn)	1,977	1,375	4,000	1,875	1,971	5,053	146	3,445	1,412
Current market capitalisation (AED mn)	40,026	28,806	27,120	14,888	12,434	55,830	37,835	32,593	13,554
Per share (AED)	20.25	20.95	6.78	7.94	6.31	11.05	258.46	9.46	9.60
Upside / (downside) potential to price target	36.0%	50.2%	38.8%	56.7%	36.6%	34.9%	9.5%	33.9%	35.2%
(2008E)									
GS EPS	1.47	1.81	0.58	0.71	0.52	0.93	15.52	0.72	0.71
GS P / B	3.0x	2.3x	2.2x	1.9x	1.6x	1.9x	3.3x	2.8x	2.4x
GS P / E	13.8x	11.6x	11.7x	11.1x	12.2x	11.9x	16.7x	13.1x	13.6x
GS ROAE	23.6%	22.0%	19.6%	18.5%	18.2%	17.3%	21.5%	22.5%	19.4%
(2009E)									
GS EPS	1.67	2.23	0.64	0.82	0.64	1.06	18.48	0.94	0.84
GS P / B	2.6x	1.9x	1.8x	1.6x	1.4x	1.7x	2.8x	2.4x	2.1x
GS P / E	12.2x	9.4x	10.6x	9.6x	9.9x	10.4x	14.0x	10.1x	11.5x
GS ROAE	22.6%	21.9%	18.5%	18.2%	19.8%	17.4%	21.5%	25.6%	19.5%

Source: Bloomberg, Goldman Sachs Research estimates.

Liquidity could be a key factor behind share performance

Even though most of the UAE banks in our coverage universe have a significant free float, allow foreign ownership and have market capitalizations north of US$3 bn, we found marked differences in terms of liquidity.

We rank the UAE banks in terms of "investment availability" which we incorporate into our stock selection process (see Exhibit 3). To do this, we assign them a grade based on four different factors. (1) free float; (2) maximum foreign ownership allowed; (3) free float currently available to foreign investors; and 4) liquidity, as measured by median daily volume over the last 12 month period. A simple arithmetic average of these individual scores determines the final place in the ranking.

One important conclusion of this analysis is that banks like Mashreqbank and CBD are prone to show abnormal trading patterns, affecting relative performance. For instance, Mashreqbank has outperformed the UAE banking sector by c.9% in the last month. We believe that this trend is not backed by a substantial improvement in fundamentals; instead, we attribute this mostly to sub par levels of liquidity. To be sure, Mashreqbank's daily trading average for the last 12 months was around US$700k and the median only c. US$150k. As explained in page 50, this supports our decision to initiate coverage of Mashreqbank with a Sell rating.

Exhibit 3: Ranking of UAE banks based on investment availability
As of April 10, 2008

		Free Float	Max. foreign ownership	Currently owned by		Currently available to foreign investors	Market Cap ($ mn)	Median 12m daily volume ($ mn)
				GCC investors	Foreign investors			
High	UNB	40%	40%	-	6.4%	33.6%	4,057	1.21
	FGB	38%	30%	-	17.1%	12.9%	7,849	6.16
	ADCB	35%	25%	-	4.8%	20.2%	7,390	2.75
Medium	NBAD	27%	25%	-	1.7%	23.3%	10,906	0.94
	DIB	58%	15%	4.8%	8.2%	2.1%	8,881	18.10
Low	ENBD*	44%	5%	1.7%	1.5%	1.9%	15,213	1.78
Poor	ADIB	19%	0%	-	-	-	3,388	4.61
	MSQ	13%	0%	-	-	-	10,309	0.16
	CBD	80%	0%	-	-	-	3,693	0.14

* Since October 2007

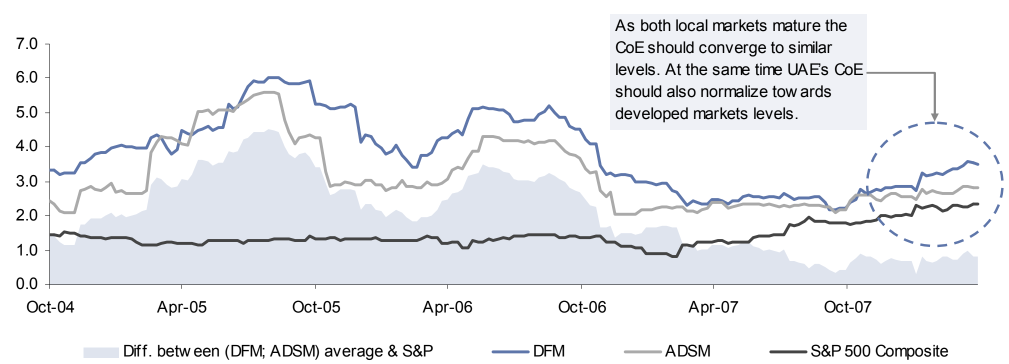
Source: Company data, ADSM, DFM, Bloomberg, Goldman Sachs Research.

As the ADSM and DFM mature, convergence should drive valuation

As expected of relatively new markets, volatility in both the Abu Dhabi Securities Market (ADSM) and Dubai Financial Market (DFM) has been high when compared with established markets like those represented by the S&P 500. However, it is also expected that this gap will reduce significantly as these markets mature. Indeed, as seen in Exhibit 4, this is exactly what has taken place in the last two years. We believe that this process should not only continue, but accelerate as both markets gain in depth and breadth.

Nonetheless, in the meantime, the equity risk premium calculation, and thus the cost of equity, will remain a challenge. There is certainly a meaningful difference in volatility between the DFM and the ADSM, which we estimate to be around one percentage point, as measured by the standard deviation of daily returns relative to the S&P 500. Even though the gap has recently been converging, it has remained constant in the last 12 months. This could lead to a meaningful divergence when valuing similar assets traded in different exchanges. In our view, structural differences that will dissipate over time are mostly to blame. For instance, even though there are almost twice as many constituents in the ADSM index vs. the DFM index, only 23 record daily trading volumes higher than US$1 mn whereas two-thirds of DFM constituents exceed this level.

Exhibit 4: The volatility of the ADSM and DFM volatility has been converging to normalized levels



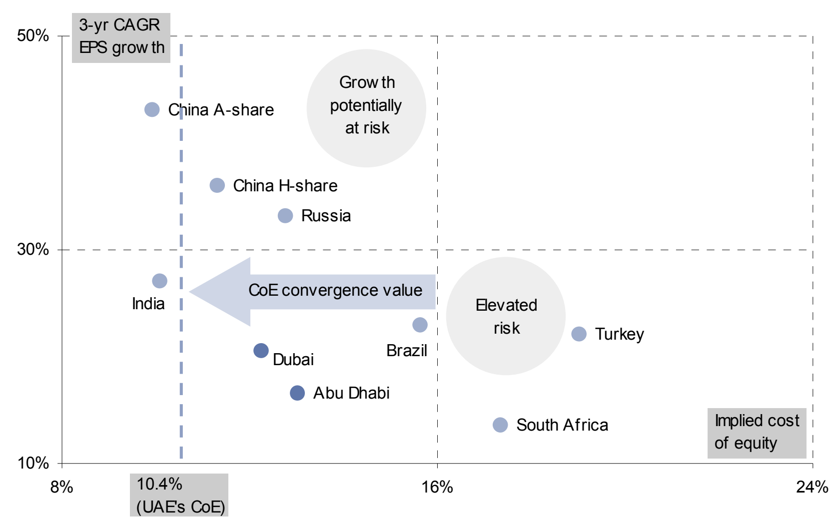
Source: Datastream, Goldman Sachs Research.

For the purpose of valuation, we have assumed that both markets should exhibit similar levels of volatility in the medium term as they have similar structures, with the banking sector as a core constituent. Thus, we have taken the average measure of volatility for both markets as a benchmark for the UAE in order to calculate the applicable CoE, which at the moment we estimate at 10.4%.

To illustrate the potential value of convergence, in Exhibit 5 we plot the bank average for several developing markets using two parameters. On one axis we take the implied cost of equity as suggested by current market prices and GS estimates for ROE. One the second axis, we add the three-year CAGR based on GS annual EPS growth projections.

We believe that markets falling in the quadrant defined by implied CoE lower than 16% and earnings growth projection lower than 30%, and whose valuation multiples place the CoE above the theoretical calculation, could offer compelling valuation potential based on convergence. Furthermore, we believe that the main reason behind UAE banks' currently low valuation multiples has been excessive volatility in international capital markets, as we think that our earnings estimates are hardly demanding. To be sure, we forecast lower earnings growth only in South Africa, out of the markets included in this chart.

Exhibit 5: UAE banks' valuation should be supported by attractive but undemanding growth forecasts and by convergence to normalized levels of CoE
Based on banks covered by Goldman Sachs



Source: Datastream, Goldman Sachs Research estimates.

A valuation premium to New Markets peers is justified, in our view

As shown in Exhibit 6, UAE banks trade in line with peers in New Markets (excluding Chinese banks). We find this at odds with the superior fundamentals of the UAE banking sector. In particular, we believe that growth and profitability will be strongly supported by solid funding trends, growing participation in Islamic finance, rapidly expanding international operations and potential to increase bank exposure to the booming real estate sector.

In our view, volatility in global capital markets is mostly to blame for this unjustified convergence in multiples. Indeed, as recently as the beginning of February, UAE banks traded at more than a 20% premium to the same group of banks based on 2009E P/Es. We believe that as external factors normalize, investors should find UAE bank valuations compelling based on stronger fundamentals and attainable growth expectations.

Exhibit 6: UAE banks valuation is aligned to that of New Markets peers; we believe they should trade at a premium
Bank valuation table – BRICs and New Markets (EPS in AED)

	EPS				08E/07	09E/08E	10E/09E	P/E (X)				P/BV	ROE	Dividend
	2007	2008E	2009E	2010E	growth	growth	growth	2007	2008E	2009E	2010E	2009E	2009E	Yld 08E
UAE					**16.0%**	**18.1%**	**17.8%**	**15.1**	**13.0**	**11.0**	**9.4**	**2.1**	**20.7%**	**2.0%**
Abu Dhabi					**12.0%**	**16.1%**	**15.9%**	**13.8**	**12.3**	**10.6**	**9.2**	**2.1**	**20.7%**	**1.1%**
National Bank of Abu Dhabi	1.31	1.47	1.67	1.92	12.3%	13.5%	15.1%	15.5	13.8	12.2	10.6	2.6	22.6%	1.6%
First Gulf Bank	1.46	1.81	2.23	2.61	24.1%	23.0%	16.9%	14.3	11.6	9.4	8.0	1.9	21.9%	0.9%
Abu Dhabi Commercial Bank	0.64	0.58	0.64	0.70	-8.6%	9.7%	10.3%	10.6	11.7	10.6	9.6	1.8	18.5%	0.0%
Union National Bank	0.62	0.71	0.82	0.99	14.5%	15.6%	19.5%	12.7	11.1	9.6	8.1	1.6	18.2%	2.2%
Abu Dhabi Islamic Bank	0.41	0.52	0.64	0.79	25.5%	23.5%	24.0%	15.3	12.2	9.9	7.9	1.8	19.8%	1.6%
Dubai					**19.6%**	**19.9%**	**19.4%**	**16.3**	**13.6**	**11.4**	**9.5**	**2.2**	**20.6%**	**2.7%**
Emirates NBD	0.80	0.93	1.06	1.27	16.2%	14.7%	19.4%	13.9	11.9	10.4	8.7	1.7	17.4%	2.8%
Mashreqbank	12.98	15.52	18.48	21.99	19.5%	19.1%	19.0%	19.9	16.7	14.0	11.8	2.8	21.5%	2.0%
Dubai Islamic Bank	0.55	0.72	0.94	1.13	32.0%	30.2%	20.4%	17.3	13.1	10.1	8.4	2.4	25.6%	3.7%
Commercial Bank of Dubai	0.68	0.71	0.84	0.99	3.6%	18.4%	18.4%	14.1	13.6	11.5	9.7	2.1	19.5%	2.5%
Turkey					**32.1%**	**18.2%**	**15.3%**	**9.3**	**7.1**	**6.0**	**5.2**	**1.3**	**23.0%**	**4.6%**
UAE					**16.0%**	**18.1%**	**17.8%**	**15.1**	**13.0**	**11.0**	**9.4**	**2.1**	**20.7%**	**2.0%**
UAE - Abu Dhabi					**12.0%**	**16.1%**	**15.9%**	**13.8**	**12.3**	**10.6**	**9.2**	**2.1**	**20.7%**	**1.1%**
UAE - Dubai					**19.6%**	**19.9%**	**19.4%**	**16.3**	**13.6**	**11.4**	**9.5**	**2.2**	**20.6%**	**2.7%**
Brazil					**22.1%**	**24.8%**	**19.9%**	**12.2**	**10.0**	**8.0**	**6.7**	**2.0**	**27.1%**	**3.9%**
Russia					**28.5%**	**39.4%**	**31.6%**	**19.4**	**15.2**	**10.8**	**8.2**	**1.7**	**18.1%**	**0.7%**
India					**37.1%**	**5.7%**	**24.2%**	**27.5**	**20.3**	**19.0**	**15.4**	**2.7**	**15.7%**	**1.1%**
China - A					**41.0%**	**20.5%**	**na**	**26.5**	**18.8**	**15.6**	**na**	**3.2**	**22.1%**	**2.2%**
China - H					**49.2%**	**24.3%**	**na**	**21.9**	**14.6**	**11.8**	**na**	**2.6**	**23.7%**	**2.8%**
South Africa					**10.8%**	**14.9%**	**14.9%**	**8.5**	**7.7**	**6.6**	**5.8**	**1.5**	**23.2%**	**5.4%**
Poland					**50.9%**	**12.3%**	**3.1%**	**19.9**	**13.4**	**12.0**	**11.6**	**2.8**	**25.3%**	**4.5%**
Hungary					**57.0%**	**12.0%**	**12.2%**	**12.5**	**7.9**	**7.1**	**6.3**	**1.5**	**21.8%**	**3.5%**
Czech Republic					**32.9%**	**7.4%**	**11.4%**	**17.1**	**12.9**	**12.0**	**10.8**	**2.4**	**21.4%**	**4.1%**
Israel					**-19.2%**	**8.6%**	**na**	**5.8**	**7.3**	**6.7**	**na**	**0.9**	**14.1%**	**3.4%**
Eur. NM Operators *					**7.8%**	**20.3%**	**23.7%**	**13.6**	**12.6**	**10.6**	**8.5**	**1.5**	**15.4%**	**1.6%**
New markets average					**36.7%**	**21.1%**	**20.2%**	**21.3**	**15.4**	**12.8**	**9.1**	**2.6**	**22.0%**	**2.6%**
New markets average (ex China A & H)					**26.0%**	**19.8%**	**20.2%**	**16.2**	**12.8**	**10.8**	**9.1**	**2.0**	**21.0%**	**2.8%**

(*) Includes Erste bank & Raiffeisen

(a) All estimates correspond to consensus expected figures provided by I/B/E/S (i.e. EPS, BVPS, ROE and DPS), except for banks in GS coverage universe

Source: Bloomberg, Datastream, Goldman Sachs Research estimates.

Risks

We list below the risks to our views on the sector which could lead to lower earnings growth and profitability estimates and higher levels of CoE, all of which could negatively affect UAE bank valuations. Please refer to pages 26-52 for stock-specific risks:

- **Economic dependency on the oil industry:** Although we expect oil prices to remain supported at historically high levels, any developments leading to a sharp fall in oil prices would negatively affect earnings growth and valuation multiples.
- **Real estate concentration:** At the same time, even though we have a constructive view on the real estate sector, any developments negatively affecting asset prices in this segment would put meaningful pressure on earnings growth and valuation multiples.
- **Strong trade flows with Iran:** Strong economic links with Iran could result in a sharp deterioration of trade finance and higher cost of equity, should geopolitical tension in the region emerge.
- **Deposit concentration:** Due to the structure of the economy and a small retail sector, banks exhibit a high concentration of deposits among a few large accounts.
- **Margin pressure on the back of wholesale funding costs:** Although we expect deposit growth in local currency to remain robust, banks rely mostly on international markets for long-term financing and for debt in foreign currencies. This could put

pressure on margins in certain segments like project finance, increase the cost of hedging and result in slower asset growth.

- **High inflationary pressure:** Resilient inflationary pressure and lack of effective measures to contain it may ultimately result in asset quality deterioration and operating cost pressure.
- **Acquisition risk:** Exceptionally high levels of liquidity due to high oil prices, increasing domestic competition and a relatively small retail market may encourage banks to look abroad for inorganic growth opportunities which, depending on acquisition multiples, could lead to earnings dilution.
- **Margin pressure from international competition:** International banks could introduce significant competitive pressure in certain segments including corporate finance, wealth management and investment banking.
- **Lack of disclosure:** Publicly available financial information is in some cases insufficient to determine deposit concentration, adequate levels of capitalization, asset quality and exposure to investments in troubled asset classes.
- **Regulation:** In some aspects like real estate exposure, the regulatory framework has not been reviewed recently and may not provide banks with accurate guidance to operate in a fast-changing environment.

Booming oil and real estate sectors more a catalyst than a risk

Relentless growth on the back of high oil prices and a booming real estate sector brings into question its sustainability, the possibility of risky asset price inflation and rapid asset quality deterioration. Despite enduring appreciation rates and rising unit supply, we estimate that real estate prices will continue to benefit from robust demand, particularly in Abu Dhabi. We also believe oil prices will remain high, injecting increasing liquidity into the system. In our view, these conditions will provide banks in the medium term with a robust pipeline of corporate activity, attractive opportunities in the real estate sector and access to abundant funding. However, at current growth and profitability levels, more capital may be required.

An economy firing on all cylinders

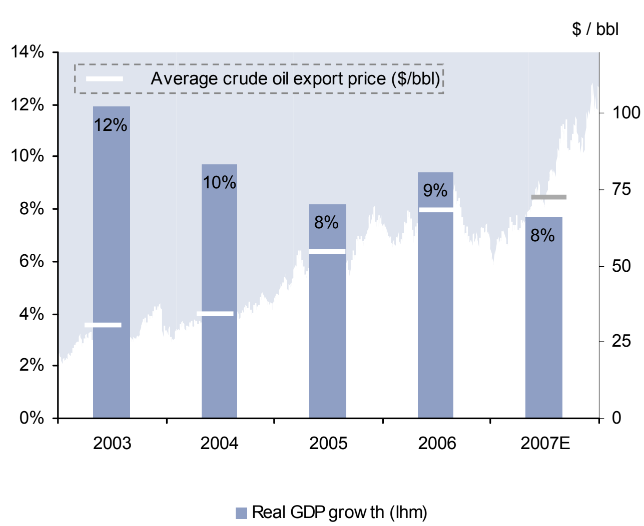
As oil prices quadrupled in the last five years, the UAE economy has expanded strongly. Real GDP growth in the same period averaged 9.5% annually (see Exhibit 7). Against this exceptionally robust economic backdrop, asset prices have benefited significantly, particularly in the real estate sector, where intense activity is transforming the landscape at a relentless pace. Equities have observed periods of high volatility, but have also recorded meaningful gains in the last three-year period (see Exhibit 8).

The economic outlook is unlikely to change in the medium term as oil price entrenches well above $100/bbl. Goldman Sachs Oil analysts have recently revised oil prices estimates upwards for the 2008-2012 period, and see upward risks to their new forecasts possibly leading to $150-$200/bbl oil prices.

We believe that UAE banks will continue to benefit from this environment as:

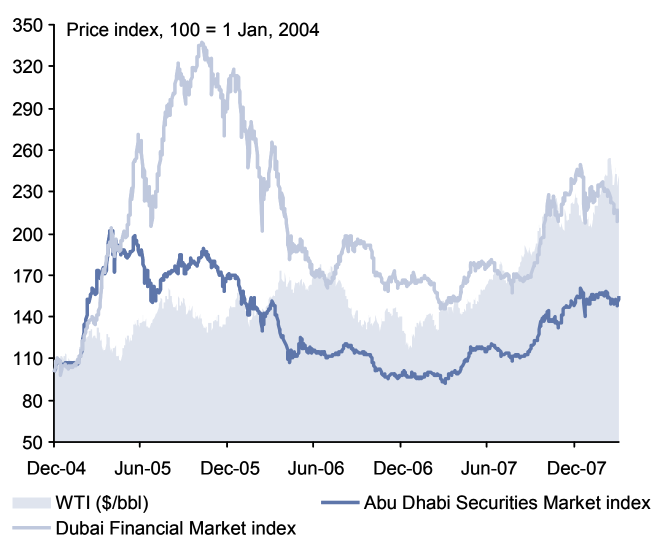
1. Negative real interest rates boost lending;
2. Deposit growth remains robust; and
3. Real estate and equity prices support investment gains.

Exhibit 7: Sustained high oil prices have boosted economic growth...



Source: Central Bank of UAE, IMF.

Exhibit 8: ... coinciding with a strong, albeit volatile, equity markets performance



Source: Bloomberg.

Monetary policy likely to remain supportive of loan growth

Policy dilemmas facing the UAE are intensifying by the day. Committed to the dollar peg, the UAE central bank is forced to ease monetary policy at a time when the economy is growing at full throttle, well above trend, and generating considerable inflation pressure.

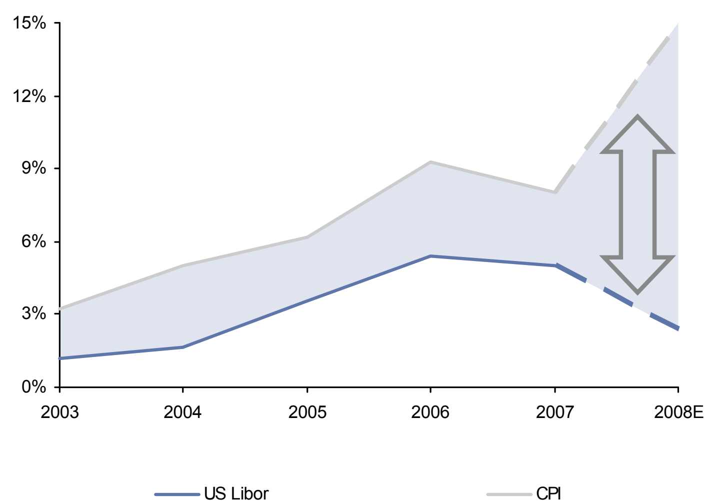
However, our economists continue to believe that an imminent FX adjustment is unlikely. In fact, most governments in the region seem more inclined to use non-orthodox measures to bring inflation under control, often entertaining the idea of introducing price and rental controls, credit rationing and subsidies. We believe that these measures can only provide temporary relief, ultimately leading to inefficiency and probably prove inflationary over the medium term.

In the absence of an FX regime change, real interest rates continue to dwell deep into real negative territory (see Exhibit 9). This is fueling strong demand for credit, providing banks with a favorable environment to develop their retail franchises.

We acknowledge that in the longer term high inflationary pressure may result in inefficient asset allocation and risk mis-pricing. In the short term, we deem it unlikely that banks will experience significant asset quality deterioration as retail banking remains a small portion of their loan portfolios.

In our view, risks are more likely to materialize in the form of FX exposure and operating cost pressure. However, in anticipation of a likely change in FX regime, banks have adjusted their balance sheets to reflect relatively small open FX positions, mostly hedging through central bank instruments. Cost pressure is likely to be a more visible risk; as such, we have incorporated in our earnings estimates substantial growth in real wage cost and administrative expenses.

Exhibit 9: Inflation and interest rates continue to move in opposite directions resulting in increasingly negative interest rates



Source: Datastream, Goldman Sachs Economics Research.

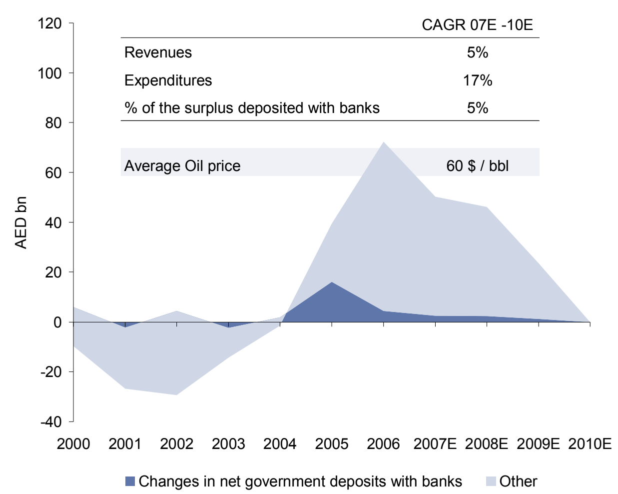
Deposit growth likely to receive a boost as oil prices hit new highs

To sustain strong asset growth, UAE banks will have to rely on sources of funding other than wholesale, given that external markets are likely to remain challenging. We believe that they will encounter few difficulties as liquidity in the system is prone to remain elevated on the back of high oil prices.

To illustrate this, we have calculated the level of UAE government surplus funds likely to be deposited with banks in the next three years based on oil prices. In order to do that, we have made assumptions based on government revenue growth, expenditures and percentage of surplus funds deposited with banks. To provide some sensitivity, we have also presented two scenarios. The first one, which we call "ultra-conservative", assumes oil prices at US$60/bbl, a ratio of expenditures to revenues increasing to 100% by 2010, and only 5% of the surplus deposited with banks annually (see Exhibit 10). This bearish case represents the highly improbable outcome that banks will see little incremental deposit inflows from the government.

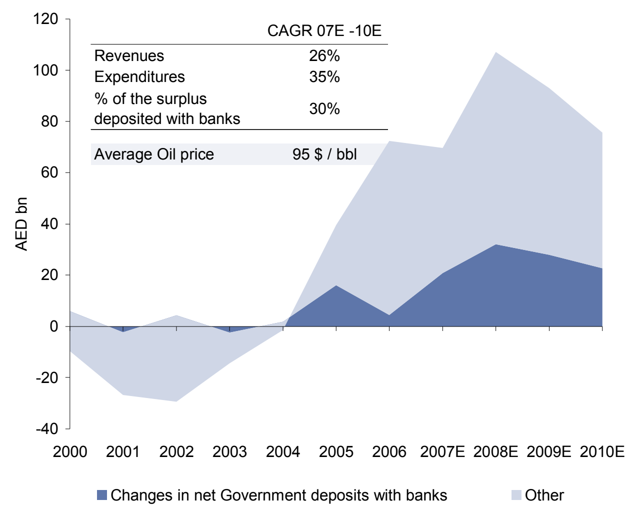
A more realistic approach is depicted in Exhibit 11. This assumes an oil price of US$95/bbl, a ratio of expenditures to revenues increasing to 85% by 2010, and 30% of the surplus deposited with banks annually. Based on these assumptions, we calculate that UAE banks could receive a net incremental deposit flow from the government amounting to AED85bn in the next three years. Obviously this only considers one source of deposits; UAE banks are likely to observe even more robust inflows from corporate customers, wealthy individuals and even retail customers.

Exhibit 10: Bank deposit windfall at US$60/bbl
Ultra-conservative scenario



Source: Central Bank of UAE, Goldman Sachs Research estimates.

Exhibit 11: Bank deposit windfall at US$95/bbl
Realistic scenario



Source: Central Bank of UAE, Goldman Sachs Research estimates.

Real estate appreciation remains strong, but not out of whack

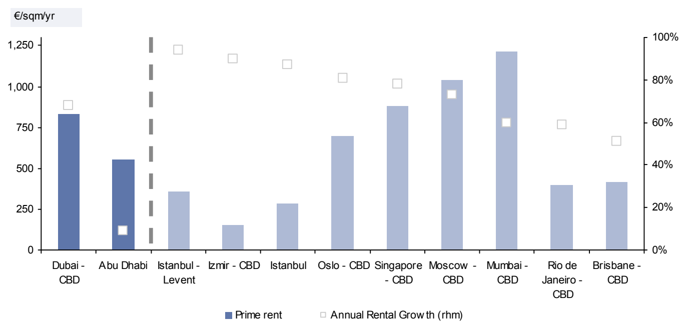
The real estate sector in UAE has been experiencing a boom since property reforms were enacted and the economy began to feel the effect of higher oil prices. This, of course, raises the risk of oversupply in coming years.

We believe that growth and returns are more sustainable than the market appears to believe (judging by the current discount to NAV assigned to developers). It is true that growth in construction and real estate is at all-time highs (34% and 31% y-o-y in 2006 according to the most recently available GDP data), but it is less clear that this is excessive, given rapidly rising demand. Rents are rising (see Exhibit 12), as an indication of real end-user demand rather than off-plan sales, and vacancy rates are low in both residential and commercial segments.

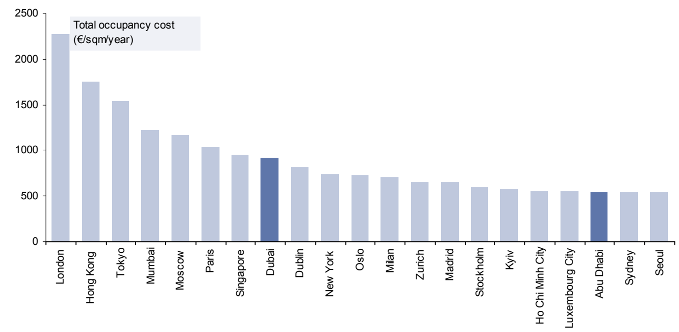
Our analysis of demand and supply in the Dubai and Abu Dhabi markets do not suggest substantial oversupply over the medium term. We believe demand and supply will remain in reasonable balance as shown in Exhibit 13. In addition, occupancy costs in both Dubai and Abu Dhabi remain relatively in line with international standards as shown in Exhibit 12.

Exhibit 12: Real estate prices both in Abu Dhabi and Dubai remain aligned with international standards

Best performing locations in 2007

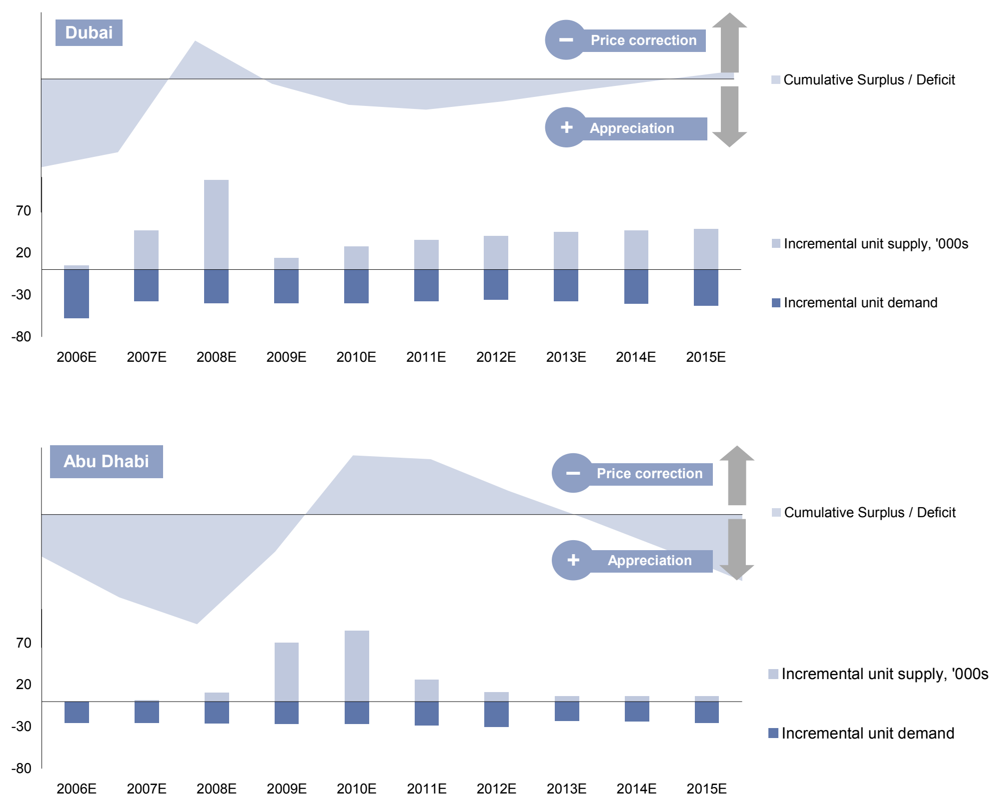


Most expensive locations in each country



Source: Cushman & Wakefield.

Exhibit 13: We believe demand and supply in the UAE real estate sector will remain in reasonable balance throughout 2015



Source: Goldman Sachs Research estimates.

Please refer to our report: *Initiating coverage in the Middle East: We select our top ten beneficiaries of the boom*, September 29, 2007 for a detailed description of the Goldman Sachs real estate model for the UAE, including our assumptions for population growth, the proportion of the workforce in communal accommodation and the ratio of inhabitants per household.

Real estate represents a substantial opportunity for banks

Mortgage and housing finance has only been a small part of UAE banks participation in the real estate sector. Indeed, Tamweel and Amlak, two large Islamic mortgage finance companies, control around half of the market.

Nonetheless, mortgage penetration is low at around 8% of GDP. Our forecasts suggest that this could be as high as 15% by 2010, based on demographic changes, expectations of property delivery, mortgage take-up and typical LTV. We quantify this at around AED60bn incremental lending for UAE banks in the next three years, representing a meaningful opportunity for growth.

Banks are also likely to continue benefiting from the real estate boom directly, as most of them have real estate subsidiaries, own significant investments in land and properties and/or have close links to the government and members of the ruling families. With a total project pipeline hovering at the US$400 bn level (see Exhibit 14), we believe this will continue to have a material impact on earnings.

Exhibit 14: Significant savings in SWF and a robust pipeline of projects will continue to support strong demand for corporate finance, stimulate investment opportunities and support loan growth, in our view

Country	Fund Name	Assets $Billion	Inception
UAE - Abu Dhabi	Abu Dhabi Investment Authority	$875	1976
Norway	Government Pension Fund of Norway	$380	1990
Singapore	Government of Singapore Investment Corporation	$330	1981
Saudi Arabia	Various Holdings	$300	n/a
Kuwait	Kuwait Investment Authority	$250	1953
China	China Investment Corporation	$200	2007
China - Hong Kong	Hong Kong Monetary Authority Investment Portfolio	$163	1998
Singapore	Temasek Holdings	$159	1974
Australia	Australian Future Fund	$61	2004
Qatar	Qatar Investment Authority	$50	2000
Libya	Libyan Arab Foreign Investment Company	$50	1981
Algeria	Revenue Regulation Fund	$43	2000
UAE - Dubai *	Investment Corporation of Dubai	--	--
UAE - Federal *	Emirates Investment Authority	--	--
US - Alaska	Alaska Permanent Fund	$40	1976
Russia	National Welfare Fund	$32	2008
Ireland	National Pensions Reserve Fund	$31	2001
Brunei	Brunei Investment Agency	$30	1983

* Estimated ranking

Project ($ bn)	Location	Estimated cost ($bn)
Hydrocarbons		
Upstream oil productions	Abu Dhabi	20.0
Gas production	Abu Dhabi	10.0
Downstream oil production	Abu Dhabi	5.0
Manufacturing		
Emirates Aluminum Smelter	Abu Dhabi	5.0
Khalifa Industrial City	Abu Dhabi	2.0
Real Estate / Tourism (above $10bn)		
Yas Island	Abu Dhabi	40.0
Business Bay	Dubai	40.0
Bawadi	Dubai	27.0
Saadiyat island	Abu Dhabi	27.0
Burj Dubai	Dubai	20.0
Dubailand	Dubai	20.0
The lagoons	Dubai	18.0
Dubai Festival City	Dubai	16.5
Raha Beach	Abu Dhabi	15.0
Mina Zayed	Abu Dhabi	15.0
Palm Deira	Dubai	13.0
Palm Jumeirah	Dubai	12.3
Ayn Project	Abu Dhabi	11.0
Transportation		
Jebel Ali Airport City	Dubai	20.0
Abu Dhabi Airport	Abu Dhabi	5.0
Abu Dhabi Seaport	Abu Dhabi	5.0
Dubai Light Rail	Dubai	3.0
Total of the projects by sector		400.6
Real Estate / Tourism (above $10bn)	Abu Dhabi / Dubai	325.6
Hydrocarbons	Abu Dhabi	35.0
Transportation	Abu Dhabi / Dubai	33.0
Manufacturing	Abu Dhabi	7.0
Total of the projects by Emirate		400.6
Abu Dhabi		172.0
Dubai		223.3
Other		5.3

Source: SWF institute, IMF, MEED, Goldman Sachs Research.

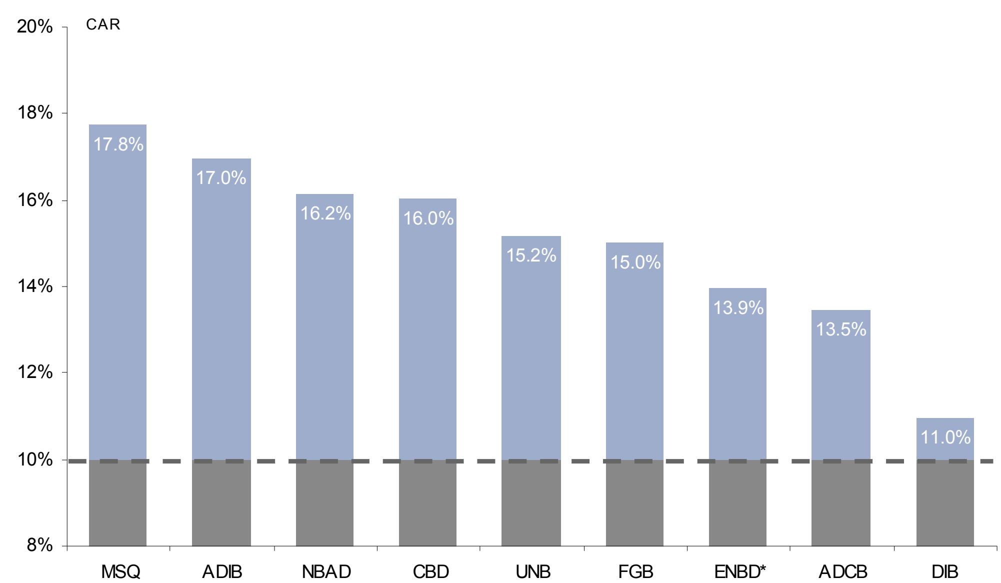
Capital levels remain adequate, but for how long?

Even though profitability in the UAE banking system is in line with the average for banks included in our New Markets universe (as seen in Exhibit 6), asset growth has been significantly higher. This has translated into a constant need for additional capital. Indeed, UAE banks have recently raised capital through rights issues (e.g., ADIB, DIB), subordinated debt (e.g., NBAD, Mashreqbank), and convertible debt (e.g., ADIB, FGB).

The latter has become particularly popular with banks. NBAD, FGB and ADCB have all recently announced their intention to issue significant amounts of convertible debt this year. We believe that a combination of high market volatility and increasing demand for bonds in the region has made this choice a relatively low cost and practical alternative. For the moment, this seems like a sensible strategy, in our view. However, unless profitability increases, dilution risk will continue to be a tangible possibility, especially on the back of significant operating cost pressure.

As seen in Exhibit 15, with the exception of DIB, capitalization levels as of year-end 2007 were comfortably above the minimum required level of 10% under UAE standards. As banks will need to comply with Basel II guidelines in 2008, there has been much speculation about the impact on capitalization. For instance, after accounting for market and operational risk, Turkish banks registered a drop in total capitalization in the region of 200 bps last year. Lack of disclosure in the UAE makes it nearly impossible to calculate the estimated impact with accuracy. This is not to say that we expect all implications on the back of Basel II to be detrimental of capital. Indeed, differences in risk assessment and thus asset weighting as well as different capital allocation for subsidiaries could provide a lift to total capitalization ratios. For instance, NBAD recently disclosed that under Basel II total capitalization would have increased by 30 bps compared to the reported ratio under UAE standards in 2007.

Exhibit 15: Capitalization levels are comfortably above the minimum required level of 10%
Capital adequacy ratio (based on UAE standards)– as of December 31, 2007



*Based on pro-forma financials

Source: Company data, Goldman Sachs Research estimates.

Corporate relationships at the core of UAE banks business model

Although supported by fast population growth, retail lending in the UAE accounts for only 7% of total loans. Thus, wholesale lending and wealth management is of significant importance. Due to substantial ownership concentration in the country, corporate relationships are a key driver of funding and lending trends, in our view. We also believe that these relationships may facilitate attractive investments, especially in the real estate sector. We highlight FGB and UNB in particular as likely beneficiaries of strong links to Abu Dhabi's government and ruling family.

Retail lending is not in the driving seat yet

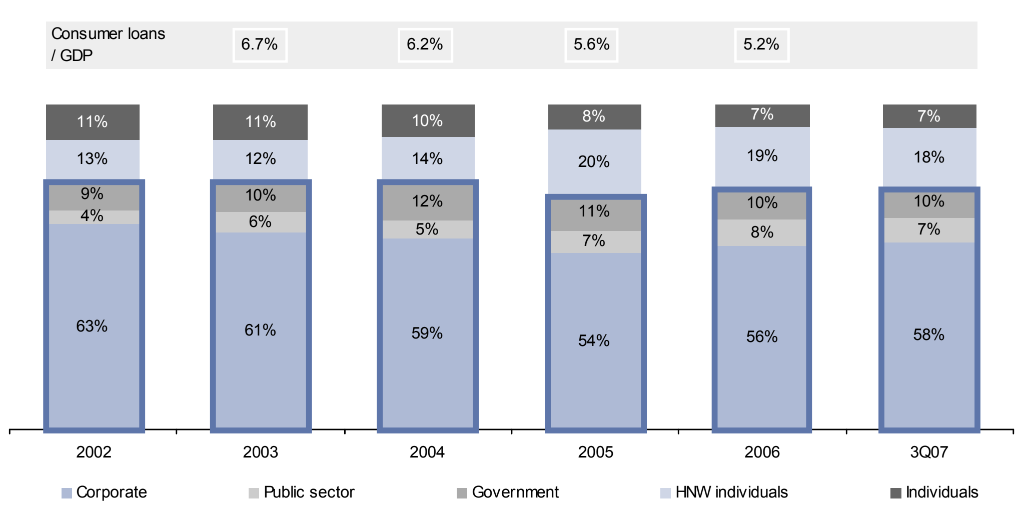
Excluding lending to high net-worth individuals, we calculate consumer loan penetration to be around 5% of GDP as of the end of 2007 (see Exhibit 15). This low level is unsurprising given the UAE's economic structure. Domestic economic growth is mainly driven by real estate, construction, trading flows and oil production.

Nonetheless, fast population growth, which we estimate at around 8% in 2007, is fueling demand for retail banking products. Assuming the population continues to grow at around 5% per annum, by 2018 the UAE's estimated population will be the size of Switzerland's today, and not very far from that of Austria and Sweden. This suggests that convergence may be an important driver of loan growth in the future, given that we estimate banking assets penetration in the UAE to be around half that of Europe's today, based on banking assets to GDP in PPP terms.

However, this process may be delayed by significant differences in demographics with UAE nationals only representing about one-quarter of the population. Low participation of women in the work force and higher levels of inequality, as measured by wealth distribution when compared with Europe, may also contribute to a slower development of the retail banking sector.

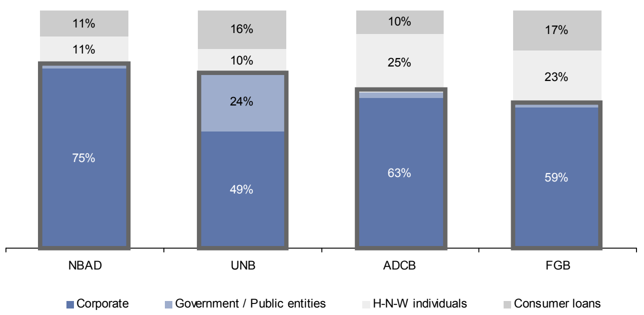
Hence, we believe that in the medium term, corporate banking and lending to high net-worth individuals will continue to claim the lion's share of asset growth in the banking sector, highlighting the importance of corporate relationships.

Exhibit 16: With a small retail sector, corporate relationships are the main lending driver
UAE banking system – loan portfolio breakdown by segment



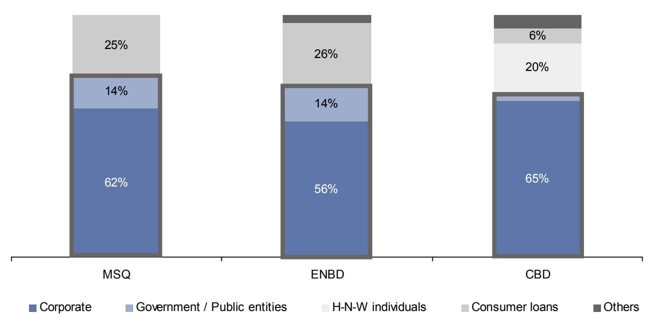
Source: Central Bank of UAE.

Exhibit 17: Abu Dhabi banks loan growth by segment
As of 2007 except for ADCB which is as of 2006



Source: Company data.

Exhibit 18: Dubai banks loan growth by segment
As of 2007 except for ENBD which is as of 2006



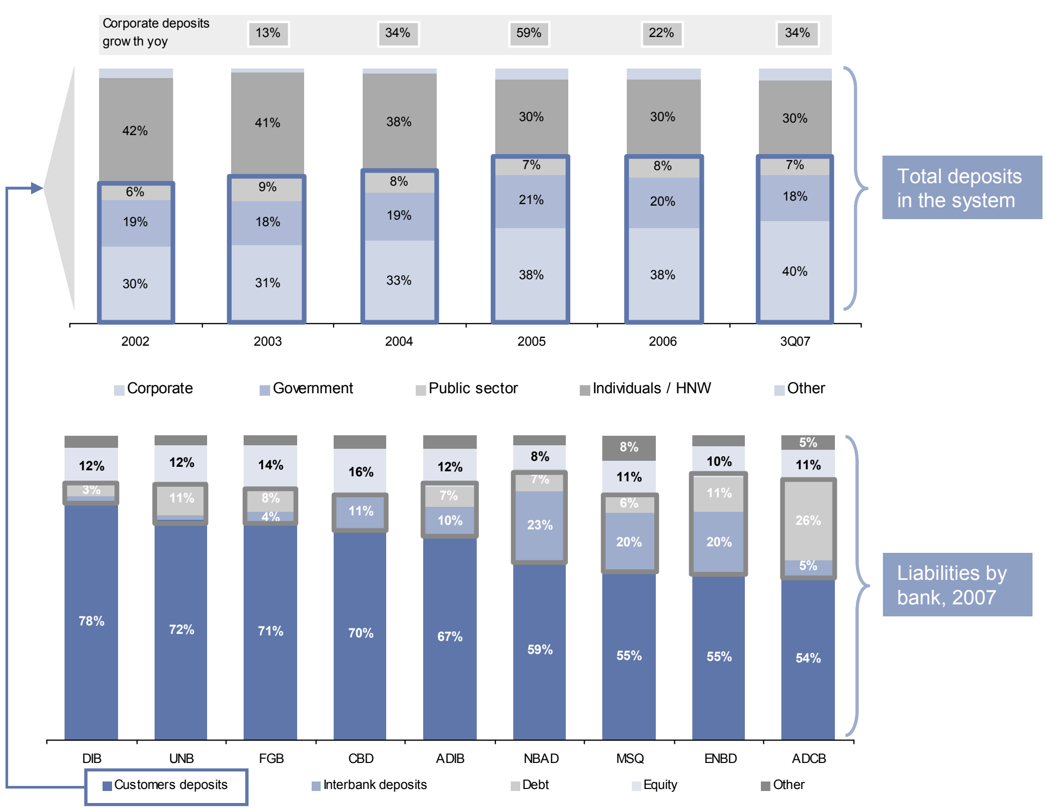
Source: Company data.

Funding trends are dominated by corporate deposits

Recent turmoil in credit markets put significant pressure on funding cost and credit availability for banks around the world. Banking sectors with high domestic leverage levels or with high dependency on external wholesale funding were left particularly vulnerable as liquidity evaporated. Against this backdrop, UAE's small retail banking sector and relentless growth pace raise questions regarding the sustainability of recent trends.

Nonetheless, as shown in Exhibit 19, debt is not an important component of UAE banks' liabilities; the main constituent are corporate and government deposits.

Exhibit 19: Corporate, government and public sector deposits account for more than half of total deposits in the system, which for most banks make the bulk of total liabilities

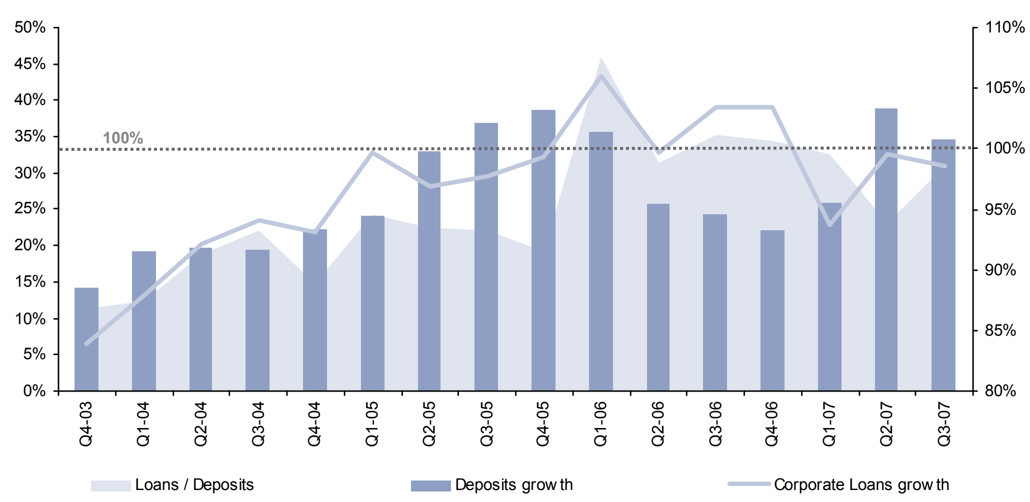


Source: Central Bank of UAE, Company data.

With the exception of ADCB, external wholesale funds represent less than 11% of total liabilities for the UAE banks under our coverage. In the case of ADCB, its commanding market share in project finance, lack of availability of domestic long-term funding, and currency exposure management have shaped its funding structure in a unique way. However, even in this case, long-term growth and margins are unlikely to be affected meaningfully in our view, as the bank may ultimately be able to transfer higher funding costs to its corporate clients.

Although the loan to deposit ratio in the banking system is close to 100% (see Exhibit 20), suggesting that UAE banks may soon need to finance incremental loan growth through wholesale funding, we believe that this will most likely be avoided as deposit growth should remain robust as we highlighted on page 10. It is also true that corporate deposit growth is quite lumpy in the UAE, as confirmed recently in the fourth quarter when banks registered double-digit sequential deposit growth, driving the loan to deposit ratio well below 100%.

Exhibit 20: Robust deposit growth should continue to support lending



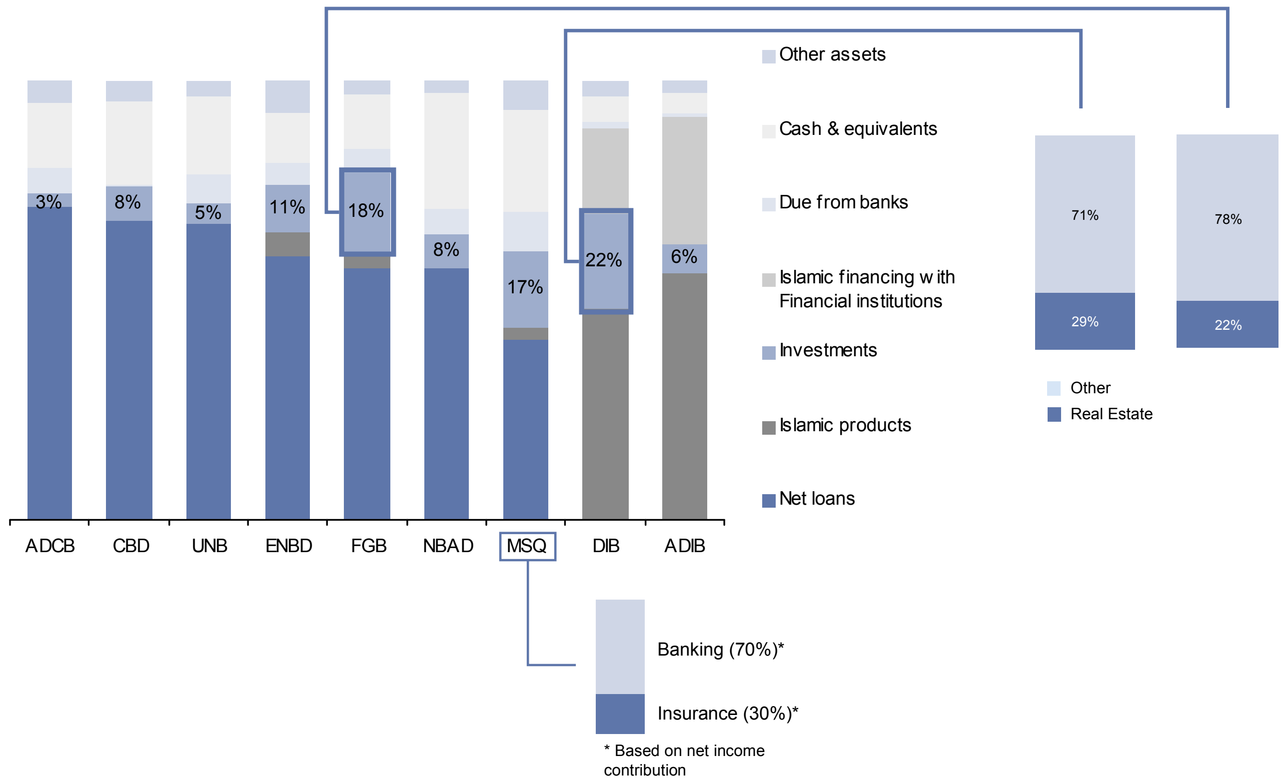
Source: Central Bank of UAE, Goldman Sachs Research.

In our view, rather than the availability of deposits, a key differentiating factor is access to the existing pool of funds. Given the high concentration of corporate and high net-worth individuals' deposits and that government and public sector deposits account for roughly one-quarter of the total in the system, we believe that corporate relationships play an important role in growth sustainability and the stability of the funding base.

Real estate investment represents a significant growth opportunity

Although mortgage finance is not an important source of growth for UAE banks, as we mentioned on page 13, the booming real estate sector has presented banks with other opportunities. Indeed, some have structured substantial investments in properties as well as established real estate development subsidiaries. In Exhibit 21, we have highlighted two banks, FGB and DIB, which we believe are likely to represent what other banks may want to emulate going forward in order to benefit directly from opportunities in this sector. Both moved in quite early to set up subsidiaries that looked to get exposure directly in this segment, capitalizing on: (1) easier access to funding; (2) strong connections with local governments; (3) low cost of land, in some cases donated as a grant by local authorities; and (4) cross-selling, leveraging on the banking platform.

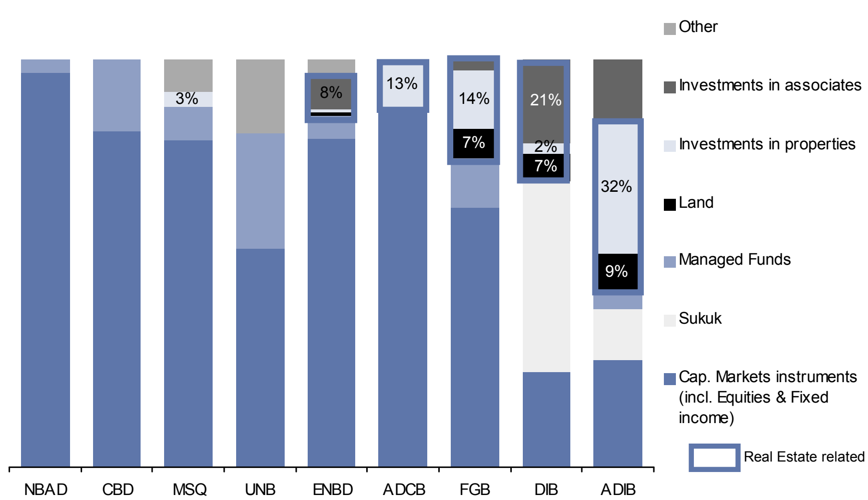
Exhibit 21: With the exception of Mashreqbank, which has a large insurance subsidiary, banks with large investment portfolios are mainly linked to opportunities in the real estate sector
Based on financial reports as of December 31, 2007



Source: Company data, Goldman Sachs Research.

However, FGB and DIB are the exception rather than the rule, as seen in Exhibit 22. Some banks have identified this as an important opportunity, including UNB, ADIB, ADCB and ENBD, most of which have subsidiaries dedicated to exploit opportunities in this sector.

Exhibit 22: Direct real estate exposure may constitute a significant growth opportunity
Breakdown of total investments as of December 31, 2007



Source: Company data, Goldman Sachs Research.

Mapping out the UAE banks ownership structure

With the exception of Mashreqbank, all the UAE banks included in our coverage universe list among their major shareholders either the government of Abu Dhabi or Dubai, or members of the ruling families in the UAE (see Exhibit 23). This doesn't come as a surprise given the corporate structure in the country, which displays a significant concentration of asset ownership in the government and other related parties. To illustrate this, we have outlined in Exhibit 24, the major holdings across industries for both the government of Abu Dhabi and the government of Dubai.

However, in our view there is at least one important distinction. In most cases ownership is bridged through a sovereign wealth fund, like ADIC or the Investment Corporation of Dubai. This may be deemed a financial investment or a strategic holding among several other assets in the same fund. Hence, it is worth highlighting that based on publicly available disclosure, only in the case of FGB and UNB, there is a substantial direct link to the government (i.e., UNB), and/or ruling family members in the country (i.e., FGB, ADIB).

As in any other economy, banks associated with large industrial holdings are prone to develop close relationships with other companies in the group. Even though there is strong competition in the UAE, we believe that FGB and UNB may benefit commercially from these relationships as they may experience more stable funding trends, higher cross selling ratios, and access to attractive investment and business opportunities.

Exhibit 23: High government and ruling family ownership in the banking sector and elevated asset ownership concentration highlights the importance of corporate relationships for lending, deposit and fee income growth

Abu Dhabi Bank

UNB	
Government of Abu Dhabi	40%
ADIC	10%
Investment Corporation of Dubai	10%
Free float	40%

NBAD	
ADIC	73%
Free float	27%

FGB	
Al Nahyan family	62%
Other	38%

ADIB	
Emirates International Investment Company	37%
Heirs of Al Nahyan family	29%
ADIC	10%
Jawaan Oweidah Suhail Oweidah Al Khaili	5%
Free float	19%

ADCB	
ADIC	65%
Free float	35%

Dubai Banks

CBD	
Investment Corporation of Dubai	20%
Free Float	80%*

DIB	
Investment Corporation of Dubai	30%
Saeed Ahmad Lootah	7%
General Pensions and Social Security Authority	4%
Kuwait Finance House	1%
Free Float	58%

Mashreqbank	
Abdullah Bin Ahmad Al Ghurair and family	67%
Al Ghurair Group	20%
Free Float	13%

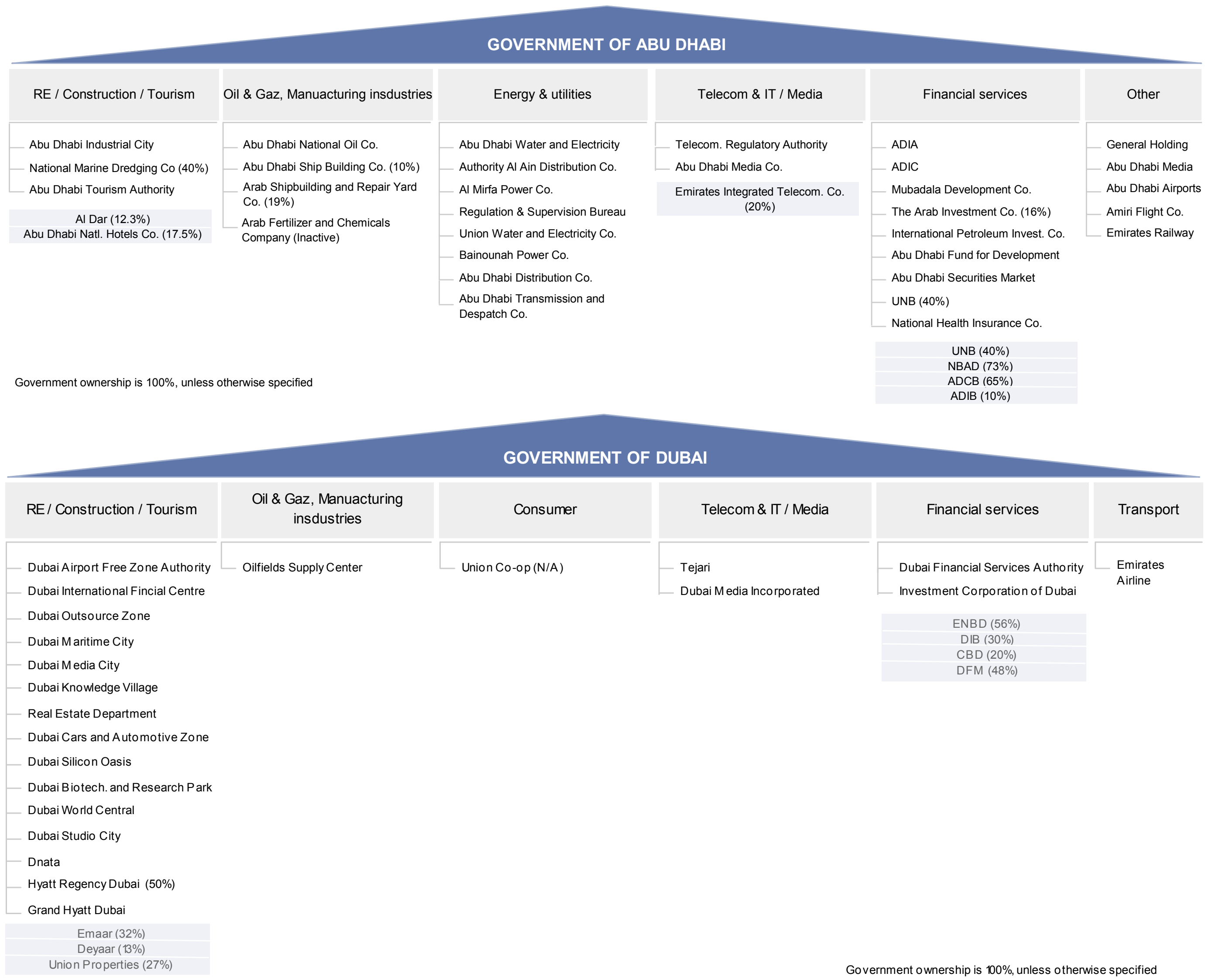
ENBD	
Investment Corporation of Dubai	56%
Free Float	44%

Government entity or ruling families related

* Low liquidity suggests that the effective free float is substantially lower

Source: Zawya Investors.

Exhibit 24: Corporate relationships are particularly important for lending and funding growth given ownership concentration in the UAE



Source: Zawya Investors

Islamic finance represents a substantial opportunity for UAE banks

We estimate that the Islamic finance market could grow at 17% per annum, reaching up to US$1.3trn by 2012. Banks in the GCC region, with increasing participation from the UAE, are gaining significant market share in the global context. Although growth in this segment domestically may come at the expense of conventional banking, we believe that UAE banks have a substantial opportunity to establish competitive platforms with international projection. Although DIB and ADIB have the lead, they are experiencing strong competition from new entrants, primarily from conventional banks' Islamic finance platforms (e.g., ENBD, FGB, Mashreqbank, UNB).

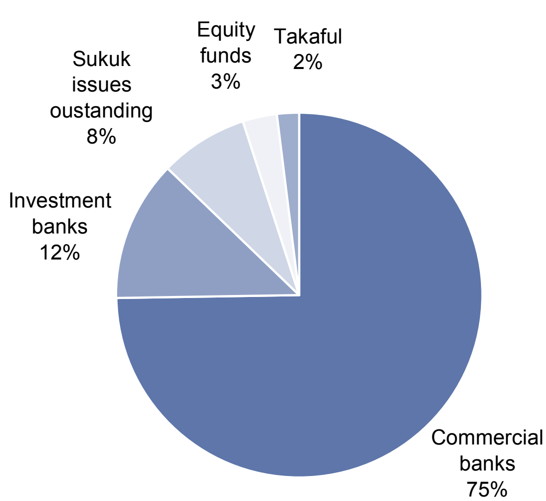
The Islamic finance market could be worth up to US$1.3trn by 2012

Islamic finance is an old concept, but one that has only recently begun to be integrated into conventional global capital markets. Driven by global liquidity, market innovation and supportive regulation, the Islamic finance market has evolved from a niche market worth perhaps US$150 bn in the mid-1990s to an estimated US$500 bn today. The range of instruments and the number of market participants have both blossomed.

The market still lacks standard terms and a common platform, despite the accomplishments of several regulatory bodies and many government initiatives in recent years. While this flexibility has fostered innovation, it could be a hindrance to further growth in the medium term. Human capital is another potential constraint given the limited pool of people with expertise in sharia law as well as knowledge of financial instruments and markets.

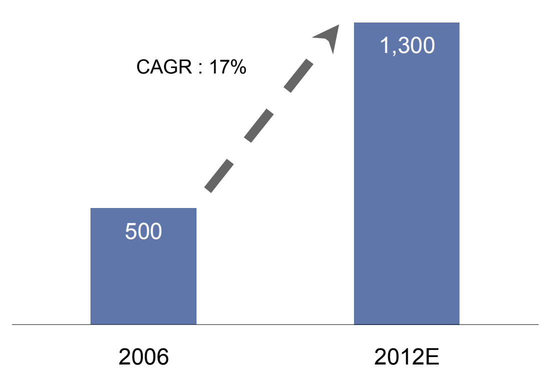
Nonetheless, we expect rapid growth to continue for the next several years, putting the overall Islamic finance market in the region of US$1 trn by 2012 (with a ceiling of US$1.3 trn). Islamic finance should be able to tap the ongoing build-up of wealth in the Middle East, and attract non-Islamic investors and issuers. This analysis is based on research published by our Economics Team. For more details on these estimates, please refer to: *Global Economics Weekly, Issue No. 07/21*, June 6, 2007.

Exhibit 25: Global assets of Islamic finance
As of December 2006 – Total = $531bn



Source: IFSL, The Banker, Ernst & Young.

Exhibit 26: Islamic finance market estimated growth
US$ bn



Source: Goldman Sachs Economics Research.

UAE is competing to become a global centre of Islamic finance

A handful of cities are competing to become regional or global centres of Islamic finance, including Kuala Lumpur, Dubai, Bahrain and London. Currently, it seems likely that London will emerge as the gateway for Islamic finance in Europe and Kuala Lumpur for Asia. We believe the GCC is likely to continue to gain market share at the expense of Malaysia, as continuing wealth accumulation and ambitious development plans provide both demand and supply.

In our view, UAE banks are well placed to compete internationally in markets like Sukuk issuance, where GCC countries have been gaining market share significantly in recent years (see Exhibit 28). We estimate that total Islamic banking assets (including Takaful) in the UAE could reach US$87 bn by 2010, increasing the UAE's global market share to around 11.5%.

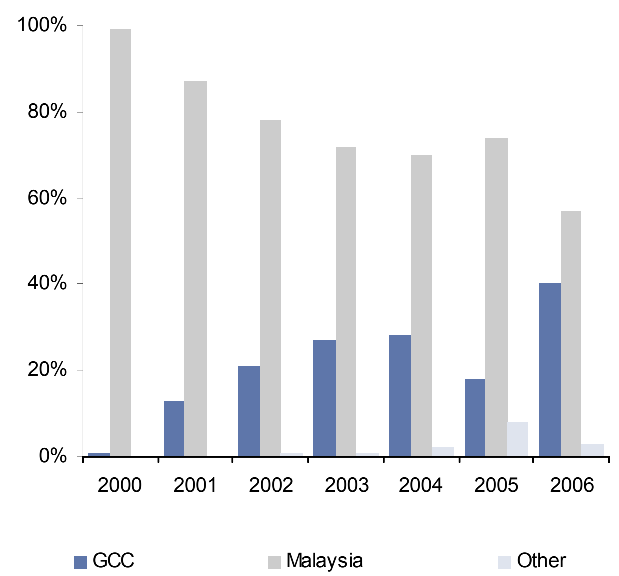
This assumes annual average asset growth of 28% for the next three years, with incumbent leaders DIB and ADIB slightly losing market share to their new aggressive domestic competitors.

Exhibit 27: Top ranking for sharia-compliant assets
US$ bn – Banking assets = Commercial + Invest. banks

	Country	Banking Assets	Takaful	Total	% Share
1	Iran	152.9	2	154.9	33%
2	Saudi Arabia	68.5	1.6	70.1	15%
3	Malaysia	64.1	1.2	65.3	14%
4	Kuwait	37.3	1.2	38.5	8%
5	UAE	34.9	1	35.9	8%
6	Bahrain	25.6	0.8	26.4	6%
7	Pakistan	15.9	0	15.9	3%
8	Lebanon	14.3	0	14.3	3%
9	UK	10.4	0	10.4	2%
10	Turkey	10.1	0	10.1	2%
11	Qatar	9.1	0.3	9.4	2%
12	Bangladesh	4.3	0.3	4.6	1%
13	Sudan	4.1	0.7	4.8	1%
14	Egypt	3.8	0.1	3.9	1%
15	Jordan	2.6	0.1	2.7	1%
16	Indonesia	2.2	0.2	2.4	1%
17	Others	2.6	0.8	3.4	1%
	Total	462.7	10.3	473	100%

Source: IFSL, The Banker.

Exhibit 28: GCC increasing role in Sukuk market
% of Global Sukuk issuance



Source: IFSL, Goldman Sachs Economics Research.

Domestic competition complemented by international projection

Although we acknowledge that fast Islamic finance growth in the UAE may come partially at the expense of conventional banking growth, as existing customers may choose to replace existing financing solutions with Islamic alternatives, we believe that robust structural growth should support demand in both segments.

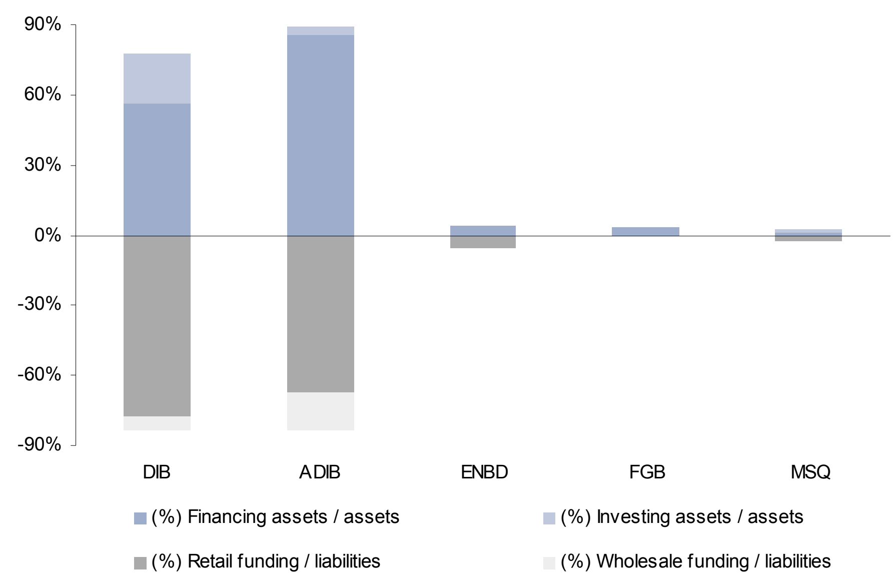
Nonetheless, "cannibalization" should become more evident in conventional banks as most are launching new Islamic finance platforms, which will likely appeal to existing customers as much as attracting new ones.

Alternatively, this initiative could just prevent them from losing clients, which may ultimately be attracted by the increasing offer of sharia-compliant products in the market. As such, we believe that conventional banks like ENBD, FGB, Mashreqbank and UNB are better placed to benefit from this trend as they already have well established and fast-growing franchises in this segment. They are soon to be joined by NBAD, ADCB and CBD, all of which have recently introduced Islamic finance platforms or have announced plans to do so.

International projection has also become an important source of growth. For instance, DIB has experienced significant growth in Pakistan through its local subsidiary. Other strategies like ADCB's partnering with a top-market player in Malaysia may help UAE banks gain significant expertise and open new opportunities in larger Islamic financial markets.

Overall, although we do not expect conventional banks' balance sheet structure to resemble that of DIB or ADIB in the near future, we believe that the significant gap between the two (as shown in Exhibit 29), should close substantially in the next five years, providing UAE banks with a meaningful source of growth.

Exhibit 29: DIB and ADIB in the lead, but conventional banks are joining in
As of December 2007 (2006 for ENBD) – Islamic finance / total assets & liabilities



Source: Company data, Goldman Sachs Research.

The case for further domestic consolidation

Even after the recent merger between Emirates and NBD, the UAE banking sector remains relatively fragmented. High concentration in real estate lending, domestic and regional ambitions and increasing focus in retail banking may encourage further consolidation, in our view. Although common or related controlling shareholders may discourage valuation premiums, we believe that revenue synergies, efficiency gains and enhance growth potential should provide valuation support for both targets and acquirers. Our simplified screening framework identifies ADCB, UNB and CBD as potential targets and NBAD and ENBD as potential acquirers.

A still fragmented market, even after ENBD

Even after the merger between Emirates and National Bank of Dubai, ENBD's market share of deposits reached only 17% deposit, putting a substantial gap between the enlarged entity and its closest competitor. This share looks low when compared with markets in the region like Saudi Arabia, Qatar or Kuwait, or with developing market peers such as Russia or South Africa, where the market leader has at least a 20% deposit market share, but in most cases it is significantly higher. Additionally, the top 15 banks have to be included to reach a combined market share of 85% (see Exhibit 30), when in most markets this will be reached by the top ten or even top five players. Finally, with more than 45 banks servicing a population of around 4.5 million, the UAE banking sector looks fragmented in our view. It was not until the recent merger, which created ENBD, that consolidation was deemed likely. We argue that several factors may trigger further actions, including: (1) increased focus on retail banking; (2) real estate concentration; and (3) competition to create national champions and regional leaders, and even global players in markets like Islamic finance.

Exhibit 30: Despite recent mergers the UAE banking sector remains relatively fragmented
As of December 2006 unless otherwise indicated

'000 AED			Number of branches	Assets	Deposits	% Mkt share (deposits)
1	Emirates NBD	Dubai	114*	166,337,419	95,340,541	17.1%
2	National Bank of Abu Dhabi	Abu Dhabi	57*	100,965,986	70,737,899	12.7%
3	Dubai Islamic Bank	Dubai	43*	64,433,936	47,732,482	8.6%
4	Abu Dhabi Commercial Bank	Abu Dhabi	39	81,088,378	43,396,851	7.8%
5	HSBC	Dubai	8	64,356,745	40,354,000	7.2%
6	Mashreqbank	Dubai	45	56,745,115	34,656,125	6.2%
7	First Gulf Bank	Abu Dhabi	16*	47,759,075	34,434,346	6.2%
8	Union National Bank	Abu Dhabi	37	41,539,054	30,046,079	5.4%
9	Abu Dhabi Islamic Bank	Abu Dhabi	39	36,290,432	23,822,065	4.3%
10	Standard Chartered	Dubai	11	32,969,699	20,195,893	3.6%
11	Commercial Bank of Dubai	Dubai	22*	18,704,778	13,755,671	2.5%
12	Citibank	Dubai	5	11,375,852	7,428,118	1.3%
13	ABN-AMRO	Dubai	3	11,655,920	7,292,037	1.3%
14	Arab Bank	Abu Dhabi	8	9,725,488	7,279,554	1.3%
15	Bank Saderat Iran	Dubai	7	11,557,499	6,212,540	1.1%
	Total top 15			755,505,376	482,684,201	86%
	Total Banking sector			873,156,190	558,053,818	
	Total national conventional banks			558,747,751	348,819,472	63%
	Total foreign conventional banks			170,434,443	110,620,770	20%
	Total Islamic banks			143,973,996	98,613,576	18%

(*) Number of branches as of year end 2007

Source: Company data, Central Bank of the UAE.

Both targets and acquirers likely to benefit from consolidation

We argue that common or related controlling shareholders, mainly the government of Abu Dhabi or Dubai, may discourage significant valuation premiums in potential deals. However, we believe that complementary in-market mergers should result in substantial revenue synergies, efficiency gains and enhance the combined entity's growth potential. Hence, further consolidation should provide valuation support for both targets and acquirers.

We apply the following simple exercise to screen potential targets and acquirers. First we separate banks by Emirate, as this represents the existing ownership structure. Second, we exclude Islamic banks as we believe that a merger between a conventional and an Islamic Bank would prove highly complex and thus difficult to justify. Finally, by aligning banks with common shareholders (i.e., government-related entities), we end up with two sub-groups. We then assume the largest bank in each as the natural acquirer, and the remaining banks in the group as targets. Using this process we identify NBAD and ENBD as acquirers and ADCB, UNB, and CBD as targets (see Exhibit 31).

Exhibit 31: Further consolidation may be triggered by common ownership and complementary assets...

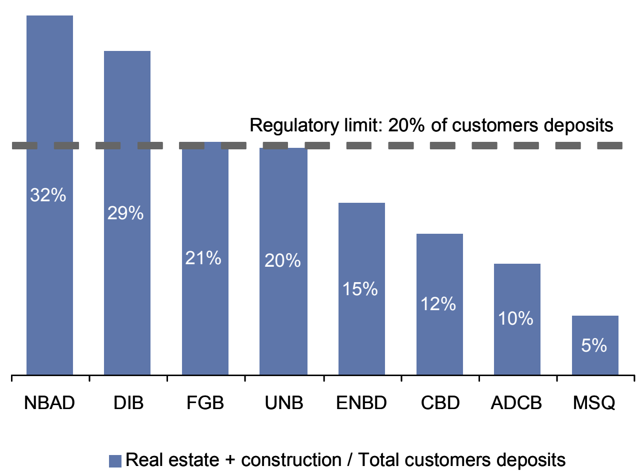
	Abu Dhabi		Dubai	
	Government Related	Private	Government Related	Private
Conventional banks	**NBAD**	FGB	**ENBD**	MSQ
	ADCB		CBD	
	UNB			
Islamic banks	ADIB		DIB	

Consolidators

Targets

Source: Goldman Sachs Research.

Exhibit 32: ...as well as concentration in real estate
Based on financials as of Dec. 2007



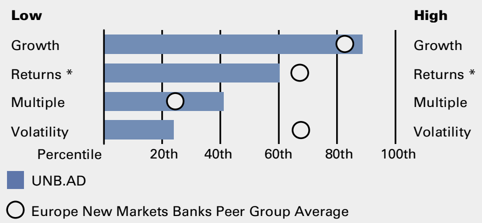
Source: Company data, Goldman Sachs Research

Is real estate concentration a catalyst for consolidation?

A further catalyst for consolidation could be concentration in the real estate sector. Some banks have seemingly reached the regulatory limit for exposure to lending in this segment (i.e. 20% of customer deposits). Although insufficient disclosure and lack of clarity regarding the old-dated rule makes it difficult to establish current levels of exposure, we believe that banks like NBAD and DIB have reached a high concentration in this segment. For instance, based on recently disclosed data, applying an acid test by adding outstanding loans to real estate and construction companies seems to place both banks' exposure at around 30% of customer deposits (see Exhibit 32). Given the attractive growth opportunities in this segment, we believe that banks could be looking to put together complementary balance sheets.

Union National Bank (UNB.AD): Initiate with a Buy rating

Investment Profile: Union National Bank

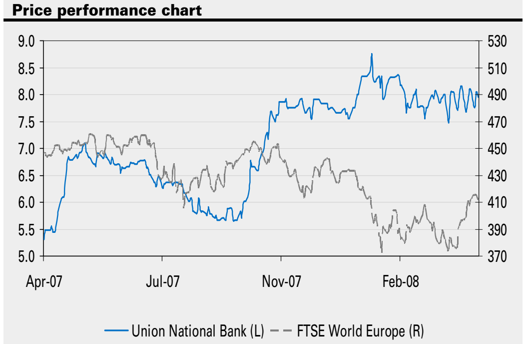


* Returns = Return on Capital For a complete description of the investment profile measures please refer to the disclosure section of this document.

Key data	Current
Price (Dh)	7.94
12 month price target (Dh)	12.44
Upside/(downside) (%)	57
Market cap (Dh mn)	14,888
Tier 1 ratio (%)	15.2

	12/07	12/08E	12/09E	12/10E
GS Net income (Dh mn)	1,168.4	1,338.0	1,546.6	1,848.7
GS EPS (Dh)	0.62	0.71	0.82	0.99
DPS (Dh)	0.17	0.18	0.21	0.25
BVPS (Dh)	3.50	4.21	4.83	5.58
GS P/E (X)	12.8	11.1	9.6	8.1
Dividend yield (%)	2.1	2.2	2.6	3.1
GS ROE (%)	18.7	18.5	18.2	18.9
P/BV (X)	2.2	1.9	1.6	1.4

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	(4.6)	19.4	49.1
Rel. to FTSE World Europe	(5.0)	35.2	58.8

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 4/10/2008 close.

Source of opportunity

Although, Union National Bank (UNB) lacks the scale and balance sheet size of some of its larger peers, we believe that its significant expertise in trade finance and SME banking combined with its strong government relationships will facilitate access to funding, and will continue to boost loan growth. We believe that this will translate into superior earnings momentum. Indeed, we estimate that UNB's bottom-line growth will continue to accelerate to ultimately surpass that of its peers. See Exhibit 34 for a detailed description of UNB's financials and our earnings estimates. Our 12-month NAV-based price target indicates 57% potential upside based on current valuation levels. Hence, we initiate coverage with a Buy rating.

Catalyst

We believe that UNB's earnings growth will be complemented in the medium term by a more aggressive diversification/commercial strategy, which includes: (1) ambitious expansion in the region (e.g., Egypt, Qatar, Uzbekistan); (2) direct real estate exposure through a recently established subsidiary; and 3) growing participation in the dynamic Islamic finance sector, particularly in the GCC area. We expect these initiatives to have a meaningful impact on the bottom line over the medium term, replacing UNB's conservative reputation with a more aggressive profile.

Valuation

We value UNB at 15x 2009E earnings based on net asset value (NAV). See Exhibit 33 for a detailed description of our methodology. The bank currently trades on 9.6x 2009E, which is in line with our New Markets bank average (see Exhibit 2), but implies a 10% discount to Russian banks and 20% discount to the average for banks in Poland.

Key risks

UNB's dynamic growth strategy on multiple fronts does not come without risks. We highlight in particular: (1) execution risk in Egypt; (2) margin pressure from strong competition in the corporate and SME banking segments; and (3) growing exposure to real estate, a segment which, together with construction, already represents a significant portion of the bank's lending book (i.e. 20%).

Source: Company data, Goldman Sachs Research estimates, FactSet.

Exhibit 33: UNB (Buy): We estimate 57% potential upside based on our 12-month NAV-based price target
AED '000 – NAV-based valuation methodology

	2009E		Comment
Shareholders' equity	9,059,427		
Bank-only equity			
(-) Attributable to participations/investment properties	0	>	Non-financial participations / real estate investments are 100% risk-weighted and hence the carry value needs to be backed by equity as any other risk-weighted asset on the balance sheet. We base the capital requirement on the bank's current capitalisation ratio.
Book value of participations/investment properties	0		
Capital ratio	12.3%		
Total equity attributable to generation of bank earnings	9,059,427		
GS bank earnings			
Net profit	1,546,560		
Total adjustments:	0		
(-) Earnings attributable to participations	0		
(-) Earnings related to investment properties	0		
GS bank earnings	1,546,560		
GS bank ROE	18.2%	>	GS bank earnings / Capital attributable to generation of bank earnings
Valuation			
CoE	10.4%		
Growth	5.0%		
Target P / B multiple	2.4x	>	(ROE - g) / (CoE - g)
(I) Value of banking business	22,132,541		
Funding requirement			
Total book value of participations	0	>	Carry value in the balance sheet of all participations
(-) capital funding of participations/investment properties	0	>	Part of participations (excluding unrealised gains) funded by equity
Total investment in need of funding	0		
Impact on income statement			
Funding rate	3.03%		
Funding cost of participations	0	>	Participations not funded by equity will be funded at avg. AED funding rate
Income contribution from participations	0		
Net P&L contribution from all participations	0	>	If funding cost > income from participations the net cost of carry is negative
Valuation contribution from subsidiaries and participations			
Participations		>	Value of participations calculated as the equity invested less any P&L contribution at a multiple (the same multiple as the bank). The unrealised gain is already valued as part of the available-for-banking capital. The rest of the book value is funded by non-equity.
Impact on income statement	0		
P / E	14.3x		
Value of impact from P&L surplus / (deficit)	0		
Equity invested	0		
(II) Total value of equity participations	0		
(I + II) Estimated market capitalisation at price target	22,132,541		
Current market capitalisation	14,887,500		
Potential upside / (downside) to 12-m price tarket	57%	>	12-month price target based on rolling-forward estimates

Source: Company data, Bloomberg, Datastream, Goldman Sachs Economics Research, and Goldman Sachs Research estimates.

Exhibit 34: UNB (Buy): Summary of financials and operational ratios
AED mn

P&L (AED mn)	2006	2007	2008E	2009E	2010E	07/06	08E/07	09E/08E	10E/09E
Net interest income	**889**	**1,090**	**1,336**	**1,614**	**2,020**	**23%**	**23%**	**21%**	**25%**
Net fees and commissions income	559	373	484	605	726	-33%	30%	25%	20%
Non-trading income	48	132	109	117	130	174%	-18%	7%	11%
Trading income	-35	2	11	12	12	N/M	N/M	2%	2%
Other operating income	59	90	108	127	146	51%	20%	18%	15%
Total recurring revenues	1,521	1,686	2,048	2,475	3,034	11%	21%	21%	23%
Staff	-263	-337	-431	-552	-706	28%	28%	28%	28%
General administration	-99	-123	-150	-180	-213	24%	22%	20%	18%
Depreciation	-24	-38	-48	-58	-70	57%	25%	22%	20%
Total operating expenses	-387	-498	-629	-790	-989	29%	26%	26%	25%
- cost income ratio	25.4%	29.5%	30.7%	31.9%	32.6%	4.1 ppt	1.2 ppt	1.2 ppt	0.7 ppt
Operating income	1,134	1,188	1,419	1,685	2,045	5%	19%	19%	21%
Loan loss provisions	-124	-6	-60	-107	-147	-95%	913%	80%	38%
- provisioning charge	0.56%	0.19%	0.20%	0.22%	0.24%	-37.4 bp	1.4 bp	2.3 bp	1.9 bp
Exceptionals	0	0	0	0	0	N/M	N/M	N/M	N/M
PBT	1,010	1,182	1,360	1,578	1,898	17%	15%	16%	20%
Taxes	0	-3	-5	-8	-11	N/M	80%	45%	44%
- tax rate	0.0%	0.3%	0.4%	0.5%	0.6%	0.3 ppt	0.1 ppt	0.1 ppt	0.1 ppt
Minorities	-2	-11	-16	-24	-38	535%	49%	45%	60%
Net income	1,008	1,168	1,338	1,547	1,849	16%	15%	16%	20%
Cash dividend	547	313	334	387	462	-43%	7%	16%	20%
Pay out ratio (%)	54%	27%	25%	25%	25%				
Weighted average number of shares	1,875	1,875	1,875	1,875	1,875				
GS net income	**1,008**	**1,168**	**1,338**	**1,547**	**1,849**	**16%**	**15%**	**16%**	**20%**

Per share data	2006	2007	2008E	2009E	2010E
EPS	**0.54**	**0.62**	**0.71**	**0.82**	**0.99**
GS EPS	**0.54**	**0.62**	**0.71**	**0.82**	**0.99**
DPS	**0.29**	**0.17**	**0.18**	**0.21**	**0.25**
EPS consensus			0.68	0.79	0.90
GS vs. consensus			5%	4%	10%
Book value per share	3.16	3.50	4.21	4.83	5.58

EPS figures based on w. avg. shares outstanding for the respective period.

Valuation	2006	2007	2008E	2009E	2010E
P/E			11.1 x	9.6 x	8.1 x
Cons P/E			11.7 x	10.1 x	8.8 x
GS P/E			11.1 x	9.6 x	8.1 x
P/BV			1.9 x	1.6 x	1.4 x
ROE	18.1%	18.7%	18.5%	18.2%	18.9%
GS ROE	18.1%	18.7%	18.5%	18.2%	18.9%
Dividend yield			2.2%	2.6%	3.1%
Market cap / Customer deposits			0.29 x	0.23 x	0.19 x
Market cap / Branches		330,833			

Network	2006	2007	2008E	2009E	2010E
Branches		45			
Employees		1,400			
Employees / Branch		31			
Staff cost per employee (AED '000)		241			

Profitability ratios	2006	2007	2008E	2009E	2010E
Net interest margin	2.43%	2.41%	2.37%	2.36%	2.46%
Avg. yield of int-earning assets	6.68%	6.40%	5.22%	4.54%	4.83%
Avg. cost of int-bearing liabilities	6.02%	5.32%	3.83%	3.03%	3.37%

Assets (AED mn)	2006	2007	2008E	2009E	2010E	07/06	08E/07	09E/08E	10E/09E
Cash	167	169	173	176	180	1%	2%	2%	2%
Balances with CB	2,468	9,658	9,069	9,907	10,384	291%	-6%	9%	5%
Loans to banks	7,719	3,720	3,794	3,870	3,947	-52%	2%	2%	2%
Loans to customers	27,499	37,379	48,896	61,736	75,648	36%	31%	26%	23%
Non-trading investments	2,111	2,421	2,711	2,982	3,280	15%	12%	10%	10%
Trading investments	228	150	153	156	159	-34%	2%	2%	2%
Other interest bearing assets	0	34	34	34	34	N/M	0%	0%	0%
Interest bearing assets	40,192	53,530	64,831	78,862	93,632	33%	21%	22%	19%
Intangible assets	252	262	262	262	262	4%	0%	0%	0%
Other non-interest bearing assets	1,126	1,664	2,050	2,527	3,035	48%	23%	23%	20%
Total assets	41,571	55,457	67,143	81,651	96,930	33%	21%	22%	19%

Liabilities	2006	2007	2008E	2009E	2010E	07/06	08E/07	09E/08E	10E/09E
Bank funds	523	815	618	316	191	56%	-24%	-49%	-40%
Customer deposits	30,046	40,204	50,802	63,884	78,071	34%	26%	26%	22%
Short & Medium term loans	3,855	6,090	5,677	5,677	5,274	58%	-7%	0%	-7%
Interest bearing liabilities	34,424	47,110	57,098	69,877	83,536	37%	21%	22%	20%
Other non interest bearing liabilities	1,119	1,643	1,975	2,491	2,671	47%	20%	26%	7%
Shareholders' equity	5,927	6,567	7,891	9,059	10,455	11%	20%	15%	15%
Minorities	101	138	179	224	268	37%	30%	25%	20%
Total liabilities	41,571	55,457	67,143	81,651	96,930	33%	21%	22%	19%

Asset quality	2006	2007	2008E	2009E	2010E	07/06	08E/07	09E/08E	10E/09E
NPLs	415	350	357	421	527	-16%	2%	18%	25%
Loan loss allowances	543	500	482	548	658	-8%	-4%	14%	20%
NPL coverage ratio	130.8%	142.8%	135.0%	130.0%	125.0%				
NPL ratio	1.48%	0.92%	0.72%	0.68%	0.69%				
Provisioning charge	0.56%	0.19%	0.20%	0.22%	0.24%				

Capital ratios	2006	2007	2008E	2009E	2010E	07/06	08E/07	09E/08E	10E/09E
Tier 1 capital	5,775	6,434	7,773	8,978	10,409	11%	21%	15%	16%
Tier 2 capital	1	4	15	19	23	486%	287%	25%	20%
Total capital	5,776	6,438	7,789	8,997	10,432	11%	21%	16%	16%
RWA	31,932	42,460	57,276	73,015	90,085	33%	35%	27%	23%
Tier I ratio	18.1%	15.2%	13.6%	12.3%	11.6%				
Total capitalisation ratio	18.1%	15.2%	13.6%	12.3%	11.6%				

Product penetration	2006	2007	2008E	2009E	2010E
Customer loans / deposits	90.0%	91.1%	95.1%	96.2%	96.7%
Customer loans / customer funds	91.5%	93.0%	96.2%	96.6%	96.9%
Loans per branch (AED '000)		830,636			
Loans per employee (AED '000)		26,699			
Deposits per branch (AED '000)		893,432			
Deposits per employee (AED '000)		28,717			

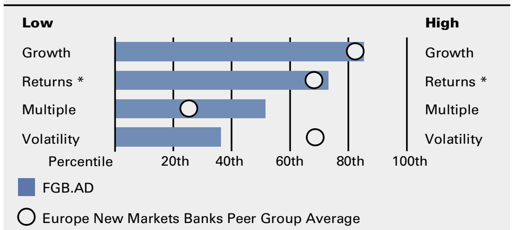
Gross loans	2006	2007	2008E	2009E	2010E	07/06	08E/07	09E/08E	10E/09E
Corporate	11,454	15,252	19,828	24,784	29,741	33%	30%	25%	20%
Government	7,771	8,588	9,447	10,391	11,430	11%	10%	10%	10%
Public sector	1,388	2,020	2,828	3,676	4,705	46%	40%	30%	28%
Personal	4,016	5,577	7,808	10,541	13,703	39%	40%	35%	30%
Others	2,644	3,632	4,271	4,835	5,447	37%	18%	13%	13%
Total gross loans	**27,274**	**35,069**	**44,180**	**54,228**	**65,027**	**29%**	**26%**	**23%**	**20%**

Loan book breakdown	2006	2007	2008E	2009E	2010E
Corporate	42.0%	43.5%	44.9%	45.7%	45.7%
Government	28.5%	24.5%	21.4%	19.2%	17.6%
Public sector	5.1%	5.8%	6.4%	6.8%	7.2%
Personal	14.7%	15.9%	17.7%	19.4%	21.1%
Others	9.7%	10.4%	9.7%	8.9%	8.4%
Total loans	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: Company data, Datastream, Bloomberg, and Goldman Sachs Research estimates.

First Gulf Bank (FGB.AD): Initiate with a Buy rating

Investment Profile: First Gulf Bank

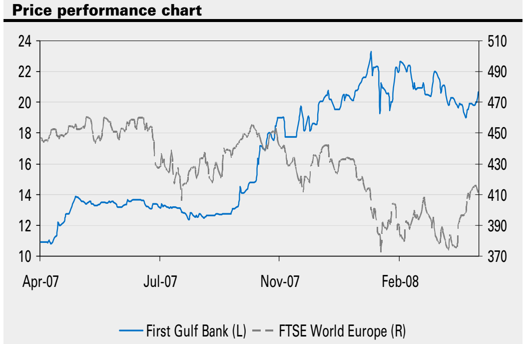


* Returns = Return on Capital. For a complete description of the investment profile measures please refer to the disclosure section of this document.

Key data	Current
Price (Dh)	20.95
12 month price target (Dh)	31.47
Upside/(downside) (%)	50
Market cap (Dh mn)	28,806
Tier 1 ratio (%)	15.0

	12/07	12/08E	12/09E	12/10E
GS Net income (Dh mn)	2,008.2	2,491.8	3,064.1	3,582.9
GS EPS (Dh)	1.46	1.81	2.23	2.61
DPS (Dh)	0.18	0.18	0.20	0.20
BVPS (Dh)	7.36	9.09	11.26	13.81
GS P/E (X)	14.1	11.6	9.4	8.0
Dividend yield (%)	0.9	0.9	1.0	1.0
GS ROE (%)	21.0	22.0	21.9	20.8
P/BV (X)	2.7	2.3	1.9	1.5

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	(4.6)	39.4	95.0
Rel. to FTSE World Europe	(5.0)	57.8	107.7

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 4/10/2008 close.

Source of opportunity

First Gulf Bank (FGB) is among the fastest growing banks in the world, having expanded assets by an average c. 70% annually for the last five years. The bank benefits from strong government relationships and close links to Abu Dhabi's ruling family, which may provide it with stable funding, robust lending growth and unique opportunities in the real estate sector, in our view. We believe that far from being non-recurrent events, these opportunities represent a fundamental part of FGB's business model. As such, we forecast earnings growth to continue at above market-average levels. See Exhibit 36 for a detailed description of FGB's financials and our earnings estimates. Based on our 12-month NAV-based price target, we calculate 50% potential upside for the stock. Hence, we initiate coverage of the shares with a Buy rating.

Catalyst

Although we forecast asset growth to moderate in the next three years to average around 30% annually, we believe that FGB will continue to benefit from attractive growth in corporate banking, mortgage lending and in real estate sales through its subsidiary Green Emirates Properties. We point in particular to three initiatives that in our view are likely to support earnings growth in the medium term, and are not fully reflected in the price: (1) FGB's strong focus in retail banking (e.g., we expect personal loans to grow 65% in 2008); (2) international growth, including a new commercial bank in Libya; and (3) the bank's fast-expanding Islamic finance platform, which we expect to account for c. 10% of assets by 2010.

Valuation

We value FGB at 14x 2009E earnings based on net asset value (NAV). To arrive at this multiple, we calculate FGB's bank-only value by adjusting both equity and net income for the amount consumed/generated by real estate-related investments. To that we add the estimated value of real estate assets based on: (1) equity allocation; (2) profitability; and (3) funding costs. See Exhibit 35 for a detailed description of our methodology.

Key risks

In our view, specific risks for FGB stem mainly from two sources: (1) concentration in real estate-related activities, which in 2007 generated almost one-third of net income; and (2) deposit concentration. In 2007, the top five depositors accounted for more than one-third of total customer deposits.

Source: Company data, Goldman Sachs Research estimates, FactSet.

Exhibit 35: We estimate 50% potential upside based on our 12-month NAV-based price target

AED '000 – NAV-based valuation methodology

	2009E	Comment
Shareholders' equity	15,483,523	
Bank-only equity		
(-) Attributable to participations/investment properties	794,104	> Non-financial participations / real estate investments are 100% risk-weighted and hence the carry value needs to be backed by equity as any other risk-weighted asset on the balance sheet. We base the capital requirement on the bank's current capitalisation ratio.
Book value of participations/investment properties	6,129,808	
Capital ratio	13.0%	
Total equity attributable to generation of bank earnings	14,689,419	
GS bank earnings		
Net profit	3,064,065	
Total adjustments:	-971,013	
(-) Earnings attributable to participations	118,803	
(-) Earnings related to investment properties	852,210	
GS bank earnings	2,093,052	
GS bank ROE	15.8%	> GS bank earnings / Capital attributable to generation of bank earnings
Valuation		
CoE	10.4%	
Growth	5.0%	
Target P / B multiple	2.0x	> (ROE - g) / (CoE - g)
(I) Value of banking business	29,252,891	
Funding requirement		
Total book value of participations	6,129,808	> Carry value in the balance sheet of all participations
(-) capital funding of participations/investment properties	794,104	> Part of participations (excluding unrealised gains) funded by equity
Total investment in need of funding	5,335,705	
Impact on income statement		
Funding rate	2.70%	
Funding cost of participations	-144,226	> Participations not funded by equity will be funded at avg. AED funding rate
Income contribution from participations	971,013	
Net P&L contribution from all participations	826,787	> If funding cost > income from participations the net cost of carry is negative
Valuation contribution from subsidiaries and participations		
Participations		> Value of participations calculated as the equity invested less any P&L contribution at a multiple (the same multiple as the bank). The unrealised gain is already valued as part of the available-for-banking capital. The rest of the book value is funded by non-equity.
Impact on income statement	826,787	
P / E	14.0x	
Value of impact from P&L surplus / (deficit)	11,555,323	
Equity invested	794,104	
(II) Total value of equity participations	12,349,426	
(I + II) Estimated market capitalisation at price target	41,602,317	
Current market capitalisation	28,806,250	
Potential upside / (downside) to 12-m price tarket	50%	> 12-month price target based on rolling-forward estimates

Source: Company data, Bloomberg, Datastream, Goldman Sachs Economics Research, and Goldman Sachs Research estimates.

Exhibit 36: FGB (Buy): Summary of financials and operational ratios

AED mn

P&L (AED mn)	2006	2007	2008E	2009E	2010E	07/06	08E/07	09E/08E	10E/09E
Net interest income	**1,081**	**1,242**	**1,590**	**1,900**	**2,265**	**15%**	**28%**	**19%**	**19%**
Income from islamic finance	**127**	**89**	**52**	**91**	**134**	**-30%**	**-42%**	**76%**	**47%**
Net fees and commissions income	282	462	768	1,148	1,583	64%	66%	50%	38%
Investment income	38	280	203	199	220	NM	-27%	-2%	10%
Investment properties	177	427	722	852	838	141%	69%	18%	-2%
Trading account securities	49	119	143	172	206	146%	N/M	20%	20%
Share in profit of associates	10	73	98	119	136	NM	35%	21%	14%
Government Grant	165	51	0	0	0	-69%	N/M	N/M	N/M
Other operating income	140	83	112	146	182	-41%	35%	30%	25%
Total recurring revenues	2,068	2,826	3,688	4,627	5,563	37%	31%	25%	20%
Staff	-225	-330	-479	-622	-797	47%	45%	30%	28%
General administration	-155	-255	-344	-420	-504	64%	35%	22%	20%
Depreciation	-20	-25	-37	-54	-76	26%	47%	45%	40%
Total operating expenses	-400	-611	-860	-1,097	-1,377	53%	41%	27%	26%
- cost income ratio	19.4%	21.6%	23.3%	23.7%	24.7%	2.3 ppt	1.7 ppt	0.4 ppt	1.0 ppt
Operating income	1,668	2,215	2,828	3,530	4,186	33%	28%	25%	19%
Loan loss provisions	-132	-207	-336	-466	-603	57%	62%	39%	29%
- provisioning charge	0.72%	0.63%	0.65%	0.65%	0.65%	-9.2 bp	2.3 bp	0.0 bp	0.0 bp
Other provisions	0	0	0	0	0	N/M	N/M	N/M	N/M
Exceptionals	0	0	0	0	0	N/M	N/M	N/M	N/M
PBT	1,536	2,008	2,492	3,064	3,583	31%	24%	23%	17%
Taxes	0	0	0	0	0	N/M	N/M	N/M	N/M
- tax rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0 ppt	0.0 ppt	0.0 ppt	0.0 ppt
Minorities	0	0	0	0	0	N/M	N/M	N/M	N/M
Net income	1,536	2,008	2,492	3,064	3,583	31%	24%	23%	17%
Cash dividend	875	250	250	275	275	-71%	0%	10%	0%
Pay out ratio (%)	57%	12%	10%	9%	8%				
Weighted average number of shares in issu	1,375	1,375	1,375	1,375	1,375				
GS net income	**1,536**	**2,008**	**2,492**	**3,064**	**3,583**	**31%**	**24%**	**23%**	**17%**

Per share data	2006	2007	2008E	2009E	2010E
EPS	**1.12**	**1.46**	**1.81**	**2.23**	**2.61**
GS EPS	**1.12**	**1.46**	**1.81**	**2.23**	**2.61**
DPS	**0.64**	**0.18**	**0.18**	**0.20**	**0.20**
EPS consensus			1.68	2.03	2.32
GS vs. consensus			8%	10%	12%
Book value per share	6.53	7.36	9.09	11.26	13.81

EPS figures based on w. avg. shares outstanding for the respective period.

Valuation	2006	2007	2008E	2009E	2010E
P/E			11.6 x	9.4 x	8.0 x
Cons P/E			12.5 x	10.3 x	9.0 x
GS P/E			11.6 x	9.4 x	8.0 x
P/BV			2.3 x	1.9 x	1.5 x
ROE	18.3%	21.0%	22.0%	21.9%	20.8%
GS ROE	18.3%	21.0%	22.0%	21.9%	20.8%
Dividend yield			0.9%	1.0%	1.0%
Market cap / Customer deposits			0.42 x	0.33 x	0.26 x
Market cap / Branches		1,800,391			

Network	2006	2007	2008E	2009E	2010E
Branches		16			
Employees		834			
Employees / Branch		52			
Staff cost per employee (AED '000)		396			

Profitability ratios	2006	2007	2008E	2009E	2010E
Net interest margin	3.41%	2.47%	2.28%	2.15%	2.07%
Avg. yield of int-earning assets	7.49%	6.45%	5.56%	4.67%	4.94%
Avg. cost of int-bearing liabilities	6.04%	4.52%	3.41%	2.70%	3.04%

Assets (AED mn)	2006	2007	2008E	2009E	2010E	07/06	08E/07	09E/08E	10E/09E
Cash	74	97	121	151	189	30%	25%	25%	25%
Balances with CB	4,097	8,881	8,097	10,371	12,897	117%	-9%	28%	24%
Loans to banks	12,212	4,185	4,603	5,064	5,570	-66%	10%	10%	10%
Loans to customers	24,805	42,097	62,601	82,349	105,253	70%	49%	32%	28%
Non-trading investments	4,722	10,110	9,625	9,215	8,893	114%	-5%	-4%	-3%
Interest bearing assets	45,910	65,370	85,047	107,150	132,801	42%	30%	26%	24%
Islamic financing	356	2,312	5,087	8,902	13,353	549%	120%	75%	50%
Investments in associates	255	326	424	543	679	28%	30%	28%	25%
Investment properties	533	2,922	4,734	5,587	6,425	449%	62%	18%	15%
Other non-interest bearing assets	705	2,267	2,088	2,686	3,384	221%	-8%	29%	26%
Total assets	47,759	73,198	97,380	124,868	156,642	53%	33%	28%	25%

Liabilities	2006	2007	2008E	2009E	2010E	07/06	08E/07	09E/08E	10E/09E
Bank funds	297	2,786	6,297	9,118	13,063	837%	126%	45%	43%
Customer deposits	34,434	52,256	68,914	88,116	109,433	52%	32%	28%	24%
Medium term loans	3,398	5,785	7,253	9,066	11,333	70%	25%	25%	25%
Interest bearing liabilities	38,129	60,827	82,464	106,300	133,829	60%	36%	29%	26%
Other non interest bearing liabilities	644	2,250	2,412	3,084	3,830	249%	7%	28%	24%
Shareholders' equity	8,985	10,120	12,505	15,484	18,982	13%	24%	24%	23%
Minorities	0	0	0	0	0	N/M	N/M	N/M	N/M
Total liabilities	47,759	73,198	97,380	124,868	156,642	53%	33%	28%	25%

Asset quality	2006	2007	2008E	2009E	2010E	07/06	08E/07	09E/08E	10E/09E
NPLs	360	453	566	736	993	26%	25%	30%	35%
Loan loss allowances	467	654	821	1,067	1,440	40%	26%	30%	35%
NPL coverage ratio	129.6%	144.4%	145.0%	145.0%	145.0%				
NPL ratio	1.40%	1.06%	0.89%	0.88%	0.93%				
Provisioning charge	0.72%	0.63%	0.65%	0.65%	0.65%				

Capital ratios	2006	2007	2008E	2009E	2010E	07/06	08E/07	09E/08E	10E/09E
Tier 1 capital	7,816	9,630	11,944	14,808	18,201	23%	24%	24%	23%
Tier 2 capital	0	0	0	0	0	N/M	N/M	N/M	N/M
Total capital	7,816	9,630	11,944	14,808	18,201	23%	24%	24%	23%
- deductions from capital	0	0	0	0	0	N/M	N/M	N/M	N/M
RWA	36,759	64,149	88,261	114,303	144,324	75%	38%	30%	26%
Tier I ratio	21.3%	15.0%	13.5%	13.0%	12.6%				
Total capitalisation ratio	21.3%	15.0%	13.5%	13.0%	12.6%				

Product penetration	2006	2007	2008E	2009E	2010E
Customer loans / deposits	71.4%	76.5%	83.2%	84.7%	85.9%
Customer loans / customer funds	72.0%	80.6%	90.8%	93.5%	96.2%
Loans per branch (AED '000)		2,631,066			
Loans per employee (AED '000)		50,476			
Deposits per branch (AED '000)		3,266,004			
Deposits per employee (AED '000)		62,657			

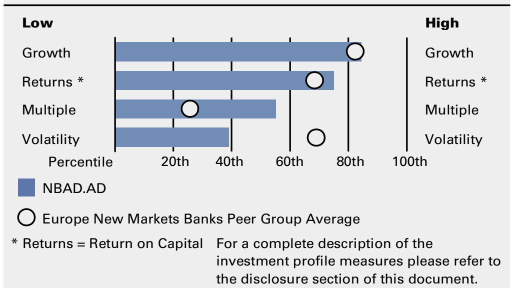
Gross loans	2006	2007	2008E	2009E	2010E	07/06	08E/07	09E/08E	10E/09E
Corporate loans	14,338	26,797	38,855	49,735	62,169	87%	45%	28%	25%
Government	620	478	430	439	447	-23%	-10%	2%	2%
High-net worth individuals	3,758	5,918	8,580	10,811	13,514	57%	45%	26%	25%
Personal loans	3,948	7,629	12,587	17,622	24,231	93%	65%	40%	38%
Share financing	2,957	4,242	4,772	5,488	6,312	43%	13%	15%	15%
Others	7	0	-1,804	-680	21	N/M	N/M	-62%	N/M
Total gross loans	**25,628**	**45,063**	**63,422**	**83,416**	**106,693**	**76%**	**41%**	**32%**	**28%**

Loan book breakdown	2006	2007	2008E	2009E	2010E
Corporate loans	55.9%	59.5%	61.3%	59.6%	58.3%
Government	2.4%	1.1%	0.7%	0.5%	0.4%
High-net worth individuals	14.7%	13.1%	13.5%	13.0%	12.7%
Personal loans	15.4%	16.9%	19.8%	21.1%	22.7%
Share financing	11.5%	9.4%	7.5%	6.6%	5.9%
Others	0.0%	0.0%	-2.8%	-0.8%	0.0%
Total loans	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: Company data, Datastream, Bloomberg, and Goldman Sachs Research estimates.

National Bank of Abu Dhabi (NBAD.AD): Initiate as Neutral

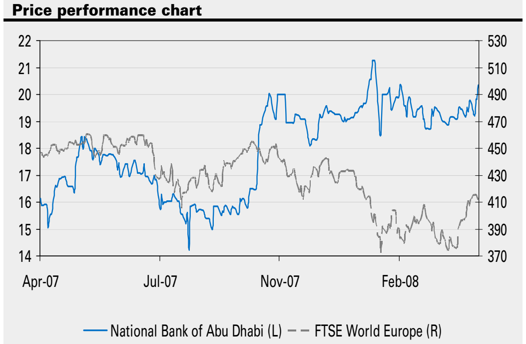
Investment Profile: National Bank of Abu Dhabi



Key data	Current
Price (Dh)	20.25
12 month price target (Dh)	27.65
Upside/(downside) (%)	37
Market cap (Dh mn)	40,026
Tier 1 ratio (%)	13.3

	12/07	12/08E	12/09E	12/10E
GS Net income (Dh mn)	2,505.1	2,984.7	3,419.8	3,946.2
GS EPS (Dh)	1.31	1.42	1.63	1.87
DPS (Dh)	0.24	0.29	0.53	0.60
BVPS (Dh)	5.52	6.20	7.18	8.32
GS P/E (X)	15.8	14.3	12.4	10.8
Dividend yield (%)	1.2	1.6	2.6	3.0
GS ROE (%)	24.8	23.6	22.5	22.4
P/BV (X)	3.5	3.0	2.8	2.4

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	3.5	23.3	42.0
Rel. to FTSE World Europe	3.0	39.7	51.2

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 4/10/2008 close.

Investment view

We initiate coverage of National Bank of Abu Dhabi (NBAD) with a Neutral rating. Based on our 12-month NAV-based price target, the stock offers 36% potential upside, which is slightly above the average for our New Markets banks coverage universe (i.e. 30%), which comprises banks in Turkey, South Africa, Russia and the UAE.

Core drivers of growth

Well-established as the second largest bank by assets in the UAE, NBAD's balance sheet structure is heavily concentrated in the corporate sector, mirroring the structure of UAE's economy. In our view, current high levels of profitability will be hard to enhance while maintaining the same asset mix – specially, as the bank faces mounting competition from experienced international players and dynamic domestic peers. Thus, it is no surprise to us that the bank is focusing on three areas to reinforce its product offering: (1) retail banking, with plans to open 28 branches in 2008; (2) SME banking, which offers more attractive yields; and (3) real estate, which in our view could offer significant opportunities for profitable growth, particularly in Abu Dhabi. We believe that this strategy will allow the bank to sustain high levels of profitability, but we deem it unlikely that it will lead to further improvements in returns.

Risks to the investment case

Domestic acquisitions leading to in-market mergers could result in significant synergies and thus would imply upside risk to our earnings estimates. Similarly, bolt-on acquisitions in fast-growing markets in the region could offer significant potential for further expansion and diversification. On the downside, international players could introduce margin pressure as competition in corporate finance and wealth management intensifies. Additionally, growing concentration in real estate, which already accounts for a significant portion of the lending book, could result in rapid asset quality deterioration and/or growth deceleration.

Valuation

We value NBAD at 16x 2009E earnings based on net asset value (NAV). See Exhibit 37 for a detailed description of our methodology. The bank currently trades on 12.2x 2009E, which suggests a slight premium to the UAE bank average, but is in line with the New Markets bank average as shown in Exhibit 6.

Source: Company data, Goldman Sachs Research estimates, FactSet.

Exhibit 37: We estimate 36% potential upside based on our 12-month NAV-based price target

AED '000 – NAV-based valuation methodology

	2009E		Comment
Shareholders' equity	16,145,669		
Bank-only equity			
(-) Attributable to participations/investment properties	0	>	Non-financial participations / real estate investments are 100% risk-weighted and hence the carry value needs to be backed by equity as any other risk-weighted asset on the balance sheet. We base the capital requirement on the bank's current capitalisation ratio.
Book value of participations/investment properties	0		
Capital ratio	13.8%		
Total equity attributable to generation of bank earnings	16,145,669		
GS bank earnings			
Net profit	3,401,964		
Total adjustments:	0		
(-) Earnings attributable to participations	0		
(-) Earnings related to investment properties	0		
GS bank earnings	3,401,964		
GS bank ROE	22.6%	>	GS bank earnings / Capital attributable to generation of bank earnings
Valuation			
CoE	10.4%		
Growth	5.0%		
Target P / B multiple	3.2x	>	(ROE - g) / (CoE - g)
(I) Value of banking business	52,464,153		
Funding requirement			
Total book value of participations	0	>	Carry value in the balance sheet of all participations
(-) capital funding of participations/investment properties	0	>	Part of participations (excluding unrealised gains) funded by equity
Total investment in need of funding	0		
Impact on income statement			
Funding rate	2.72%		
Funding cost of participations	0	>	Participations not funded by equity will be funded at avg. AED funding rate
Income contribution from participations	0		
Net P&L contribution from all participations	0	>	If funding cost > income from participations the net cost of carry is negative
Valuation contribution from subsidiaries and participations			
Participations		>	Value of participations calculated as the equity invested less any P&L contribution at a multiple (the same multiple as the bank). The unrealised gain is already valued as part of the available-for-banking capital. The rest of the book value is funded by non-equity.
Impact on income statement	0		
P / E	15.4x		
Value of impact from P&L surplus / (deficit)	0		
Equity invested	0		
(II) Total value of equity participations	0		
(I + II) Estimated market capitalisation at price target	52,464,153		
Current market capitalisation	40,026,430		
Potential upside / (downside) to 12-m price tarket	36%	>	12-month price target based on rolling-forward estimates

Source: Company data, Bloomberg, Datastream, Goldman Sachs Economics Research, and Goldman Sachs Research estimates.

Exhibit 38: NBAD (Neutral): Summary of financials and operational ratios
AED mn

P&L (AED mn)	2006	2007	2008E	2009E	2010E	07/06	08E/07	09E/08E	10E/09E
Net interest income	**2,021**	**2,405**	**2,959**	**3,499**	**4,252**	**19%**	**23%**	**18%**	**22%**
Net fees and commissions income	732	885	1,070	1,284	1,533	21%	21%	20%	19%
Investment income	20	119	148	159	175	487%	24%	8%	10%
Other operating income	182	257	316	378	416	41%	23%	20%	10%
Total recurring revenues	2,956	3,666	4,492	5,320	6,376	24%	23%	18%	20%
Staff	-414	-620	-769	-954	-1,202	50%	24%	24%	26%
General administration	-220	-328	-403	-492	-615	49%	23%	22%	25%
Depreciation	-59	-68	-78	-90	-103	15%	15%	15%	15%
Other	-7	-38	-75	-87	-120	462%	95%	17%	38%
Total operating expenses	-700	-1,054	-1,325	-1,623	-2,040	51%	26%	22%	26%
- cost income ratio	23.7%	28.8%	29.5%	30.5%	32.0%	5.1 ppt	0.7 ppt	1.0 ppt	1.5 ppt
Operating income	2,256	2,611	3,167	3,698	4,336	16%	21%	17%	17%
Loan loss provisions	-100	-42	-119	-208	-314	-58%	186%	75%	51%
- provisioning charge	0.31%	0.21%	0.25%	0.28%	0.30%	-10.1 bp	4.1 bp	3.0 bp	2.0 bp
Other provisions	1	0	0	0	0	N/M	N/M	N/M	N/M
Exceptionals	0	0	0	0	0	N/M	N/M	N/M	N/M
PBT	2,157	2,570	3,048	3,489	4,021	19%	19%	14%	15%
Taxes	-51	-64	-76	-87	-101	26%	18%	14%	15%
- tax rate	2.4%	2.5%	2.5%	2.5%	2.5%	0.1 ppt	0.0 ppt	0.0 ppt	0.0 ppt
Minorities	0	0	0	0	0	N/M	N/M	N/M	N/M
Net income	2,106	2,505	2,972	3,402	3,921	19%	19%	14%	15%
Cash dividend	377	490	659	1,189	1,361	30%	35%	80%	14%
Pay out ratio (%)	18%	20%	22%	35%	35%				
Weighted average number of ordinary shares	1,910	1,910	1,910	1,910	1,910				
Weighted average number of ordinary shares (dilutec	2,030	2,030	2,096	2,096	2,096				
GS net income	**2,106**	**2,505**	**2,972**	**3,402**	**3,921**	**19%**	**19%**	**14%**	**15%**

Per share data	2006	2007	2008E	2009E	2010E
EPS	**1.10**	**1.31**	**1.56**	**1.78**	**2.05**
Diluted EPS	**1.10**	**1.31**	**1.47**	**1.67**	**1.92**
GS EPS	**1.10**	**1.31**	**1.47**	**1.67**	**1.92**
DPS	**0.19**	**0.24**	**0.31**	**0.57**	**0.65**
EPS consensus			1.45	1.64	1.81
GS vs. consensus			1%	2%	6%
Book value per share	4.44	5.52	6.65	7.70	8.93

EPS figures based on w. avg. shares outstanding for the respective period.

Valuation	2006	2007	2008E	2009E	2010E
P/E			13.0 x	11.4 x	9.9 x
Cons P/E			14.0 x	12.3 x	11.2 x
GS P/E			13.8 x	12.2 x	10.6 x
P/BV			3.0 x	2.6 x	2.3 x
ROE	25.8%	24.8%	23.6%	22.6%	22.5%
GS ROE	25.8%	24.8%	23.6%	22.6%	22.5%
Dividend yield			1.6%	2.8%	3.2%
Market cap / Customer deposits			0.39 x	0.31 x	0.25 x
Market cap / Branches		702,218			

Network	2006	2007	2008E	2009E	2010E
Branches		57			
Employees		2,270			
Employees / Branch		40			
Staff cost per employee (AED '000)		273			

Profitability ratios	2006	2007	2008E	2009E	2010E
Net interest margin	2.30%	2.12%	2.13%	2.23%	2.33%
Avg. yield of int-earning assets	6.22%	6.23%	5.51%	4.79%	5.01%
Avg. cost of int-bearing liabilities	4.24%	4.40%	3.60%	2.72%	2.84%

Assets (AED mn)	2006	2007	2008E	2009E	2010E	07/06	08E/07	09E/08E	10E/09E
Cash	483	522	548	575	604	8%	5%	5%	5%
Balances with CB	7,279	35,878	24,481	17,875	15,799	393%	-32%	-27%	-12%
Loans to banks	22,268	8,158	7,342	6,755	6,417	-63%	-10%	-8%	-5%
Loans to customers	57,486	79,729	106,637	136,448	169,046	39%	34%	28%	24%
Non-trading investments	10,527	10,054	10,255	10,460	10,670	-4%	2%	2%	2%
Interest bearing assets	98,042	134,341	149,263	172,113	202,535	37%	11%	15%	18%
Trading investments	408	1,201	1,261	1,387	1,526	194%	5%	10%	10%
Other non-interest bearing assets	2,516	3,889	4,884	6,107	7,443	55%	26%	25%	22%
Total assets	100,966	139,431	155,407	179,607	211,504	38%	11%	16%	18%

Liabilities	2006	2007	2008E	2009E	2010E	07/06	08E/07	09E/08E	10E/09E
Bank funds	6,069	27,041	16,330	11,897	9,743	346%	-40%	-27%	-18%
Customer deposits	70,738	81,737	102,046	127,768	158,144	16%	25%	25%	24%
Subordinated convertible notes	2,432	2,440	3,057	3,064	3,071	0%	25%	0%	0%
Medium term loans	3,590	7,405	8,405	8,928	9,397	106%	14%	6%	5%
Other interest bearing liabilities	6,010	5,412	6,975	6,417	6,096	-10%	29%	-8%	-5%
Interest bearing liabilities	88,839	124,034	136,813	158,074	186,453	40%	10%	16%	18%
Other non interest bearing liabilities	3,122	4,182	4,662	5,388	6,345	34%	11%	16%	18%
Shareholders' equity	9,005	11,214	13,932	16,146	18,706	25%	24%	16%	16%
Minorities	0	0	0	0	0	N/M	N/M	N/M	N/M
Total liabilities	100,966	139,431	155,407	179,607	211,504	38%	11%	16%	18%

Asset quality	2006	2007	2008E	2009E	2010E	07/06	08E/07	09E/08E	10E/09E
NPLs	1,019	1,051	1,194	1,348	1,515	3%	14%	13%	12%
Loan loss allowances	918	910	1,015	1,145	1,288	-1%	11%	13%	12%
NPL coverage ratio	90.1%	86.6%	85.0%	85.0%	85.0%				
NPL ratio	1.63%	1.07%	0.87%	0.74%	0.65%				
Provisioning charge	0.31%	0.21%	0.25%	0.28%	0.30%				

Capital ratios	2006	2007	2008E	2009E	2010E	07/06	08E/07	09E/08E	10E/09E
Tier 1 capital	9,215	11,239	13,976	16,190	18,750	22%	24%	16%	16%
Tier 2 capital	2,233	2,415	3,032	3,040	3,047	8%	26%	0%	0%
Total capital	11,448	13,654	17,009	19,229	21,797	19%	25%	13%	13%
- deductions from capital	0	0	0	0	0	N/M	N/M	N/M	N/M
RWA	54,672	84,494	109,835	139,048	170,904	55%	30%	27%	23%
Tier I ratio	16.8%	13.3%	12.7%	11.6%	11.0%				
Total capitalisation ratio	20.9%	16.2%	15.5%	13.8%	12.8%				

Product penetration	2006	2007	2008E	2009E	2010E
Customer loans / deposits	74.8%	73.3%	90.1%	97.7%	100.7%
Customer loans / customer funds	81.3%	97.5%	104.5%	106.8%	106.9%
Loans per branch (AED '000)		1,398,756			
Loans per employee (AED '000)		35,123			
Deposits per branch (AED '000)		1,433,977			
Deposits per employee (AED '000)		36,007			

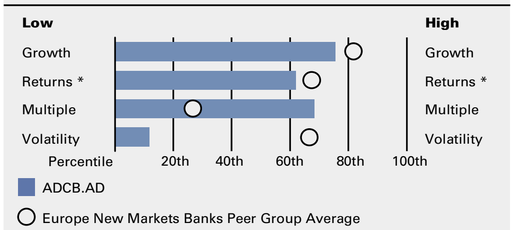
Gross loans	2006	2007	2008E	2009E	2010E	07/06	08E/07	09E/08E	10E/09E
Corporate loans	36,258	62,188	84,575	111,640	140,666	72%	36%	32%	26%
Government	5,784	1,813	1,359	1,155	1,213	-69%	-25%	-15%	5%
High-net-worth individuals	9,935	9,095	9,550	10,027	10,529	-8%	5%	5%	5%
Personal loans	8,021	8,868	10,199	12,442	15,180	11%	15%	22%	22%
Others	201	597	774	982	1,231	197%	30%	27%	25%
Total gross loans	**60,199**	**82,561**	**106,458**	**136,246**	**168,818**	**37%**	**29%**	**28%**	**24%**

Loan book breakdown	2006	2007	2008E	2009E	2010E
Corporate loans	60.2%	75.3%	79.4%	81.9%	83.3%
Government	9.6%	2.2%	1.3%	0.8%	0.7%
High-net-worth individuals	16.5%	11.0%	9.0%	7.4%	6.2%
Personal loans	13.3%	10.7%	9.6%	9.1%	9.0%
Others	0.3%	0.7%	0.7%	0.7%	0.7%
Total gross loans	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: Company data, Datastream, Bloomberg, and Goldman Sachs Research estimates.

Abu Dhabi Commercial Bank (ADCB.AD): Initiate as Neutral

Investment Profile: Abu Dhabi Commercial Bank

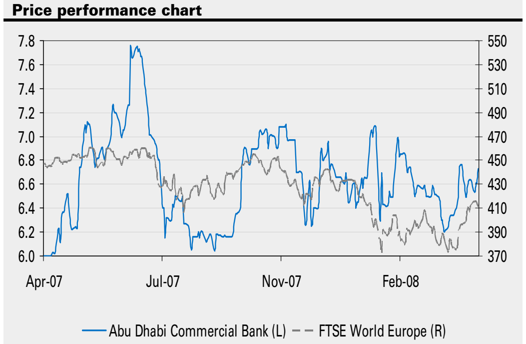


* Returns = Return on Capital For a complete description of the investment profile measures please refer to the disclosure section of this document.

Key data	Current
Price (Dh)	6.78
12 month price target (Dh)	9.41
Upside/(downside) (%)	39
Market cap (Dh mn)	27,120
Tier 1 ratio (%)	12.0

	12/07	12/08E	12/09E	12/10E
GS Net income (Dh mn)	2,547.1	2,327.3	2,552.6	2,814.6
GS EPS (Dh)	0.64	0.58	0.64	0.70
DPS (Dh)	0.30	0.00	0.00	0.00
BVPS (Dh)	2.82	3.13	3.77	4.47
GS P/E (X)	10.5	11.7	10.6	9.6
Dividend yield (%)	4.5	NM	NM	NM
GS ROE (%)	23.2	19.6	18.5	17.1
P/BV (X)	2.3	2.2	1.8	1.5

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	1.2	(2.3)	12.0
Rel. to FTSE World Europe	0.7	10.6	19.3

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 4/10/2008 close.

Investment view

We initiate coverage of Abu Dhabi Commercial Bank (ADCB) with a Neutral rating. Based on our 12-month NAV-based price target the stock offers 37% potential upside, or less than one standard deviation above the average for our New Markets banks coverage universe (i.e., 30%), which comprises banks in Turkey, South Africa, Russia and the UAE.

Core drivers of growth

ADCB, a mayor player in project finance, has recently been under significant scrutiny due to its reliance on wholesale funding and its exposure to structured finance instruments, including SIVs and CDOs. So far, it has been the only bank in the UAE to have recognized significant losses on the back of this, which in recently released disclosure amounted to AED560 mn in 2007.

We believe that ADCB will continue to benefit from strong demand for project financing in the UAE, as well as from new initiatives to develop an Islamic finance platform and launch a real estate development company. However, our estimates diverge from management's ambitious targets, which place earnings growth at 20% in 2008 and look for assets to double in the next three years.

Risks to the investment case

Although recent disclosure provide incremental detail on their investments, it is difficult to determine whether further adjustments to ADCB's investment portfolio are needed. We calculate that non-trading investments (excluding RHB Capital) will still represent around 1.3x of estimated net profit for 2008, leaving significant room for meaningful write-downs.

High loan growth, relatively low capital formation and a generous dividend policy may drive capitalization ratios close to the minimum requirement, suggesting further capital increases or putting projected growth and/or future dividends at risk.

On the other hand, higher-than-expected growth in project and Islamic finance through organic growth or accretive acquisitions could add upside risk to our earnings estimates. For instance, the bank has been actively screening for investment opportunities overseas. Recently, it secured a 25% stake in Malaysian banking group RHB Capital, which is reported to have been valued at 1.7x reported book (Dow Jones Newswires, March 4, 2008).

Valuation

We value ADCB at 15x 2009E earnings based on net asset value (NAV). See Exhibit 39 for a detailed description of our methodology. The bank currently trades on 10.6x 2009E, which is in line with the average for banks in Abu Dhabi (see Exhibit 6), but implies a 15% discount to the New Markets bank average as shown in Exhibit 6.

Source: Company data, Goldman Sachs Research estimates, FactSet.

Exhibit 39: We estimate 39% potential upside based on our 12-month NAV-based price target
AED '000 – NAV-based valuation methodology

	2009E		Comment
Shareholders' equity	15,062,265		
Bank-only equity			
(-) Attributable to participations/investment properties	64,558	>	Non-financial participations / real estate investments are 100% risk-weighted and hence the carry value needs to be backed by equity as any other risk-weighted asset on the balance sheet. We base the capital requirement on the bank's current capitalisation ratio.
Book value of participations/investment properties	574,100		
Capital ratio	11.2%		
Total equity attributable to generation of bank earnings	14,997,707		
GS bank earnings			
Net profit	2,552,576		
Total adjustments:	-61,511		
(-) Earnings attributable to participations	0		
(-) Earnings related to investment properties	61,511		
GS bank earnings	2,491,066		
GS bank ROE	18.2%	>	GS bank earnings / Capital attributable to generation of bank earnings
Valuation			
CoE	10.4%		
Growth	5.0%		
Target P / B multiple	2.4x	>	(ROE - g) / (CoE - g)
(I) Value of banking business	36,372,569		
Funding requirement			
Total book value of participations	574,100	>	Carry value in the balance sheet of all participations
(-) capital funding of participations/investment properties	64,558	>	Part of participations (excluding unrealised gains) funded by equity
Total investment in need of funding	509,543		
Impact on income statement			
Funding rate	3.43%		
Funding cost of participations	-17,496	>	Participations not funded by equity will be funded at avg. AED funding rate
Income contribution from participations	61,511		
Net P&L contribution from all participations	44,015	>	If funding cost > income from participations the net cost of carry is negative
Valuation contribution from subsidiaries and participations			
Participations		>	Value of participations calculated as the equity invested less any P&L contribution at a multiple (the same multiple as the bank). The unrealised gain is already valued as part of the available-for-banking capital. The rest of the book value is funded by non-equity.
Impact on income statement	44,015		
P / E	14.6x		
Value of impact from P&L surplus / (deficit)	642,665		
Equity invested	64,558		
(II) Total value of equity participations	707,223		
(I + II) Estimated market capitalisation at price target	37,079,792		
Current market capitalisation	27,120,000		
Potential upside / (downside) to 12-m price tarket	39%	>	12-month price target based on rolling-forward estimates

Source: Company data, Bloomberg, Datastream, Goldman Sachs Economics Research, and Goldman Sachs Research estimates.

Exhibit 40: ADCB (Neutral): Summary of financials and operational ratios
AED mn

P&L (AED mn)	2006	2007	2008E	2009E	2010E	07/06	08E/07E	09E/08E	10E/09E
Net interest income	**1,774**	**2,288**	**2,585**	**2,910**	**3,371**	**29%**	**13%**	**13%**	**16%**
Net fees and commissions income	1,129	874	1,109	1,391	1,653	-23%	27%	25%	19%
Investment gains	-28	401	110	106	88	N/M	-73%	-4%	-17%
Share in profit of associates	4	0	92	115	138	-91%	N/M	25%	20%
Other operating income	218	236	249	253	260	8%	5%	2%	3%
Total recurring revenues	3,097	3,800	4,145	4,776	5,510	23%	9%	15%	15%
Staff	-440	-544	-663	-783	-924	24%	22%	18%	18%
General administration	-273	-415	-580	-697	-836	52%	40%	20%	20%
Depreciation	-41	-50	-60	-72	-87	22%	20%	20%	20%
Total operating expenses	-754	-1,009	-1,304	-1,552	-1,846	34%	29%	19%	19%
- cost income ratio	24.3%	26.5%	31.5%	32.5%	33.5%	2.2 ppt	4.9 ppt	1.0 ppt	1.0 ppt
Operating income	2,343	2,791	2,841	3,224	3,664	19%	2%	13%	14%
Loan loss provisions	-193	-143	-374	-519	-681	-26%	161%	39%	31%
- provisioning charge	0.64%	0.42%	0.55%	0.55%	0.55%	-21.7 bp	12.9 bp	0.0 bp	0.0 bp
Exceptionals	0	-560	0	0	0	N/M	N/M	N/M	N/M
PBT	2,150	2,088	2,467	2,705	2,983	-3%	18%	10%	10%
Taxes	-3	-3	-4	-4	-5	28%	18%	10%	10%
- tax rate	0.1%	0.2%	0.2%	0.2%	0.2%	0.0 ppt	0.0 ppt	0.0 ppt	0.0 ppt
Minorities	-66	-97	-135	-149	-164	49%	39%	10%	10%
Net income	2,082	1,988	2,327	2,553	2,815	-5%	17%	10%	10%
Cash dividend	1,210	1,200	0	0	0	-1%	N/M	N/M	N/M
Pay out ratio (%)	58%	60%	0%	0%	0%				
Number of shares (eop)	4,000	4,000	4,000	4,000	4,000				
GS net income	**2,082**	**2,547**	**2,327**	**2,553**	**2,815**	**22%**	**-9%**	**10%**	**10%**

Per share data	2006	2007	2008E	2009E	2010E
EPS	**0.52**	**0.50**	**0.58**	**0.64**	**0.70**
GS EPS	**0.52**	**0.64**	**0.58**	**0.64**	**0.70**
DPS	**0.30**	**0.30**	**0.00**	**0.00**	**0.00**
EPS consensus			0.59	0.69	0.71
GS vs. consensus			-1%	-8%	-1%
Book value per share	2.66	2.82	3.13	3.77	4.47

EPS figures based on eop shares outstanding for the respective period.

Valuation	2006	2007	2008E	2009E	2010E
P/E			11.7 x	10.6 x	9.6 x
Cons P/E			11.5 x	9.8 x	9.5 x
GS P/E			11.7 x	10.6 x	9.6 x
P/BV			2.2 x	1.8 x	1.5 x
ROE	21.6%	18.1%	19.6%	18.5%	17.1%
GS ROE	21.6%	22.6%	19.6%	18.5%	17.1%
Dividend yield			0.0%	0.0%	0.0%
Market cap / Customer deposits			0.38 x	0.30 x	0.25 x
Market cap / Branches		645,714			

Network	2006	2007	2008E	2009E	2010E
Branches		42			
Employees		3,000			
Employees / Branch		71			
Staff cost per employee (AED '000)		181			

Profitability ratios	2006	2007	2008E	2009E	2010E
Net interest margin	2.65%	2.59%	2.42%	2.33%	2.29%
Avg. yield of int-earning assets	6.16%	6.79%	5.74%	5.07%	5.10%
Avg. cost of int-bearing liabilities	4.09%	5.59%	4.23%	3.43%	3.60%

Assets (AED mn)	2006	2007	2008E	2009E	2010E	07/06	08E/07E	09E/08E	10E/09E
Cash	332	367	404	445	489	11%	10%	10%	10%
Balances with CB	1,567	15,290	9,875	7,864	4,240	876%	-35%	-20%	-46%
Loans to banks	10,065	6,030	6,151	6,274	6,399	-40%	2%	2%	2%
Loans to customers	62,425	75,676	96,491	119,007	145,184	21%	28%	23%	22%
Non-trading investments	3,701	3,414	7,874	7,781	8,189	-8%	131%	-1%	5%
Interest bearing assets	78,089	100,778	120,796	141,370	164,501	29%	20%	17%	16%
Trading investments	78	122	135	148	163	58%	10%	10%	10%
FV of derivatives	999	3,068	0	0	0	207%	N/M	N/M	N/M
Other non-interest bearing assets	1,923	2,245	6,373	7,753	9,361	17%	184%	22%	21%
Total assets	81,088	106,214	127,304	149,271	174,025	31%	20%	17%	17%

Liabilities	2006	2007	2008E	2009E	2010E	07/06	08E/07E	09E/08E	10E/09E
Bank funds	7,970	5,598	5,608	8,138	8,127	-30%	0%	45%	0%
Customer deposits	43,397	57,161	71,564	89,768	109,433	32%	25%	25%	22%
Short and medium term borrowing	15,141	25,901	30,658	27,949	28,731	71%	18%	-9%	3%
Subordinated notes	1,469	1,469	1,469	1,469	1,469	0%	0%	0%	0%
Interest bearing liabilities	67,977	90,129	109,300	127,324	147,760	33%	21%	16%	16%
Other non interest bearing liabilities	2,387	4,673	5,367	6,733	8,207	96%	15%	25%	22%
Shareholders' equity	10,658	11,298	12,510	15,062	17,877	6%	11%	20%	19%
Minorities	66	114	126	152	181	74%	11%	20%	19%
Total liabilities	81,088	106,214	127,304	149,271	174,025	31%	20%	17%	17%

Asset quality	2006	2007	2008E	2009E	2010E	07/06	08E/07E	09E/08E	10E/09E
NPLs	1,178	1,055	1,003	1,053	1,211	-10%	-5%	5%	15%
Loan loss allowances	983	1,150	1,103	1,158	1,332	17%	-4%	5%	15%
NPL coverage ratio	83.4%	109.0%	110.0%	110.0%	110.0%				
NPL ratio	1.86%	1.37%	1.03%	0.88%	0.83%				
Provisioning charge	0.64%	0.42%	0.55%	0.55%	0.55%				

Capital ratios	2006	2007	2008E	2009E	2010E	07/06	08E/07E	09E/08E	10E/09E
Tier 1 capital	10,677	11,507	12,636	15,215	18,058	8%	10%	20%	19%
Tier 2 capital	1,517	1,374	1,469	1,469	1,469	-9%	7%	0%	0%
Total capital	12,193	12,881	14,105	16,684	19,527	6%	10%	18%	17%
RWA	74,919	95,685	121,031	148,366	180,384	28%	26%	23%	22%
Tier I ratio	14.3%	12.0%	10.4%	10.3%	10.0%				
Total capitalisation ratio	16.3%	13.5%	11.7%	11.2%	10.8%				

Product penetration	2006	2007	2008E	2009E	2010E
Customer loans / deposits	121.5%	120.6%	125.0%	121.6%	123.5%
Customer loans / customer funds	143.8%	132.4%	134.8%	132.6%	132.7%
Loans per branch (AED '000)		1,801,811			
Loans per employee (AED '000)		25,225			
Deposits per branch (AED '000)		1,360,972			
Deposits per employee (AED '000)		19,054			

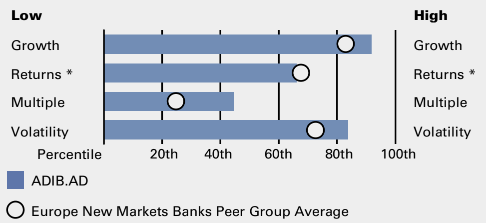
Gross performing loans	2006	2007	2008E	2009E	2010E	07/06	08E/07E	09E/08E	10E/09E
Corporate	33,752	48,547	64,810	80,364	98,446	44%	34%	24%	23%
Government	2,838	1,741	1,552	1,379	1,088	-39%	-11%	-11%	-21%
High-net-worth individuals	22,065	19,042	19,614	21,575	23,733	-14%	3%	10%	10%
Personal	4,753	7,496	11,619	16,847	23,249	58%	55%	45%	38%
Total gross performing loans	**63,408**	**76,826**	**97,594**	**120,165**	**146,515**	**21%**	**27%**	**23%**	**22%**

Loan book breakdown	2006	2007	2008E	2009E	2010E
Corporate	53.2%	63.2%	66.4%	66.9%	67.2%
Government	4.5%	2.3%	1.6%	1.1%	0.7%
High-net-worth individuals	34.8%	24.8%	20.1%	18.0%	16.2%
Personal	7.5%	9.8%	11.9%	14.0%	15.9%
Total gross performing loans	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: Company data, Datastream, Bloomberg, and Goldman Sachs Research estimates.

Abu Dhabi Islamic Bank (ADIB.AD): Initiate with a Neutral rating

Investment Profile: Abu Dhabi Islamic Bank

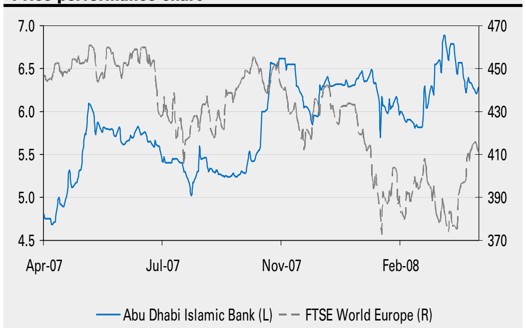


* Returns = Return on Capital For a complete description of the investment profile measures please refer to the disclosure section of this document.

Key data	Current
Price (Dh)	6.31
12 month price target (Dh)	8.62
Upside/(downside) (%)	37
Market cap (Dh mn)	12,434
Tier 1 ratio (%)	16.5

	12/07	12/08E	12/09E	12/10E
GS Net income (Dh mn)	768.5	1,021.9	1,262.2	1,565.6
GS EPS (Dh)	0.41	0.52	0.64	0.79
DPS (Dh)	0.16	0.10	0.13	0.16
BVPS (Dh)	2.91	2.96	3.50	4.17
GS P/E (X)	15.3	12.2	9.9	7.9
Dividend yield (%)	2.5	1.6	2.0	2.5
GS ROE (%)	18.8	18.2	19.8	20.7
P/BV (X)	2.2	2.1	1.8	1.5

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	(1.2)	15.9	22.3
Rel. to FTSE World Europe	(1.6)	31.2	30.3

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 4/10/2008 close.

Investment view

We initiate coverage of Abu Dhabi Islamic Bank (ADIB) with a Neutral rating. Based on our 12-month NAV-based price target the stock offers 37% potential upside, or slightly above the average for our New Markets banks coverage universe (i.e., 30%), which comprises banks in Turkey, South Africa, Russia and the UAE.

Core drivers of growth

Endowed with sufficient capital and under new leadership, ADIB has ambitious plans to become a prominent Islamic finance force globally. We believe that ADIB will be able to double its assets in the next three years, leveraging on renewed commercial focus and robust demand for Islamic finance products.

In our view, ADIB will face three main challenges along the way: (1) strong competition, coming not only from established Islamic finance players in the UAE, but also from new entrants among which are mainly conventional banks launching sharia-compliant platforms or converting altogether; (2) lack of sizeable targets to grow inorganically, given that there are not many Islamic finance banks perceived to be willing sellers; and (3) strong cost pressure as the bank expands operations, particularly abroad. ADIB already counts with a platform in Egypt and is exploring targets in other parts of North Africa.

Risks to the investment case

We anticipate profitability to increase gradually to reach peer group average levels in three years. Our estimates assume that ADIB will observe strict cost discipline, maintaining the cost to income ratio flat in the next three years. Hence, larger-than-expected footprint expansion and/or large acquisitions could put pressure on our earnings estimates.

We assume that going forward the bank will participate actively in the real estate sector as opportunities arise particularly in Abu Dhabi. However, due to lack of disclosure it is difficult to determine ADIB’s total asset concentration in real estate, or quantify Burooj Properties’ contribution in this segment. This adds both upside and downside risk to our earnings estimates.

Valuation

We value ADIB at 13.5x 2009E earnings based on net asset value (NAV). See Exhibit 41 for a detailed description of our methodology. The bank currently trades on 9.9x 2009E, implying a 9% discount to the UAE banking average and a 23% discount to the New Markets bank average, as shown in Exhibit 6.

Source: Company data, Goldman Sachs Research estimates, FactSet.

Exhibit 41: We estimate 37% potential upside based on our 12-month NAV-based price target
AED '000 – NAV-based valuation methodology

	2009E		Comment
Shareholders' equity	6,896,533		
Bank-only equity			
(-) Attributable to participations/investment properties	285,360	>	Non-financial participations / real estate investments are 100% risk-weighted and hence the carry value needs to be backed by equity as any other risk-weighted asset on the balance sheet. We base the capital requirement on the bank's current capitalisation ratio.
Book value of participations/investment properties	2,425,491		
Capital ratio	11.8%		
Total equity attributable to generation of bank earnings	6,611,173		
GS bank earnings			
Net profit	1,262,202		
Total adjustments:	-367,926		
(-) Earnings attributable to participations	42,690		
(-) Earnings related to investment properties	325,236		
GS bank earnings	894,276		
GS bank ROE	14.7%	>	GS bank earnings / Capital attributable to generation of bank earnings
Valuation			
CoE	10.4%		
Growth	5.0%		
Target P / B multiple	1.8x	>	(ROE - g) / (CoE - g)
(I) Value of banking business	11,802,386		
Funding requirement			
Total book value of participations	2,425,491	>	Carry value in the balance sheet of all participations
(-) capital funding of participations/investment properties	285,360	>	Part of participations (excluding unrealised gains) funded by equity
Total investment in need of funding	2,140,131		
Impact on income statement			
Funding rate	3.66%		
Funding cost of participations	-78,404	>	Participations not funded by equity will be funded at avg. AED funding rate
Income contribution from participations	367,926		
Net P&L contribution from all participations	289,522	>	If funding cost > income from participations the net cost of carry is negative
Valuation contribution from subsidiaries and participations			
Participations		>	Value of participations calculated as the equity invested less any P&L contribution at a multiple (the same multiple as the bank). The unrealised gain is already valued as part of the available-for-banking capital. The rest of the book value is funded by non-equity.
Impact on income statement	289,522		
P / E	13.2x		
Value of impact from P&L surplus / (deficit)	3,821,018		
Equity invested	285,360		
(II) Total value of equity participations	4,106,378		
(I + II) Estimated market capitalisation at price target	15,908,764		
Current market capitalisation	12,434,410		
Potential upside / (downside) to 12-m price tarket	37%	>	12-month price target based on rolling-forward estimates

Source: Company data, Bloomberg, Datastream, Goldman Sachs Economics Research, and Goldman Sachs Research estimates.

Exhibit 42: ADIB (Neutral): Summary of financials and operational ratios

AED mn

P&L (AED mn)	2006	2007	2008E	2009E	2010E	07/06	08E/07	09E/08E	10E/09E
Income from islamic financing	**2,058**	**2,392**	**2,491**	**2,992**	**4,001**	**16%**	**4%**	**20%**	**34%**
Distribution to depositors and sukuk holders	**-1,351**	**-1,439**	**-1,271**	**-1,510**	**-2,070**	**7%**	**-12%**	**19%**	**37%**
Net fees and commissions income	80	145	202	279	377	81%	40%	38%	35%
Investment income	75	304	393	479	571	306%	29%	22%	19%
Gain from sale of investments	123	48	90	163	181	-61%	N/M	81%	11%
Other operating income	28	0	0	0	0	N/M	N/M	N/M	N/M
Total recurring revenues	1,011	1,449	1,906	2,403	3,059	43%	32%	26%	27%
Staff	-252	-376	-501	-631	-808	49%	33%	26%	28%
General administration	-108	-160	-208	-261	-326	49%	30%	25%	25%
Depreciation	-19	-25	-34	-46	-60	34%	33%	34%	31%
Total operating expenses	-379	-562	-743	-937	-1,193	48%	32%	26%	27%
- cost income ratio	37.5%	38.8%	39.0%	39.0%	39.0%	1.4 ppt	0.2 ppt	0.0 ppt	0.0 ppt
Operating income	632	886	1,162	1,466	1,866	40%	31%	26%	27%
Loan loss provisions	-48	-104	-140	-203	-300	116%	35%	45%	48%
- provisioning charge	0.28%	0.46%	0.45%	0.45%	0.48%	17.5 bp	-0.7 bp	0.0 bp	3.0 bp
Other provisions	-12	-13	0	0	0	5%	N/M	N/M	N/M
Exceptionals	0	0	0	0	0	N/M	N/M	N/M	N/M
PBT	572	769	1,022	1,262	1,566	34%	33%	24%	24%
Taxes	0	0	0	0	0	N/M	N/M	N/M	N/M
- tax rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0 ppt	0.0 ppt	0.0 ppt	0.0 ppt
Minorities	-1	-1	0	0	0	-39%	N/M	N/M	N/M
Net income	571	768	1,022	1,262	1,566	35%	33%	24%	24%
Cash dividend	150	300	204	252	313	100%	-32%	24%	24%
Pay out ratio (%)	26%	39%	20%	20%	20%				
Weighted average number of shares in issue	1,468	1,500	1,500	1,500	1,500				
Weighted average number of shares in issue (dilute	1,468	1,859	1,971	1,971	1,971				
GS net income	**571**	**768**	**1,022**	**1,262**	**1,566**	**35%**	**33%**	**24%**	**24%**

Per share data	2006	2007	2008E	2009E	2010E
Basic EPS	**0.39**	**0.51**	**0.68**	**0.84**	**1.04**
Diluted EPS	**0.39**	**0.41**	**0.52**	**0.64**	**0.79**
GS EPS	**0.39**	**0.41**	**0.52**	**0.64**	**0.79**
DPS	**0.10**	**0.16**	**0.10**	**0.13**	**0.16**
EPS consensus			0.45	0.51	0.57
GS vs. consensus			15%	26%	39%
Book value per share	1.89	2.91	2.96	3.50	4.17

EPS figures based on w. avg. shares outstanding for the respective period.

Valuation	2006	2007	2008E	2009E	2010E
P/E			9.3 x	7.5 x	6.0 x
Cons P/E			14.0 x	12.4 x	11.1 x
GS P/E			12.2 x	9.9 x	7.9 x
P/BV			2.1 x	1.8 x	1.5 x
ROE	23.9%	18.8%	18.2%	19.8%	20.7%
GS ROE	23.9%	18.8%	18.2%	19.8%	20.7%
Dividend yield			1.6%	2.0%	2.5%
Market cap / Customer deposits			0.32 x	0.25 x	0.20 x
Market cap / Branches		318,831			

Network	2006	2007	2008E	2009E	2010E
Branches		39			
Employees		1,228			
Employees / Branch		31			
Staff cost per employee (AED '000)		307			

Profitability ratios	2006	2007	2008E	2009E	2010E
Net islamic banking margin	2.76%	2.71%	2.77%	2.66%	2.78%
Avg. yield on islamic banking assets	8.04%	6.81%	5.65%	5.37%	5.75%
Avg. cost of funding	6.13%	4.93%	3.82%	3.66%	3.97%

Assets (AED mn)	2006	2007	2008E	2009E	2010E	07/06	08E/07	09E/08E	10E/09E
Cash	210	253	329	428	557	21%	30%	30%	30%
Balances with CB	1,199	1,707	2,379	2,572	2,860	42%	39%	8%	11%
Loans to banks	31	338	372	409	450	984%	10%	10%	10%
Murabaha and Mudaraba with financial institutions	10,528	12,879	10,948	8,211	4,105	22%	-15%	-25%	-50%
Islamic financing	20,437	24,776	37,058	52,552	71,728	21%	50%	42%	36%
Investment in securities	1,469	1,226	1,388	1,512	1,599	-17%	13%	9%	6%
Investment in associates	96	443	532	638	766	362%	20%	20%	20%
Investment properties	1,617	1,172	1,465	1,787	2,145	-28%	25%	22%	20%
Other non-interest bearing assets	705	1,247	1,609	2,198	2,835	77%	29%	37%	29%
Total assets	36,290	44,042	56,080	70,308	87,046	21%	27%	25%	24%

Liabilities	2006	2007	2008E	2009E	2010E	07/06	08E/07	09E/08E	10E/09E
Bank funds	5,346	4,185	6,945	8,427	10,033	-22%	66%	21%	19%
Customer acoounts	23,822	29,629	38,433	49,565	62,724	24%	30%	29%	27%
Sukuk	2,938	2,938	2,938	2,938	2,938	0%	0%	0%	0%
Other non interest bearing liabilities	1,415	1,869	1,922	2,478	3,136	32%	3%	29%	27%
Shareholders' equity	2,768	5,418	5,839	6,897	8,210	96%	8%	18%	19%
Minorities	1	3	3	4	5	141%	8%	18%	19%
Total liabilities	36,290	44,042	56,080	70,308	87,046	21%	27%	25%	24%

Asset quality	2006	2007	2008E	2009E	2010E	07/06	08E/07	09E/08E	10E/09E
NPLs	124	111	222	387	632	-10%	100%	74%	63%
Loan loss allowances	186	331	425	565	776	78%	29%	33%	37%
NPL coverage ratio	149.5%	296.7%	191.4%	145.8%	122.9%				
NPL ratio	0.95%	0.71%	1.01%	1.27%	1.52%				
Provisioning charge	0.28%	0.46%	0.45%	0.45%	0.48%				

Capital ratios	2006	2007	2008E	2009E	2010E	07/06	08E/07	09E/08E	10E/09E
Tier 1 capital	2,368	4,822	5,318	6,376	7,689	104%	10%	20%	21%
Tier 2 capital	194	124	133	133	133	-36%	7%	0%	0%
Total capital	2,562	4,946	5,451	6,509	7,822	93%	10%	19%	20%
RWA	21,013	29,142	40,770	55,327	72,969	39%	40%	36%	32%
Tier I ratio	11.3%	16.5%	13.0%	11.5%	10.5%				
Total capitalisation ratio	12.2%	17.0%	13.4%	11.8%	10.7%				

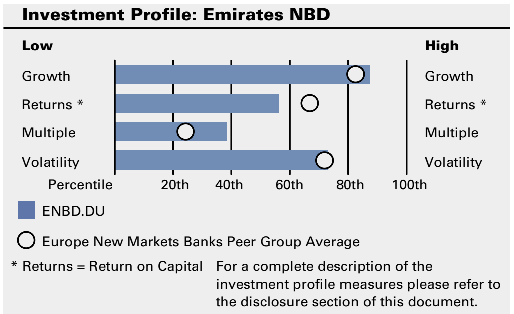
Product penetration	2006	2007	2008E	2009E	2010E
Customer loans / deposits	70.1%	73.3%	81.7%	90.6%	98.6%
Customer loans / customer funds	85.8%	83.6%	96.4%	106.0%	114.4%
Islamic financing per branch (AED '000)		635,283			
islamic financing per employee (AED '000)		20,176			
Islamic account per branch (AED '000)		759,713			
Islamic account per employee (AED '000)		24,128			

Islamic financing & investing products	2006	2007	2008E	2009E	2010E	07/06	08E/07	09E/08E	10E/09E
Murabaha	10,496	13,027				24%	N/M	N/M	N/M
Istisna'a	272	321				18%	N/M	N/M	N/M
Mudaraba	1,720	1,608				-7%	N/M	N/M	N/M
Other	614	644				5%	N/M	N/M	N/M
Ijara	13,102	15,600	22,009	30,600	41,484	19%	41%	39%	36%
Total gross	**26,205**	**31,200**	**47,939**	**68,198**	**93,370**	**19%**	**54%**	**42%**	**37%**

Islamic products breakdown	2006	2007	2008E	2009E	2010E
Murabaha	40.1%	41.8%			
Istisna'a	1.0%	1.0%			
Mudaraba	6.6%	5.2%			
Other	2.3%	2.1%			
Ijara	50.0%	50.0%	45.9%	44.9%	44.4%
Total loans	**100.0%**	**100.0%**	**NM**	**NM**	**NM**

Source: Company data, Datastream, Bloomberg, and Goldman Sachs Research estimates.

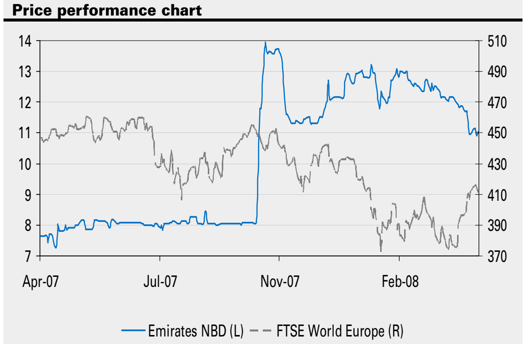
Emirates NBD (ENBD.DU): Initiate with a Neutral rating



Key data	Current
Price (Dh)	11.05
12 month price target (Dh)	14.91
Upside/(downside) (%)	35
Market cap (Dh mn)	55,830.4
Tier 1 ratio (%)	12.7

	12/07	12/08E	12/09E	12/10E
GS Net income (Dh mn)	4,029.7	4,683.9	5,373.9	6,414.1
GS EPS (Dh)	0.80	0.93	1.06	1.27
DPS (Dh)	0.09	0.30	0.37	0.43
BVPS (Dh)	4.98	5.71	6.52	7.49
GS P/E (X)	13.9	11.9	10.4	8.7
Dividend yield (%)	0.8	2.8	3.4	3.8
GS ROE (%)	17.8	17.3	17.4	18.1
P/BV (X)	2.5	1.9	1.7	1.5

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	(13.8)	36.6	41.2
Rel. to FTSE World Europe	(14.2)	54.7	50.4

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 4/10/2008 close.

Investment view

We initiate coverage of Emirates NBD with a Neutral rating. Based on our 12-month NAV-based price target, the stock offers 35% potential upside, or less than one standard deviation above the average for the banks included in our New Markets banks coverage universe (i.e., 30%), which comprises banks in Turkey, South Africa, Russia and the UAE.

Core drivers of growth

Emirates NBD is the largest bank by assets both in the UAE and in the GCC region. It is the result of a recent merger between two Dubai-based banks: Emirates and National Bank of Dubai. As such, it represents one of the most comprehensive franchises and a major competitive force in the Gulf, in our view.

Going forward, we believe the bank will be able to sustain high asset and earnings growth by: (1) cross-selling (i.e., Emirates and NBD have quite a complementary customer base); (2) focusing on efficiency gains (e.g., the bank targets US$30 mn of synergies in retail banking alone) and; (3) leveraging on scale to provide corporate clients with competitive solutions in a market increasingly serviced by international players.

Emirates NBD also has the largest Islamic finance franchise among conventional banks which, in our view, has given it a head-start in this fast-growing but increasingly competitive segment. We forecast Emirates NBD's Islamic assets to grow by at least 30% annually in the next three years.

Even though through Emirates NBD has a significant platform to get exposure to the attractive real estate sector in the UAE through Union Properties, it has a low asset concentration in this segment when compared with its peers. This suggests a compelling opportunity to grow in this segment, particularly in Abu Dhabi, where the bank has a small presence.

Risks to the investment case

Our estimates are based on pro-forma financial statements for the merged entity. Given lack of disclosure, we acknowledge that our assumptions could diverge meaningfully once full-detailed official figures are released. This implies both downside and upside risk to our estimates.

Elevated inflationary pressure could result in rapid asset quality deterioration. Although retail banking only represents 15% of the lending book, Emirates NBD has a commanding market share in the UAE (i.e. 25%), which could lead to significant loan losses.

Valuation

We value Emirates NBD at 14x 2009E earnings based on net asset value (NAV). See Exhibit 43 for a detailed description of our methodology. The bank currently trades on 10.4x 2009E, implying a 6% discount to the UAE banking average and a 19% discount to the New Markets bank average, as shown in Exhibit 6.

Source: Company data, Goldman Sachs Research estimates, FactSet.

Exhibit 43: We estimate 35% potential upside based on our 12-month NAV-based price target
AED '000 – NAV-based valuation methodology

	2009E		Comment
Shareholders' equity	32,926,346		
Bank-only equity			
(-) Attributable to participations/investment properties	549,849	>	Non-financial participations / real estate investments are 100% risk-weighted and hence the carry value needs to be backed by equity as any other risk-weighted asset on the balance sheet. We base the capital requirement on the bank's current capitalisation ratio.
Book value of participations/investment properties	4,611,435		
Capital ratio	11.9%		
Total equity attributable to generation of bank earnings	32,376,496		
GS bank earnings			
Net profit	5,373,935		
Total adjustments:	-598,059		
(-) Earnings attributable to participations	129,366		
(-) Earnings related to investment properties	468,692		
GS bank earnings	4,775,877		
GS bank ROE	15.7%	>	GS bank earnings / Capital attributable to generation of bank earnings
Valuation			
CoE	10.4%		
Growth	5.0%		
Target P / B multiple	2.0x	>	(ROE - g) / (CoE - g)
(I) Value of banking business	64,095,227		
Funding requirement			
Total book value of participations	4,611,435	>	Carry value in the balance sheet of all participations
(-) capital funding of participations/investment properties	549,849	>	Part of participations (excluding unrealised gains) funded by equity
Total investment in need of funding	4,061,586		
Impact on income statement			
Funding rate	2.30%		
Funding cost of participations	-93,310	>	Participations not funded by equity will be funded at avg. AED funding rate
Income contribution from participations	598,059		
Net P&L contribution from all participations	504,748	>	If funding cost > income from participations the net cost of carry is negative
Valuation contribution from subsidiaries and participations			
Participations		>	Value of participations calculated as the equity invested less any P&L contribution at a multiple (the same multiple as the bank). The unrealised gain is already valued as part of the available-for-banking capital. The rest of the book value is funded by non-equity.
Impact on income statement	504,748		
P / E	13.4x		
Value of impact from P&L surplus / (deficit)	6,774,034		
Equity invested	549,849		
(II) Total value of equity participations	7,323,884		
(I + II) Estimated market capitalisation at price target	71,419,111		
Current market capitalisation	55,830,380		
Potential upside / (downside) to 12-m price tarket	35%	>	12-month price target based on rolling-forward estimates

Source: Company data, Bloomberg, Datastream, Goldman Sachs Economics Research, and Goldman Sachs Research estimates.

Exhibit 44: ENBD (Neutral): Summary of financials and operational ratios

AED mn

P&L (AED mn)	2006	2007	2008E	2009E	2010E	07/06	08E/07	09E/08E	10E/09E
Net interest income	**2,613**	**3,981**	**4,596**	**5,167**	**6,344**	**52%**	**15%**	**12%**	**23%**
Net income from islamic finance	**82**	**102**	**144**	**144**	**174**	**23%**	**42%**	**0%**	**21%**
Net fees and commissions income	981	1,432	2,005	2,706	3,518	46%	40%	35%	30%
Net FX income	270	365	474	593	711	35%	30%	25%	20%
Trading income	78	400	368	397	447	416%	-8%	8%	12%
Property related income	78	87	129	129	146	12%	47%	1%	13%
Gain on AFS investments	-25	188	179	194	211	N/M	N/M	9%	9%
Brokerage income	74	82	90	99	109	10%	N/M	10%	10%
Other operating income	607	472	519	561	593	-22%	10%	8%	6%
Total recurring revenues	4,758	7,108	8,503	9,991	12,253	49%	20%	18%	23%
Staff	-1,042	-1,588	-2,033	-2,521	-3,177	53%	28%	24%	26%
General administration	-647	-970	-1,213	-1,431	-1,746	50%	25%	18%	22%
Depreciation	-133	-160	-176	-194	-213	20%	10%	10%	10%
Total operating expenses	-1,822	-2,719	-3,422	-4,146	-5,136	49%	26%	21%	24%
- cost income ratio	38.3%	38.2%	40.2%	41.5%	41.9%	0.0 ppt	2.0 ppt	1.2 ppt	0.4 ppt
Operating income	2,936	4,390	5,081	5,845	7,117	50%	16%	15%	22%
Loan loss provisions	-212	-537	-719	-835	-1,119	153%	34%	16%	34%
- provisioning charge	0.26%	0.43%	0.42%	0.38%	0.41%	17.5 bp	-1.5 bp	-3.7 bp	3.1 bp
Other provisions	-29	-199	-91	-105	-124	580%	-54%	15%	17%
Execptionals	0	-82	0	0	0	N/M	N/M	N/M	N/M
PBT	2,694	3,654	4,270	4,904	5,874	36%	17%	15%	20%
Taxes	0	0	0	0	0	N/M	N/M	N/M	N/M
- tax rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0 ppt	0.0 ppt	0.0 ppt	0.0 ppt
Minorities	0	0	1	1	1	N/M	31%	50%	33%
Net income	2,994	3,948	4,684	5,374	6,414	32%	19%	15%	19%
Cash dividend	287	448	1,538	1,873	2,149	56%	243%	22%	15%
Pay out ratio (%)	10%	11%	33%	35%	34%				
Number of shares (eop)	5,053	5,053	5,053	5,053	5,053				
GS net income	**2,994**	**4,030**	**4,684**	**5,374**	**6,414**	**35%**	**16%**	**15%**	**19%**

Per share data	2006	2007	2008E	2009E	2010E
EPS	**0.59**	**0.78**	**0.93**	**1.06**	**1.27**
GS EPS	**0.59**	**0.80**	**0.93**	**1.06**	**1.27**
DPS	**0.06**	**0.09**	**0.30**	**0.37**	**0.43**
EPS consensus			0.87	1.03	1.24
GS vs. consensus			7%	3%	2%
Book value per share	4.00	4.98	5.71	6.52	7.49

EPS figures based on eop shares outstanding for the respective period.

Valuation	2006	2007	2008E	2009E	2010E
P/E			11.9 x	10.4 x	8.7 x
Cons P/E			12.7 x	10.7 x	8.9 x
GS P/E			11.9 x	10.4 x	8.7 x
P/BV			1.9 x	1.7 x	1.5 x
ROE	15.2%	17.4%	17.3%	17.4%	18.1%
GS ROE	15.2%	17.7%	17.3%	17.4%	18.1%
Dividend yield			2.8%	3.4%	3.8%
Market cap / Customer deposits			0.35 x	0.27 x	0.22 x
Market cap / Branches		489,740			

Network	2006	2007	2008E	2009E	2010E
Branches		114			
Employees		6,402			
Employees / Branch		56			
Staff cost per employee (AED '000)		248			

Profitability ratios	2006	2007	2008E	2009E	2010E
Net interest margin	2.23%	2.27%	1.99%	1.83%	1.85%
Avg. yield of int-earning assets	6.22%	6.40%	5.01%	4.16%	4.43%
Avg. cost of int-bearing liabilities	4.05%	4.09%	2.98%	2.30%	2.55%

Assets (AED mn)	2006	2007	2008E	2009E	2010E	07/06	08E/07	09E/08E	10E/09E
Cash	921	968	1,064	1,171	1,182	5%	10%	10%	1%
Balances with CB	8,985	28,261	18,459	21,218	23,042	215%	-35%	15%	9%
Loans to banks	10,376	12,801	14,081	15,489	17,038	23%	10%	10%	10%
Loans to customers	102,496	152,005	199,345	248,291	306,331	48%	31%	25%	23%
Investments in securities	26,401	23,555	25,934	28,534	31,391	-11%	10%	10%	10%
Interest bearing assets	149,180	217,590	258,884	314,703	378,984	46%	19%	22%	20%
Islamic financing & investment products	6,558	14,449	20,051	25,874	32,575	120%	39%	29%	26%
Investments in associates	2,297	2,712	3,125	3,592	4,130	18%	15%	15%	15%
Investment properties	426	827	926	1,019	1,121	94%	12%	10%	10%
Intangible assets	5,309	6,179	6,179	6,179	6,179	16%	0%	0%	0%
Other non-interest bearing assets	6,679	12,044	14,301	17,638	21,478	80%	19%	23%	22%
Total assets	170,449	253,800	303,465	369,005	444,467	49%	20%	22%	20%

Liabilities	2006	2007	2008E	2009E	2010E	07/06	08E/07	09E/08E	10E/09E
Bank funds	30,618	46,305	49,930	55,826	68,314	51%	8%	12%	22%
Customer deposits	86,295	124,097	161,032	205,270	249,912	44%	30%	27%	22%
Medium term borrowing	18,471	27,657	30,673	33,174	36,362	50%	11%	8%	10%
Other interest bearing liabilities	355	5,610	805	1,026	1,250	1480%	-86%	27%	22%
Interest bearing liabilities	135,739	203,669	242,440	295,296	355,838	50%	19%	22%	21%
Islamic customers deposits	9,045	14,542	20,088	26,034	33,013	61%	38%	30%	27%
Sukuk	0	1,267	1,267	1,267	1,267	N/M	0%	0%	0%
Other non interest bearing liabilities	5,448	8,859	10,476	13,077	16,035	63%	18%	25%	23%
Shareholders' equity	20,215	25,157	28,841	32,926	37,850	24%	15%	14%	15%
Minorities	2	306	352	405	465	19439%	15%	15%	15%
Total liabilities	170,449	253,800	303,465	369,005	444,467	49%	20%	22%	20%

Asset quality	2006	2007	2008E	2009E	2010E	07/06	08E/07	09E/08E	10E/09E
NPLs	975	1,492	2,154	2,929	3,919	53%	44%	36%	34%
Loan loss allowances	1,119	1,634	2,320	3,109	4,166	46%	42%	34%	34%
NPL coverage ratio	115%	110%	108%	106%	106%				
NPL ratio	0.98%	1.00%	1.10%	1.20%	1.30%				
Provisioning charge	0.26%	0.43%	0.42%	0.38%	0.41%				

Capital ratios	2006	2007	2008E	2009E	2010E	07/06	08E/07	09E/08E	10E/09E
Tier 1 capital	14,564	18,420	21,612	25,166	29,491	26%	17%	16%	17%
Tier 2 capital	4,016	4,536	5,074	5,659	6,318	13%	12%	12%	12%
Total capital	16,283	20,244	23,562	27,232	31,679	24%	16%	16%	16%
RWA	NA	145,147	185,270	228,391	279,489	NM	28%	23%	22%
Tier I ratio	NA	12.7%	11.7%	11.0%	10.6%				
Total capitalisation ratio	NA	13.9%	12.7%	11.9%	11.3%				

Product penetration	2006	2007	2008E	2009E	2010E
Customer loans / deposits	87.7%	89.2%	94.5%	95.1%	96.3%
Customer loans / customer funds	118.8%	122.5%	123.8%	121.0%	122.6%
Loans per branch (AED '000)		1,460,123			
Loans per employee (AED '000)		26,000			
Deposits per branch (AED '000)		1,216,134			
Deposits per employee (AED '000)		21,656			

Gross loans	2006	2007	2008E	2009E	2010E	07/06	08E/07	09E/08E	10E/09E
Corporate	55,958	85,615	111,300	135,786	162,943	53%	30%	22%	20%
Personal loans	26,089	39,133	52,830	68,679	89,282	50%	35%	30%	30%
Government / Public sector	14,287	20,716	27,346	34,456	43,070	45%	32%	26%	25%
Other segment (customers)	3,223	3,699	4,316	5,158	6,158	15%	17%	19%	19%
Total gross loans	**99,557**	**149,164**	**195,792**	**244,078**	**301,453**	**50%**	**31%**	**25%**	**24%**

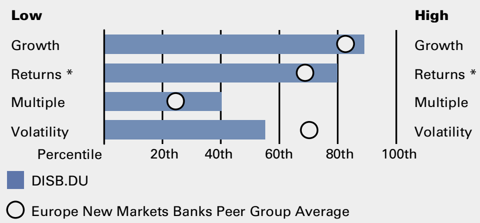
Loan book breakdown	2006	2007	2008E	2009E	2010E
Corporate	56.2%	57.4%	56.8%	55.6%	54.1%
Personal loans	26.2%	26.2%	27.0%	28.1%	29.6%
Government / Public sector	14.4%	13.9%	14.0%	14.1%	14.3%
Other segment (customers)	3.2%	2.5%	2.2%	2.1%	2.0%
Total loans	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Financials based on Pro-forma consolidation of Emirates International Bank and National Bank of Dubai financial accounts

Source: Company data, Datastream, Bloomberg, and Goldman Sachs Research estimates.

Dubai Islamic Bank (DISB.DU): Initiate with a Neutral rating

Investment Profile: Dubai Islamic Bank

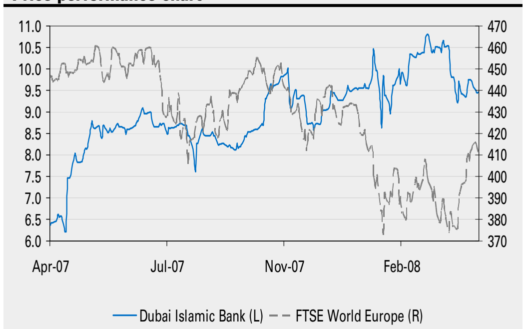


* Returns = Return on Capital For a complete description of the investment profile measures please refer to the disclosure section of this document.

Key data	Current
Price (Dh)	9.46
12 month price target (Dh)	12.67
Upside/(downside) (%)	34
Market cap (Dh mn)	32,593.5
Tier 1 ratio (%)	9.0

	12/07	12/08E	12/09E	12/10E
GS Net income (Dh mn)	1,883.3	2,485.2	3,236.4	3,898.1
GS EPS (Dh)	0.55	0.72	0.94	1.13
DPS (Dh)	0.30	0.35	0.40	0.40
BVPS (Dh)	3.02	3.40	3.94	4.67
GS P/E (X)	17.3	13.1	10.1	8.4
Dividend yield (%)	3.2	3.7	4.2	4.2
GS ROE (%)	19.9	22.5	25.6	26.3
P/BV (X)	3.2	2.8	2.4	2.0

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	(1.1)	10.1	46.0
Rel. to FTSE World Europe	(1.6)	24.7	55.5

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 4/10/2008 close.

Investment view

We initiate coverage of Dubai Islamic Bank with a Neutral rating. Based on our 12-month NAV-based price target, the stock offers 34% potential upside, slightly above the average for our New Markets banks coverage universe (i.e., 30%), which comprises banks in Turkey, South Africa, Russia and the UAE.

Core drivers of growth

DIB is the largest Islamic finance bank in the UAE. Based in Dubai, it benefits from its close government and corporate relationships to participate actively in the booming real estate sector in the city. Indeed, the bank has developed a comprehensive group of real estate subsidiaries and associates, among which is Deyaar. We believe that this sector will continue to contribute significantly to DIB's top line, estimating that recurrent direct real estate-related income will grow from c. 10% to around 15% of total revenues in the next three years.

Having accomplished a commanding share of the Islamic finance market in the UAE, the bank has started building a presence abroad, which already includes banking subsidiaries in Sudan, Pakistan and banking associates in Bosnia and Yemen. We forecast DIB's assets to double in the next three years on the back of robust domestic demand for sharia-compliant products as well as strong growth abroad. See Exhibit 46 for a detailed description of our earnings estimates.

Risks to the investment case

In our view, downside risks to our estimates mainly stem from three sources: (1) high concentration in real estate activities; (2) strong competitive pressure resulting in declining margins; and (3) low capitalization levels. Based on UAE banking standards, DIB's total capitalization ratio has reached low levels. Due to lack of disclosure and guidance from local authorities, it is difficult to determine what DIB's tier I and total capitalization would be once Basel II is fully implemented. Hence, investors should be aware of the risk of further capital increases, growth slowdown and/or lower dividends.

Valuation

We value DIB at 13.5x 2009E earnings based on net asset value (NAV). See Exhibit 44 for a detailed description of our methodology. The bank currently trades on 10x 2009E, implying a 9% discount to the UAE banking average, and a 21% discount to the New Markets bank average, as shown in Exhibit 6.

Source: Company data, Goldman Sachs Research estimates, FactSet.

Exhibit 45: We estimate 34% potential upside based on our 12-month NAV-based price target
AED '000 – NAV-based valuation methodology

	2009E		Comment
Shareholders' equity	13,559,289		
Bank-only equity			
(-) Attributable to participations/investment properties	679,697	>	Non-financial participations / real estate investments are 100% risk-weighted and hence the carry value needs to be backed by equity as any other risk-weighted asset on the balance sheet. We base the capital requirement on the bank's current capitalisation ratio.
Book value of participations/investment properties	7,676,737		
Capital ratio	8.9%		
Total equity attributable to generation of bank earnings	12,879,592		
GS bank earnings			
Net profit	3,236,352		
Total adjustments:	-1,388,239		
(-) Earnings attributable to participations	978,802		
(-) Earnings related to investment properties	409,437		
GS bank earnings	1,848,114		
GS bank ROE	15.4%	>	GS bank earnings / Capital attributable to generation of bank earnings
Valuation			
CoE	10.4%		
Growth	5.0%		
Target P / B multiple	1.9x	>	(ROE - g) / (CoE - g)
(I) Value of banking business	24,745,803		
Funding requirement			
Total book value of participations	7,676,737	>	Carry value in the balance sheet of all participations
(-) capital funding of participations/investment properties	679,697	>	Part of participations (excluding unrealised gains) funded by equity
Total investment in need of funding	6,997,040		
Impact on income statement			
Funding rate	3.01%		
Funding cost of participations	-210,872	>	Participations not funded by equity will be funded at avg. AED funding rate
Income contribution from participations	1,388,239		
Net P&L contribution from all participations	1,177,366	>	If funding cost > income from participations the net cost of carry is negative
Valuation contribution from subsidiaries and participations			
Participations		>	Value of participations calculated as the equity invested less any P&L contribution at a multiple (the same multiple as the bank). The unrealised gain is already valued as part of the available-for-banking capital. The rest of the book value is funded by non-equity.
Impact on income statement	1,177,366		
P / E	13.4x		
Value of impact from P&L surplus / (deficit)	15,764,655		
Equity invested	679,697		
(II) Total value of equity participations	16,444,352		
(I + II) Estimated market capitalisation at price target	41,190,155		
Current market capitalisation	32,593,480		
Potential upside / (downside) to 12-m price tarket	34%	>	12-month price target based on rolling-forward estimates

Source: Company data, Bloomberg, Datastream, Goldman Sachs Economics Research, and Goldman Sachs Research estimates.

Exhibit 46: DIB (Neutral): Summary of financials and operational ratios
AED mn

P&L (AED mn)	2006	2007	2008E	2009E	2010E	07/06	08E/07	09E/08E	10E/09E
Income from islamic financing	**1,394**	**1,976**	**2,110**	**2,515**	**3,390**	**42%**	**7%**	**19%**	**35%**
Income from islamic investing	**895**	**1,238**	**1,372**	**1,637**	**2,103**	**38%**	**11%**	**19%**	**28%**
Distribution to depositors	**-1,758**	**-2,356**	**-2,024**	**-2,283**	**-3,126**	**34%**	**-14%**	**13%**	**37%**
Wholesale funding	0	0	-150	-229	-315	N/M	N/M	53%	38%
Net fees and commissions income	870	749	973	1,246	1,557	-14%	30%	28%	25%
Investment income	718	1,038	997	1,236	1,453	45%	-4%	24%	18%
Income from international murabahat, shor	525	627	681	726	863	19%	N/M	6%	19%
Share in profit of associates	16	203	617	979	1,139	NM	NM	59%	16%
Other operating income	158	177	195	215	235	12%	11%	10%	10%
Total recurring revenues	2,819	3,652	4,773	6,041	7,300	30%	31%	27%	21%
Staff	-637	-867	-1,126	-1,408	-1,690	36%	30%	25%	20%
General administration	-455	-592	-740	-888	-1,066	30%	25%	20%	20%
Depreciation	-67	-11	-13	-15	-18	-84%	20%	20%	20%
Total operating expenses	-1,158	-1,469	-1,879	-2,311	-2,773	27%	28%	23%	20%
- cost income ratio	41.1%	40.2%	39.4%	38.3%	38.0%	-0.9 ppt	-0.9 ppt	-1.1 ppt	-0.3 ppt
Operating income	1,660	2,183	2,894	3,730	4,526	31%	33%	29%	21%
Loan loss provisions	-71	-263	-370	-449	-580	272%	40%	21%	29%
- provisioning charge	0.22%	0.63%	0.65%	0.60%	0.60%	40.3 bp	2.4 bp	-5.0 bp	0.0 bp
Other provisions	-6	-38	-48	-57	-66	571%	25%	20%	15%
Exceptionals	0	617	0	0	0	N/M	N/M	N/M	N/M
PBT	1,584	2,499	2,477	3,224	3,881	58%	-1%	30%	20%
Taxes	-6	14	21	29	37	N/M	49%	38%	27%
- tax rate	0.4%	-0.8%	-0.9%	-0.9%	-1.0%	-1.1 ppt	-0.1 ppt	0.0 ppt	-0.1 ppt
Minorities	-18	-12	-12	-16	-20	-30%	1%	30%	20%
Net income	1,560	2,500	2,485	3,236	3,898	60%	-1%	30%	20%
Cash dividend	299	980	1,198	1,378	1,378	228%	22%	15%	0%
Pay out ratio (%)	19%	39%	48%	43%	35%				
Weighted average number of shares in issi	3,241	3,445	3,445	3,445	3,445				
GS net income	**1,560**	**1,883**	**2,485**	**3,236**	**3,898**	**21%**	**32%**	**30%**	**20%**

Per share data	2006	2007	2008E	2009E	2010E
EPS	**0.48**	**0.73**	**0.72**	**0.94**	**1.13**
GS EPS	**0.48**	**0.55**	**0.72**	**0.94**	**1.13**
DPS	**0.12**	**0.30**	**0.35**	**0.40**	**0.40**
EPS consensus			0.67	0.73	0.82
GS vs. consensus			8%	29%	38%
Book value per share	2.63	3.02	3.40	3.94	4.67

EPS figures based on w. avg. shares outstanding for the respective period.

Valuation	2006	2007	2008E	2009E	2010E
P/E			13.1 x	10.1 x	8.4 x
Cons P/E			14.1 x	13.0 x	11.5 x
GS P/E			13.1 x	10.1 x	8.4 x
P/BV			2.8 x	2.4 x	2.0 x
ROE	25.5%	26.4%	22.5%	25.6%	26.3%
GS ROE	25.5%	20.5%	22.5%	25.6%	26.3%
Dividend yield			3.7%	4.2%	4.2%
Market cap / Customer deposits			0.40 x	0.32 x	0.25 x
Market cap / Branches		757,988			

Network	2006	2007	2008E	2009E	2010E
Branches		43			
Employees		2,000			
Employees / Branch		47			
Staff cost per employee (AED '000)		433			

Profitability ratios	2006	2007	2008E	2009E	2010E
Net islamic banking margin	2.42%	2.51%	2.57%	2.40%	2.37%
Avg. yield on islamic banking assets	6.44%	6.49%	5.38%	4.95%	5.18%
Avg. cost of funding	4.78%	4.74%	3.35%	3.01%	3.30%

Assets (AED mn)	2006	2007	2008E	2009E	2010E	07/06	08E/07	09E/08E	10E/09E
Cash	827	1,028	1,285	1,542	1,850	24%	25%	20%	20%
Balances with CB	2,285	3,878	7,120	8,857	10,935	70%	84%	24%	23%
Loans to banks	407	1,187	1,483	1,780	2,136	191%	25%	20%	20%
International Murabahat, short term	14,991	16,280	17,094	17,948	18,846	9%	5%	5%	5%
Islamic financing	23,498	30,936	40,431	52,528	67,897	32%	31%	30%	29%
Islamic investing	11,757	17,952	24,434	32,287	40,579	53%	36%	32%	26%
Investment properties	3,069	1,631	2,000	2,379	2,833	-47%	23%	19%	19%
Investments in associates	1,078	3,742	4,490	5,298	6,093	247%	20%	18%	15%
Other investments	3,524	4,211	5,053	5,963	6,857	19%	20%	18%	15%
Other non-interest bearing assets	2,998	2,895	3,188	4,001	5,004	-3%	10%	25%	25%
Total assets	64,434	83,739	106,577	132,582	163,029	30%	27%	24%	23%

Liabilities	2006	2007	2008E	2009E	2010E	07/06	08E/07	09E/08E	10E/09E
Bank funds	4,650	2,241	5,583	7,857	9,382	-52%	149%	41%	19%
Customer acoounts	47,732	65,017	82,167	102,985	128,117	36%	26%	25%	24%
Sukuk	0	2,755	2,755	2,755	2,755	N/M	0%	0%	0%
Other non interest bearing liabilities	3,227	3,061	4,108	5,149	6,406	-5%	34%	25%	24%
Shareholders' equity	8,537	10,414	11,701	13,559	16,079	22%	12%	16%	19%
Minorities	287	251	263	277	290	-13%	5%	5%	5%
Total liabilities	64,434	83,739	106,577	132,582	163,029	30%	27%	24%	23%

Asset quality	2006	2007	2008E	2009E	2010E	07/06	08E/07	09E/08E	10E/09E
NPLs	1,416	1,685	2,082	2,537	3,145	19%	24%	22%	24%
Loan loss allowances	830	1,047	1,296	1,665	2,148	26%	24%	29%	29%
NPL coverage ratio	62.2%	66.8%	69.2%	72.9%	75.9%				
NPL ratio	3.49%	3.01%	2.80%	2.60%	2.50%				
Provisioning charge	0.22%	0.63%	0.65%	0.60%	0.60%				

Capital ratios	2006	2007	2008E	2009E	2010E	07/06	08E/07	09E/08E	10E/09E
Tier 1 capital	6,185	4,682	5,053	6,116	9,233	-24%	8%	21%	51%
Tier 2 capital	545	1,007	1,007	1,007	1,007	85%	0%	0%	0%
Total capital	6,729	5,688	6,059	7,123	10,240	-15%	7%	18%	44%
RWA	42,502	51,808	64,607	80,446	98,840	22%	25%	25%	23%
Tier I ratio	14.6%	9.0%	7.8%	7.6%	9.3%				
Total capitalisation ratio	15.8%	11.0%	9.4%	8.9%	10.4%				

Product penetration	2006	2007	2008E	2009E	2010E
Customer loans / deposits	44.9%	46.0%	46.1%	47.4%	49.4%
Customer loans / customer funds	49.2%	47.6%	49.2%	51.0%	53.0%
Islamic financing per branch (AED '000)		719,435			
islamic financing per employee (AED '000)		15,468			
Islamic account per branch (AED '000)		1,512,019			
Islamic account per employee (AED '000)		32,508			

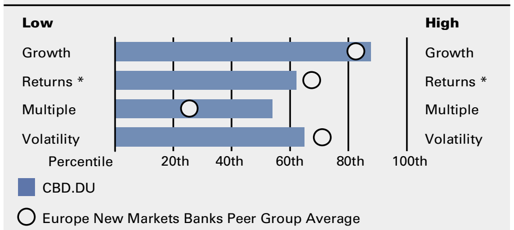
Islamic financing & investing products	2006	2007	2008E	2009E	2010E	07/06	08E/07	09E/08E	10E/09E
Commodities Murabahat	7,092	8,887	11,553	14,788	18,485	25%	30%	28%	25%
International Murabahat	3,599	2,460	2,460	2,510	2,635	-32%	0%	2%	5%
Vehicles Murabahat	3,878	4,980	6,225	7,781	9,726	28%	25%	25%	25%
Real Estate Murabahat	3,499	5,739	8,896	13,344	19,348	64%	55%	50%	45%
Istisna'a	4,452	6,606	8,919	11,594	15,072	48%	35%	30%	30%
Ijara	6,038	9,029	11,287	14,447	18,781				
Islamic credit cards	161	257	425	658	954				
Others	0	0	0	0	0	N/M	N/M	N/M	N/M
Total gross	**28,720**	**37,959**	**49,763**	**65,121**	**85,002**	**32%**	**31%**	**31%**	**31%**

Islamic products breakdown	2006	2007	2008E	2009E	2010E
Commodities Murabahat	24.7%	23.4%	23.2%	22.7%	21.7%
International Murabahat	12.5%	6.5%	4.9%	3.9%	3.1%
Vehicles Murabahat	13.5%	13.1%	12.5%	11.9%	11.4%
Real Estate Murabahat	12.2%	15.1%	17.9%	20.5%	22.8%
Istisna'a	15.5%	17.4%	17.9%	17.8%	17.7%
Ijara	21.0%	23.8%	22.7%	22.2%	22.1%
Islamic credit cards	0.6%	0.7%	0.9%	1.0%	1.1%
Others	0.0%	0.0%	0.0%	0.0%	0.0%
Total loans	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: Company data, Datastream, Bloomberg, and Goldman Sachs Research estimates.

Commercial Bank of Dubai (CBD.DU): Initiate with a Neutral rating

Investment Profile: Commercial Bank of Dubai

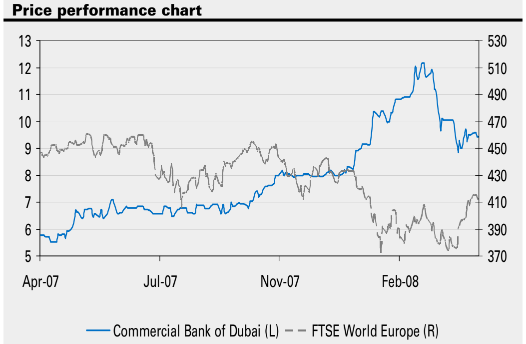


* Returns = Return on Capital. For a complete description of the investment profile measures please refer to the disclosure section of this document.

Key data	Current
Price (Dh)	9.60
12 month price target (Dh)	12.98
Upside/(downside) (%)	35
Market cap (Dh mn)	13,554
Tier 1 ratio (%)	15.3

	12/07	12/08E	12/09E	12/10E
GS Net income (Dh mn)	935.9	997.0	1,180.8	1,398.3
GS EPS (Dh)	0.68	0.71	0.84	0.99
DPS (Dh)	0.34	0.24	0.25	0.29
BVPS (Dh)	3.47	3.92	4.65	5.35
GS P/E (X)	13.9	13.6	11.5	9.7
Dividend yield (%)	3.7	2.5	2.6	3.0
GS ROE (%)	21.8	19.4	19.5	19.8
P/BV (X)	2.4	2.4	2.1	1.8

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	3.1	34.1	65.0
Rel. to FTSE World Europe	2.6	51.9	75.8

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 4/10/2008 close.

Investment view

We initiate coverage of Commercial Bank of Dubai (CBD's) with a Neutral rating. Based on our 12-month NAV-based price target, the stock offers 35% potential upside, slightly above the average for our New Markets banks coverage universe (i.e., 30%), which comprises banks in Turkey, South Africa, Russia and the UAE.

Core drivers of growth

CBD has recently seen a sharp acceleration in loan growth as the bank has leveraged both on its significant expertise in SME and corporate finance, and on its close relationship with the major trading families in Dubai, most of which are among its most prominent shareholders. We believe the bank will continue to enjoy high asset and earnings growth rates mainly due to: (1) robust funding trends on the back of CBD's strengthening high net-worth individuals franchise in Dubai; (2) increased focus on higher-yield segments like SME banking and consumer finance; and (3) cross-selling opportunities arising from its growing wealth management client base.

However, we anticipate profitability to come mildly under pressure in the medium term as higher operating costs and loan losses arise on the back of a focus on riskier lending segments, which will also require the implementation of systems and processes as well as probably a larger footprint.

Risks to the investment case

Lack of disclosure regarding CBD's deposit base should raise investors' awareness of at least the following potential risks: (1) high concentration among top depositors; and (2) sustainability of above-sector-average levels of low cost deposits.

Although CBD's free float is around 80%, the effective trading flow is significantly lower than this figure suggests. Indeed, the average daily trading volume for CBD was only around US$500k in the last 12 months, making it the most illiquid stock in our coverage universe. This makes us believe that large blocks of shares are in the possession of investors which may deem their stakes strategic, resulting in much higher levels of volatility.

Valuation

We value CBD at 15.5x 2009E earnings based on net asset value (NAV). See Exhibit 47 for a detail description of our methodology. The bank currently trades on 11.5x 2009E, in line with the UAE banking sector average, and implying a 10% discount to the New Markets bank average, as shown in Exhibit 6.

Source: Company data, Goldman Sachs Research estimates, FactSet.

Exhibit 47: We estimate 35% potential upside based on our 12-month NAV-based price target
AED '000 – NAV-based valuation methodology

	2009E		Comment
Shareholders' equity	6,568,127		
Bank-only equity			
(-) Attributable to participations/investment properties	0	>	Non-financial participations / real estate investments are 100% risk-weighted and hence the carry value needs to be backed by equity as any other risk-weighted asset on the balance sheet. We base the capital requirement on the bank's current capitalisation ratio.
Book value of participations/investment properties	0		
Capital ratio	12.5%		
Total equity attributable to generation of bank earnings	6,568,127		
GS bank earnings			
Net profit	1,180,795		
Total adjustments:	0		
(-) Earnings attributable to participations	0		
(-) Earnings related to investment properties	0		
GS bank earnings	1,180,795		
GS bank ROE	19.5%	>	GS bank earnings / Capital attributable to generation of bank earnings
Valuation			
CoE	10.4%		
Growth	5.0%		
Target P / B multiple	2.7x	>	(ROE - g) / (CoE - g)
(I) Value of banking business	17,566,861		
Funding requirement			
Total book value of participations	0	>	Carry value in the balance sheet of all participations
(-) capital funding of participations/investment properties	0	>	Part of participations (excluding unrealised gains) funded by equity
Total investment in need of funding	0		
Impact on income statement			
Funding rate	3.29%		
Funding cost of participations	0	>	Participations not funded by equity will be funded at avg. AED funding rate
Income contribution from participations	0		
Net P&L contribution from all participations	0	>	If funding cost > income from participations the net cost of carry is negative
Valuation contribution from subsidiaries and participations			
Participations		>	Value of participations calculated as the equity invested less any P&L contribution at a multiple (the same multiple as the bank). The unrealised gain is already valued as part of the available-for-banking capital. The rest of the book value is funded by non-equity.
Impact on income statement	0		
P / E	14.9x		
Value of impact from P&L surplus / (deficit)	0		
Equity invested	0		
(II) Total value of equity participations	0		
(I + II) Estimated market capitalisation at price target	17,566,861		
Current market capitalisation	13,553,720		
Potential upside / (downside) to 12-m price tarket	35%	>	12-month price target based on rolling-forward estimates

Source: Company data, Bloomberg, Datastream, Goldman Sachs Economics Research, and Goldman Sachs Research estimates.

Exhibit 48: CBD (Neutral): Summary of financials and operational ratios

AED mn

P&L (AED mn)	2006	2007	2008E	2009E	2010E	07/06	08E/07	09E/08E	10E/09E
Net interest income	**626**	**872**	**1,019**	**1,316**	**1,629**	**39%**	**17%**	**29%**	**24%**
Net fees and commissions income	215	266	323	384	455	24%	22%	19%	18%
Investment income	0	157	114	125	149	N/M	-28%	10%	19%
Dividend income	10	16	29	34	40	59%	N/M	18%	18%
Other operating income	51	74	88	104	120	45%	20%	18%	15%
Total recurring revenues	901	1,384	1,573	1,963	2,392	54%	14%	25%	22%
Staff	-187	-271	-352	-457	-571	44%	30%	30%	25%
General administration	-64	-101	-136	-184	-239	58%	35%	35%	30%
Depreciation	-28	-36	-37	-39	-41	29%	5%	5%	5%
Total operating expenses	-279	-407	-525	-680	-852	46%	29%	30%	25%
- cost income ratio	30.9%	29.4%	33.4%	34.7%	35.6%	-1.5 ppt	4.0 ppt	1.3 ppt	0.9 ppt
Operating income	623	977	1,048	1,282	1,540	57%	7%	22%	20%
Loan loss provisions	-18	-25	-51	-102	-142	40%	106%	99%	40%
- provisioning charge	0.35%	0.29%	0.35%	0.45%	0.45%	-5.8 bp	6.2 bp	10.0 bp	0.0 bp
Other provisions	-3	-16	0	0	0	383%	N/M	N/M	N/M
Exceptionals	0	0	0	0	0	N/M	N/M	N/M	N/M
PBT	601	936	997	1,181	1,398	56%	7%	18%	18%
Taxes	0	0	0	0	0	N/M	N/M	N/M	N/M
- tax rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0 ppt	0.0 ppt	0.0 ppt	0.0 ppt
Minorities	0	0	0	0	0	N/M	N/M	N/M	N/M
Net income	601	936	997	1,181	1,398	56%	7%	18%	18%
Cash dividend	-188	-473	-339	-349	-413	152%	-28%	3%	18%
Pay out ratio (%)	31%	51%	34%	30%	30%				
Average number of shares	1,216	1,373	1,412	1,412	1,412				
GS net income	**601**	**936**	**997**	**1,181**	**1,398**	**56%**	**7%**	**18%**	**18%**

Per share data	2006	2007	2008E	2009E	2010E
EPS	**0.49**	**0.68**	**0.71**	**0.84**	**0.99**
GS EPS	**0.49**	**0.68**	**0.71**	**0.84**	**0.99**
DPS	**0.15**	**0.34**	**0.24**	**0.25**	**0.29**
EPS consensus			0.76	0.89	NM
GS vs. consensus			-7%	-6%	NM
Book value per share	3.13	3.47	3.92	4.65	5.35

EPS figures based on w. avg. shares outstanding for the respective period.

Valuation	2006	2007	2008E	2009E	2010E
P/E			13.6 x	11.5 x	9.7 x
Cons P/E			12.6 x	10.8 x	NM
GS P/E			13.6 x	11.5 x	9.7 x
P/BV			2.4 x	2.1 x	1.8 x
ROE	18.1%	21.8%	19.4%	19.5%	19.8%
GS ROE	18.1%	21.8%	19.4%	19.5%	19.8%
Dividend yield			2.5%	2.6%	3.0%
Market cap / Customer deposits			0.49 x	0.38 x	0.30 x
Market cap / Branches		616,078			

Network	2006	2007	2008E	2009E	2010E
Branches		22			
Employees		1,100			
Employees / Branch		50			
Staff cost per employee (AED '000)		246			

Profitability ratios	2006	2007	2008E	2009E	2010E
Net interest margin	4.30%	4.16%	3.34%	3.29%	3.23%
Avg. yield of int-earning assets	6.94%	6.57%	5.14%	4.66%	4.79%
Avg. cost of int-bearing liabilities	4.55%	3.95%	2.73%	2.07%	2.33%

Assets (AED mn)	2006	2007	2008E	2009E	2010E	07/06	08E/07	09E/08E	10E/09E
Cash	345	488	561	617	679	41%	15%	10%	10%
Balances with CB	2,882	5,242	5,849	6,446	7,260	82%	12%	10%	13%
Loans to banks	665	209	220	231	242	-69%	5%	5%	5%
Loans to customers	12,643	20,777	29,562	38,489	49,394	64%	42%	30%	28%
Non-trading investments	1,055	2,290	2,618	3,000	3,448	117%	14%	15%	15%
Interest bearing assets	17,589	29,007	38,810	48,783	61,024	65%	34%	26%	25%
Other non-interest bearing assets	1,115	1,429	1,749	2,037	2,366	28%	22%	16%	16%
Total assets	18,705	30,436	40,559	50,820	63,391	63%	33%	25%	25%

Liabilities	2006	2007	2008E	2009E	2010E	07/06	08E/07	09E/08E	10E/09E
Bank funds	336	3,242	6,086	7,150	8,908	864%	88%	17%	25%
Customer deposits	13,756	21,177	27,389	35,246	44,707	54%	29%	29%	27%
Interest bearing liabilities	14,092	24,419	33,475	42,397	53,616	73%	37%	27%	26%
Other non interest bearing liabilities	803	1,258	1,544	1,855	2,217	57%	23%	20%	19%
Shareholders' equity	3,810	4,759	5,540	6,568	7,558	25%	16%	19%	15%
Minorities	0	0	0	0	0	N/M	N/M	N/M	N/M
Total liabilities	18,705	30,436	40,559	50,820	63,391	63%	33%	25%	25%

Asset quality	2006	2007	2008E	2009E	2010E	07/06	08E/07	09E/08E	10E/09E
NPLs	430	462	552	679	847	7%	19%	23%	25%
Loan loss allowances	257	285	336	438	576	11%	18%	30%	31%
NPL coverage ratio	87.6%	93.8%	97.0%	99.0%	100.0%				
NPL ratio	3.33%	2.19%	1.84%	1.74%	1.69%				
Provisioning charge	0.35%	0.29%	0.35%	0.45%	0.45%				

Capital ratios	2006	2007	2008E	2009E	2010E	07/06	08E/07	09E/08E	10E/09E
Tier 1 capital	3,016	3,918	4,570	5,394	6,371	30%	17%	18%	18%
Tier 2 capital	125	206	260	321	393	65%	26%	24%	22%
Total capital	3,130	4,114	4,820	5,705	6,754	31%	17%	18%	18%
RWA	15,531	25,683	35,626	45,787	58,178	65%	39%	29%	27%
Tier I ratio	19.4%	15.3%	12.8%	11.8%	11.0%				
Total capitalisation ratio	20.2%	16.0%	13.5%	12.5%	11.6%				

Product penetration	2006	2007	2008E	2009E	2010E
Customer loans / deposits	89.7%	85.1%	88.3%	90.8%	92.1%
Customer loans / customer funds	91.9%	98.1%	107.9%	109.2%	110.5%
Loans per branch (AED '000)		944,413			
Loans per employee (AED '000)		18,888			
Deposits per branch (AED '000)		962,588			
Deposits per employee (AED '000)		19,252			

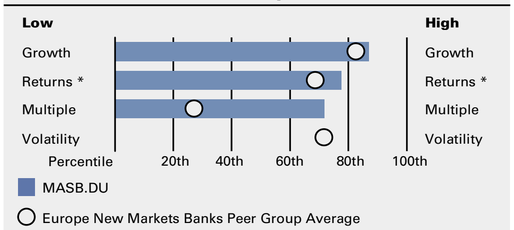
Gross loans	2006	2007	2008E	2009E	2010E	07/06	08E/07	09E/08E	10E/09E
Corporate	8,935,384	13,636,608	19,091,251	24,818,627	31,767,842	53%	40%	30%	28%
HNW	2,366,180	4,211,398	6,527,667	8,812,350	11,632,302	78%	55%	35%	32%
Personal loans	802,617	1,287,813	2,060,501	2,781,676	3,616,179	60%	60%	35%	30%
Government / Public sector	36,386	800,642	1,080,867	1,351,083	1,688,854	2100%	35%	25%	25%
Other segment (customers)	758,796	1,125,476	1,138,450	1,163,750	1,265,004	48%	1%	2%	9%
Total gross loans	**12,899,363**	**21,061,937**	**29,898,736**	**38,927,486**	**49,970,181**	**63%**	**42%**	**30%**	**28%**

Loan book breakdown	2006	2007	2008E	2009E	2010E
Corporate	69.3%	64.7%	63.9%	63.8%	63.6%
HNW	18.3%	20.0%	21.8%	22.6%	23.3%
Personal loans	6.2%	6.1%	6.9%	7.1%	7.2%
Government / Public sector	0.3%	3.8%	3.6%	3.5%	3.4%
Other segment (customers)	5.9%	5.3%	3.8%	3.0%	2.5%
Total loans	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: Company data, Datastream, Bloomberg, and Goldman Sachs Research estimates..

Mashreqbank (MASB.DU): Initiate with a Sell rating

Investment Profile: MashreqBank

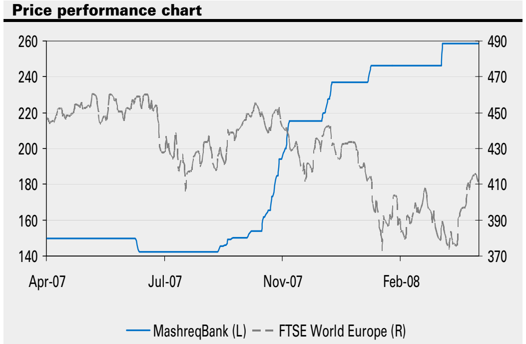


* Returns = Return on Capital For a complete description of the investment profile measures please refer to the disclosure section of this document.

Key data	Current
Price (Dh)	258.46
12 month price target (Dh)	283.06
Upside/(downside) (%)	10
Market cap (Dh mn)	37,835
Tier 1 ratio (%)	14.6

	12/07	12/08E	12/09E	12/10E
GS Net income (Dh mn)	1,900.6	2,271.8	2,705.3	3,219.4
GS EPS (Dh)	12.98	15.52	18.48	21.99
DPS (Dh)	0.00	5.18	6.26	7.49
BVPS (Dh)	65.67	78.55	93.51	111.60
GS P/E (X)	19.9	16.7	14.0	11.8
Dividend yield (%)	NM	2.0	2.4	2.9
GS ROE (%)	22.4	21.5	21.5	21.4
P/BV (X)	3.6	3.3	2.8	2.3

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	9.1	68.0	72.8
Rel. to FTSE World Europe	8.6	90.3	84.0

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 4/10/2008 close.

Source of opportunity

Mashreqbank has outperformed the UAE banking sector by c.10% in the last month. We believe that this trend is not backed by a substantial improvement in fundamentals; instead, we attribute this mostly to significantly below-average liquidity levels. Indeed, Mashreqbank shares only traded c. US$700k in average for the last 12-month period. Furthermore, a listed insurance subsidiary (i.e., Oman Insurance Company), which accounted for around 20% of net income in 2007, also observes a similar trading pattern. This has left Mashreqbank shares trading only 10% below our 12-month NAV-based price target of AED283, offering one of the lowest upside potentials within our New Market Banks coverage universe. On that premise, we initiate coverage of Mashreqbank with a Sell rating.

Catalyst

Understanding that the fundamental reason for our rating is a technical phenomenon in nature, we do not see a specific catalyst for Mashreqbank's valuation to adjust in the short term. However, trading at around 25% premium to the UEA banking sector, the stock is left highly vulnerable, in our view.

Valuation

We value Mashreqbank at 13.6x 2009E earnings based on net asset value (NAV). To arrive at this multiple, we calculate Mashreqbank's bank-only value by adjusting both equity and net income for the amount consumed/generated by Oman Insurance Company (OIC). To that we add the estimated value of OIC based on: (1) equity allocation; (2) profitability; and (3) associated funding costs and; 4) an earnings multiple of 7.5x (i.e., based on mean GS 2009E P/E for the Pan-European insurance sector). See Exhibit 49 for a detailed description of our methodology.

Key risks

Specific risks to our view and price target include: a significant re-rating in the valuation of OIC, which currently trades on c. 6x earnings, and bolt-on acquisitions resulting in significant accretion.

Source: Company data, Goldman Sachs Research estimates, FactSet.

Exhibit 49: We estimate 10% potential upside based on our 12-month NAV-based price target
AED '000 – NAV-based valuation methodology

	2009E		Comment
Shareholders' equity	13,689,185		
Bank-only equity			
(-) Attributable to participations/investment properties	3,088,464	>	We assume that the book value of consolidated financial participations is fully deducted from total capital.
Book value of participations/investment properties	3,088,464		
Capital ratio	17.5%		
Total equity attributable to generation of bank earnings	10,600,722		
GS bank earnings			
Net profit	3,056,936	>	Before excluding minorities
Total adjustments:	-967,481		
(-) Earnings attributable to participations	967,481	>	Expected net income for OIC
(-) Earnings related to investment properties	0		
GS bank earnings	2,089,455		
GS bank ROE	21.3%	>	GS bank earnings / Capital attributable to generation of bank earnings
Valuation			
CoE	10.4%		
Growth	5.0%		
Target P / B multiple	3.0x	>	(ROE - g) / (CoE - g)
(I) Value of banking business	31,842,573		
Funding requirement			
Total book value of participations	3,088,464	>	Carry value in the balance sheet of all participations
(-) capital funding of participations/investment properties	3,088,464	>	Part of participations (excluding unrealised gains) funded by equity
Total investment in need of funding	0		
Impact on income statement			
Funding rate	2.32%		
Funding cost of participations	0	>	Participations not funded by equity will be funded at avg. AED funding rate
Income contribution from participations	615,802	>	Mashreqbank's stake in OIC equals to 63.65%
Net P&L contribution from all participations	615,802	>	If funding cost > income from participations the net cost of carry is negative
Valuation contribution from subsidiaries and participations			
Participations		>	Value of participations calculated as the equity invested less any P&L contribution at a multiple (i.e., GS Pan-European insurance sector average). The unrealised gain is already valued as part of the available-for-banking capital. The rest of the book value is funded by non-equity.
Impact on income statement	615,802		
P / E	7.5x		
Value of impact from P&L surplus / (deficit)	4,618,514		
Equity invested	3,088,464		
(II) Total value of equity participations	7,706,978		
(I + II) Estimated market capitalisation at price target	39,549,551		
Current market capitalisation	37,835,410		
Potential upside / (downside) to 12-m price tarket	10%	>	12-month price target based on rolling-forward estimates

Source: Company data, Bloomberg, Datastream, Goldman Sachs Economics Research, and Goldman Sachs Research estimates.

Exhibit 50: Mashreqbank (Sell): Summary of financials and operational ratios
AED mn

P&L (AED mn)	2006	2007	2008E	2009E	2010E	07/06	08E/07	09E/08E	10E/09E
Net interest income	**879**	**1,162**	**1,353**	**1,587**	**1,910**	**32%**	**16%**	**17%**	**20%**
Income from islamic finance	**4**	**39**	**79**	**121**	**154**	**995%**	**104%**	**53%**	**28%**
Net fees and commissions income	707	1,091	1,473	1,915	2,394	54%	35%	30%	25%
Trading income	63	0	79	88	0	NM	NM	11%	N/M
Investment gains	649	778	868	914	1,105	20%	12%	5%	21%
Income from property investments	71	158	131	131	142	123%	-17%	0%	8%
Investment income	56	96	97	126	163	71%	2%	29%	30%
Insurance underwriting profit	234	315	335	390	430	35%	6%	16%	10%
Other operating income	165	212	265	317	365	28%	25%	20%	15%
Total recurring revenues	2,827	3,850	4,680	5,589	6,664	36%	22%	19%	19%
Staff	-605	-828	-1,060	-1,272	-1,501	37%	28%	20%	18%
General administration	-372	-514	-643	-772	-910	38%	25%	20%	18%
Depreciation	-54	-67	-81	-95	-110	25%	20%	18%	15%
Total operating expenses	-1,031	-1,410	-1,784	-2,139	-2,521	37%	27%	20%	18%
- cost income ratio	36.5%	36.6%	38.1%	38.3%	37.8%	0.1 ppt	1.5 ppt	0.2 ppt	-0.4 ppt
Operating income	1,796	2,441	2,896	3,450	4,143	36%	19%	19%	20%
Loan loss provisions	-145	-299	-358	-378	-471	106%	20%	6%	25%
- provisioning charge	0.32%	0.58%	0.60%	0.65%	0.68%	26.5 bp	1.9 bp	5.0 bp	3.0 bp
Other provisions	-1	-9	0	0	0	569%	N/M	N/M	N/M
Exceptionals	0	0	0	0	0	N/M	N/M	N/M	N/M
PBT	1,649	2,132	2,538	3,072	3,671	29%	19%	21%	19%
Taxes	-7	-6	-10	-15	-18	-5%	61%	51%	19%
- tax rate	0.4%	0.3%	0.4%	0.5%	0.5%	-0.1 ppt	0.1 ppt	0.1 ppt	0.0 ppt
Minorities	-72	-225	-256	-352	-434	213%	14%	37%	23%
Net income	1,571	1,901	2,272	2,705	3,219	21%	20%	19%	19%
Cash dividend	0	0	758	917	1,096	N/M	N/M	21%	19%
Pay out ratio (%)	0%	0%	33%	34%	34%				
Average number of ordinary shares	146	146	146	146	146				
GS net income	**1,571**	**1,901**	**2,272**	**2,705**	**3,219**	**21%**	**20%**	**19%**	**19%**

Per share data	2006	2007	2008E	2009E	2010E
EPS	**10.73**	**12.98**	**15.52**	**18.48**	**21.99**
GS EPS	**10.73**	**12.98**	**15.52**	**18.48**	**21.99**
DPS	**0.00**	**0.00**	**5.18**	**6.26**	**7.49**
EPS consensus			NM	NM	NM
GS vs. consensus			NM	NM	NM
Book value per share	50.40	65.67	78.55	93.51	111.60

EPS figures based on w. avg. shares outstanding for the respective period.

Valuation	2006	2007	2008E	2009E	2010E
P/E			16.7 x	14.0 x	11.8 x
Cons P/E			NM	NM	NM
GS P/E			16.7 x	14.0 x	11.8 x
P/BV			3.3 x	2.8 x	2.3 x
ROE	21.5%	22.4%	21.5%	21.5%	21.4%
GS ROE	21.5%	22.4%	21.5%	21.5%	21.4%
Dividend yield			2.0%	2.4%	2.9%
Market cap / Customer deposits			0.66 x	0.53 x	0.44 x
Market cap / Branches		840,787			

Network	2006	2007	2008E	2009E	2010E
Branches		45			
Employees		2,300			
Employees / Branch		51			
Staff cost per employee (AED '000)		360			

Profitability ratios	2006	2007	2008E	2009E	2010E
Net interest margin	1.91%	1.83%	1.72%	1.78%	1.78%
Avg. yield of int-earning assets	5.75%	6.21%	4.64%	3.93%	4.07%
Avg. cost of int-bearing liabilities	4.36%	4.81%	3.17%	2.32%	2.44%

Assets (AED mn)	2006	2007	2008E	2009E	2010E	07/06	08E/07	09E/08E	10E/09E
Cash	274	231	243	255	268	-16%	5%	5%	5%
Balances with CB	2,131	19,969	12,566	15,439	18,470	837%	-37%	23%	20%
Loans to banks	8,557	7,960	8,358	8,776	9,215	-7%	5%	5%	5%
Loans to customers	28,572	35,995	44,991	55,335	67,762	26%	25%	23%	22%
Non-trading investments	2,841	4,749	5,720	6,972	8,602	67%	20%	22%	23%
Interest bearing assets	42,376	68,904	71,877	86,777	104,316	63%	4%	21%	20%
Islamic financing	94	1,095	2,162	3,656	5,178	NM	97%	69%	42%
islamic investment products	735	1,250	1,860	2,623	3,392	70%	49%	41%	29%
Trading investments	10,094	10,023	11,114	12,360	13,796	-1%	11%	11%	12%
Investments properties	362	498	623	748	882	38%	25%	20%	18%
Other non-interest bearing assets	3,084	5,857	6,712	8,233	10,045	90%	15%	23%	22%
Total assets	56,745	87,627	94,349	114,396	137,609	54%	8%	21%	20%

Liabilities	2006	2007	2008E	2009E	2010E	07/06	08E/07	09E/08E	10E/09E
Bank funds	6,988	17,231	5,580	3,885	4,475	147%	-68%	-30%	15%
Customer deposits	33,908	46,134	57,667	71,507	85,808	36%	25%	24%	20%
Other interest bearing liabilities	3,421	5,251	7,082	8,914	9,645	53%	35%	26%	8%
Interest bearing liabilities	44,317	68,616	70,328	84,306	99,929	55%	2%	20%	19%
Islamic customers deposits	748	2,153	4,179	6,696	10,279	188%	94%	60%	54%
Insurance & Life insurance funds	374	517	698	942	1,272	38%	35%	35%	35%
Other non interest bearing liabilities	3,357	5,857	6,234	6,999	7,591	74%	6%	12%	8%
Shareholders' equity	7,378	9,614	11,499	13,689	16,337	30%	20%	19%	19%
Minorities	571	871	1,411	1,764	2,202	52%	62%	25%	25%
Total liabilities	56,745	87,627	94,349	114,396	137,609	54%	8%	21%	20%

Asset quality	2006	2007	2008E	2009E	2010E	07/06	08E/07	09E/08E	10E/09E
NPLs	673	760	926	1,111	1,326	13%	22%	20%	19%
Loan loss allowances	924	1,091	1,319	1,625	2,015	18%	21%	23%	24%
NPL coverage ratio	137.3%	143.5%	142.4%	146.3%	152.0%				
NPL ratio	2.28%	2.05%	2.00%	1.95%	1.90%				
Provisioning charge	0.32%	0.58%	0.60%	0.65%	0.68%				

Capital ratios	2006	2007	2008E	2009E	2010E	07/06	08E/07	09E/08E	10E/09E
Tier 1 capital	7,725	9,824	12,062	14,203	16,764	27%	23%	18%	18%
Tier 2 capital	101	2,134	2,218	2,399	2,635	NM	4%	8%	10%
Total capital	7,826	11,958	14,280	16,602	19,399	53%	19%	16%	17%
RWA	44,678	67,345	76,799	94,710	116,007	51%	14%	23%	22%
Tier I ratio	17.3%	14.6%	15.7%	15.0%	14.5%				
Total capitalisation ratio	17.5%	17.8%	18.6%	17.5%	16.7%				

Product penetration	2006	2007	2008E	2009E	2010E
Customer loans / deposits	69.9%	56.8%	71.1%	73.4%	75.1%
Customer loans / customer funds	84.3%	78.0%	78.0%	77.4%	79.0%
Loans per branch (AED '000)		799,888			
Loans per employee (AED '000)		15,650			
Deposits per branch (AED '000)		1,025,189			
Deposits per employee (AED '000)		20,058			

Gross loans	2006	2007	2008E	2009E	2010E	07/06	08E/07	09E/08E	10E/09E
Corporate	18,675	22,825	27,846	33,972	41,446	22%	22%	22%	22%
Personal	8,406	9,091	11,364	14,205	17,756	8%	25%	25%	25%
Government / Public sector	2,116	5,152	6,955	8,485	10,182	143%	35%	22%	20%
Other segment (customers)	299	18	145	298	393	-94%	711%	105%	32%
Total gross loans	**29,496**	**37,086**	**46,310**	**56,960**	**69,778**	**26%**	**25%**	**23%**	**23%**

Loan book breakdown	2006	2007	2008E	2009E	2010E
Corporate	63.3%	61.5%	60.1%	59.6%	59.4%
Personal	28.5%	24.5%	24.5%	24.9%	25.4%
Government / Public sector	7.2%	13.9%	15.0%	14.9%	14.6%
Other segment (customers)	1.0%	0.0%	0.3%	0.5%	0.6%
Total loans	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: Company data, Datastream, Bloomberg, and Goldman Sachs Research estimates.

Reg AC

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