Union Bank

Equity Research Report
Initiation of Coverage

ABC Investments

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ABC Investments

Union Bank (UBSI)
Banking Sector

November 11th, 2009

Initiation of Coverage

HOLD

Current Price JD 2.25 / 12-Month Fair Value JD 2.38

Share Information	
Ticker	UBSI
Exchange	ASE
Closing Price*	JD 2.25
52-Week High	JD 3.19
52-Week Low	JD 1.76
Year-on-Year % Change	(24.7%)
Year-to-Date % Change	(25.0%)
Market Cap	JD 225,000,000

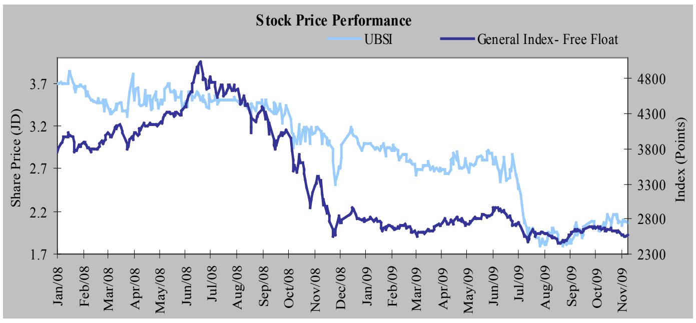
* Price as of November 11th 2009

Key Ratios	
P/E (Trailing)	13.72x
P/E (Forward)*	15.77x
P/BV**	0.98x
ROAA*	1.14%
ROAE*	6.39%
Capital Adequacy	23.23%
NPL / Net Credit Facilities***	5.72%

* Based on annualised Q3 2009 Profits
** Based on Q3 2009 book value
*** Net of interest in suspense

Based on a current market price of JD 2.25, UBSI is currently trading at a forward P/E and P/BV of 15.77x and 0.98x, respectively, based on its Q3 2009 financial results. Going forward, we project a before-tax bottom line for UBSI of JD 20.53 million and an after-tax net income of JD 14.99 million, giving a projected forward P/E and P/BV of 15.01x and 1.00x.

Using two peer-based multiple valuation methods and the Excess Returns method we estimated the fair value of UBSI to be JD 2.38 offering an upward potential of 5.6% over the current price of JD 2.25. Therefore we initiate our coverage of UBSI with a HOLD recommendation.



- At the end of the first three quarters of 2009, UBSI's total assets and shareholders' equity amounted to JD 1.37 billion and JD 229.65 million, respectively. Credit facilities granted by the Bank increased by 5% over the period to reach JD 632.72 million, while customer deposits and cash margins amounted to JD 885.52 million compared to JD 744.88 million at 2008 year-end, registering a 19% increase.

- UBSI's net profit after tax amounted to JD 15.61 in 2008 up from JD 13.78 million in 2007, registering an increase of 13% and growing at a CAGR of 10% since 2004. In Q3 2009, UBSI's bottom line dropped by 36% to JD 10.73 million compared to JD 16.84 million achieved in Q3 2008.

- During the first three quarters of 2009, UBSI's net interest income reached JD 23.41 million while net commissions grew by 29% to reach JD 7.07 million, thereby raising the net interest and commissions revenues for the period to JD 30.48 million.

- Return on Average Assets (ROAA) and Return on Average Equity (ROAE) stood at 1.4% and 7.2% respectively for 2008, dropping to 1.1% and 6.4% respectively in Q3 2009, based on annualised third quarter profits.

Key Financial Information	2009F	2010F	2011F	2012F	2013F
Net Profit after Tax	14,989,116	22,630,424	27,543,132	31,182,512	34,419,329
Net Interest & Commissions Income	40,930,206	46,134,138	50,361,459	56,686,255	62,358,177
Total Assets	1,351,612,087	1,505,465,232	1,646,976,622	1,832,825,034	2,015,825,807
Shareholders' Equity	225,468,228	246,135,582	266,992,182	319,827,150	344,473,855
ROAA	1.21%	1.58%	1.75%	1.79%	1.79%
ROAE	6.75%	9.60%	10.74%	10.63%	10.36%

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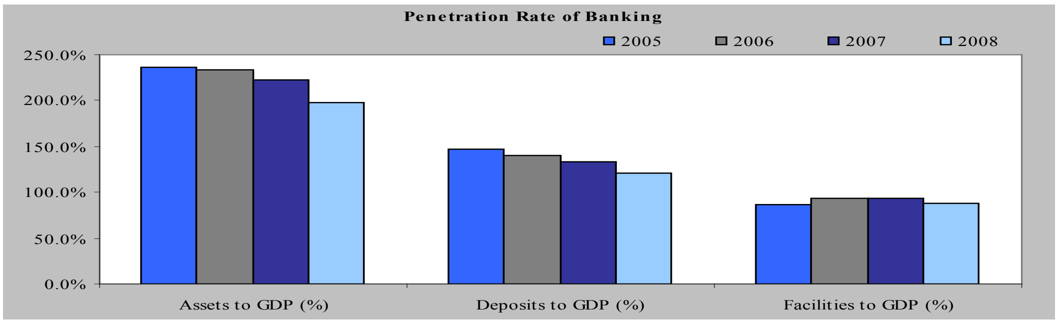
1.0 BANKING SECTOR OVERVIEW

Banks in Jordan are regulated by the Central Bank of Jordan, whose role is to protect depositors and shareholders, through ensuring the soundness of the banking sector by monitoring capital adequacy levels, requiring the application of international auditing and accounting standards, and monitoring solvency and liquidity of banks.



Source: Central Bank of Jordan, ABCI interpretation

The Jordanian banking sector currently comprises of 13 local commercial banks, 8 foreign banks, two Islamic banks, and the Central Bank, in addition to several specialised credit institutions, of which the Industrial Development Bank, a listed joint ownership bank, has completed procedures to convert into the sector's third Islamic bank, offering banking services in compliance with Shari'a principles. The network of branches of licensed bank amounted to 593 at the end of 2008, 41 of which relate to the foreign banks and 74 to the Islamic banks. The Housing Bank, with 98 branches across the Kingdom, has the largest branch network, followed by the Arab Bank with 79 branches as of 2008 year-end. With a population of 5.85 million at the end of 2008, the branch aggregate network translates to one branch per 9,865 capita, compared to one branch per 14 thousand capita in Saudi Arabia and one branch per 22 thousand capita in Egypt. Although this may suggest a fragmented market, the two largest banks, the Arab Bank and the Housing Bank, alone claim a combined market share of 31.6% and 42.2% of the sector's credit facilities and deposits in the Kingdom, respectively.

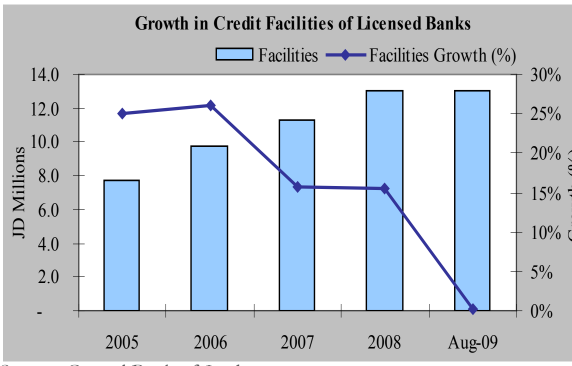
Jordan has 13 local commercial banks, 8 foreign banks and 2 islamic bank, plus the addition of the Industrial Development Bank as the sector's third islamic bank

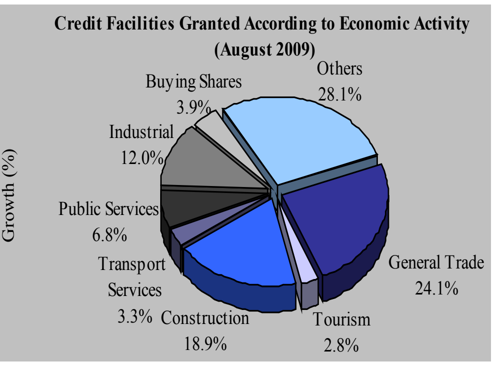
The consolidated assets of licensed banks within the Kingdom have grown by a compounded annual growth rate of 13.7% in the period 2004 through 2008, reaching JD 29.80 billion in 2008, only to continue to rise in 2009 to register at JD 31.06 billion in August. As illustrated in the chart above, the banking sector is a major player in the Jordanian economy, with the sector's total assets comprising 198% of GDP in 2008. In terms of the sector's deposits and facilities, these made up 120% and 87% of GDP, respectively.

Consolidated assets of licensed bank within the Kingdom reached JD 31.06 billion at the end of August 2009

The credit facilities granted by licensed banks registered at JD 13.06 billion in August 2009 compared to JD 13.04 billion and JD 11.30 billion at the end of 2008 and 2007, respectively. Between 2004 and 2008, the facilities granted grew by a compounded annual growth rate of 20.5%, with the highest growth level occurring in 2006, where credit facilities increased by 26.1%.

Credit facilities granted reached JD 13.06 billion in August 2009





Source: Central Bank of Jordan

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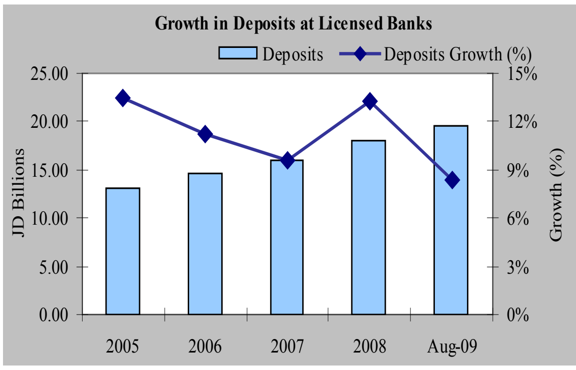
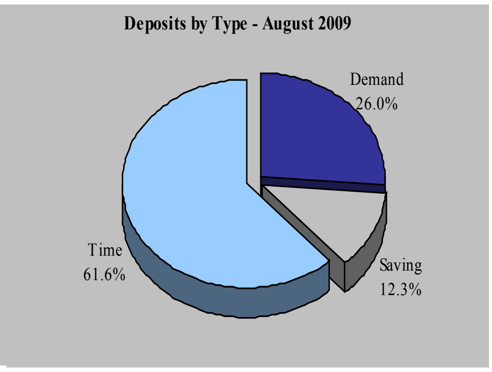
The bulk of facilities were granted to the 'general trade' and 'construction' sectors, which together accounted for around 41.8% of the total facilities. The surge in construction activity across the Kingdom in recent years has fuelled the growth in credit facilities, and demand for large project loans helped to support the sustained growth in facilities.

41.8% of credit facilities granted were to the "general trade" and "construction" sector

Meanwhile, deposits have also been growing, registering a compounded annual growth rate of 11.9% during the 2004-2008 period. At the end of 2008, deposits at licensed banks amounted to JD 18.10 billion compared to JD 15.99 billion in 2007. During the eight months ended August 2009, total deposits grew by 8.3% to JD 19.61 billion. Private sector deposits constituted 91.0% of the total as of August 2009, while the bulk of deposits represent time deposits, which accounted for 61.6% of the total, followed by demand deposits at 26.0%.

Deposits at licensed banks stood at JD 19.61 billion at the end of August 2009





Source: Central Bank of Jordan

Interest Rates

The peg of the Jordanian Dinar to the US dollar has forced the Central Bank of Jordan to mimic the interest rate cuts of the US Federal Reserve. During year 2001, the Fed slashed interest rates eleven times by an aggregate of 475 basis points. It cut interest rates further in 2002 and 2003 by 50 basis points and 25 basis points, respectively. In 2004 through 2006, the Fed raised the interest rates a number of times, increasing them from a rate of 1.00% in 2003 to 5.25% in 2006. Slowing economic growth alongside the housing slump and subprime-linked credit crisis induced further interest rate cutting actions by the Fed, many of which were replicated by the Central Bank of Jordan.

The peg to the dollar necessitates the mimicking of the US fed's interest rates cuts

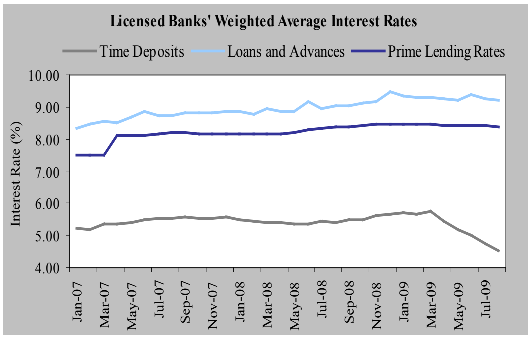
In 2003, the Central Bank of Jordan cut the Re-discount Rate by 200 basis points from 4.50% in January to 2.50% in October. Between years 2004 and 2005, the Central Bank raised the Re-discount Rate fourteen times from 2.50% to 6.50%. The rate was raised four times further in 2006 to end the year at 7.50%. The high and rising domestic and global inflation environment prevented the Central Bank of Jordan from fully replicating the interest rate cuts of the Fed during 2007, with the Re-discount Rate being maintained at a stable rate, with a single rate cut of 50 basis points in September. In 2008, the Re-discount Rate was reduced twice by 25 basis points in February and November, and in 2009 in the aftermath of the global economic slowdown, the rates were slashed by 50 basis points in March, April and May, to reach 5.25% as an interest rate slashing mechanism was implemented worldwide to spur spending and stimulate economic growth.

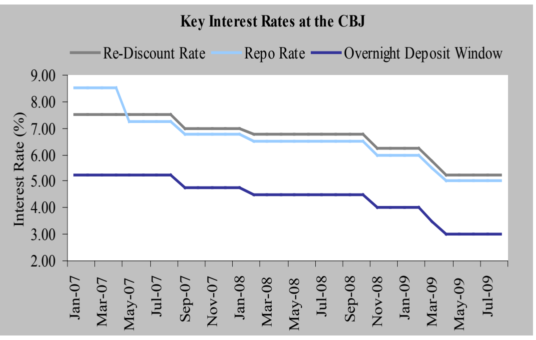
High inflation led Jordan to allow the spread between the fed rate and the CBJ rates to widen

Repurchase agreement rates (Repo Rates) were reduced by 125 basis points and again by 75 basis points during 2003 to decline from 5.50% at the start of the year to 3.50% by year-end. Repo Rates were raised throughout years 2004, 2005 and 2006, to reach 4.75%, 7.50% and 8.50% at year end, respectively. In 2007, the Repo Rate was reduced to 6.75% and then by a further 75 basis points in 2008. During 2009, the Repo Rate was again reduced by 50 basis points in each of March and April to stand at 5.00%.

At the same time, the overnight window deposit rate was increased eight times in 2005 from 2.25% to 4.50%. The Central Bank raised it by a further three times in 2006 to reach 5.25% by year end.

In 2007 and 2008, the overnight window deposit rate was reduced by 50 basis points and 75 basis points, respectively, while in 2009, the rate also dropped by 50 basis points in both March and April to reach a rate of 3.00%





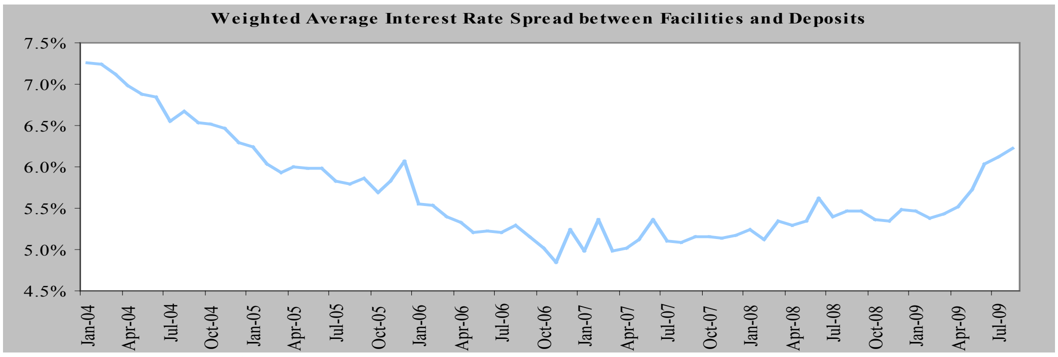
Source: Central Bank of Jordan

Despite interest rate cuts over the past three years by the Central Bank of Jordan, licensed banks in Jordan continued to raise interest rates applied on both deposits and credit facilities. The average interest rates offered on demand deposits were increased from 0.87% in 2006 to 0.94% in 2007 and 1.01% in 2008, and reduced back down to 0.67% by August 2009, while rates on savings accounts were increased from 0.99% to 1.10% in 2007, before dropping to 1.04% in December 2008 and 0.86% by August 2009. Meanwhile, rates offered on time deposits were also increased to 5.56% in 2007 and 5.66% as of December 2008 compared to 5.13% back in 2003, but were also slashed to 4.54% by August 2009.

Interest rats on demand deposits reached 0.67% in August 2009, while rates on savings and time and notice deposits stood at 0.86% and 4.54%, respectively

Strikingly, despite the slight reduction in the average interest rates offered on deposit accounts in 2008 as compared to 2007, the average rates on overdrafts and loans and advances continued to be raised. Rates on overdrafts were increased from 9.23% in 2006 to 9.83% in 2007 before dropping to 9.31% at the end of 2008 and rising to 9.75% by August 2009. Moreover, for the same period, the rates on loans and advances were raised from 8.56% in 2006 to 8.86% and 9.48% in 2007 and 2008, followed by a slight decline in 2009 to 9.23% as of August. The rates on discounted bills and bonds also increased in 2007 to 9.45% from 8.72% the year prior, but in 2008 the rate was decreased by 56 basis points to 8.89%. In 2009, the rate had risen once again to 9.30%.

Interest rates on overdraft accounts reached 9.75% in August 2009, while loans and advances and discounted bills and bonds had a weighted average interest rate of 9.23% and 9.30 respectively.



Source: Central Bank of Jordan, ABCI Interpretation

Over the years, the weighted average interest rate spread between credit facilities and deposits has narrowed, decreasing from over 7.50% in mid-2003 to around 5% in 2006. In 2007, the interest rate spread remained stable at an average of 5.14% before widening in 2008 to 5.49% at the end of year. As banks became increasing risk averse, imposing higher interest rates to compensate them for the higher risk to be borne, as well as reducing rates offered on deposits, in line with the Central Bank and global slash of interest rates, the interest rate spread widened even further in 2009, reaching 6.22% at the end of August 2009.

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2.0 UNION BANK

2.1 Overview of UBSI

The Union Bank ("UBSI" or "the Bank") was established in the late 1970's and was founded under the name of the Arab Financial Corporation with a paid-up capital of JD 2.125 million, mainly operating as a financial institution as well as an exchange maker.

Union Bank was established in the late 1970's as a financial institution...

In the mid 1990's the Bank was transformed into an investment bank, changing its legal name to the Union Bank for Savings and Investment. The Bank's capital was raised over the years to reach 100 million shares/JD, with the most recent capital increase occurring in 2009 where it was raised from JD 95 million.

... transforming into an investment bank in the mid-1990's

To build on its strong organic growth and to continue to take the Bank to the next level, UBSI engaged with the renowned international consultancy firm, Mckinsey and Company, to define the Bank's strategy and future direction for the years 2007-2012. The new strategy built on the traditional strength of UBSI as a corporate bank, while expanding its operations to grow in certain targeted segments of retail banking. Overall, the strategy aims at substantially raising the Bank's market share by 2012, as well as increasing its branch network to reach 40 by then. Moreover, the Bank went through a series of structural changes in accordance with modern best practices and good governance.

UBSI currently has 21 branches spread across the Kingdom and is considering to enhance its presence in the West Bank, and is exploring expansion into other markets, focusing primarily on the Levant region.

In anticipation of the requirement of the Central Bank for all banks to raise their capital to JD 100 million by the end of 2010 and in order to sustain its growth, UBSI increased its paid-up capital from JD 24 million in 2004 to reach JD 100 million in 2009. The Bank also distributed 10% cash dividends to shareholders for the financial years of 2007 and 2008. UBSI's capital adequacy stood at 23.23% at the end of 2008, higher than the required ration by the Central Bank and Basel II, as well as registering above the sector average of 19.0%.

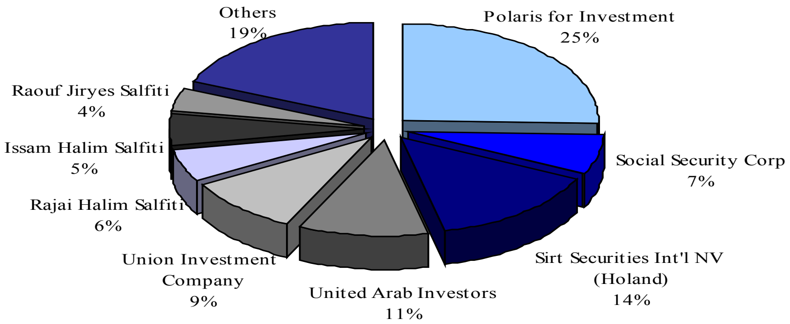
UBSI registered a capital adequacy level of 23.23% in 2008

Shareholder Structure

UBSI's major shareholders are Polaris for Investment with a 25.6% holding, followed by Sirt Securities International Investment (Holland) with a 14.2% ownership stake. The Salfiti family holds a combined direct ownership of 14.7% distributed among three shareholders with Rajai Salfiti and Issam Salfiti holding a respective 5.6% and 5.2% ownership stake, while Raouf Salfiti has an ownership of 3.9%, not including Salfiti group ownership in companies that have a holding in the Bank.

Polaris for Investment and Sirt Securities are UBSI's major shareholders

Ownership Structure*



* As of November 11th 2009
Source: Securities Depository Commission

Board Members

Board Member	Country	Number of Seats	Ownership*
Sirt Securities International Investment (Holland)	Holland	2	14,217,854
United Arab Investors	Jordan	3	10,952,914
Social Securities Company	Jordan	1	6,580,460
Issam Halim Salfiti	Jordan	1	5,181,138
Raouf Jiryes Salfiti	Jordan	1	3,888,722
Bassem Issam Salfiti	Jordan	1	315,789
Awni Al-Saket and Partners Company	Jordan	1	171,470
Mohammad Nabil Hammoudeh	Jordan	1	49,889
Total		**11**	**41,358,236**

* As of November 11th 2009

Subsidiaries of UBSI

UBSI has only one wholly-owned subsidiary company, Union for Financial Services Company, which is a limited liability company with a JD 5 million paid-up capital. The Company was established in 2006 offering brokerage services.

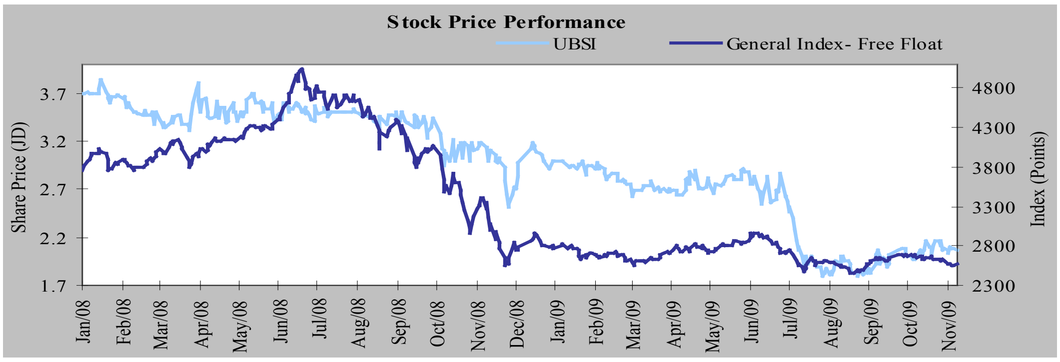
UBSI has full ownership of the Union for Financial Services Company

Trading Information

During the first quarter of 2008 UBSI saw its share price rise reaching its high for the year of JD 3.86 on January 15th. The strong performance of the Amman Stock Exchange during the second quarter of the year was not mirrored in UBSI's share price performance which continued to oscillate, ending the first half of the year at JD 3.57, 6.1% lower than the start of the year.

UBSI's share price ended 2008 down by 21% compared to end of 2007

The U.S. credit crunch and financial crisis that hit the world during the second half of 2008 shifted the Amman Stock Exchange's General Index direction into a downward mode. UBSI's stock, however, held to its position and continued to trade horizontally over a number of months, before commencing to drop in October and register its low for the year of JD 2.4 on November 27th. It recovered slightly in December and managed to end the year at JD 3.00, down by an aggregate of 21.1% year-on-year.



Source Amman Stock Exchange

Year 2009 fared even worse for the UBSI stock. The low level of liquidity in the market and the uncertainty in investors sentiment towards the overall market trend led UBSI's share to end the first quarter of the year at JD 2.67. It continued to decline during the second quarter of the year to reach JD 2.58 at the end of June, registering a loss of 14.0% compared to the start of the year. The stock rallied slightly in April and May alongside the market recovery before slumping in June mimicking the market's direction. In July, UBSI's saw its stock sharply drop, falling to levels not reached since 2001. This downturn continued into August as the stock registered its low for the year of JD 1.76 on August 24th. From then onwards, it continued to oscillate within the JD 1.80 and JD 2.00 range before ending the third quarter of the year at JD 2.03, registering a year-to-date drop of 32.3%.

In 2009, UBSI's share price continued to drop ending the third quarter of the year at JD 2.03

	Value Traded (JD)	# Transactions	Volume Traded (# of Shares)	Average Daily Value Traded (JD)	Average Daily Volume (# of Shares)
2009*	34,954,355	6,277	13,943,974	171,345	68,353
2008	26,867,353	3,681	7,729,945	113,844	32,893

* Up to 11th November 2009

Despite the low market liquidity in 2009, trading activity on UBSI's stock during the year outstripped that of 2008, with the average daily value traded rising by 49.9% to reach JD 171.35 thousand, while the average daily volume traded reached JD 68.35 thousand shares in 2009 compared to 32.89 thousand shares traded in 2008.

SWOT Analysis

Strengths	Weaknesses
Ownership Structure	High percentage of facilities to customer deposits
Strong capital position	Growth in facilities are constrained by deposit growth
Low proportion of assets held in investments at a time of market turbulence	High cost of funds due to the high prevalence of time and notice deposits
Strong growth in commissions income, a lower risk source of revenue	Relatively high percentage of non-performing loans to credit facilities
Comfortable cash cushion as a proportion of total assets	Low coverage ratio of non-performing loans
Low exposure to foreign capital markets	Higher percentage of facilities for real estate than the sector average
Well-collateralized credit facilities	

Opportunities	Threats
Expansions to other countries and new markets	Changes in banking regulations
Opportunity to increase market share through merger/ acquisition of other local banks	Entry of new players to the market
New Governmental initiatives providing opportunities to increase bank activities	Drop in interest rates and reduced liquidity in the market leading to a decrease in interest rate margin
Potential to grow in the retail segment of the market through utilisation of corporate connections	Effect of financial crisis in the U.S. rippling across the World, raising the risk premium and negatively impacting on the Jordanian economy and on banks
Targets itself as a boutique bank, attracting specific clientele	Economic slowdown impacting on sector growth

Sector Player Highlights

Listed Banks' Financial Highlights as of September 2009

	Paid-up Capital	Total Assets	S/H Equity	Credit Facilities	Customer Deposits	Net Interest Income	Net Income
ABCO	70,919,063	560,593,492	93,795,897	274,284,587	316,623,694	15,016,213	6,812,705
AJIB	100,000,000	782,874,643	124,267,413	319,343,210	440,365,942	16,599,512	9,002,699
ARBK	534,000,000	23,092,822,000	3,775,566,000	10,483,128,000	12,980,396,000	393,264,000	217,081,000
BOJX	100,000,000	1,852,939,944	190,108,769	841,502,451	1,405,537,906	47,706,076	22,619,697
CABK	88,000,000	1,714,073,797	169,439,808	693,257,722	1,226,537,868	41,112,125	18,272,736
EXFB	132,280,000	1,016,812,637	200,238,198	589,811,138	579,216,833	24,614,306	3,257,111
JIFB	70,000,000	626,874,071	92,274,231	291,325,724	450,623,499	10,243,253	5,472,091
JOGB	73,053,750	619,180,611	88,337,872	326,690,269	434,060,355	14,554,153	3,308,684
JOKB	100,000,000	2,131,706,344	273,562,289	1,100,224,426	1,234,281,823	56,421,097	31,599,882
JONB	110,000,000	2,245,035,274	209,801,661	965,648,110	1,490,035,235	40,694,854	13,390,544
MEIB	40,455,830	278,849,254	51,108,077	150,384,682	139,167,432	6,481,046	2,680,358
THBK	252,000,000	5,653,518,455	873,251,962	2,314,467,415	4,115,653,312	140,376,059	48,767,845
UBSI	100,000,000	1,373,347,628	229,653,036	632,723,554	785,179,989	23,409,507	10,733,127
Total	**1,770,708,643**	**41,948,628,150**	**6,371,405,213**	**18,982,791,288**	**25,597,679,888**	**830,492,201**	**392,998,479**

Shareholders' Equity and Net Income are before Minority Interest

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2.2 UBSI Performance

2.2.1 Financial Highlights

	2004	2005	2006	2007	2008
Gross Income	21,351,254	42,305,892	24,381,354	32,344,248	38,709,209
Profit before Tax	13,999,803	32,660,342	18,204,909	19,321,399	21,130,970
Profit after Tax	10,802,344	24,652,146	12,422,634	13,776,465	15,609,002
EPS	0.494	0.458	0.188	0.192	0.164
Total Assets	510,660,717	652,410,491	891,725,489	1,068,090,450	1,134,469,444
Shareholders' Equity	50,236,680	105,925,912	102,130,968	214,999,181	218,517,817
Paid-up Capital	25,000,000	40,000,000	55,000,000	95,000,000	95,000,000
Growth in Facilities	17.4%	55.7%	36.1%	6.5%	29.3%
Growth in Customer Deposits	15.7%	8.0%	23.8%	15.5%	17.9%
Growth in Total Deposits & Margin Accounts	25.3%	14.8%	42.3%	10.5%	8.1%
Growth in Net Profits	1662.8%	128.2%	(49.6%)	10.9%	13.3%
Growth in Operating Income	606.0%	133.3%	(44.3%)	6.1%	9.4%
Facilities-to-Assets	40.4%	49.2%	49.0%	43.6%	53.0%
Facilities-to-Total Deposits	46.4%	62.9%	60.1%	58.0%	69.3%
Facilities-to-Customer Deposits & Margin Acc	51.1%	73.0%	81.0%	74.1%	80.8%
Growth in Non-Interest Expense	28.2%	31.2%	(36.0%)	110.8%	35.0%
Non-Interest Income-to-Operating Income	70.5%	87.2%	41.2%	50.4%	36.9%
Dividends Per Share	0.100	0.375	0.200	0.100	0.100
Dividend Payout Ratio	20.2%	81.9%	106.3%	52.2%	60.9%
Dividend Yield	1.7%	4.0%	5.2%	2.6%	3.3%
ROAA	2.4%	4.2%	1.6%	1.4%	1.4%
ROAE	26.7%	31.6%	11.9%	8.7%	7.2%
Share Price	5.75	9.40	3.84	3.80	3.00
EPS	0.494	0.458	0.188	0.192	0.164
Book Value	2.009	2.648	1.857	2.263	2.300
P/E Ratio	11.63	20.54	20.40	19.83	18.26
P/BV Ratio	2.86	3.55	2.07	1.68	1.30
Gross Credit Facilities	217,756,579	332,432,029	445,332,454	475,590,882	615,106,036
Non-Performing Loans*	9,755,838	10,644,266	7,246,350	10,706,507	35,170,396
Provisions for Credit Losses	7,633,796	7,730,995	5,085,945	6,785,584	9,769,013
NPL*/Net Credit Facilities*	4.7%	3.3%	1.7%	2.3%	5.8%
Provision for Credit Losses/NPL*	78.2%	72.6%	70.2%	63.4%	27.8%

* net of interest in suspense

2.2.2 Balance Sheet

	2004	2005	2006	2007	2008
Total Assets	510,660,717	652,410,491	891,725,489	1,068,090,450	1,134,469,444
Total Liabilities	460,424,037	546,484,579	789,594,521	853,091,269	915,951,627
Shareholders' Equity	50,236,680	105,925,912	102,130,968	214,999,181	218,517,817

Source: UBSI Annual Reports

Union Bank's balance sheet has been growing since 2004, with total assets more than doubling from JD 510.66 million in 2004 to reach JD 1.13 billion in 2008. The Bank's liabilities followed a similar trend growing at a compounded annual growth rate (CAGR) of 18.8% since 2004 to reach JD 915.95 million. Shareholders' equity, meanwhile, more than quadrupled to reach JD 218.52

UBSI's total assets grew by a CAGR of 22.1% since 2004 while total liabilities grew by a CAGR of 18.8%

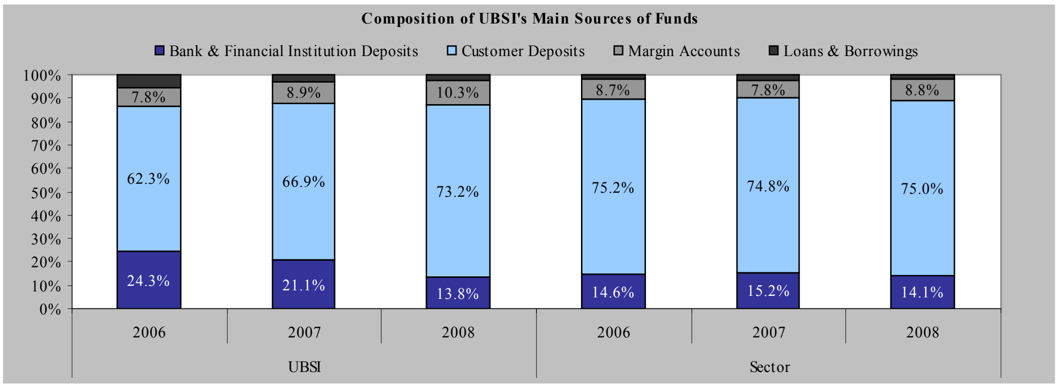
million in 2008, attributable to UBSI's steady increases in its paid-up capital.

2.2.2_1 Sources of Funds

UBSI's main sources of funds, which consist of bank and financial institution deposits, customer deposits and margin accounts, in addition to loans and borrowings, have been growing year-on-year, at a decelerated rate of 7.7% and 7.6% in 2007 and 2008 respectively compared to the growth in the sector of 15.6% and 8.6% over the same period, reaching JD 891.90 million in 2008.

The Bank's sources of funds registered at JD 891.90 million in 2008

Key Sources of Funds - USBI vs. Banking Sector



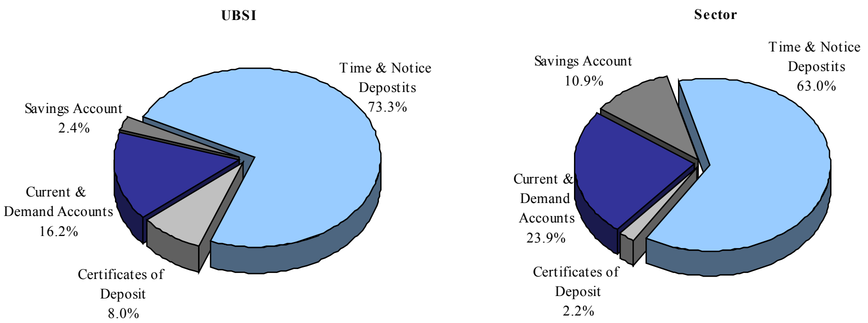
Source: Banks' Annual Reports

The Bank's reliance on customer deposits as a main source of funds increased during the same period to 73.2% compared to 62.3% and 66.9% in 2006 and 2007, respectively, still falling behind the sector average of 75%. The downturn in the stock market and the global credit crisis witnessed during the last quarter of 2008 led investor attention to shift away from the risky capital market and into a safer alternative such as banks, which increased customer deposits and cash margin balances during the third and fourth quarters by 10.2% compared to an increase of 7.0% during the first two quarters of the year.

Customer deposits comprise of 73.2% of the total sources of funds, rising from 66.9% in 2007

The importance of banks and financial institution deposits to UBSI's key sources of funds has been declining in recent years, dropping to 13.8% in 2008 compared to 24.3% and 21.1% in 2006 and 2007 respectively. This significant decline resulted from the drop in the amount of foreign financial institutions deposits at UBSI which fell from JD 173.11 million in 2007 to JD 117.21 million in 2008. Meanwhile, cash margin balances registered at JD 91.71 million in 2008, up from JD 74.16 million in 2007.

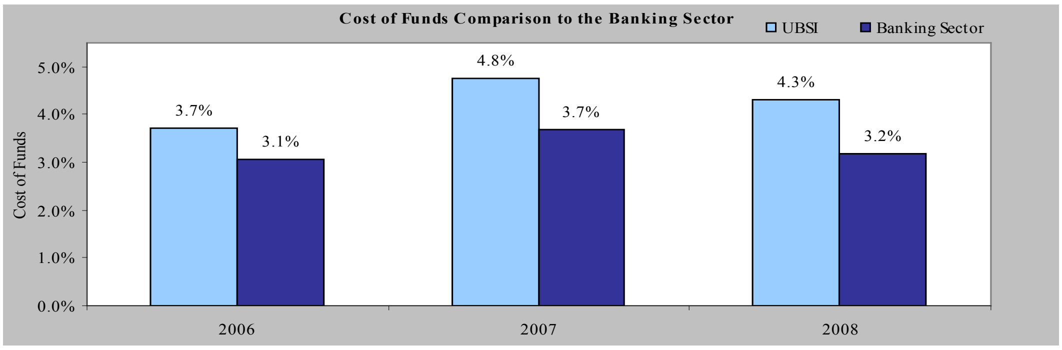
Deposits according to Type - UBSI vs. Banking Sector (2008)



Time and notice deposits make up 73.3% of UBSI's customer deposits

Source: Banks' Annual Reports

UBSI's customer deposits are highly dependent on time and notice deposits which make up 73.3% of total deposits compared to the sector average of 63.0%. This high dependency on a relatively more expensive source of funds, due to the higher interest it pays, means that the Bank is exposed to a higher cost of funds compared to banks with a lower weighting of time and notice deposits in their sources of funds portfolio. Since 2006 UBSI's cost of funds has been higher than that of the banking sector, registering at 4.3% in 2008 compared to the sector's 3.2%.



Source: Bank's Annual Reports

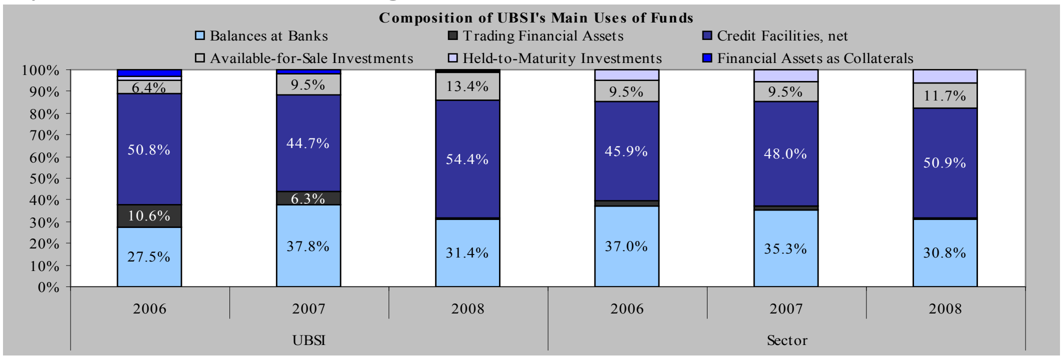
Meanwhile, compared to the sector, UBSI concentrates less on savings accounts, which make up only 2.4% of total deposits compared to the sector's total of 10.9%, and more on certificates of deposits.

2.2.2_2 Uses of Funds

Typically, UBSI's main use of funds is granting credit facilities, which have been growing at a compounded annual growth rate (CAGR) of 30.7% since 2004. In 2008, UBSI's credit facilities comprised 54.4% of the Bank's primary uses of funds, registering slightly higher than the sector average of 50.9%.

UBSI's net credit facilities reached JD 601.55 million in 2008 compared to JD 465.42 million in 2007

Key Uses of Funds - UBSI vs. Banking Sector

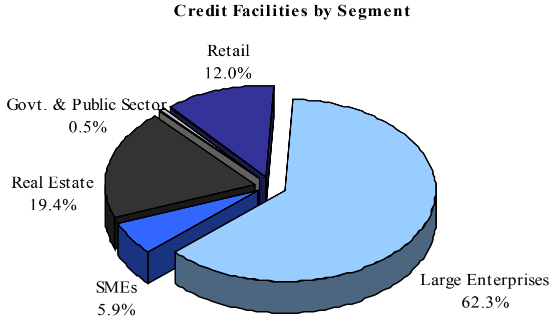


Source: Banks' Annual Reports

The high inflation rate in 2008 led the purchasing power to decline for both the corporate and retail segments of the economy, meaning that a rising proportion of the population had to resort to banks to obtain liquidity. This in turn increased the Bank's net credit facilities during the first half of the year by 20.8% compared to the end of 2007. However, the credit crunch and financial meltdown witnessed in late 2008 led banks to become more prudent and cautious in their lending policies, leading to a deceleration in the growth of their credit facilitates to 7.0% during the second half of the year, almost one-third of the level of growth achieved earlier in the year. Balances at banks, another use of funds for UBSI, dropped during 2008 from JD 393.48 million in 2007 to JD 346.91 million in 2008, with the global financial crisis and announcements of bankruptcies of leading multinational financial institutions causing balances at foreign banks to substantially decline in 2008, registering a 19.3% slump compared to the previous year.

Union Bank concentrates mainly on granting credit facilities to corporate businesses, with 62.3% granted to large enterprises and 5.9% to small and medium enterprises. Credit facilities granted for real estate purposes constituted 19.4% of total facilities, while JD 126.76 million, equivalent to 12.0% of total credit facilities, was granted to the retail sector.

UBSI grants 62.3% of its credit facilities to corporate business



Source: Bank's Annual Report

The downturn in the global and local stock markets was mirrored in UBSI's investment portfolio, whereby the weighting of the portfolio as a main use of funds dropped to 14.4% in 2008 compared to 17.8% in the previous year to register at JD 157.37 million. UBSI concentrates its investments in Government bonds and bills, which made up 62.1% of its total investment portfolio in 2008, while 22.7% were invested in corporate bonds and 14.1% went to investments in stocks.

Asset Quality

Hand-in-hand with the growth in UBSI's credit facilities at a time of economic downturn, the value of its non-performing loans also increased reaching JD 35.17 million in 2008 compared to JD 10.71 million the year prior. The economic challenges that emerged in late 2008 and the tight liquidity in the market hit hard on the economy, driving a rise in non-performing loans, both in absolute terms and as a percentage of credit facilities, rising from 2.3% in 2007 to 5.8% in 2008.

The Bank's coverage ratio of provisions to NPLs slumped to 27.8% in 2008 compared to 63.4% in 2007

Furthermore, with the growth in non-performing loans surpassing by far the growth in provisions taken against credit losses, the ratio of coverage of provisions to NPLs slumped drastically to 27.8% in 2008 from its previous 60%+ levels.

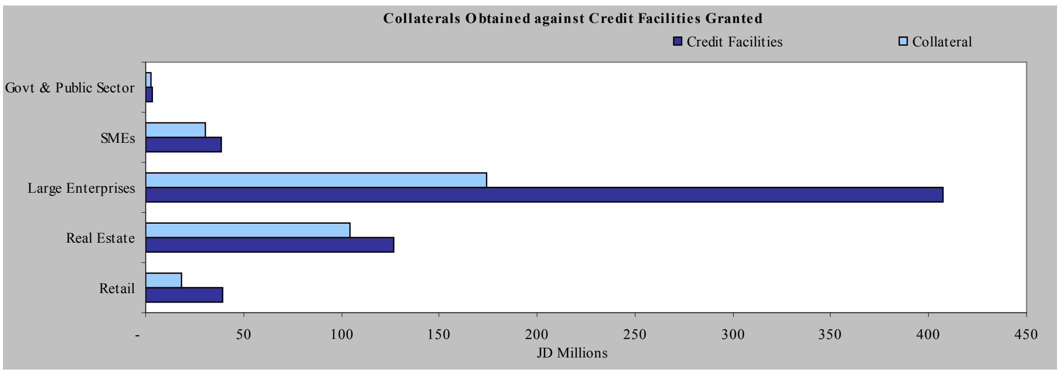
Asset Quality of JOKB

	2004	2005	2006	2007	2008
Credit Facilities (Gross)	217,756,579	332,432,029	445,332,454	475,590,882	615,106,036
Non-Performing Loans*	9,755,838	10,644,266	7,246,350	10,706,507	35,170,396
Provision for Credit Losses	7,633,796	7,730,995	5,085,945	6,785,584	9,769,013
NPL*/Credit Facilities (Net)**	4.7%	3.3%	1.7%	2.3%	5.8%
Provision for Credit Losses/NPL*	78.2%	72.6%	70.2%	63.4%	27.8%

* Net of Interest in Suspense
** Net of Interest in Suspense and Provisions for Credit Losses

In terms of collaterals obtained against credit facilities, these stood at JD 329.73 million in 2008, providing security against 53.6% of total facilities granted. Large enterprises, with the lion's share of facilities granted, had a collateral coverage ratio of 42.8%, while government and public sector facilities had collaterals offering an 83.3% coverage. Collaterals against real estate facilities, meanwhile, registered at 82.2% of the facilities value.

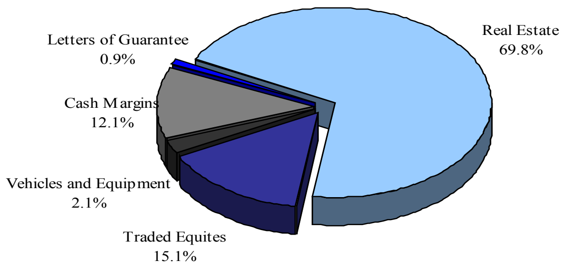
Collaterals obtained against credit facilities amounted to JD 329.73 million in 2008



Source: Bank's Annual Report

The constitution of the collaterals obtained against credit facilities revealed a heavy weighting of real estate at 69.8% of the total, while listed stocks made up 15.1%. The downturn in the real estate sector and the capital market of late is expected to have a negative affect on the asset quality of the Bank through a decline in the market value of the collaterals provided.

Collaterals Obtained According to Type - 2008

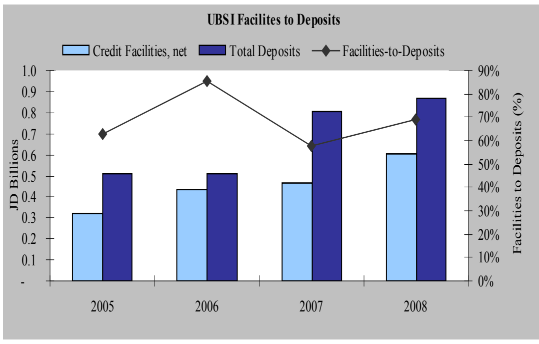


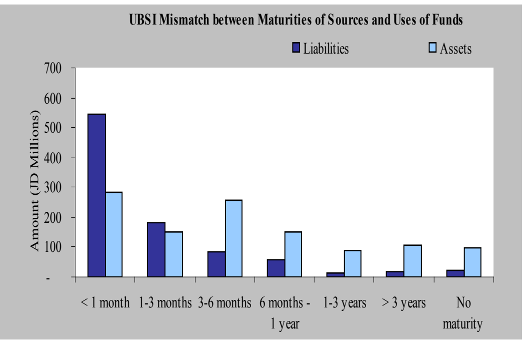
Source: Bank's Annual Report

Facilities to Deposits

In 2008, UBSI's credit facilities to total deposits ratio stood at 69.3%, surpassing the 59.5% average of the banking sector. The credit facilities-to-customer deposits and cash margins ratio also registered significantly higher than the sector at 80.8% to 69.5%. While this could indicate an aggressive and efficient use of funds by the Bank, having a relatively high percentage of facilities to deposits is likely to be risky at a time of a global economic slowdown and liquidity evaporation. Nevertheless, we expect this ratio to decline slightly in the coming periods.

UBSI credit facilities to deposit ratio reached 69.3% in 2008 compared to the sector average of 59.5%

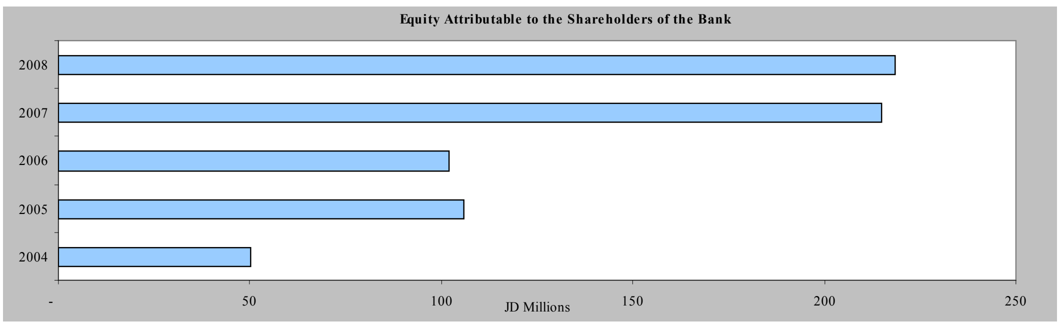




Source: Bank's Annual Report

As highlighted in the above chart, UBSI's asset balances for all maturities except for those less than three months are surpassed by liabilities, highlighting the existing mismatch between sources and uses of funds, in line with what is prevailing in the Jordanian banking sector, which necessitates the need for careful management to avoid liquidity problems going forward.

2.2.2_3 Shareholders' Equity



Source: Bank's Annual Report

Shareholders' equity rose by 1.6% in 2008 to reach JD 218.52 million

UBSI's paid-up capital has been on the rise since 2004 reaching JD 95.00 million by the end of 2008. The capital increase of JD 40 million in 2007 saw shareholders' equity grow by 110.5% that year, reaching JD 215.00 million. In 2008 the Bank's shareholder's equity stood at JD 218.52

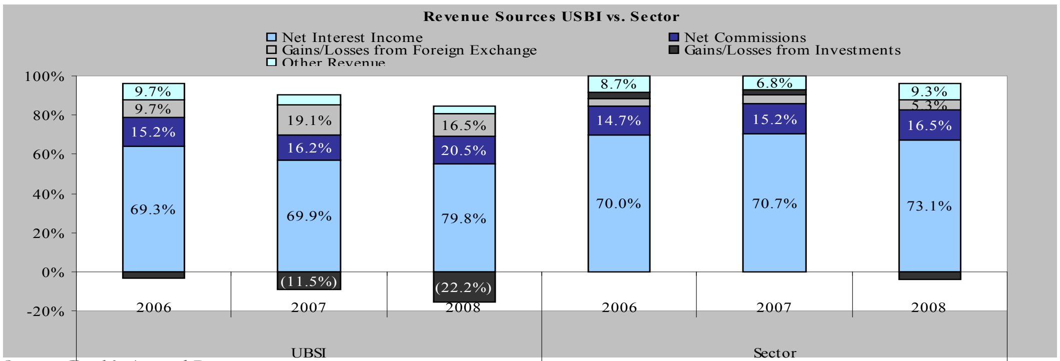
million attributable to the 15.7% increase in retained earnings.

2.2.3 Income Statement

2.2.3_1 Revenues

Since 2006, Union Bank's revenue growth has surpassed that of the banking sector, rising in 2007 and 2008 by a respective 32.7% and 19.7% compared to the sectors' growth of 14.3% and 6.9%. In absolute terms, the Bank saw its revenues soar from JD 21.35 million in 2004 to JD 32.34 million in 2007 and JD 38.71 million in 2008.

In 2008, UBSI's growth in revenues outperformed the banking sector's growth, with revenues reaching JD 38.71 million



Source: Bank's Annual Report

Inspite of the financial challenges and the decline in interest rates during the last quarter of 2008, the Bank's core operations remained resilient. Net interest income rose to JD 30.91 million in 2008 compared to JD 22.61 million in 2007, thereby raising its importance as a source of revenues to 79.8% in 2008 as opposed to 69.9% in 2007, registering higher than the sector's 73.1% average.

Net interest income's importance in 2008 rose to 79.8% compared to 69.9% in 2008

	2004	2005	2006	2007	2008
Interest Income	19,542,577	26,384,148	45,384,687	62,152,607	69,424,421
Interest Expense	8,056,170	12,547,953	28,499,327	39,540,052	38,518,448
Net Interest Income	11,486,407	13,836,195	16,885,360	22,612,555	30,905,973

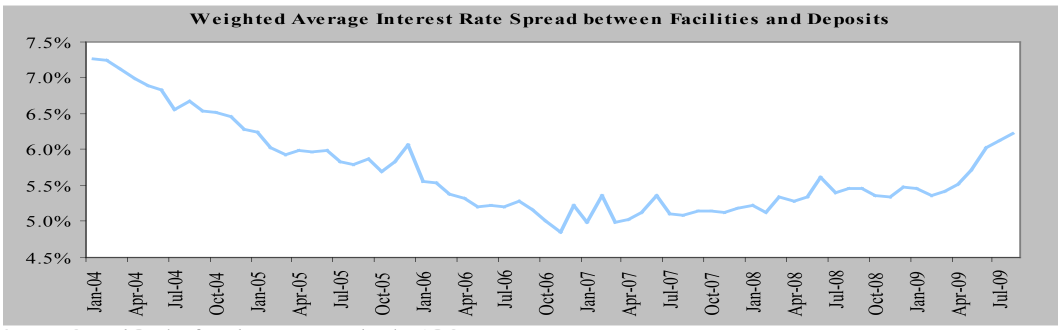
Source: Bank's Annual Reports

Weighted Average Interest Rates Charged by Licensed Banks on Credit Facilities

	2004	2005	2006	2007	2008
Overdrafts	8.79%	9.26%	9.23%	9.83%	9.31%
Loans & Advances	7.59%	8.10%	8.56%	8.86%	9.48%
Discounted Bills & Bonds	8.98%	7.92%	8.72%	9.45%	8.89%

Source: Central Bank of Jordan

Growth in interest income was supported by the rise in interest on loans and advances, with the weighted average interest rate reaching almost 9.5% in 2008 compared to 8.9% in 2007, despite interest rates on overdrafts and discounted bills and bonds decreasing to reach 9.3% and 8.9% respectively compared to 9.8% and 9.5% in the previous year.

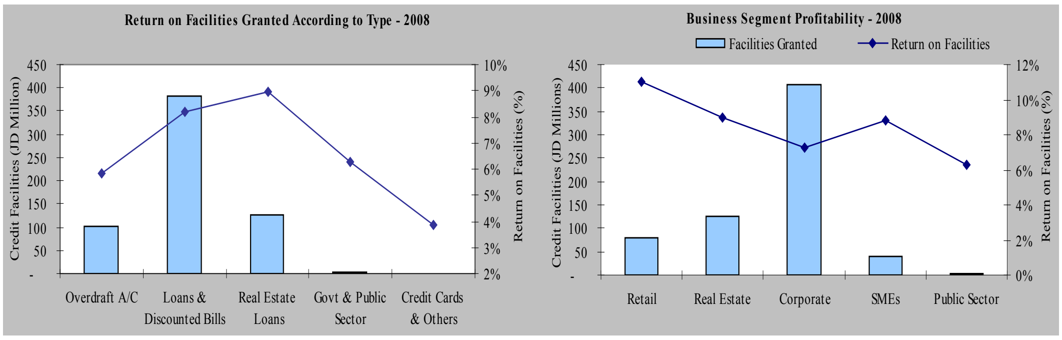


Source: Central Bank of Jordan; Interpretation by ABC Investments

A consideration of the interest rate spread in Jordan, based on the weighted average interest rates on each type of credit facility and deposit, weighted according to the balances of each type of facility and deposit granted by licensed banks, reveals an almost consistent decline in the interest rate spread since March 2003, with a slight recovery in 2008 and first eight months of 2009.

The drop in interest rates in 2008 was reflected in UBSI's return on credit facilities based on interest income generated, which declined in 2008 to 7.9% compared to 8.6% in 2007.

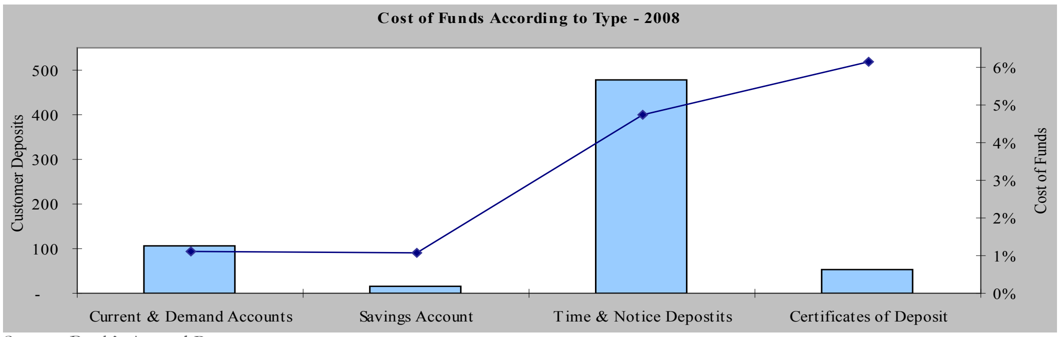
Segmental Interest Income Performance



Source: Annual report; ABCI interpretation

Real estate loans generated the highest return on investment at 8.9%, followed by loans and discounted bills, which account for the bulk of credit facilities granted, with a return on investment reaching 8.2%, while government and public sector facilities had a 6.3% return. In terms of business segment profitability, corporate loans make up the largest part of facilities granted but offering the second lowest return on investment of 7.3%, compared to an 11.0% return on retail loans and an 8.9% return on real estate loans.

The highest cost of funds, however, was on certificate of deposits and time and notice deposits which had a 6.1% and 4.7% cost compared to the 1.1% cost on current and saving accounts.



Source: Bank's Annual Reports

Net commissions also rose by a significant 51.0% to JD 7.93 million over the same period, making up 20.5% of UBSI's revenues.

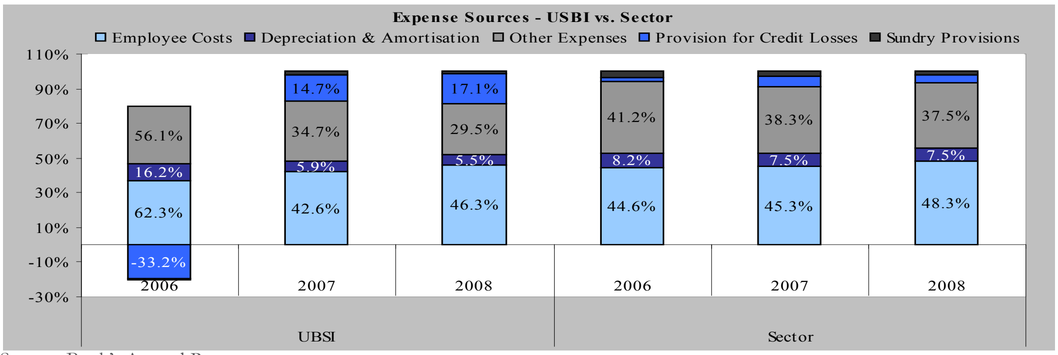
Net commissions increased to JD 7.93 million in 2008 compared to JD 5.25 million in 2007

The Bank's investment portfolio was hit hard during the year, with the downturn of the Amman Stock Exchange and the collapse in the global stock markets causing the bank to book JD 10.06 million in unrealised losses on available-for-sale investments to equity, of which JD 7.42 million was recorded in the P&L as an impairment loss, noting that the impact was relatively large due to the Bank's holding of an available-for-sale portfolio that is of a strategic nature. This thereby took the losses recorded from the investment portfolio in the income statement up to JD 8.58 million in 2008 compared to a loss of JD 3.73 million at the end of 2007.

2.2.3_2 Expenses

The high inflation rates in 2008 resulted in an increase in the Bank's expenses, which leaped from JD 13.02 million at the end of 2007 to JD 17.58 million in 2008. Employee costs, which is the main

UBSI expense grew by 35.0% in 2008 to reach JD 17.58 million expense of the Bank, made up 46.3% of total expenses that year, registering slightly below the sector's average of 48.3%, rising from JD 5.55 million to JD 8.14 million during the year.



Source: Bank's Annual Report

After registering a surplus of almost JD 2 million in 2006, the provisions for credit losses account rose in 2007 and 2008 to reach JD 1.92 million and JD 3.01 million respectively.

2.2.3_3 Net Income

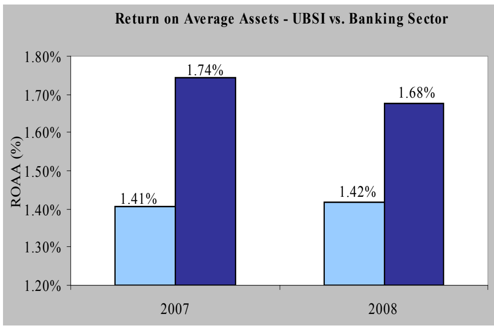
	2004	2005	2006	2007	2008
Gross Profit	21,351,254	42,305,793	24,381,354	32,344,248	38,709,209
% Change	*620%*	*98.1%*	*(42.4%)*	*32.7%*	*19.7%*
Expenses	7,351,451	9,645,550	6,176,445	13,022,849	17,578,239
% Change	*28%*	*31.2%*	*(36.0%)*	*110.8%*	*35.0%*
Net Income	10,802,344	24,652,047	12,422,634	13,776,465	15,609,002
% Change	*1663%*	*128.2%*	*(49.6%)*	*10.9%*	*13.3%*

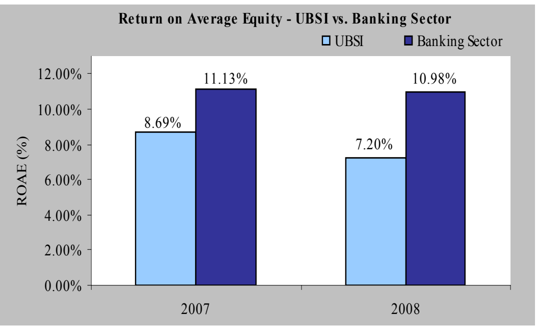
Source: Bank's Annual Report

Net income grew at CAGR of 9.6% since 2004

Aside from year 2005, where investment portfolio gains sent profits skyrocketing, UBSI has demonstrated stable growth in its bottom line. In 2008, UBSI met the financial challenges head on, with its net income registering a 13.3% increase that year. Total profits after tax and provisions reached JD 15.61 million at the end of 2008 compared to JD 13.78 million in 2007. The Bank's return on average assets (ROAA) rose to 1.42% compared to 1.41% the year prior, albeit still registering below the sector's average of 1.68%. Return on average equity (ROAE) meanwhile, declined to reach 7.20% compared to 8.69% in 2007, registering below the sector average of 10.98%, due to the aggressive growth in equity by the end of 2007.

UBSI's ROAA and ROAE stood at 1.4% and 7.2% in 2008





Source: Bank's Annual Report

Earnings per Share

UBSI's EPS registered below the sector's average in 2008 at JD 0.164

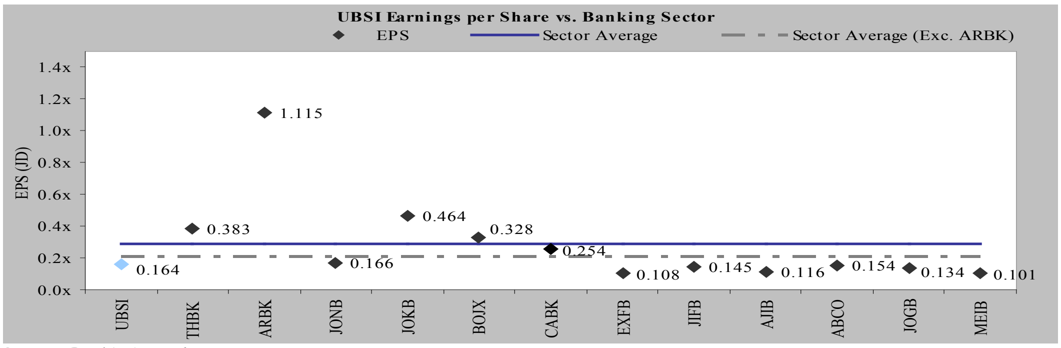
The increase in the Bank's paid-up capital during the past few years, and deceleration in the growth of its net income, resulted in a decline in UBSI's earning per share which dropped from JD 0.192 in 2007 to JD 0.164 in 2008.

(JD per share)	2004	2005	2006	2007	2008
UBSI	0.494	0.458	0.188	0.192	0.164

EPS based on weighted average number of shares

ABC Investments

UBSI's EPS registered below that of the sector's average of JD 0.289 in 2008. The illustration below highlights the sector's EPS, with only four banks registering above the sector average. However, when excluding the Arab Bank's EPS the sector's average EPS drops to JD 0.210 adding an additional bank above the industry's average line.

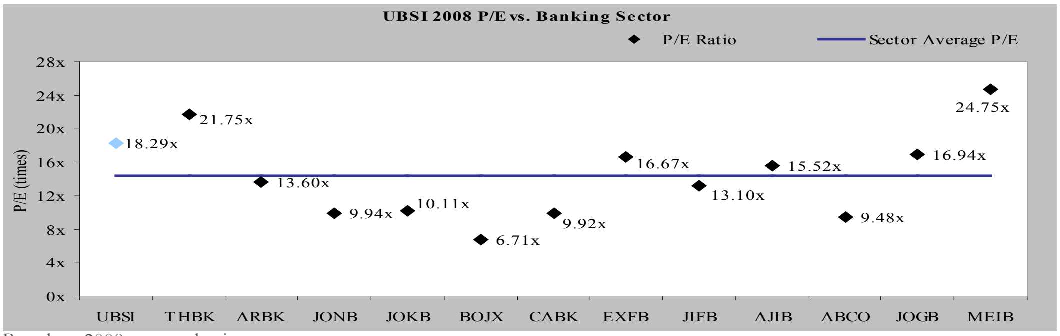


Source: Bank's Annual Report
ARBK figures relate to the Arab Bank Group

Price-to-Earnings (P/E) Ratio

The Bank's P/E ratio dropped from 20.40 times in 2006 to 19.83 times in 2007 and 18.29 times in 2008 due to a combination of declining stock price and the rising EPS during 2007. Despite the decline in UBSI's P/E over the years it sill registering above the sector average, excluding UBSI, of 14.04 times.

UBSI had a P/E ratio of 18.29x in 2008, higher than the sector average of 14.04x

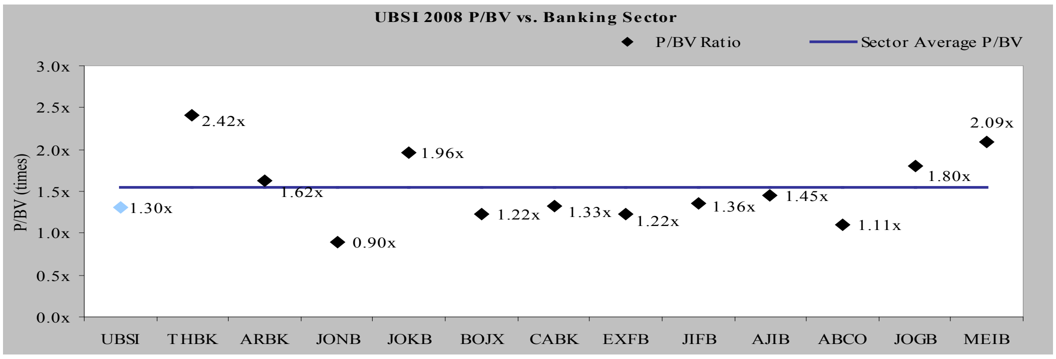


Based on 2008 year-end prices
ARBK figures relate to the Arab Bank Group

Price-to-Book (P/BV) Ratios

The Price to Book value (P/BV) ratio registered below the sector average, at 1.30 times compared to 1.54 times. The downturn in the market in 2006 led the Bank's share to drop, registering a decline in its P/BV from 3.5 times in 2005 to 2.07 times in 2006. The capital increase in 2007 and 2008 to JD 55 million and JD 95 million led UBSI's P/BV to drop further to 1.68 times and 1.30 times respectively.

P/BV stood at 1.30x in 2008 dropping from 1.68x in 2007



Based on 2008 year-end prices
ARBK figures relate to the Arab Bank Group

ABC Investments

Dividends and the Dividend Yield

	2004	2005	2006	2007	2008
Dividends (JD per Share)	0.100	0.375	0.200	0.100	0.100
Dividend Payout Ratio	20%	82%	106%	52%	61%
Dividend Yield	1.7%	4.0%	5.2%	2.6%	3.3%

Source: Bank's Annual Report

UBSI's distribution of dividends has been unstable and following a declining trend, dropping from JD 0.375 per share in 2005 to JD 0.200 the following year, and down to JD 0.100 in 2007 and 2008, causing its dividend payout ratio to slump from 106% in 2006 to 61% at the end of 2008, giving a dividend yield of 3.3%.

3.0 UBSI'S Q3 2009 PERFORMANCE HIGHLIGHTS

	Q3 2008	Q3 2009
Interest Income	51,922,735	51,601,370
Interest Expense	(28,190,102)	(28,191,863)
Net Interest Income	23,732,633	23,409,507
Net Commission	5,481,814	7,074,535
Net Interest and Commission Income	29,214,447	30,484,042
FX Income	4,185,731	4,427,938
Gain from Trading Investments	(29,398)	965,211
Gain from Sale of AFS Investments	(361,804)	698,494
Other Revenue	1,817,261	1,513,775
Gross Income	34,826,237	38,089,460
Employees' Costs	5,862,431	6,749,777
Depreciation and Amortization	680,818	845,512
Other Operating Expenses	3,242,880	4,459,570
Provision for Credit Losses	899,616	10,308,620
Sundry Provisions	516,497	471,455
Total Expenses	11,202,242	22,834,934
Operating Income	**23,623,995**	**15,254,526**
Profit before Income Tax	**23,623,995**	**15,254,526**
Income Tax	6,785,832	4,521,399
Profit Attributable to the Shareholders of the Bank	**16,838,163**	**10,733,127**

Source: Bank's Q3 2009 Results

Although the Bank's credit facilities increased by 5.2%, interest income dropped during the first nine months of 2009 by 0.6% compared to the same period in 2008, to reach JD 51.60 million. Interest expense, however, remained consistent with Q3 2008 figures registering at JD 28.19 million, on the back of the 20.2% increase in customer deposits during the first nine months of 2009 in spite of the Central Bank's persistent reduction in interest rates. The 0.6% decrease in interest income caused the net interest income to drop from JD 23.73 million in Q3 2008 to JD 23.41 million by the end of September 2009. Net commissions, however, generated a 29.1% increase, leading net interest and commissions income to end the first three quarters of 2009 at JD 30.48 million, up 4.4% year-on-year.

Net interest income registered a 1.4% decline during the first half of 2009 compared to the same period in 2008

During Q3 2009 as the local and global markets continued to struggle with poor economic outlooks, UBSI's investment portfolio fared reasonably well with its gains from trading investments rising to JD 965.21 thousand compared to a loss of JD 29.40 thousand in Q3 2008. Moreover, gains from available-for-sale investments also rose to reach JD 698.49 thousand compared to a loss of JD 361.80 thousand during the first three quarters of 2008. The aggregate increase was reflected in UBSI's gross income which rose by 9.4%.

The tight liquidity in the market and the increase in non-performing loans led the Bank's provisions for credit losses to rise by a substantial JD 9.41 million to reach JD 10.31 million by the end of September 2009 compared to JD 899.62 thousand in Q3 2008. This in turn increased UBSI's total expenses for the period which caused the Bank's bottom line for the first three quarters to drop to JD 10.73 million compared to JD 16.84 million. Annualised earnings per share for the period stood at JD 0.143 compared to JD 0.224 for Q3 2008, while the Bank's ROAE and ROAA ratios reached 6.4% and 1.1% respectively, based on Q3 2009 annualised profits.

Net income for the first three quarters of 2009 amounted to JD 10.73 million

4.0 FORECAST ASSUMPTIONS

4.1 Uses of Funds

The global economic slowdown would typically be expected to boost the volume of credit facilities granted by banks as individuals and corporations alike struggle to make ends meet. However, banks in the Kingdom have become more reluctant in their lending policies, leading to a slump in growth of credit facilities. Nevertheless, we anticipate that the need to generate more profits will motivate banks to increase their lending later in the year, and therefore we have raised the ratio of facilities to total deposits for 2009 to 61% from 57% in Q3 2009, before increasing to 62% in 2012 and 2013.

The investment portfolio of the Bank comprised 17% of total assets in 2007 and around 14% in 2008. The slight correction in the capital market in H2 2009 is expected to positively effect the value of UBSI's investments. However, we have maintained UBSI's investment weighting at 13% of assets for 2009, recovering slightly to 14% in 2011, and rising to 15% for the period 2012-2013.

4.2 Sources of Funds

The downturn in the Amman Stock Exchange during the second half of 2008, and the global credit crisis led liquidity to shift away from the stock market towards the safer alternative provided by banks which in turn saw an increase in customer deposits during the second half of 2008. However, the Central Bank's drop in interest rates during 2009 led to a deceleration in the growth of the banking sector's customer deposits. Moreover, the expected increase in competition in the market following the entry of new banks may be expected to draw away a portion of the customer deposits to other banks in the sector. Based on a growth of 18.9% in customer deposits and cash margins in Q3 2009 we have applied a growth rate of 20% for the entirety of 2009, dropping to 15% in 2010 and 10% for the period 2011-2013.

4.3 Net Interest Income

Interest income and expense were projected based on weighted average interest rates applicable in 2009, and applied according to the 2008 weighting of types of deposits, investments and facilities. Our expectation that interest rates will, in the medium-term, remain at existing low levels, and therefore, we believe that the net impact of the change in interest rates will not have a significant effect on our forecasts.

ABC Investments

5.0 VALUATION

Using three types of valuation methods, we arrive at a weighted average fair value for UBSI's stock of JD 2.38 registering 5.6% higher than the stock's current price, leading us to lend a HOLD recommendation for the stock.

Weighted Average Fair Value per Share			
Valuation Method	**Target Value**	**Weighting**	**Value**
Excess Returns Model	2.48	60%	1.49
Peer Valuation (P/BV and ROAE regression)	2.24	20%	0.45
Peer Valuation (P/E multiple)	2.21	20%	0.44
Weighted Average Fair Value		**100%**	**2.38**
Current Price			2.25
Upward (Downward) Potential			5.6%

5.1 Excess Returns Model

Because dividends have been stable or declining in recent years despite growth in the Bank's earnings, we believe a dividend discount model would undervalue the Bank. Thus, we opted for the Excess Returns Model, which values the Bank based on returns generated, over and above the required cost of equity. A cost of equity of 9.30% was used, and a terminal growth rate of 2% was used into perpetuity.

	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	Terminal Value
Net Income	14,989,116	22,630,424	27,543,132	31,182,512	34,419,329	33,474,648	34,646,261	35,858,880	37,113,940	38,412,928
Less: Equity Cost	20,322,157	20,968,545	22,890,609	24,830,273	29,743,925	31,131,423	32,221,022	33,348,758	34,515,965	35,724,023
Excess Equity Return	(5,333,041)	1,661,878	4,652,523	6,352,240	4,675,405	2,343,225	2,425,238	2,510,122	2,597,976	2,688,905
Cumulative Cost of Equity	1.093	1.195	1.306	1.427	1.560	1.705	1.864	2.037	2.226	
Present Value	**(4,879,269)**	**1,391,102**	**3,563,100**	**4,450,883**	**2,997,218**	**1,374,337**	**1,301,407**	**1,232,348**	**1,166,954**	
Estimating Equity Cost each Year										
Beginning BV of Equity	218,517,817	225,468,228	246,135,582	266,992,182	319,827,150	334,746,479	346,462,606	358,588,797	371,139,405	384,129,284
Cost of Equity	9.30%	9.30%	9.30%	9.30%	9.30%	9.30%	9.30%	9.30%	9.30%	9.30%
Equity Cost	20,322,157	20,968,545	22,890,609	24,830,273	29,743,925	31,131,423	32,221,022	33,348,758	34,515,965	35,724,023
Estimating Book Value of Equity										
Return on Equity	6.75%	9.60%	10.74%	10.63%	10.36%	10.00%	10.00%	10.00%	10.00%	
Net Income	14,989,116	22,630,424	27,543,132	31,182,512	34,419,329	33,474,648	34,646,261	35,858,880	37,113,940	
Dividend Payout Ratio	66.72%	44.19%	36.31%	62.54%	56.65%	65.00%	65.00%	65.00%	65.00%	
Dividends Paid	10,000,000	10,000,000	10,000,000	19,500,000	19,500,000	21,758,521	22,520,069	23,308,272	24,124,061	
Retained Earnings	4,989,116	12,630,424	17,543,132	11,682,512	14,919,329	11,716,127	12,126,191	12,550,608	12,989,879	

Risk-Free Rate	5.38%	Based on CBJ Treasury Bond Rate
MRP	8.90%	Based on Damodaran Market Risk Premium for Jordan
Beta	0.436	
Cost of Equity	9.30%	
Steady State Growth	2.00%	
Equity Invested	218,517,817	
PV of Equity Excess Return	13,703,110	
PV of Terminal Value	15,440,137	
Value of Equity	247,661,064	
Number of Shares Outstanding	100,000,000	
Value per share	**2.48**	

Sensitivity Analysis

The table below illustrates the sensitivity of the excess returns model valuation to the inputs of the model. To reflect the extent of this sensitivity, we have performed a sensitivity analysis on the model's two key inputs; the terminal growth rate and the cost of equity.

		Terminal Growth Rate				
		0.00%	1.00%	2.00%	3.00%	4.00%
Cost of Equity	8.30%	2.88	2.93	3.00	3.10	3.24
	8.80%	2.65	2.68	2.72	2.77	2.85
	9.30%	2.44	2.46	**2.48**	2.50	2.54
	9.80%	2.26	2.26	2.27	2.27	2.28
	10.30%	2.10	2.09	2.08	2.08	2.07

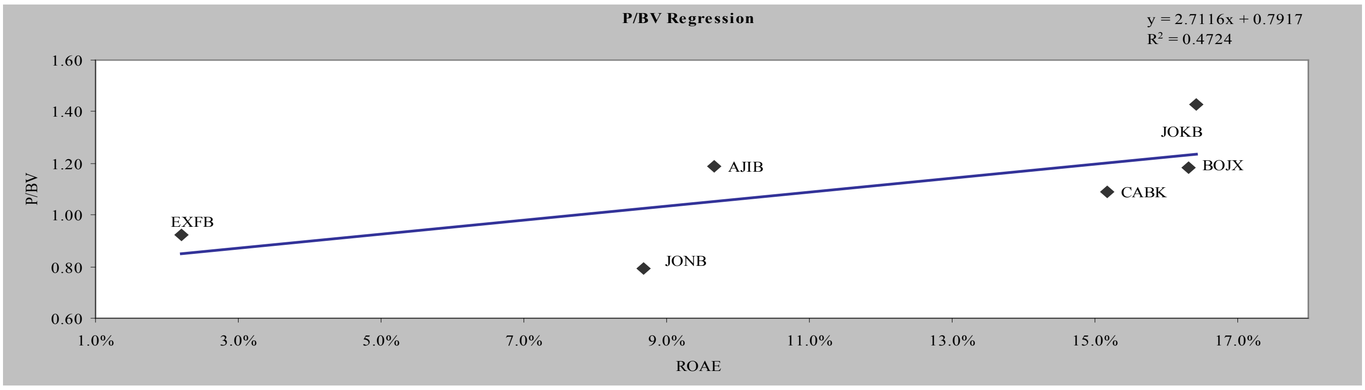
5.2 Relative Valuation

	Market Cap	Trailing P/E*			Trailing P/BV*			ROAE			Payout Ratio	Retention Rate	Sust. Growth Rate **
	Current	2006	2007	2008	2006	2007	2008	2006	2007	2008	2008	2008	2008
ABCO	82,975,304	5.97x	7.13x	7.60x	0.80x	0.85x	0.89x	18.5%	14.8%	12.2%	64.9%	35.1%	5.3%
AJIB	148,000,000	12.86x	17.83x	12.76x	0.94x	1.26x	1.20x	13.5%	7.5%	9.8%	86.2%	13.8%	1.4%
ARBK	6,947,340,000	9.90x	8.81x	11.67x	1.17x	1.31x	1.39x	10.6%	10.1%	10.1%	23.3%	76.7%	7.9%
BOJX	225,000,000	8.79x	9.22x	6.86x	1.38x	1.40x	1.25x	19.5%	16.2%	19.3%	45.7%	54.3%	9.9%
CABK	184,800,000	8.05x	8.27x	10.10x	1.03x	1.09x	1.11x	12.8%	14.8%	13.7%	19.7%	80.3%	11.0%
EXFB	185,192,000	9.40x	13.33x	12.96x	1.08x	1.04x	0.95x	12.9%	8.6%	8.5%	0.0%	100.0%	10.0%
JIFB	104,300,000	10.00x	14.33x	10.28x	0.89x	1.03x	1.07x	13.7%	8.3%	10.8%	0.0%	100.0%	10.9%
JOGB	122,730,300	9.94x	9.44x	12.54x	2.97x	3.04x	3.10x	15.0%	15.8%	11.1%	37.3%	62.7%	8.8%
JOKB	390,000,000	7.47x	8.78x	8.41x	1.56x	1.35x	1.63x	26.7%	22.4%	21.5%	21.6%	78.4%	18.5%
JONB	166,100,000	7.91x	11.62x	9.10x	0.79x	0.85x	0.82x	10.3%	5.3%	8.8%	60.2%	39.8%	3.2%
MEIB	58,660,954	11.98x	23.77x	14.36x	1.55x	1.43x	1.21x	13.9%	8.4%	10.6%	0.0%	100.0%	11.0%
THBK	1,814,400,000	18.41x	16.55x	18.80x	2.23x	2.12x	2.09x	16.0%	18.6%	16.5%	65.3%	34.7%	5.9%
UBSI	225,000,000	11.95x	11.72x	13.72x	1.21x	0.99x	0.98x	11.9%	8.7%	7.2%	61.0%	39.0%	3.6%
Sector Average		10.20x	12.37x	11.47x	1.35x	1.37x	1.36x	15.0%	12.3%	12.3%	37.3%	62.7%	8.3%

* Based on current market price
** Using average ROAE for 2006-2008

5.2.1 P/BV Ratio

This method of valuation entails the regression of the Price to Book Value (P/BV) multiple for the banks in UBSI's peer group against their respective Return on Average Equity (ROAE) ratios for Q3 2009.



The regression analysis returned the relationship P/BV =2.7116*ROAE + 0.7917. Based on our forecasted ROAE for UBSI for the year 2009, the implied P/BV multiple for UBSI is 0.975 times, thereby giving a price per share for the stock of JD 2.24.

5.2.2 P/E Ratio

This method of valuation relies on the average P/E ratio for a selected peer group to determine an appropriate P/E multiple for the Bank. The projected 2009 EPS for the Bank, alongside the computed multiple are then used to determine a fair value price for UBSI.

The peer group used in this method include the Jordan Ahli Bank (JONB), Cairo Amman Bank (CABK), the Bank of Jordan (BOJX), the Capital Bank of Jordan (EXFB), the Jordan Kuwait Bank (JOKB), and Arab Jordan Investment Bank (AJIB), which have an average forward P/E of 14.76 times. With a forecasted EPS for UBSI for 2009 of JD 0.150, this gives a price per share for the stock of JD 2.21.

BALANCE SHEET

	2004	2005	2006	2007	2008	2009F	2010F	2011F	2012F	2013F
Assets										
Cash Balances	152,721,974	153,869,031	236,188,331	393,477,216	346,914,202	487,021,368	575,704,681	623,602,063	683,038,345	751,825,508
Investment Portfolio	127,186,861	152,434,482	186,805,125	181,951,416	157,370,683	154,855,079	162,597,833	185,611,680	214,779,230	231,961,568
Direct Credit Facilities	206,222,113	321,045,595	436,967,870	465,415,208	601,551,048	654,249,508	733,857,929	802,971,151	895,446,489	990,217,035
Premises and Equipment, net	8,561,671	8,497,761	9,935,348	10,465,843	12,084,961	15,485,508	16,259,783	17,235,370	21,477,923	23,196,157
Other Assets	15,968,098	16,563,622	21,828,815	16,780,767	16,548,550	40,000,623	17,045,007	17,556,357	18,083,047	18,625,539
Total Assets	**510,660,717**	**652,410,491**	**891,725,489**	**1,068,090,450**	**1,134,469,444**	**1,351,612,087**	**1,505,465,232**	**1,646,976,622**	**1,832,825,034**	**2,015,825,807**
Liabilities										
Bank and Financial Institution Deposits	41,500,147	70,892,479	187,181,171	174,783,159	122,876,622	178,678,937	175,105,359	185,611,680	200,460,615	216,497,464
Customer Deposits and Margin Accounts	403,282,601	439,809,573	539,422,058	628,301,790	744,884,367	893,861,240	1,027,940,426	1,130,734,469	1,243,807,916	1,380,626,787
Loans and Borrowings	7,131,351	10,909,207	42,835,789	25,725,360	24,141,627	17,867,894	18,761,288	23,864,359	25,773,508	27,835,388
Provisions	686,244	6,607,026	9,995,252	11,558,342	13,703,424	11,911,929	12,507,526	13,257,977	14,318,615	15,464,105
Other Liabilities	7,823,694	18,266,294	10,160,251	12,722,618	10,345,587	23,823,858	25,015,051	26,515,954	28,637,231	30,928,209
Total Liabilities	**460,424,037**	**546,484,579**	**789,594,521**	**853,091,269**	**915,951,627**	**1,126,143,859**	**1,259,329,650**	**1,379,984,440**	**1,512,997,884**	**1,671,351,952**
Equity Attributable to the Bank's Shareholders										
Paid up Capital	25,000,000	40,000,000	55,000,000	95,000,000	95,000,000	100,000,000	100,000,000	100,000,000	130,000,000	130,000,000
Share Premium Reserve	2,283,139	6,755,311	6,755,311	79,255,311	79,255,311	79,255,311	79,255,311	79,255,311	79,255,311	79,255,311
Statutory Reserve	4,165,451	7,524,633	9,391,353	11,377,431	13,548,162	15,601,466	18,701,524	22,474,555	26,746,132	31,461,109
Voluntary Reserve	1,288,656	1,288,656	1,288,656	3,159,659	3,159,659	3,159,659	3,159,659	3,159,659	3,159,659	3,159,659
Foreign Branches Reserve	3,545,000	-	-	-	-	-	-	-	-	-
General Banking Risk Reserve	1,978,767	3,210,085	4,096,665	4,481,693	5,519,193	6,000,000	7,000,000	7,000,000	8,000,000	8,000,000
Fair Value Reserve - Net	1,600,266	21,915,180	5,697,602	3,289,350	698,984	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Retained Earnings	10,375,401	25,232,047	19,901,381	18,435,737	21,336,508	20,451,792	37,019,089	54,102,647	71,666,047	91,597,776
Total Equity Attributable to the Bank's Shareholders	**50,236,680**	**105,925,912**	**102,130,968**	**214,999,181**	**218,517,817**	**225,468,228**	**246,135,582**	**266,992,182**	**319,827,150**	**344,473,855**
Total Liabilities and Shareholders' Equity	**510,660,717**	**652,410,491**	**891,725,489**	**1,068,090,450**	**1,134,469,444**	**1,351,612,087**	**1,505,465,232**	**1,646,976,622**	**1,832,825,034**	**2,015,825,807**

INCOME STATEMENT

	2004	2005	2006	2007	2008	2009F	2010F	2011F	2012F	2013F
Interest Income	19,542,577	26,384,148	45,384,687	62,152,607	69,424,421	76,354,671	85,905,794	94,166,571	105,034,655	115,827,659
Interest Expense	8,056,170	12,547,953	28,499,327	39,540,052	38,518,448	43,823,479	49,221,293	54,163,435	59,902,212	66,210,524
Net Interest Income	**11,486,407**	**13,836,195**	**16,885,360**	**22,612,555**	**30,905,973**	**32,531,192**	**36,684,501**	**40,003,136**	**45,132,443**	**49,617,134**
Net Commission	1,967,454	2,942,568	3,712,775	5,251,076	7,931,308	8,399,014	9,449,637	10,358,323	11,553,812	12,741,042
Net Interest and Commission Income	**13,453,861**	**16,778,763**	**20,598,135**	**27,863,631**	**38,837,281**	**40,930,206**	**46,134,138**	**50,361,459**	**56,686,255**	**62,358,177**
FX Income	1,505,622	2,032,435	2,358,755	6,182,806	6,371,223	6,108,374	6,872,464	7,533,326	8,402,772	9,266,213
Gain from Trading Investments	5,228,507	16,813,430	(4,262,430)	(1,832,435)	(2,585,860)	500,000	500,000	-	-	-
Gain from Sale of AFS Investments	83,616	2,693,306	3,334,053	(1,893,001)	(5,997,610)	(1,000,000)	(1,000,000)	-	-	-
Other Revenue	1,079,648	3,987,859	2,352,841	2,023,247	2,084,175	2,290,640	2,577,174	2,824,997	3,151,040	3,474,830
Gross Income	**21,351,254**	**42,305,793**	**24,381,354**	**32,344,248**	**38,709,209**	**48,829,219**	**55,083,775**	**60,719,782**	**68,240,067**	**75,099,219**
Employees' Costs	3,140,696	4,160,869	3,848,151	5,546,190	8,141,105	9,036,627	10,030,655	10,933,414	11,917,422	12,989,990
Depreciation and Amortization	963,959	917,630	999,941	762,842	970,921	1,244,125	1,306,331	1,384,711	1,725,563	1,863,608
Other Operating Expenses	1,898,625	3,655,819	3,463,403	4,521,791	5,183,938	5,726,600	6,442,935	7,062,493	7,877,599	8,687,074
Provision for Credit Losses	1,073,337	819,147	(2,052,228)	1,916,631	3,007,197	12,000,000	6,000,000	3,290,409	3,669,353	4,057,703
Sundry Provisions	274,834	92,085	(82,822)	275,395	275,078	288,832	303,273	318,437	334,359	351,077
Total Operating Expenses	**7,351,451**	**9,645,550**	**6,176,445**	**13,022,849**	**17,578,239**	**28,296,184**	**24,083,195**	**22,989,464**	**25,524,297**	**27,949,453**
Operating Income	**13,999,803**	**32,660,243**	**18,204,909**	**19,321,399**	**21,130,970**	**20,533,035**	**31,000,580**	**37,730,318**	**42,715,770**	**47,149,766**
Net Income before Income Tax	**13,999,803**	**32,660,243**	**18,204,909**	**19,321,399**	**21,130,970**	**20,533,035**	**31,000,580**	**37,730,318**	**42,715,770**	**47,149,766**
Income Tax	3,197,459	8,008,196	5,782,275	5,544,934	5,521,968	5,543,920	8,370,157	10,187,186	11,533,258	12,730,437
Net Income after Income Tax and Appropriations	**10,802,344**	**24,652,047**	**12,422,634**	**13,776,465**	**15,609,002**	**14,989,116**	**22,630,424**	**27,543,132**	**31,182,512**	**34,419,329**

KEY RATIOS

Key Ratios	Historical					Forecast				
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Gross Income	21,351,254	42,305,793	24,381,354	32,344,248	38,709,209	48,829,219	55,083,775	60,719,782	68,240,067	75,099,219
Profit before Tax	13,999,803	32,660,243	18,204,909	19,321,399	21,130,970	20,533,035	31,000,580	37,730,318	42,715,770	47,149,766
Profit after Tax	10,802,344	24,652,047	12,422,634	13,776,465	15,609,002	14,989,116	22,630,424	27,543,132	31,182,512	34,419,329
EPS	0.494	0.458	0.188	0.192	0.164	0.150	0.226	0.275	0.240	0.265
Total Assets	510,660,717	652,410,491	891,725,489	1,068,090,450	1,134,469,444	1,351,612,087	1,505,465,232	1,646,976,622	1,832,825,034	2,015,825,807
Shareholders' Equity	50,236,680	105,925,912	102,130,968	214,999,181	218,517,817	225,468,228	246,135,582	266,992,182	319,827,150	344,473,855
Paid-up Capital	25,000,000	40,000,000	55,000,000	95,000,000	95,000,000	100,000,000	100,000,000	100,000,000	130,000,000	130,000,000
Growth in Facilities	17.39%	55.68%	36.11%	6.51%	29.25%	8.76%	12.17%	9.42%	11.52%	10.58%
Growth in Customer Deposits	15.69%	8.01%	23.81%	15.54%	17.87%	20.00%	15.00%	10.00%	10.00%	11.00%
Growth in Total Deposits & Margin Accounts	25.30%	14.82%	42.28%	10.53%	8.05%	23.60%	12.17%	9.42%	9.72%	10.58%
Growth in Net Profits	1662.76%	128.21%	-49.61%	10.90%	13.30%	-3.97%	50.98%	21.71%	13.21%	10.38%
Growth in Operating Income	606.02%	133.29%	-44.26%	6.13%	9.37%	-2.83%	50.98%	21.71%	13.21%	10.38%
Facilities-to-Assets	40.38%	49.21%	49.00%	43.57%	53.02%	48.41%	48.75%	48.75%	48.86%	49.12%
Facilities-to-Total Deposits	46.36%	62.86%	60.14%	57.95%	69.32%	61.00%	61.00%	61.00%	62.00%	62.00%
Facilities-to-Customer Deposits & Margin Accounts	51.14%	73.00%	81.01%	74.08%	80.76%	73.19%	71.39%	71.01%	71.99%	71.72%
Growth in Non-Interest Expense	28.23%	31.21%	-35.97%	110.85%	34.98%	60.97%	-14.89%	-4.54%	11.03%	9.50%
Non-Interest Income-to-Operating Income	70.46%	87.17%	41.18%	50.37%	36.93%	79.37%	59.35%	54.91%	54.10%	54.04%
Dividends Per Share	0.100	0.375	0.200	0.100	0.100	0.100	0.100	0.100	0.150	0.150
Dividend Payout Ratio	20.2%	81.9%	106.26%	52.18%	60.98%	66.72%	44.19%	36.31%	62.54%	56.65%
Dividend Yield	1.7%	4.0%	5.21%	2.63%	3.33%	4.44%	4.44%	4.44%	6.67%	6.67%
ROAA	2.4%	4.24%	1.61%	1.41%	1.42%	1.21%	1.58%	1.75%	1.79%	1.79%
ROAE	26.7%	31.57%	11.94%	8.69%	7.20%	6.75%	9.60%	10.74%	10.63%	10.36%
EPS	0.494	0.458	0.188	0.192	0.164	0.150	0.226	0.275	0.240	0.265
Book Value	2.009	2.648	1.857	2.263	2.300	2.255	2.461	2.670	2.460	2.650
P/E Ratio	11.63	20.54	20.40	19.83	18.29	15.01	9.94	8.17	9.38	8.50
P/BV Ratio	2.86	3.55	2.07	1.68	1.30	1.00	0.91	0.84	0.91	0.85
Share Price	5.75	9.40	3.84	3.80	3.00	2.25	2.25	2.25	2.25	2.25