

Management Discussion and Analysis

Union National Bank announces net profit of AED 1,186 million for 2018

Key Highlights

- Board of Directors recommends 20% (AED 0.20 per share) cash dividend subject to approval of the shareholders of the Bank
- Operating income lower by 9% in 2018 to AED 3,312 million
- Loans and advances as at 31 December 2018 of AED 72.3 billion higher by 2% compared to prior year-end
- Customers' deposits marginally lower by 2% to AED 77.4 billion as at 31 December 2018
- Sound liquidity position maintained with loan to deposit ratio at 93.4% and advances to stable resources of around 83.0% as at 31 December 2018
- NPLs to gross loans ratio at 4.3% and loan loss coverage of 116.5% as at 31 December 2018
- Strong capital position with overall and Tier 1 capital adequacy ratios as per Basel III of 18.9% and 17.7% respectively as at 31 December 2018

Income statement highlights

AED Million	2018	2017	YoY Change %
Total Net interest and Islamic financing income	2,798	2,647	6
Non-interest income	514	984	(48)
Operating income	3,312	3,631	(9)
Operating expenses	(1,242)	(1,135)	(9)
Operating profit	2,070	2,496	(17)
Impairment charge on financial assets, net	(826)	(794)	(4)
Income tax expense	(58)	(45)	(29)
Net Profit for the period	1,186	1,657	(28)

Figures may not add up due to rounding differences

Financial Position highlights

AED Billion	31-Dec-18	31-Dec-17	Change %
Total assets	107.0	107.5	-
Loans and advances	72.3	71.1	2
Investments	19.3	21.1	(9)
Customers' deposits	77.4	78.7	(2)
Equity attributable to equity holders of the Bank	18.8	19.3	(3)

Key Financial Indicators	2018 %	2017 %	Change
Return on Average Equity (ROAE)	7.0	9.8	(2.8)
Return on Average Assets (ROAA)	1.1	1.6	(0.5)
Cost / Income ratio	37.5	31.3	(6.2)
Capital Adequacy Ratio – Basel III	18.9	19.4	(0.5)
Earnings per Share (AED)	0.40	0.57	(0.17)

Financial Review

Union National Bank (UNB), one of the leading banks based in the United Arab Emirates, recorded a net profit of AED 1,186 million for the year 2018.

Commenting on the results, **Mr. Mohammad Nasr Abdeen, Chief Executive Officer**, Union National Bank said “The UNB Group pursued measured balance sheet growth during the year whilst improving the net interest margin and maintaining the asset quality. However, the operating profit for 2018 was impacted due to the lower volumes in our Retail Banking business as also the fair value loss recognized on investment properties as the real estate sector remained soft”.

He further added that “Following the recent announcement of Union National Bank and Abu Dhabi Commercial Bank to merge and together to acquire Al Hilal Bank, I would like to thank all our customers, shareholders and staff for their support over the years which has seen the Bank grow into a key player in the UAE market over the last two decades. This merger will create a preeminent financial services group, well positioned to support the economy. The merger is subject to the approvals of the shareholders and regulators”.

The operating income for the year 2018 was lower by 9% at AED 3,312 million as compared to the prior year due to decline in non-interest income by 48% that was partly offset by an increase in net interest income which grew by 6%. The lower non-interest income was mainly due to recognition of a fair value loss on investment properties of AED 232 million (AED 27 million in 2017), reduction in fees and commission income driven by lower business volumes in Retail Banking business and lower gain on dealing in foreign currencies and derivatives. This decline was partially offset by an increase in net interest income which grew by 6%, at the back of an improvement in net interest margin by 18 basis points to 2.75% for 2018.

Balance sheet

Net loans and advances were AED 72.3 billion as at 31 December 2018, higher by 2% year-on-year. The loan growth was driven by an increase in the corporate banking business offset by decline in the consumer portfolio. The total assets of the Group remained flat on year on year basis at AED 107.0 billion as at 31 December 2018.

Customers' deposits decreased slightly to AED 77.4 billion as at 31 December 2018. The liquidity position of the Group remained strong with the liquid assets, including investments constituting 28.4% of the total assets as at 31 December 2018. Other key Liquidity measures remained sound with the loan to deposit ratio being 93.4% and the advances to stable resources ratio being circa 83% as at 31 December 2018. Also, the Liquidity Coverage ratio

and the Eligible Liquid Assets ratio were significantly above the minimum requirements set by the Central Bank of the UAE.

Operating expenses

Operating expenses for 2018 at AED 1,242 million increased by 9% as compared to the prior year mainly to support ongoing business activities. As discussed earlier, the operating income was lower in 2018, impacting the cost to income ratio which for the UNB Group was at 37.5% for 2018.

Credit quality

The ratio of non-performing loans and advances to gross loans and advances as at 31 December 2018 remained stable at 4.3% as at 31 December 2018 (31 December 2017: 4.3%). Effective 1 January 2018, the Group has implemented IFRS 9: Financial Instruments, with the overall loan loss coverage improving to 116.5% as at 31 December 2018 (31 December 2017: 97.1%).

Profitability measures and Capital strength

The return on average equity, excluding Tier 1 capital notes, for the year ended 31 December 2018 was 7.0% (2017: 9.8%) and the return on average assets was 1.1% (2017: 1.6%). The earnings per share for the year ended 31 December 2018 was AED 0.40 (2017: AED 0.57).

The capital adequacy ratios for the UNB Group have remained strong and as at 31 December 2018 were:

Overall capital adequacy ratio (CAR)	- 18.9%	(31 December 2017: 19.4%)
Tier I CAR	- 17.7%	(31 December 2017: 18.3%)
Common Equity Tier 1 CAR	- 15.8%	(31 December 2017: 16.5%)

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.

Dividend Proposal

The Board of Directors has recommended a cash dividend of 20% (AED 0.20 per share) subject to necessary approvals.

Ratings

During 2018, Fitch Ratings, Moody's Investor Service and Capital Intelligence affirmed the ratings of the Bank. The existing ratings of the Bank are:

Moody's: Bank deposits: A1 / P-1;

Fitch Ratings: A+ Long-term IDR and F1 Short-term IDR;

Capital Intelligence: A+ Foreign Currency Long-term and A1 Foreign Currency Short-term

Awards and Accolades

Some key accolades won during 2018 are:

- ✚ UNB CEO was honored with the best business leader award while UNB received the customer delight award at the MENAA Awards 2018.
- ✚ UNB was conferred with the Happiness Champion of the Year Award during Service Excellence and Customer Happiness Week organized by the International quality and Productivity Centre.
- ✚ UNB's Tahfeez was adjudged the Best HR Transformation and Change Management Strategy in the 'Excellence in HR' Segment during Middle East HR Summit and Expo 2018.
- ✚ UNB was awarded with the distinguished gold medal for its positive contribution towards the community by the Arab Organization for Social Responsibility and the UAE Excellence Awards Academy.
- ✚ UNB was recognized with the Global Performance Excellence Award in the World Class Category by the Asia Pacific Quality Organization (APQO). UNB was also awarded the APQO international ACE Team Award for commitment to excellence and its HR transformation strategy Tahfeez.
- ✚ UNB CEO was conferred with Al Nisr Al Arabi Award by Tatweej Academy and the Arab Organization for Social Responsibility.
- ✚ The World Confederation of Businesses (WORLDCOB) recognized UNB CEO with the honours of 'Excellence in Business Management' for being a successful leader who works in an innovative, knowledgeable and systematic manner". UNB was bestowed with the 'Glory' award for being an inspirational company by WORLDCOB at The BIZZ Europe 2018 Award ceremony.
- ✚ UNB won the prestigious Dubai Human Development award from the Business Excellence Centre, Department of Economic Development, the organizers of Dubai Quality Award.
- ✚ UNB was honoured with the Best Employee Engagement Program and the Best Workplace Sustainability program at the inaugural Happiness @ Work Award Ceremony.
- ✚ UNB CEO was honoured by the internationally renowned World Finance (WF) magazine to be amongst its prestigious WF 100 list for 2017.
- ✚ UNB received the Dubai Chamber CSR Label for the third consecutive year.



Mohammad Nasr Abdeen
 Chief Executive Officer