

Management Discussion and Analysis

Union National Bank announces net profit of AED 251 million for Q1 2019

Key Highlights

- Operating profit for Q1 2019 of AED 502 million, lower by 16% over the same period in 2018
- Operating income lower by 4% in Q1 2019 to AED 848 million
- Loans and advances up by 4% on year on year basis to AED 72.2 billion as at 31 March 2019
- Customers' deposits increased by 2% on year on year basis to AED 76.6 billion as at 31 March 2019
- Sound liquidity position maintained with loan to deposit ratio at 94.3% and advances to stable resources of around 84.3% as at 31 March 2019
- NPLs to gross loans ratio at 4.9% and loan loss coverage of 108.3% as at 31 March 2019
- Strong capital position with overall and Tier 1 capital adequacy ratios as per Basel III of 19.2% and 18.0% respectively as at 31 March 2019

Income statement highlights

AED Million	Q1-19	Q1-18	YoY Change %
Total Net interest and Islamic financing income	670	678	(1)
Non-interest income	178	205	(13)
Operating income	848	883	(4)
Operating expenses	(346)	(286)	(21)
Operating profit	502	597	(16)
Impairment charge on financial assets, net	(239)	(160)	(49)
Income tax expense	(12)	(12)	-
Net Profit for the period	251	426	(41)

Figures may not add up due to rounding differences

Financial Position highlights

AED Billion	31-Mar-19	31-Mar-18	Y-o-Y Change %	31-Dec-18	Q-o-Q Change %
Total assets	105.0	106.3	(1)	107.0	(2)
Loans and advances	72.2	69.1	4	72.3	-
Investments	17.9	20.2	(11)	19.3	(7)
Customers' deposits	76.6	74.8	2	77.4	(1)
Equity attributable to equity holders of the Bank	18.6	18.2	2	18.8	(1)



Key Financial Indicators	Q1-19 %	Q1-18 %	Change
Return on Average Equity (ROAE)*	6.0	10.1	(4.1)
Return on Average Assets (ROAA)*	0.9	1.6	(0.7)
Cost / Income ratio	40.8	32.4	(8.4)
Capital Adequacy Ratio – Basel III	19.2	19.3	(0.1)
Earnings per Share (AED)	0.07	0.14	(0.07)

*Annualized

Financial Review

Union National Bank (UNB), recorded a net profit of AED 251 million for Q1 2019, lower by 41% compared to the same period last year.

The operating income for the three month period ended 31 March 2019 was nominally lower by 4% at AED 848 million over the corresponding period of prior year mainly due to a decline in the non-interest income. The reduction in fees and commission income due to lower business volumes led to a decline in the non-interest income. The net interest and Islamic financing income for the quarter was AED 670 million, slightly impacted by the reduction in net interest margin by 4 basis points to 2.58% for Q1 2019.

Balance sheet

Net loans and advances were AED 72.2 billion as at 31 March 2019, higher by 4% year-on-year and broadly unchanged compared to the prior year-end. The total assets of the Group were slightly lower by 1% on year on year basis at AED 105.0 billion as at 31 March 2019.

Customers' deposits were at AED 76.6 billion as at 31 March 2019, up by 2% compared to the corresponding period in the previous year. The liquidity position of the Group remained satisfactory with the liquid assets, including investments constituting around 27% of the total assets as at 31 March 2019. Other key Liquidity measures remained sound with the loan to deposit ratio being 94.3% and the advances to stable resources ratio being circa 84% as at 31 March 2019.

Operating expenses

Operating expenses for the first quarter of 2019 at AED 346 million were up by 21% as compared to the prior year to support ongoing business activities and for other costs. The cost to income ratio of the UNB Group for Q1 2019 was 40.8%.

Credit quality

The ratio of non-performing loans and advances to gross loans and advances was 4.9% as at 31 March 2019 (31 December 2018: 4.3%). The overall loan loss coverage was at 108.3% as at 31 March 2019 (31 December 2018: 116.5%).

Profitability measures and Capital strength

The annualized return on average equity, excluding Tier 1 capital notes, for the three month period ended 31 March 2019 was 6.0% (Q1 2018: 10.1%) and the annualized return on average assets was 0.9% (Q1 2018: 1.6%), both impacted due to lower net profit.

The capital adequacy ratios for the UNB Group have remained strong and as at 31 March 2019 were:

Overall capital adequacy ratio (CAR):	19.2%	(31 December 2018: 18.9%)
Tier I CAR:	18.0%	(31 December 2018: 17.7%)
Common Equity Tier 1 CAR:	16.1%	(31 December 2018: 15.8%)

All the above capital ratios as per Basel III and computed in accordance with the Central Bank of the UAE guidelines remain well above the regulatory thresholds.



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