



Results Review

UNB

ST Rating: Market Perform

LT Rating: Market Perform

Union National Bank – 2Q09 Results

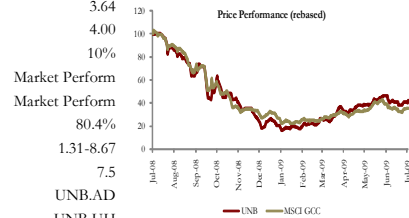
- UNB’s announced 2Q09 net profit of AED 271mm (-36% yoy, -10% qoq) vs. our expectation of AED 317mm. **Steadying revenues were impacted by provisioning and an increased cost base.** Net interest margin expanded (2.57% vs. 2.49% in Q1) over the quarter primarily due to lower yields paid on interest bearing liabilities. While non-interest income improved it is still below the highs in the first 3 quarters of 2008 and continues to be negatively impacted by lower fee and commission income and fair value losses on investment properties
- **Rising provisions on rising NPL’s**– The bank added another AED 76mm in impairment losses in Q2 compared to a AED 38mm provisions in Q109. In contrast, strong recoveries had resulted in this number being a positive AED 29mm in Q208. Although the impairment losses more than doubled qoq, the increase in NPL’s (1.25% vs. 0.73% in Q109) and flattening loan book growth has resulted in the loan loss coverage ratio dropping to 113.3% from 183.1% in Q109. NPL’s rose by AED 264mm in Q2 ending the quarter at AED 627mm, while net loan loss reserves rose by only AED 46mm. Included in this quarters numbers, are provisions for exposure to the Al Gosaibi group (UNB does not have any exposure to the Saad group).
- **Credit growth flattish with deposit base shrinking** – While qoq loan growth was a tepid 0.7%, deposits shrunk by AED 2.8bn resulting in a loans/deposit ratio of 97% vs. 91% at the end of Q1. Contrary to our expectations, the AED 3.2bn in federal deposits have not yet been converted to subordinated debt Tier II capital. Once this process is completed, the optimal loans/deposit ratio will rise to 103% vs. a central bank reported number of 105% for the UAE banking sector. On a positive note, capital adequacy ratio will improve to above 22%.
- **Non-interest expenses grew faster than revenues** (16% vs. 5%, respectively) resulting in a worsening efficiency ratio to 33% from 30% in Q109 and 28% for all of 2008. Primary reason for the rise was an AED 11mm increase in staff expenses and a similar increase in other expenses over the quarter.
- While UNB continues to be a prudent lender in the UAE, it’s lower than average deposit growth causes concerns for future funding needs. **Although the bank doubled provisions over Q1, NPLs’ are rose at a much faster rate impacting the loan loss coverage ratio.** UNB’s conservative risk management has been rewarded by the market with the stock rising by 80.4% ytd and we see limited upside in the name. We maintain our ST & LT ‘Market Perform’ rating.

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

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

Equity Data

Current Price (AED)	3.64
Target Price (AED)	4.00
Upside/downside	10%
Short-Term Rating	Market Perform
Long-Term Rating	Market Perform
YTD Performance	80.4%
52-Week Range (AED)	1.31-8.67
Market Cap. (AED bn.)	7.5
RIC	UNB.AD
Bloomberg	UNB UH



AED Millions, except per share data	2Q08	1Q09	2Q09	yoy	qoq
Net Interest Income	367	381	392	7.0%	2.9%
Non-Interest Income	194	115	128	-34.1%	11.2%
Total Income	560	496	520	-7.2%	4.8%
Non-Interest Expense	(158)	(147)	(171)	8.0%	16.0%
Provisions	29	(38)	(76)	-361.9%	102.8%
Net Profit	424	301	271	-36.0%	-9.8%
Net Loans	47,317	49,199	49,530	4.7%	0.7%
Total Assets	64,749	72,475	71,027	9.7%	-2.0%
Customer Deposit	47,693	53,939	51,155	7.3%	-5.2%
Loans/Deposits	99%	91%	97%		
Efficiency Ratio	-28.3%	-29.7%	-32.9%		

Al Mal Securities Group**Managing Director**

Robert McKinnon +971 4 360 11 17

Institutional Sales & Trading

Ashraf Abu Shakra +971 4 369 66 01

Khamis Shennawi +971 4 360 11 10

Kamal Samarrai +971 4 360 11 05

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

Bobby Sarkar +971 4 360 11 68

Deepak Tolani, CFA +971 4 360 11 52

Mala Pancholia +971 4 360 11 54

Disclaimer: This report is not an offer to buy or sell nor a solicitation to buy or sell any of the securities mentioned within. The information and recommendations contained in this report were prepared using information available to the public and sources Al Mal Capital believes to be reliable. Al Mal Capital PSC does not guarantee the accuracy of the information contained within this report and accepts no responsibility or liability for losses or damages incurred as a result of investment decisions taken based on information provided or referred to in this report. Any analysis of historical facts and data is for information purposes only and past performance of any company or security is no guarantee or indication of future results. Al Mal Capital PSC, or its "related group companies" (which may include any of its branches, affiliates and subsidiaries) or any director(s) or employee(s) of the said companies, individually or collectively, may from time to time take positions or effect transactions related to companies mentioned in this report. Al Mal Capital PSC and its related group companies may have performed or seek to perform investment banking or any other financial or