

**MANAGEMENT
DISCUSSION
& ANALYSIS**

Q1 2016



**البنك العربي المتحد
UNITED ARAB BANK**

UAB Reports Q1 2016 Results

^{AED} **45m Net Profit**
in Q1 2016

41% Decrease
in 'non-core' portfolios,
asset deleveraging strategy continues

Capital Adequacy
improving to **15%**

Solid
liquidity profile

16% Uplift
in QoQ **Total Income**
to AED249m

Cost reduction
program delivering **material savings**

Transformation
strategy progressing as per plan to build
a more **efficient, lower risk and**
sustainable Bank

60% Decrease
in QoQ
Provisions for Credit Losses



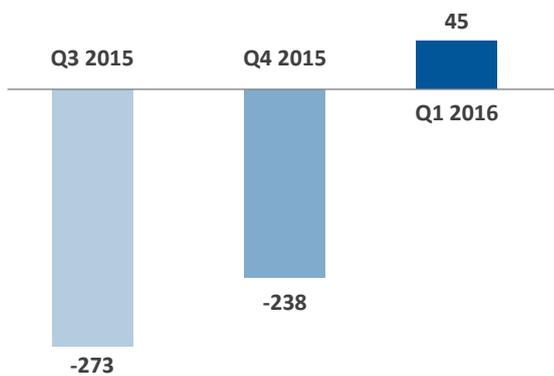
United Arab Bank P.J.S.C ("UAB" or "the Bank") reported a Net Profit of AED45m for the three months ended 31st March 2016.

Faced with the negative effects of the slowing economy, UAB revisited its strategy in H2 2015 with the overarching objective to create a more efficient, lower risk and sustainable Bank. This transformation will see UAB returning to its traditional roots as a corporate focused bank, complimented by retail and treasury offerings.

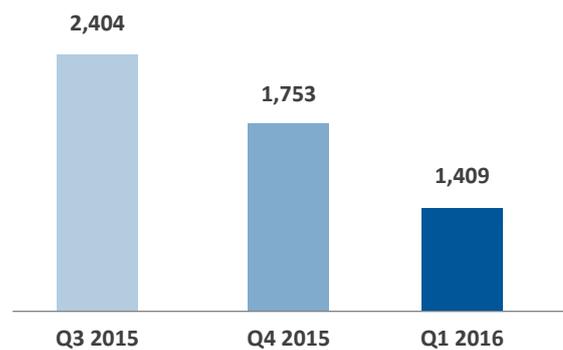
As part of this strategic review, the Bank commenced the process of proactively deleveraging from its higher risk loan portfolios in the latter part of 2015 and segmented its business into 'core' and 'non-core' activities. Simultaneously the Bank's operating model has been comprehensively streamlined, with material cost savings identified to further support the delivery of sustainable 'through the cycle' returns for its shareholders.

The Board and Management Team are fully committed to executing this strategy, increasing returns and investing in its 'core' business, whilst continuing to deleverage its 'non-core' assets in an economically rationale manner.

Net Profit (AEDm)
Return to Profitability

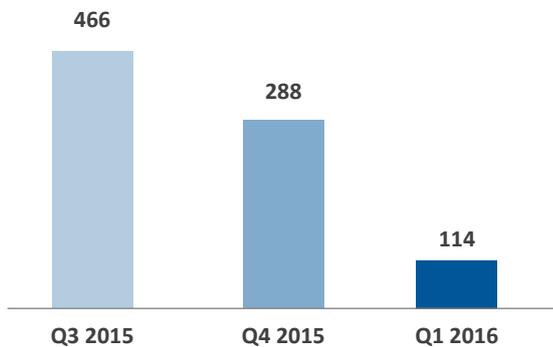


Non-Core Portfolio (AEDm)
AED1bn reduction vs. Q3 2015



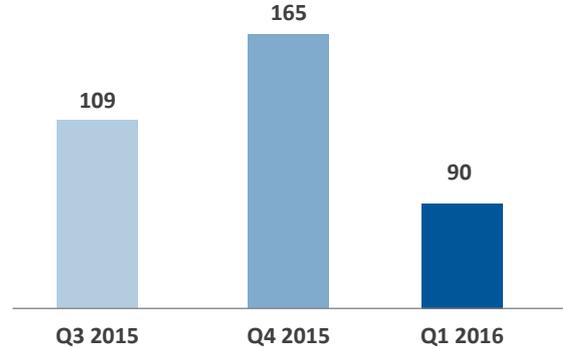
Provisions (AEDm)

60% lower than Q4 2015



Operating Expenses (AEDm)

18% savings captured vs. Q3 2015



UAB returned to profitability in Q1 2016, aided by a significant reduction in Provisions for Credit Losses, an uplift in Non-Interest Income and material cost savings. A Net Profit of AED45m for the first quarter provides indicative support that the transformation strategy is progressing as per plan, with the Bank previously reporting a Net Loss of AED273m (Q3 2015) and AED238m (Q4 2015) respectively.

Although significant progress was achieved in Q4 2015 to proactively deleverage the Bank's 'non-core' higher risk portfolios, this remains a key enabler of our transformation strategy. In the first 3 months of 2016 these 'non-core' portfolios reduced by a further 20% vs. 31st December 2015, whilst in total they have been managed down 41% since 30th September 2015.

Provisions for Credit Losses in Q1 2016 were AED114m, representing a significant reduction compared to Q3 2015 (AED466m) and Q4 2015 (AED288m) respectively, after the Bank had adopted a proactive approach to address the deterioration in asset quality and manage the 'skip' phenomenon which occurred in H2 2015.

Operating Expenses of AED90m for the quarter were 46% lower than Q4 2015 given 'one-off' and restructuring costs incurred in the latter part of 2015. The benefits associated with the comprehensive review and subsequent overhaul of the Bank's cost base is demonstrated by an improving Cost : Income Ratio of 36% achieved in Q1 2016, which compares favorably against FY 2015 (41%), and an 18% reduction on its Q3 2015 cost base. Going forward UAB is firmly on track to deliver 20% year on year cost savings as the Bank continues to capture the benefits associated with embedding a more efficient and streamlined operating model.



 **Sheikh Faisal Bin Sultan Bin Salem Al Qassimi, Chairman of the Board of Directors** said, “Although 2015 was a challenging year for UAB, when we look back I am increasingly confident it will be viewed as a defining period for the Bank. These results represent a promising start on our path to rebuilding trust with our key stakeholders.

The future strategy of the Bank is clear. We are making real progress in managing down ‘non-core’ elements of our business and simultaneously seeing positive signs in the ‘core’ business. The Board is fully behind the strategy and believes we have the right Management in place to deliver it. As ever, there are risks and uncertainties; the Board’s role is to be supportive, whilst exercising robust oversight of the Bank’s risk and control frameworks, to protect the long-term interest of shareholders.”

 **Samer Tamimi, Acting Chief Executive Officer** said “These positive results provide tangible support that our new strategy is taking shape. Whereas our return to profitability has been aided by a reduction in provisions and cost savings associated with a comprehensive cost structure review, I am satisfied that we have recorded significant progress in the ‘core’ business engine itself. This is evidenced by a 16% quarterly uplift in Total Income vs. Q4 2015, with Non-Interest Income up c.400% given our increased focus on deepening relationships and capturing cross-sales opportunities. Although our provisions have declined significantly quarter-on-quarter, UAB’s transition to a lower risk model will see these moderate further in the medium term.

Our strategy is still in its early stages, with both the Board and Management Team fully conscious of the challenges that the current economic climate presents. Nevertheless, given the early recognition of the issues facing the bank and decisive actions taken, we are well placed to continue our journey of building a leaner and more efficient bank capable of generating sustainable returns.”





UAB Financial Highlights

Q1 2016

Income Statement - Summary

(AED millions)

	2016	2015				Variance	
	Q1	Q4	Q3	Q2	Q1	QoQ%	YoY%
Net Interest Income	189	199	258	265	264	-5%	-29%
Non-Interest Income	61	16	44	79	88	290%	-31%
Total Operating Income	249	215	303	344	352	16%	-29%
Provision for credit losses	-114	-288	-466	-50	-84	-60%	36%
Net Operating Income	135	-73	-163	294	268	285%	-50%
Operating Expenses	-90	-165	-109	-111	-106	-46%	-15%
Net Profit	45	-238	-273	183	161	119%	-72%

Balance Sheet

(AED millions)

	2016	2015				Variance	
	Q1	Q4	Q3	Q2	Q1	QoQ%	YoY%
Loans and Advances	15,254	15,672	17,600	18,329	18,258	-3%	-16%
Investment Securities	3,043	2,559	2,852	2,838	2,673	19%	14%
Investment Properties	96	96	96	96	111	0%	-13%
Other Assets	4,295	5,355	5,281	5,319	5,465	-20%	-21%
Total Assets	22,688	23,682	25,830	26,582	26,507	-4%	-14%
Customer Deposits	15,040	16,775	18,277	18,241	18,346	-10%	-18%
Medium Term Borrowings	1,939	2,314	2,295	2,020	2,020	-16%	-4%
Due to Banks	2,192	1,038	1,469	2,047	1,604	111%	37%
Other Liabilities	894	967	988	1,145	1,594	-8%	-44%
Total Liabilities	20,065	21,094	23,029	23,453	23,563	-5%	-15%
Total Shareholders' Funds	2,623	2,588	2,801	3,129	2,944	1%	-11%
Total Liabilities & Shareholders' Funds	22,688	23,682	25,830	26,582	26,507	-4%	-14%



Key Ratios

	2016	2015				Variance	
	Q1	Q4	Q3	Q2	Q1	QoQ%	YoY%
Regulatory							
Capital Adequacy	15.0%	14.7%	14.4%	15.4%	14.5%	0.3%	0.5%
Advances to Stable Resources	83.9%	80.9%	89.3%	87.7%	86.4%	2.9%	-2.5%
Eligible Liquid Assets	13.2%	18.7%	12.9%	N/A	N/A	-5.5%	N/A
Performance							
Cost : Income Ratio	36.0%	76.9%	36.1%	32.2%	30.2%	-40.9%	5.8%
NPL's : Gross Loans	4.33%	4.01%	3.93%	2.86%	2.72%	0.32%	1.61%
Provision Coverage	112%	124%	130%	112%	114%	-12%	-2%
Net Loans : Deposits Ratio	101%	93%	96%	100%	100%	8%	2%

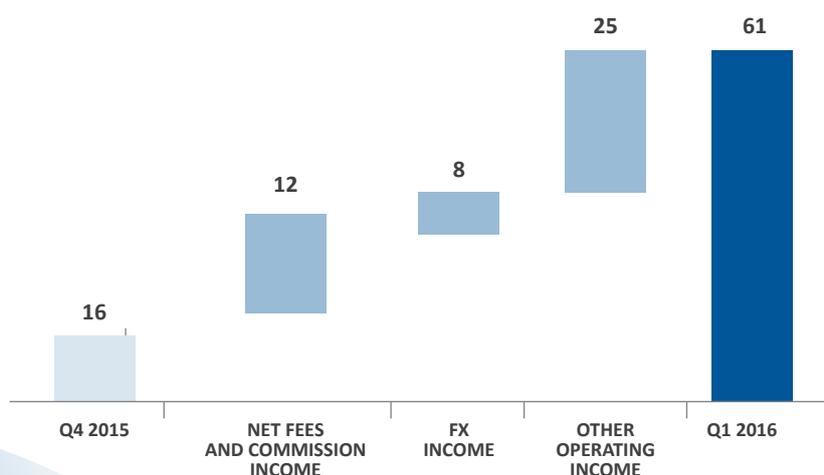
Financial Review

Total Income

(AED millions)

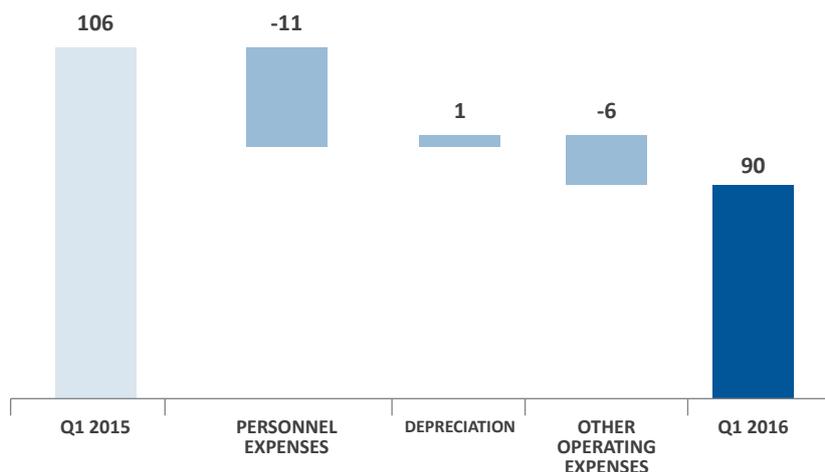
	2016	2015				Variance	
	Q1	Q4	Q3	Q2	Q1	QoQ%	YoY%
Interest Income	259	265	319	315	318	-2%	-19%
Interest Expense	-70	-66	-61	-50	-54	8%	31%
Net Interest Income	189	199	258	265	264	-5%	-29%
Net Fees and Commission Income	18	6	20	41	35	190%	-48%
FX Income	24	16	19	20	21	46%	15%
Other Operating Income	18	-7	5	17	31	-347%	-42%
Total Non Interest Income	61	16	44	79	88	290%	-31%
Total Income	249	215	303	344	352	16%	-29%

Non-Interest Income



Total Income was AED249m in Q1 2016, up 16% compared to prior quarter, with Non-Interest Income growing c.400% in the same period. Given the strategic emphasis placed on deepening relationships within our 'core' Corporate Banking segment and capture cross-sales opportunities via complimentary Treasury services, the Bank recorded solid performance across Net Fees & Commissions, FX and Other Operating Income.

Operating Expenses



Operating Expenses for the quarter were AED90m, down 15% year-on-year as the Bank captured the benefits associated with the comprehensive review and subsequent overhaul of its cost base. In Q4 2015 the Bank commenced a review of its branch network to ensure its physical reach is aligned to the needs of our customers. In March 2016 UAB subsequently closed 5 branches, which will deliver ongoing savings, with the business continuing to evaluate the effectiveness of all distribution channels.

Going forward the Bank is committed to ensuring the business is supported by an efficient operating model and will continue to invest in its people, processes and systems. Our goals will be to leverage existing capabilities, capture all available efficiencies and eliminate non-essential expenditure.



Impairment Charges

(AED millions)

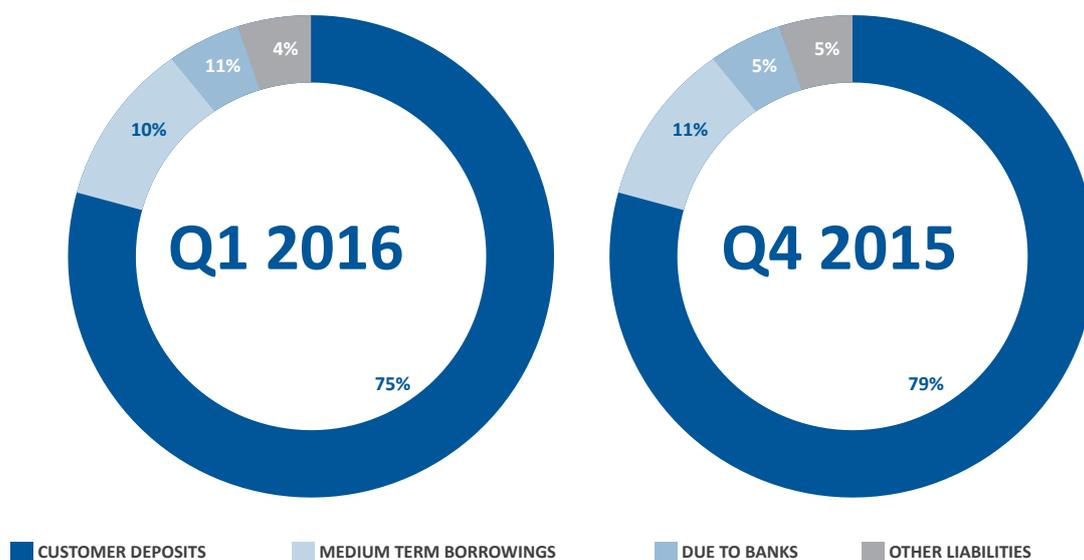
Impairment Charges, net

2016	2015				Variance	
Q1	Q4	Q3	Q2	Q1	QoQ%	YoY%
114	288	466	50	84	-60%	36%

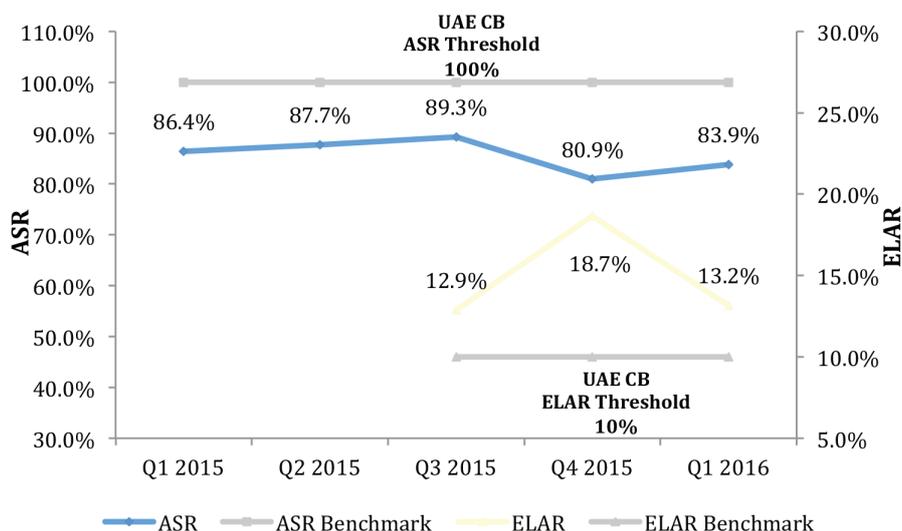


*Cost of Risk calculated as Provisions charged to Income Statement divided by average Net Loans for the period

Net Impairment Charges in the first quarter were AED114m, being a significant reduction compared to Q3 2015 (AED466m) and Q4 2015 (AED288m) respectively. Going forward, although provisions have decreased significantly quarter-on-quarter, UAB's transition to a lower risk model should see these moderate further in the medium term.



Customer Deposits have and will continue to represent the Bank's key source of funds. In addition, Medium Term Borrowings have been effectively utilized to aid tenor management and represent a core part of UAB's liquidity and funding plans.



The importance UAB places on possessing a robust liquidity profile is demonstrated by its consistent approach to maintaining its Advances to Stable Resources Ratio (83.9%) and Eligible Liquid Asset Ratio (13.2%) comfortably above Central Bank thresholds. Alongside Capital Adequacy, Funding and Liquidity represent the fundamentals of a solid Bank and are therefore placed at the center of our transformation strategy.

Capital Adequacy

	2016	2015				Variance	
	Q1	Q4	Q3	Q2	Q1	QoQ%	YoY%
Total Regulatory Capital	15.0%	14.7%	14.4%	15.4%	14.5%	0.3%	0.5%
Tier 1 Capital	14.7%	14.2%	13.9%	14.6%	13.8%	0.5%	0.9%

In Q1 2016 the Bank generated a modest uplift in its Capital Adequacy Ratio (15%), thus remaining well capitalized and comfortably above the regulatory requirement of 12%.

Credit Rating

Moody's Rating

Bank Deposits	Baa2/P-2
Baseline Credit Assessment	ba1
Adjusted Baseline Credit Assessment	baa3
Counterparty Risk Assessment	Baa1(cr)/P2(cr)
Outlook	Negative

Samer Tamimi
Acting Chief Executive Officer

Thank you



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