

Results Review

UNB

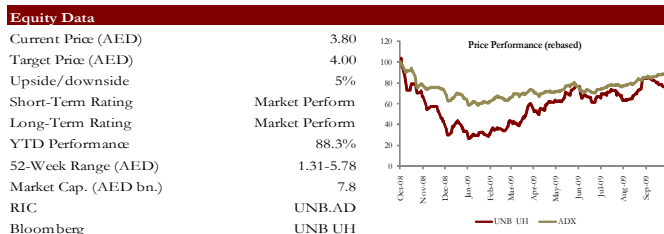
ST Rating: Market Perform

LT Rating: Market Perform

Union National Bank – 3Q09 Results

- UNB's announced 3Q09 net profit of AED 358mm (-39% yoy, +32% qoq) on balance sheet expansion, margin improvement and lower provisioning for the quarter. 3Q08 had benefited from investment property related gains (AED232mm) and this quarter's results are flat yoy if that gain is adjusted out. While fee income is lower than last years' run rate of AED 132mm, we are seeing a crystalization in this number around the AED110mm mark. UNB continues to have the highest interest income to total income among UAE banks (averaging 75% ytd. vs. 68% for the sector).
- Balance sheet growth continues with loans growing by 2% ytd and deposits expanding by 10.5% (compared to 2.7% and 6% for the sector). The loans/deposit ratio has improved to 94% from 102% at the end of 2008, allowing for further expansion when demand returns. **The bank is also being conservative in building up cash and balances at the Central bank, increasing those to 14% of assets, up from 3% at the end of 2008.** Along with expansion in the balance sheet, UNB was able to expand margins to 2.7% over the quarter. While NIM's are lower than last years 3.2%, it is primarily a reflection of higher funding costs.
- Provisions for loan losses were markedly lower over the quarter – AED32mm (net of recoveries) versus AED 136mm in H109. **While NPL's have increased to 1.34% from 1.25% in Q2, the increase in absolute NPL's has slowed to AED 62mm this quarter compared to AED264mm in Q2.** UNB has disclosed exposures to Al Gosaibi of AED 76.5mm and reported adequate provisions to the UAE Central bank in late September. Loan loss coverage ratio has dropped to 105.7% from 113.3% at the end of Q209. While adequate, the coverage ratio is much lower than the 5 year average coverage ratio at UNB of 142%, and we believe may indicate the bank could continue to increase provisions in the coming quarters (even if NPL growth trails off).
- UNB's stock has risen by 88% ytd but most of the gain was in H109. The bank still trades at a 09EP/B of 0.9x vs. 1.1x for the sector average. **While 3Q09 results display crystallization of revenue sources and a reduction in provisions for loan losses (perhaps indicating a slowdown in expected pace of NPL growth) we would wait to see if the indicators of future growth take hold.** Return of balance sheet enlargement and margin expansion (2.66% in Q3 vs. avg 2.53% in H109) with an accommodating loan/deposit ratio may leave room for growth once the general economy improves. Meanwhile, we maintain our ST & LT 'Market Perform' rating.

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AED Millions, except per share data	3Q08	2Q09	3Q09	yoy	qoq
Net Interest Income	394	392	403	2.5%	2.8%
Non-Interest Income	385	128	154	-60.0%	20.3%
Total Income	778	520	557	-28.4%	7.1%
Non-Interest Expense	(166)	(171)	(164)	-1.3%	-4.0%
Provisions	0	(76)	(31)		-58.8%
Net Profit	582	271	358	-38.4%	32.0%
Net Loans	50,981	49,530	51,441	0.9%	3.9%
Total Assets	62,596	71,027	75,661	20.9%	6.5%
Customer Deposits	43,894	51,155	54,690	24.6%	6.9%
Loans/Deposits	116%	97%	94%		
Efficiency Ratio	21.4%	32.9%	29.5%		
NIM	2.77%	2.57%	2.66%		
NPL	0.54%	1.25%	1.34%		
Coverage ratio	161.8%	113.3%	105.7%		

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