

Results Review

First Gulf Bank

ST Rating: Market Perform

LT Rating: Market Perform

First Gulf Bank – 3Q09 results review

- FGB's reported solid 3Q09 net profit of AED 930mm (+9% yoy, +20% qoq) on the back of strong revenue gains. While the core lending operation was once again strong with interest income rising by 31% yoy and 3% qoq, the major positive surprise was in the non-interest income (+62%yoy, +97% qoq). Based on our estimates, fee and commission income was AED 303mm (flat compared to Q2) but **foreign exchange, derivatives income and contribution from subsidiaries and associates contributed majorly to the delta.** Foreign exchange and derivatives income reversed course from the losses of Q2 to log in a gain of AED 186mm and associates + subsidiaries contributed another 219mm to the bottom line.
- Balance sheet growth was strong with loans and deposits growing by 13.4% and 20.8% ytd, far outpacing sector growth of 2.7% and 5.9%, respectively.** Since the end of 2008, loans have grown by AED10.6bn and the deposit base has expanded by AED15.4bn, resulting in a loan to deposit ratio of 101%, improving from 107% at the end of 2008. The bank did receive AED 4.5bn in UAE federal government deposits in Q1 but has not yet completed its conversion into Tier II capital, a fact that will stress the ratio in 3Q09 but is less concerning considering it shores up CAR to an estimated 22%. **Significantly margin expansion continues, with 9-month margins at 3.6% compared to 3.1% in 2008.**
- Higher provisioning continued with AED 490mm taken to reserves in Q3. Coupled with the AED 555mm in reserves taken in H109, brings **total ytd reserves of AED 1.0bn, 184% higher than 2008's AED 563mm.** The company disclosed exposures to the troubled Saudi conglomerates of AED 383mm and stated that 70mm was accounted for in Q2 and Q3. FGB expects to take another AED174mm in related provisions over the next 5 quarters (till end 2010). With Q3 NPL's at 1.4% (FGB's definition) and reserves at 2.1% of the loan book, we estimate an additional AED 290mm in NPL's and AED295mm in reserves were booked this quarter. **Loan loss coverage ratio is now 153% vs. 166% in 2008.**
- While the NPL's and commensurate build up in reserves is as we expected, **we did not anticipate the strong growth in revenues.** The bank continues to display strong balance sheet expansion along with the ability to grow and maintain high margins. We believe the combination of higher fee and commission income and investment portfolio gains should help alleviate the pain from missing investment property related gains of the previous years. FGB has risen by 102% ytd, and currently trades at a 09EP/B of 1.3x (20% premium to sector avg. of 1.1x), but has displayed strong earnings momentum and estimated ROE of 17%. We maintain our Market perform ratings pending availability of full financials.

Deepak Tolani, CFA  
T+971 4 360 11 52  
Deepak.tolani@almalcapital.com

Equity Data	
Current Price (AED)	18.30
Short-Term Rating	Market Perform
Long-Term Rating	Market Perform
YTD Performance	100.0%
52-Week Range (AED)	6.5-19.25
Market Cap. (AED bn.)	25.2
RIC	FGB.AD
Bloomberg	FGB UH



AED Millions, except per share data	3Q08	2Q09	3Q09	yoy	qoq
Net Interest Income	753	958	985	30.8%	2.9%
Non-Interest Income	434	356	703	62.1%	97.5%
Total Income	1187	1314	1688	42.2%	28.5%
Non-Interest Expense	(267)	(258)	(248)	-7.2%	-3.8%
Provisions	(69)	(280)	(490)	605.5%	74.9%
Net Profit	850	776	930	9.4%	19.8%
Net Loans	75,991	86,041	90,000	18.4%	4.6%
Total Assets	103,915	118,644	124,400	19.7%	4.9%
Customer Deposit	66,679	83,725	89,370	34.0%	6.7%
Loans/Deposits	114.0%	102.8%	100.7%		
Efficiency Ratio	-22.5%	-19.6%	-14.7%		

Downtown Burj Dubai  
Emaar Square  
Building 4, Office 302  
Sheikh Zayed Road  
P. O. Box 119930, Dubai, UAE  
T +971 4 360 1111  
F +971 4 360 1122  
www.almalcapital.com



**Al Mal Securities Group**

**Managing Director**

Robert McKinnon +971 4 360 11 17

**Institutional Sales & Trading**

Zahed Chowdhury, CFA +971 4 360 1172

Ashraf Abu Shakra +971 4 369 66 01

Khamis Shennawi +971 4 360 11 10

Jalal Faruki +971 4 360 11 03

Carlo Dalafu +971 4 360 11 04

**All Desks Numbers** +971 4 360 11 00

**Al Mal Capital Research**

**Equity Research Analysts**

Irfan Ellam +971 4 360 11 53

Deepak Tolani, CFA +971 4 360 11 52

Mala Pancholia +971 4 360 11 54

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