MANAGEMENT DISCUSSION & ANALYSIS

FY 2016

البنك العربي المتحد

UNITED ARAB BANK

UAB Reports FY 2016 Results

Transformation strategy progressing as per plan
to **become a safer, stronger and sustainable Bank**

AED861m
Total Operating Income

AED489m
Net Profit before Provisions

Robust liquidity profile
maintained

86% Loan : Deposit Ratio
improved vs 93% in previous year

73% Reduction
in **'non-core'** portfolios

24% Reduction
in YoY **Operating Expenses**

Planned Capital Injection
will restore CAR above 14%

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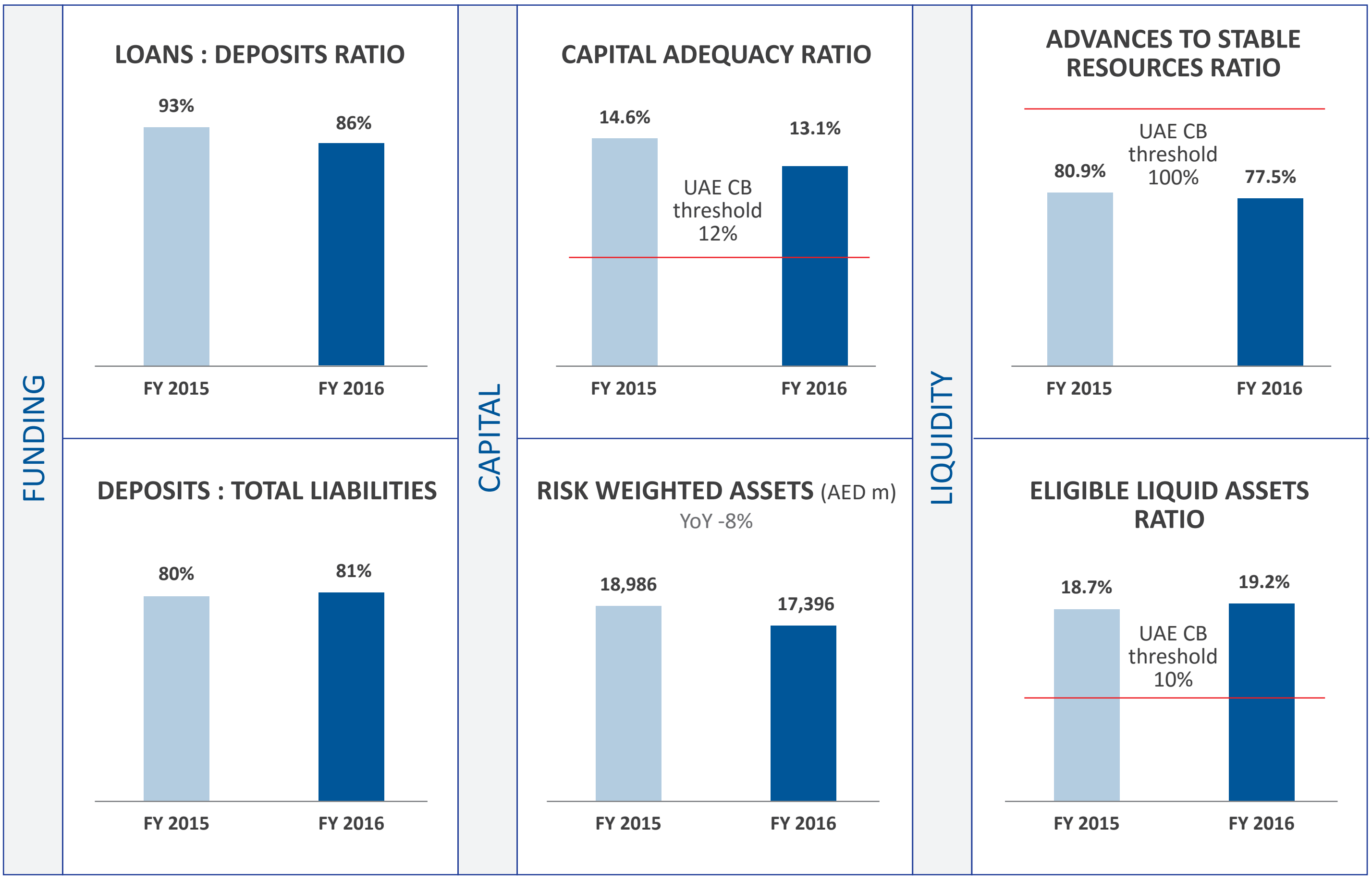
United Arab Bank P.J.S.C ("UAB" or “the Bank”) reports a Net Loss of AED523m for the Twelve Months to 31st December 2016.

2016 was a year of transition for UAB as the Bank embarked on its journey to become a safer, stronger and sustainable Bank. Central to this Transformation Strategy were 4 key pillars: pro-actively run-down higher risk non-core portfolios; reduce costs; enhance the Bank’s risk and control frameworks; and strengthen key banking fundamentals. Against each of these milestones UAB has made significant progress, thus enabling the Bank to absorb further provisions to address legacy issues throughout the year.

The Board and Management Team remain fully committed in completing the Transformation Strategy and ultimately generate sustainable returns for shareholders over the medium term.

STRONG BANKING FUNDAMENTALS



Robust Loan : Deposit Ratio of 86% underpins a solid funding profile, whilst Customer Deposits have and will continue to represent the Bank’s key source of funds

Proactive deleveraging across the Bank’s non-core portfolios enabled UAB to manage its CAR above UAE CB requirements with capital injection planned in early 2017

Solid liquidity profile substantiated by both ASR / ELAR Ratios being at historical highs and well above UAE Central Bank thresholds

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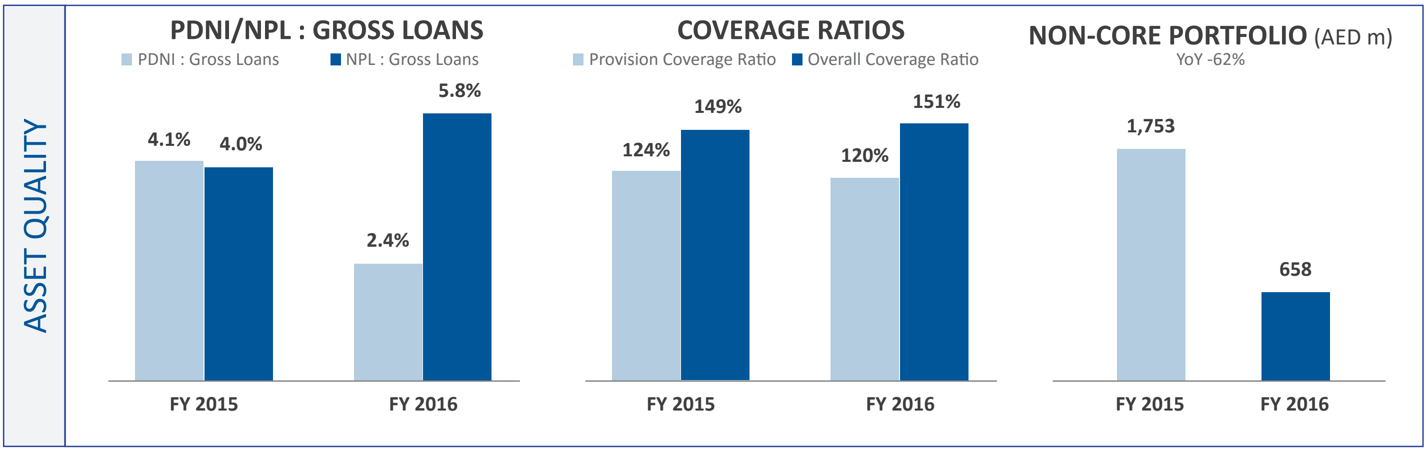

The Bank has continued to record significant progress in proactively deleveraging its 'non-core' higher risk portfolios. During 2016, these have been managed down 62% vs. 31st December 2015, whilst overall they have reduced by 73% since 30th September 2015. In 2017 and beyond, this will remain a significant element of the Bank's transformation with the recycled Risk Weighted Assets utilized in order to unlock the full earning power of our core business units.

Further, the proactive focus on de-risking the Balance Sheet has also supported a reduction in the Past Due but Not Impaired (PDNI) composition of our asset portfolios, decreasing to 2.4% of Total Loans vs. 4.1% in prior year, whilst the Bank's NPL Ratio is broadly in line with the peer group average at 5.8%.

UAB's decisive and prudent approach to provisioning and its commitment to maintaining its Provision Coverage at or above 100% is again demonstrated with the ratio standing at 120% as at 31st December 2016. Note, if collateral pledged against the underlying facilities are incorporated the Coverage Ratio increases to 151%.

Sheikh Faisal Bin Sultan Bin Salem Al Qassimi, Chairman of the Board of Directors, said "Whilst the last 18 months have clearly been a challenging period for the Bank much has been achieved. We have substantially strengthened our Balance Sheet, focused on our core activities, de-risked the business and captured material cost savings through the successful execution of our strategy.

The Board and I are confident that our business plan is appropriate given the economic environment and we are cautiously optimistic as we move into 2017 to conclude our transformation plan."

Samer Tamimi, Acting Chief Executive Officer, said "I would like to thank the Board for their support as the Bank continues along its transformation path. Since taking up the post in Q4 2015 we have had to complete a number of actions to address legacy issues necessary to restore UAB to sustainable profitability. In addition, the Bank is in the final stages of its application to increase its capital in order to support future business plans and provide an adequate risk buffer given forthcoming regulatory changes.

As we move forward, we will continue our focus on improving the core business whilst taking into consideration the increasingly competitive environment and other headwinds faced by all Banks. This only reinforces the need to continue our unrelenting focus on completing our transformation strategy."

In 2017 UAB is committed to following through its Transformation Strategy with the ongoing support and assistance of our alliance partner, The Commercial Bank. UAB has been able to navigate through this challenging period and moving forward we will continue to focus on core business activities to deliver value for our shareholders."

UAB Financial Highlights
FY 2016 Results

Financial Statements

Income Statement - Summary *(AED millions)*	**FY 2016**	**FY 2015**	**Variance**
Net Interest Income	634	987	-36%
Non-Interest Income	228	209	9%
Total Operating Income	**861**	**1,196**	**-28%**
Provision for credit losses	-1,011	-888	14%
Net Operating Income	**-150**	**308**	**-149%**
Operating Expenses	-373	-491	-24%
Net Profit	**-523**	**-183**	**-185%**

Balance Sheet *(AED millions)*	**FY 2016**	**FY 2015**	**Variance**
Loans and Advances	13,346	15,672	-15%
Investment Securities	3,314	2,559	29%
Other Assets	4,592	5,433	-15%
Total Assets	**21,252**	**23,664**	**-10%**
Customer Deposits	15,538	16,775	-7%
Medium Term Borrowings	1,524	2,314	-34%
Other Liabilities	2,103	2,005	5%
Total Shareholders' Funds	2,087	2,570	-19%
Total Liabilities	**21,252**	**23,664**	**-10%**

Key Ratios

Regulatory	**FY 2016**	**FY 2015**	**Variance**
Capital Adequacy Ratio	13.1%	14.6%	-1.5%
Tier 1 Ratio	12.2%	13.9%	-1.7%
Advances to Stable Resources	77.5%	80.9%	-3.4%
Eligible Liquid Assets	19.2%	18.7%	0.5%

Performance	**FY 2016**	**FY 2015**	**Variance**
Cost : Income Ratio	43.3%	41.1%	2.2%
NPL's : Gross Loans	5.8%	4.0%	1.7%
Provision Coverage	120%	124%	-4%
Net Loans : Deposits Ratio	86%	93%	-8%

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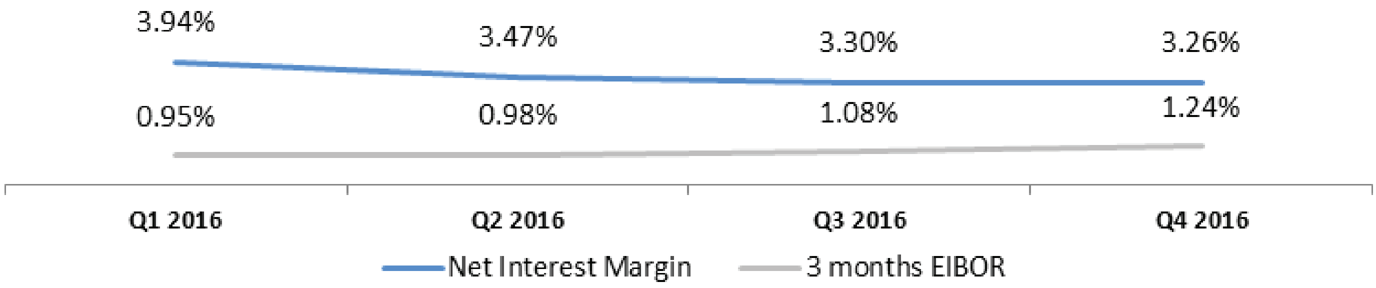
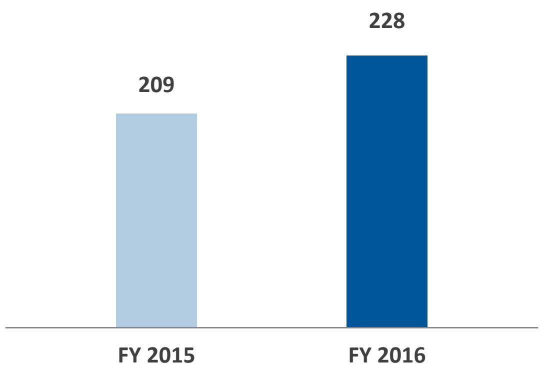
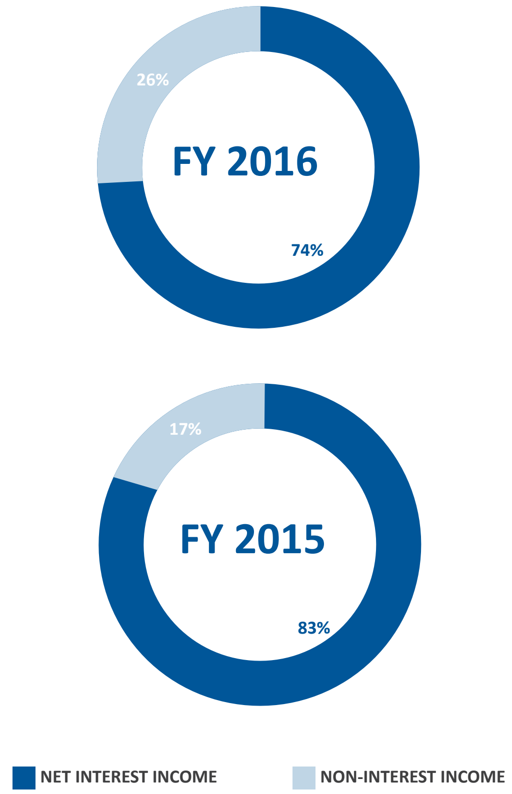
Net Interest Margin

17% reduction in NIM vs. 31% uplift in EIBOR



Non-Interest Income (AEDm)

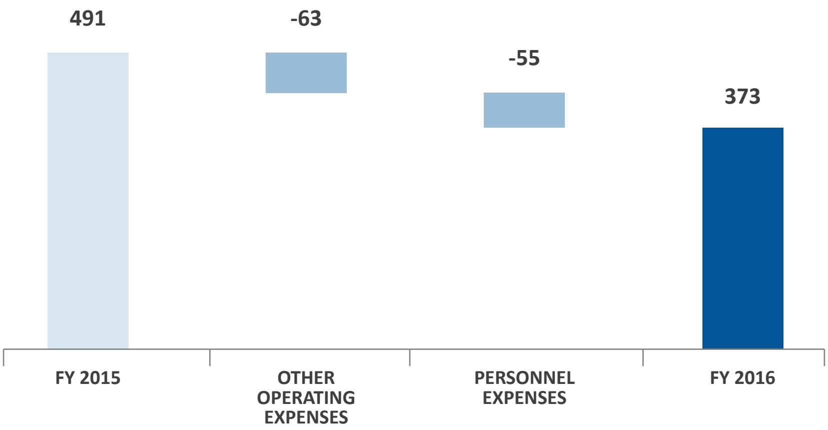




Total Income was AED861m in FY 2016 with pro-active portfolio re-pricing partially offsetting the impact of declining yields as the Bank deleveraged from its higher risk (albeit higher yielding) non-core portfolios.

Given the strategic emphasis placed on deepening relationships within our core Corporate Banking unit and capturing associated cross-sales opportunities via complimentary Treasury services, the Bank continues to generate stable Non-Interest income streams. For the 12 months to 31st December 2016 the Bank generated AED228m, being a 9% uplift vs. prior year with its composition of Total Income increasing to 26% (vs. 17% in 2015).

Operating Expenses

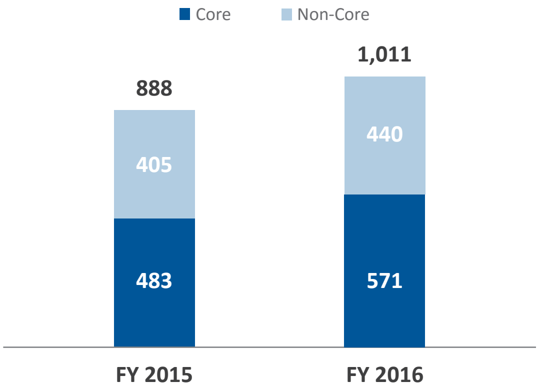


Operating Expenses for the year were AED373m, a 24% reduction against prior year as the Bank captured the benefits associated with the comprehensive review and subsequent overhaul of its cost base completed in Q4 2015.

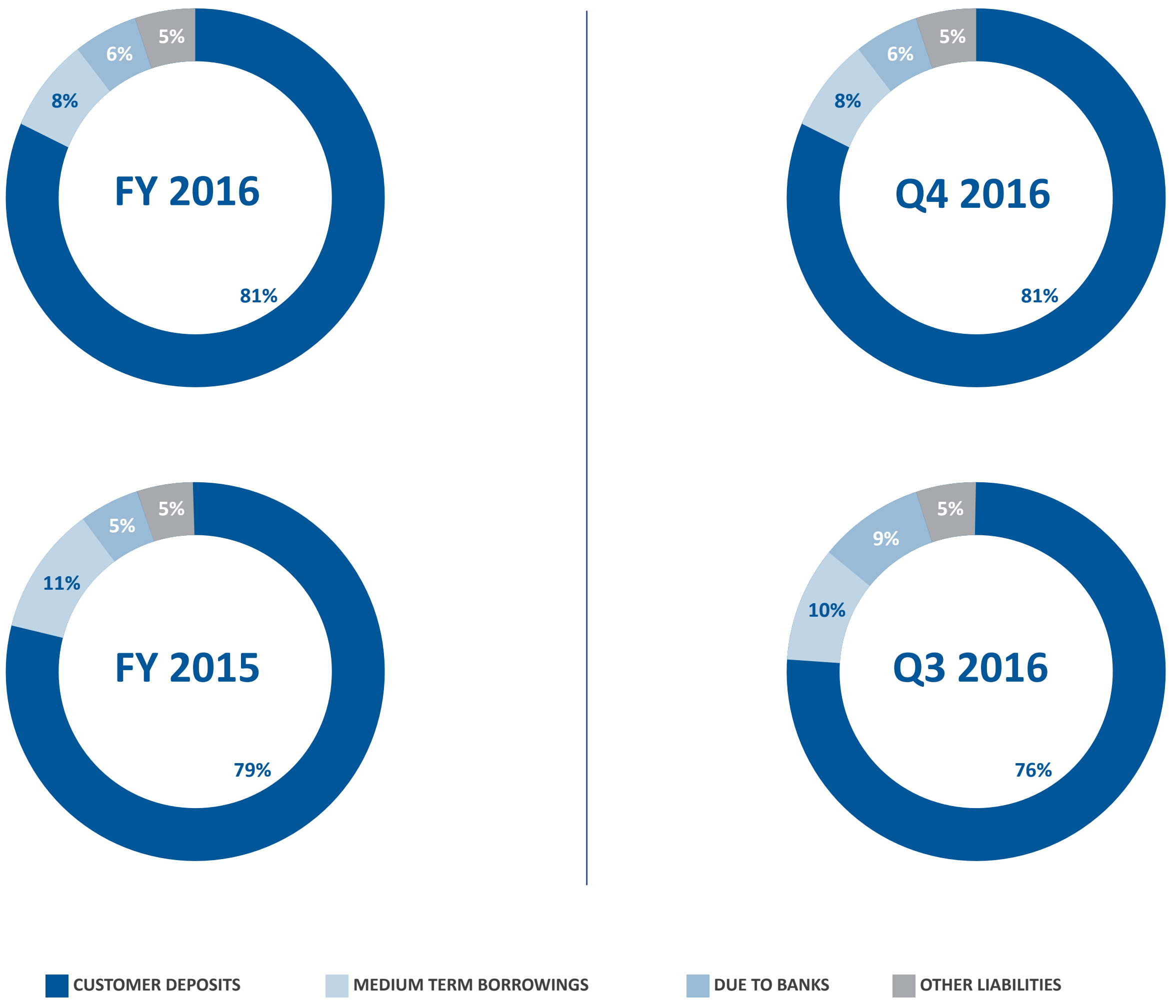
As part of this review, the Bank evaluated its branch network to ensure its physical reach is aligned to the needs of our customers. Subsequently, in 2016 UAB closed 8 branches which will deliver ongoing savings, with the business continuously evaluating the effectiveness of all distribution channels. Note, as part of the 2016 Financial Statements one-off charges of AED15m are included as a result of this branch rationalization programme.

Going forward the Bank remains committed to ensuring the business is supported by an efficient operating model and is committed to continuing to invest in its people, processes, systems and other critical infrastructure. Our primary objectives remain unchanged: to leverage capabilities; improve efficiencies; avoid non-essential expenditure.

PROVISION CHARGE (AEDm)



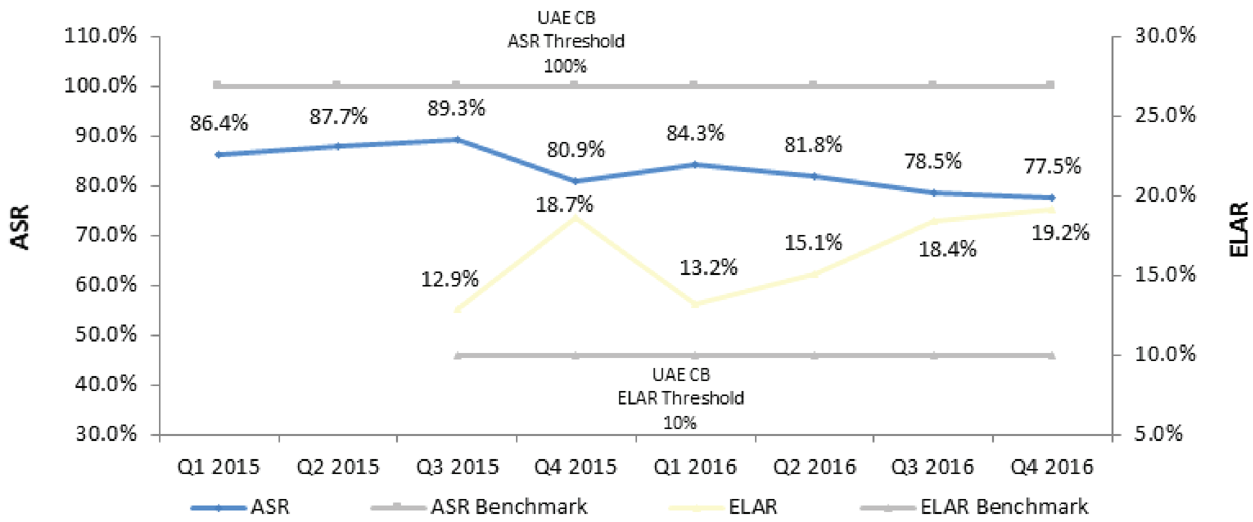
Provision Charges on a total portfolio basis have increased by 14% vs. prior year as the Bank progressed through its de-risking process. Across the first three quarters of 2016 provisions within the higher risk non-core core portfolio decreased given the ongoing deleveraging. Nevertheless, in the fourth quarter, in line with the Bank's prudent risk management approach, further provisions have been booked against both portfolios to ensure the Bank possesses a robust buffer on its 'at risk' assets. Going forward the Bank will continue to focus on its remediation and recovery efforts with the aim to seek an optimal resolution for UAB.



Customer Deposits have and will continue to represent the Bank's key source of funds as evidenced through a stable concentration in Total Liabilities, whilst the Bank's Loan : Deposit Ratio improved to 86% as at 31st December 2016. UAB's deposit concentration risk reduced in the period with the Top 20 Customers comprising 30% of the Deposit base as at 31st December 2016 (PY 2015: 40%).

To supplement effective liquidity management, the Bank has continued to place surplus funds in High Quality Liquid Assets, with the Investment Portfolio recording an uplift of 29% vs. prior year. Similarly, Medium Term Borrowings continue to be effectively utilized to aid tenor management and represent a key part of UAB's liquidity and funding strategy.

Banking Fundamentals



Capital Adequacy	2016				2015				Variance	
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	QoQ%	YoY%
Total Regulatory Capital	13.1%	16.1%	15.1%	15.0%	14.6%	14.4%	15.4%	14.5%	-3.0%	-1.5%
Tier 1 Capital	12.2%	15.6%	14.6%	14.7%	13.9%	13.9%	14.6%	13.8%	-3.4%	-1.7%

The importance UAB places on maintaining a robust liquidity profile is demonstrated by its consistent approach in managing both Advances to Stable Resources and Eligible Liquid Asset Ratios comfortably above UAE Central Bank thresholds. Combined with Capital Adequacy, Funding and Liquidity represent the fundamentals of a solid Bank and are therefore placed at the center of our transformation strategy.

Although Capital Adequacy Ratio as at 31st December 2016 (13.1%) is adequately above the regulatory requirement of 12%, the Bank is in advanced stages of issuing an AT1 capital instrument, thus ensuring UAB will benefit from an additional buffer against the UAE Central Bank threshold.

IFRS 9 Implementation

Post global financial crisis, the International Accounting Standards Board (IASB) developed a new standard on Financial Instruments (IFRS 9). The mandatory effective date is 1st January 2018 with early adoption permitted in line with accounting standards. The new standard replaces IAS 39 Financial Instruments - Recognition & Measurement of Fair Value Financial Instruments.

In preparation for IFRS 9 implementation, the Central Bank of the UAE ("UAE CB") issued a circular (89/2016) dated 10th May 2016 requesting all banks to complete a Quantitative Impact Assessment (QIA). The objective of the QIA was to aid UAE CB's assessment on the impact of IFRS 9 and readiness of banks to meet the effective date of 1st January 2018. As part of this exercise all banks were required to complete the following:

- Perform a quantitative impact analysis as at 31st March 2016; and
- Submit a detailed implementation plan including system readiness and budget for the project

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The initial guidance from UAE CB was to complete the assessment by 16th June 2016, with this being subsequently rescheduled to 15th November 2016.

Thus, UAB has been working extensively on assessing the implications of adopting IFRS 9 and submitted its QIA in Q4 2016 as per UAE CB requirements. External 3rd party consultants have been engaged to support the project with a focus on developing an expected credit loss model in accordance with the applicable accounting framework and ensuring sound methodologies are in place to support robust policies, procedures and controls.

Going forward the Bank will continue to engage with its external auditor (PwC) and UAE CB given the effective date of 1st January 2018.

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	**Stable**

Samer Tamimi
Acting Chief Executive Officer

Thank you