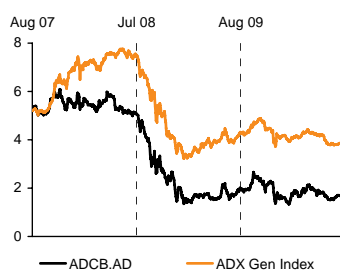


2 August 2010

BuyTarget price
Dh1.81Price
Dh1.67Short term (0-60 days)
n/aMarket view
No Weighting**Price performance**

	(1M)	(3M)	(12M)
Price (Dh)	1.58	1.70	1.94
Absolute (%)	5.7	-1.8	-13.9
Rel market (%)	5.1	7.2	-6.7
Rel sector (%)	3.8	7.3	-7.2

Market capitalisation
Dh9.34bn (€1.95bn)Average (12M) daily turnover
Dh5.19m (US\$1.45m)Sector: ADX Bank & Fin Index
RIC: ADCB.AD, ADCB UH
Priced Dh1.67 at close 28 Jul 2010.
Source: Bloomberg**Analyst**Raj Madha
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Abu Dhabi Comm Bank

Early provisions clear the horizon

2Q results were firmly in the red, but the major variance related to early reporting of Dubai World provisions of Dh1,035m, which we expected in 3Q. Investment impairments were also above expectations, but IS numbers were generally in line and the balance sheet reflected continued substantial rebalancing.

Key forecasts

	FY08A	FY09A	FY10F	FY11F	FY12F
Reported PTP (Dhm)	1,530	-153.2	499.5	2,107	2,592
Reported net profit (Dhm)	1,237	-559.4	136	1,764	2,058
Reported EPS (Dh)	0.26	0.06	0.04	0.32	0.41
Normalised EPS (Dh)	0.26	0.06	0.04	0.32	0.41
Dividend per share (Dh)	0.1	0	0.13	0.11	0.09
Normalised PE (x)	6.32	n/m	43.1	5.15	4.07
Price/book value (x)	0.61	0.62	0.64	0.59	0.54
Dividend yield (%)	5.99	0	7.7	6.33	5.09
Return on avg equity (%)	9.43	-3.69	0.92	11.6	12.4

Accounting standard: IFRS
Source: Company data, Rasmala forecasts

year to Dec, fully diluted

Investment returns and provisioning skew headline losses of Dh527m

The headline 2Q10 loss of Dh527m was driven largely by provisioning of Dh1,098m, related mostly to Dubai World (DW), and larger-than-expected investment losses of Dh212m, related to a Dh218m impairment of the AFS portfolio (creating a Dh112m variance). Excluding these areas, the only significant variance was on other operating income, which was Dh25m higher than forecast.

Provisioning driven by timing and scale of DW provisions

We expected ENBD to book DW impairments in 3Q10, so the high 2Q10 provisioning can be put down to timing. In addition, however, the scale of exposure to DW restructuring assets, at Dh6.6bn is more than double our estimation of Dh3.0bn. Although the 15.7% haircut matches our expectation of 15%, it is higher than ENBD's recent guidance. However, excluding DW, provisioning seems to be exceptionally low – a fact we are looking to verify with management – allowing us to absorb the additional provision within our existing forecasts

Balance sheet growth surprises positively

ADCB continued to rebalance its balance sheet, bringing the loan-deposit ratio down to 123%, from 130% in 1Q10 and a 1Q09 peak of 151%, albeit partly out of necessity, given the Dh4.0bn decline in capital market funding. Customer assets grew 1% qoq, while customer deposits increased 7%, beating our forecast by 4%. This rebalancing was impressive, given it was achieved with minimal spread compression, resulting in net interest income rising 1% qoq and matching our expectations.

Overall – variances unlikely to change FY forecasts substantially

Barring the areas discussed above, results were close to our expectations. For now, we believe that the jump in other operating costs is exceptional in nature. In addition, we are a little concerned about the lack of adequate guidance on the DW exposure and the continued large AFS impairments, but, given the current discount valuation, we do not believe this will materially impact our Buy recommendation.

Important disclosures can be found in the Disclosures Appendix.**Distributed outside MENA by The Royal Bank of Scotland N.V. and its affiliates under a strategic alliance with Rasmala Investment Bank Ltd.**

Table 1 : 2Q10 results comparison

Dhm	2Q09A	1Q10A	2Q10A	2Q10E	yoy	qoq	vs est
Balance Sheet							
Loans & Islamic Financing	114,438	117,232	118,757	117,790	4%	1%	1%
Financial instruments	3,636	4,890	7,235	5,054	99%	48%	43%
Total Assets	154,465	163,701	166,599	163,756	8%	2%	2%
Customer deposits & Islamic Funding	82,555	90,139	96,831	93,054	17%	7%	4%
Capital Market Liabilities	35,763	36,371	32,414	32,801	-9%	-11%	-1%
Total Liabilities	134,491	144,445	147,860	144,370	10%	2%	2%
Net Liquid Assets	11,657	14,744	12,380	12,956			
Shareholders' Equity	19,974	19,256	18,740	19,386	-6%	-3%	-3%
Income Statement							
Net Interest & Islamic Returns	962	967	974	975	1%	1%	0%
Total Non-Interest Income	134	198	19	133	-86%	-90%	-86%
Total Banking Income	1,095	1,164	993	1,107	-9%	-15%	-10%
Total Operating Expenses	(401)	(408)	(439)	(418)	9%	7%	5%
Provisioning	(401)	(589)	(1,098)	(681)	174%	86%	61%
Profit before tax	380	275	(458)	95	-221%	-267%	-583%
Tax, Minorities & Appropriations	(9)	(131)	4	(11)	-144%	-103%	-138%
Attributable Income	370	144	(454)	84	-222%	-416%	-640%
Headline Net Income	295	219	(527)	(39)	-279%	-341%	1238%
Comprehensive Income	607	250	(384)	84	-163%	-254%	-558%

Note: our forecasts are adjusted to treat the 2011 mandatory convertibles as equity
Source: Company reports, Rasmala forecasts

Income statement

Dhm	FY08A	FY09A	FY10F	FY11F	FY12F
Net interest income	2649	3632	3873	4028	4401
Non-interest income	998.4	498.8	954.2	1291	1373
Total income	3647	4131	4827	5318	5773
Operating costs	-1530	-1539	-1694	-1702	-1876
Goodwill (amort/impaird)	n/a	n/a	n/a	n/a	n/a
Other costs	0.00	0.00	0.00	0.00	0.00
<u>Pre-prov operating profit</u>	2117	2592	3133	3617	3897
Provisions charges	-758.4	-2968	-3000	-1863	-1677
<u>Post-prov op prof</u>	1359	-376.4	133.3	1754	2220
Associates (pre-tax)	171.6	223.2	366.2	353.7	371.4
Other pre-tax items	0.00	0.00	0.00	0.00	0.00
Reported PTP	1530	-153.2	499.5	2107	2592
Taxation	-8.52	-3.23	-3.40	-14.3	-17.6
Minority interests	-121.9	-46.6	-36.5	-36.5	-36.5
Preference dividends	0.00	-120.0	-242.7	-242.7	-242.7
Other post-tax items	-163.4	-236.3	-81.0	-50.0	-237.0
Reported net profit	1237	-559.4	136.0	1764	2058
Tot normalised items	0.00	0.00	0.00	0.00	0.00
Normalised PTP	1530	-153.2	499.5	2107	2592
Normalised net profit	1237	-559.4	136.0	1764	2058

Source: Company data, Rasmala forecasts

year to Dec

Balance sheet

Dhm	FY08A	FY09A	FY10F	FY11F	FY12F
Net loans to customers	108813	116610	117986	126990	139797
Other int earn assets	20951	22722	25021	26931	29647
Goodwill	0.00	0.00	0.00	0.00	0.00
Oth non-int earn assets	13421	16188	19554	23598	24613
Total assets	147728	160209	167350	182630	199628
Total customer deposits	84361	86300	97928	111751	128613
Oth int-bearing liabs	37640	42389	35627	30999	28211
Non int-bearing liab	10293	12430	15069	16259	17220
Total liabilities	132294	141119	148624	159008	174044
Share capital	15327	15021	14652	15824	17406
Reserves	0.00	0.00	0.00	0.00	0.00
Total equity (excl min)	15327	19021	18652	19824	21406
Minority interests	107.6	69.1	73.3	3798	4178
Total liab & sh equity	147728	160209	167350	182630	199628
Risk weighted assets	130552	143476	135088	145397	160060
Est non-perf loans	n/a	n/a	n/a	n/a	n/a
Specific provisions	-2258	-4232	-6208	-7139	-7745
General provisions	n/a	n/a	n/a	n/a	n/a

Source: Company data, Rasmala forecasts

year ended Dec

Capital

Dhm	FY08A	FY09A	FY10F	FY11F	FY12F
Risk weighted assets	130552	143476	135088	145397	160060
Reported net profit	1237	-559.4	136.0	1764	2058
Opening risk assets	95685	130552	143476	135088	145397
Closing risk assets	130552	143476	135088	145397	160060
Change in risk assets	34867	12924	-8388	10309	14664
Capital required	3487	1422	-1007	1237	1760
Free capital flow	-2250	-1861	1385	769.5	541.1
Ordinary dividend paid	-481.0	0.00	-618.2	-591.7	-475.7
Share buy back/spec div	0.00	0.00	0.00	0.00	0.00
Equity / preference issue	4608	12.3	6.99	0.00	0.00
Cash flow from financing	4127	12.3	-611.2	-591.7	-475.7
Net capital flow	1877	-1849	774.0	177.8	65.4
Tier 1 capital	14185	17102	16646	17652	19010
Tier 1 capital ratio (%)	10.9	11.9	12.3	12.1	11.9

Source: Company data, Rasmala forecasts

year to Dec

Recommendation structure

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Valuation and risks to target price

Abu Dhabi Comm Bank (RIC: ADCB.AD, Rec: Buy, CP: Dh1.67, TP: Dh1.81): We believe the main risk to our GGM-derived target price is potential exposure to Isthmar or other leveraged PE entities, should they turn out to have greater problems than currently disclosed. In addition, we have concerns about generally higher provisioning, although we believe we have been appropriately cautious. Finally we have concerns about ADCB's weak communication policy, which continues to be below the market standard.

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