

**MANAGEMENT
DISCUSSION
& ANALYSIS**

Q2 2016



**البنك العربي المتحد
UNITED ARAB BANK**

UAB Reports Q2 2016 Results

Transformation strategy remains on track
to build a more **efficient, lower risk and sustainable Bank**

AED **71m Net Profit**
in H1 2016

52% Reduction
in 'non-core' portfolios,
vs. Q3 2015 with **deleveraging**
strategy progressing ahead of plan

Capital Adequacy
improving to **15.1%**

Robust liquidity profile
maintained

12% Uplift
in QoQ Non-Interest Income

Provisions
remain in line with Q1 2016

98% Loan : Deposit Ratio

20% Reduction
in YoY Operating Expenses



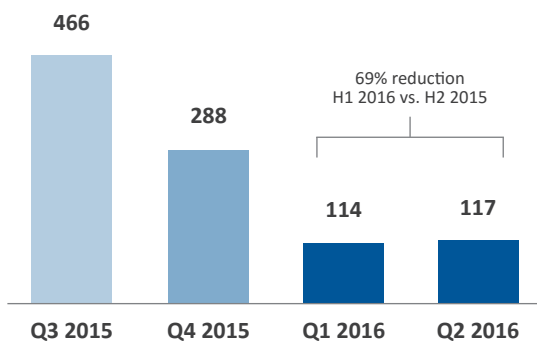
United Arab Bank P.J.S.C ("UAB" or "the Bank") reported a Net Profit of AED71m for the six months ended 30th June 2016.

Given the challenges of a slowing economy and increase in problem loan formations in H2 2015, UAB revisited its strategy with the overarching objective to build a more efficient, lower risk and sustainable Bank. In the second quarter of 2016 this transformation journey has continued as per plan and will ultimately see UAB returning to its traditional roots as a corporate focused bank, complimented by retail and treasury offerings.

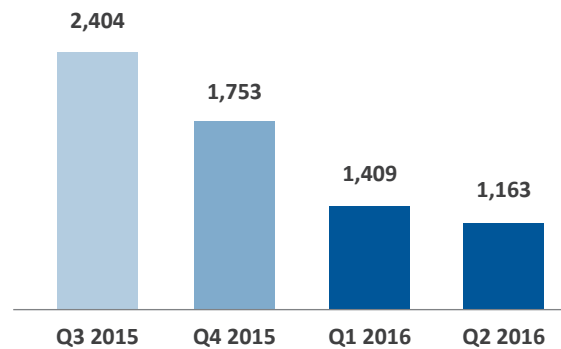
As part of this strategic review, the Bank commenced the process of proactively deleveraging from its higher risk loan portfolios and segmented its business into 'core' and 'non-core' activities. In parallel, the Bank's operating model has been comprehensively streamlined, with this process continuing in H1 2016 with the closure of 5 retail branches and successful 'insourcing' of back office operations, which will further support the delivery of sustainable 'through the cycle' returns for its shareholders.

The Board and Management Team remain fully committed to implement this strategy, to generate sustainable returns and invest in its 'core' business, whilst simultaneously evaluating operational and tactical options to deleverage the Bank's 'non-core' assets.

Provisions (AEDm)
75% lower than Q3 2015

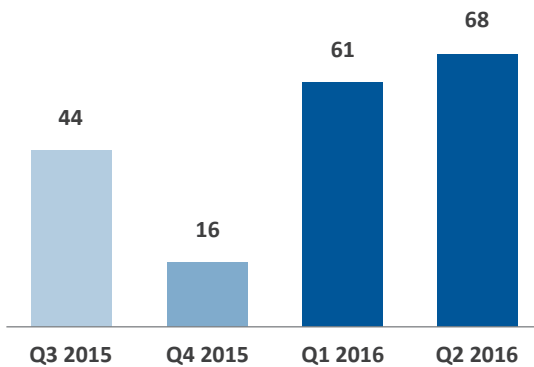


Non-Core Portfolio (AEDm)
52% reduction vs. Q3 2015



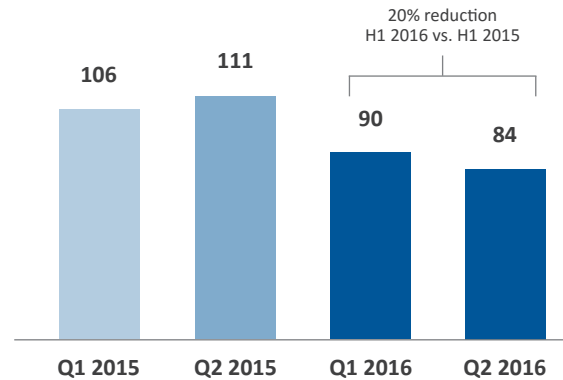
Non-Interest Income (AEDm)

338% growth vs. Q4 2015



Operating Expenses (AED m)

24% savings captured vs. Q2 2015




UAB's profitability is aided by a significant reduction in Provisions for Credit Losses compared to H2 2015, uplift in Non-Interest Income as the Bank deepens customer relationships and material cost savings following the comprehensive review completed in Q4 2015. A Net Profit of AED71m for the first half of 2016 provides tangible evidence that the transformation strategy is progressing as per plan, with the Bank previously reporting a Net Loss of AED511m for H2 2015.

The Bank has continued to record significant progress in proactively deleveraging its 'non-core' higher risk portfolios. In the first 6 months of 2016 these have been managed down 34% vs. 31st December 2015, whilst overall they have been managed down 52% since 30th September 2015. Going forward this asset reduction remains a crucial element of the transformation strategy with the Bank continuously evaluating options to accelerate the exit process in an economically rational manner.


Provisions for Credit Losses in H1 2016 were AED232m, representing a significant reduction compared to H2 2015 (AED753m) where the Bank adopted a proactive approach to manage the deterioration in asset quality and address the 'skip' phenomenon which occurred in second half of 2015.

The benefits associated with the comprehensive review and subsequent overhaul of the Bank's cost base is demonstrated by Operating Expenses of AED84m for the quarter, 7% below Q1 2016 and AED 173m for H1 2016 being 20% lower than H1 2015 respectively, with the UAB's Cost : Income Ratio improving to 36% for the first six months of 2016 (FY 2015 - 41%). Given progress to date Management are confident the Bank will exceed its 20% year on year cost savings target as it continues to capture the benefits associated with transitioning to a simpler and more efficient operating model.

 **Sheikh Faisal Bin Sultan Bin Salem Al Qassimi, Chairman of the Board of Directors** said, “The Board is pleased to see the improved operating performance continue into the second quarter, demonstrating the strength of our ‘core’ business. Although 2015 was a challenging year for UAB, when we look back we are increasingly confident it will be viewed as a defining period for the Bank.

We continue to explore various options to accelerate the process of managing down the ‘non-core’ elements of our business so that the Bank’s performance converges with our ‘core’ segments within an optimal timeframe.

Whilst the transformation strategy has delivered substantial changes to the size, shape and risk profile of the business, we realize the continued uncertainty in the macro-economic environment will require robust oversight of the Bank’s governance and control frameworks across 2016 and beyond to protect the long-term interests of our shareholders.”

 **Samer Tamimi, Acting Chief Executive Officer**, commented, “These positive results provide further tangible evidence that our revised strategy is appropriate given the economic environment. I am pleased to report that our financial performance is aided by a significant progress within our ‘core’ business in addition to reduction in provisions and material cost savings. Non-Interest Income is up by 12% quarter on quarter due to increased focus on generating ancillary revenue streams, and our ‘core’ Customer Deposits grew by 3% against March 2016. Gross Loans remained in line with Q1 2016 despite a further 17% reduction in our ‘non-core’ in the second quarter.

UAB’s liquidity and funding positions continue to be robust with all key metrics, Advances to Stable Resources Ratio and Eligible Liquid Assets Ratio, managed comfortably above UAE Central Bank requirements, with the Bank’s Loan : Deposit Ratio improving to 98%. Similarly, Capital Adequacy has improved to 15.1% as at 30th June 2016, further demonstrating traction in maintaining and strengthening UAB’s key fundamentals as part of the transformation strategy.

The second quarter also saw the Bank delivering on other essential strategic milestones, including the appointment of a new Chief Operating officer and successful ‘insourcing’ of relevant back office functions, both of which will aid our journey to a simpler and more efficient Bank.

Our Provisions are stable at Q1 2016 levels, however, H1 2016 has experienced a substantial reduction compared to H2 2015. Looking further ahead, as UAB continues its transition to a lower risk model, these reductions will moderate further in the medium to long term.”

During the quarter, our progress to date was recognized by Moody’s reaffirming our credit rating and amending our outlook to ‘Stable’ from ‘Negative’. Although a modest step it does reflect the benefits of proactively recognizing the issues, taking decisive actions and objective to build a more efficient Bank capable of generating sustainable returns”.





UAB Financial Highlights

Q2 2016

Income Statement - Summary

(AED millions)

	2016		2015				Variance	
	Q2	Q1	Q4	Q3	Q2	Q1	QoQ%	YoY%
Net Interest Income	159	189	199	258	265	264	-16%	-40%
Non-Interest Income	68	61	16	44	79	88	12%	-13%
Total Operating Income	227	249	215	303	344	352	-9%	-34%
Provision for credit losses	-117	-114	-288	-466	-50	-84	3%	134%
Net Operating Income	109	135	-73	-163	294	268	-19%	-63%
Operating Expenses	-84	-90	-165	-109	-111	-106	-7%	-24%
Net Profit	26	45	-238	-273	183	161	-43%	-86%

Balance Sheet

(AED millions)

	2016		2015				Variance	
	Q2	Q1	Q4	Q3	Q2	Q1	QoQ%	YoY%
Loans and Advances	14,888	15,254	15,672	17,600	18,329	18,258	-2%	-19%
Investment Securities	3,267	3,043	2,559	2,852	2,838	2,673	7%	15%
Investment Properties	78	78	78	78	78	93	0%	0%
Other Assets	4,261	4,295	5,355	5,281	5,319	5,465	-1%	-20%
Total Assets	22,495	22,670	23,664	25,812	26,564	26,489	-1%	-15%
Customer Deposits	15,259	15,040	16,775	18,277	18,241	18,346	1%	-16%
Medium Term Borrowings	1,939	1,939	2,314	2,295	2,020	2,020	0%	-4%
Due to Banks	1,845	2,192	1,038	1,469	2,047	1,604	-16%	-10%
Other Liabilities	809	894	967	988	1,145	1,594	-10%	-29%
Total Liabilities	19,852	20,065	21,094	23,029	23,453	23,563	-1%	-15%
Total Shareholders' Funds	2,643	2,605	2,570	2,783	3,111	2,926	1%	-15%
Total Liabilities & Shareholders' Funds	22,495	22,670	23,664	25,812	26,564	26,489	-1%	-15%



Key Ratios

	2016		2015				Variance	
	Q2	Q1	Q4	Q3	Q2	Q1	QoQ%	YoY%
Regulatory								
Capital Adequacy	15.1%	15.0%	14.7%	14.4%	15.4%	14.5%	0.1%	-0.3%
Advances to Stable Resources	82.0%	83.9%	80.9%	89.3%	87.7%	86.4%	-1.9%	-5.8%
Eligible Liquid Assets	14.9%	13.2%	18.7%	12.9%	N/A	N/A	1.8%	N/A
Performance								
Cost : Income Ratio	36.9%	36.0%	76.9%	36.1%	32.2%	30.2%	0.9%	4.7%
NPL's : Gross Loans	4.33%	4.33%	4.01%	3.93%	2.86%	2.72%	0.00%	1.47%
Provision Coverage	105%	112%	124%	130%	112%	114%	-7%	-7%
Net Loans : Deposits Ratio	98%	101%	93%	96%	100%	100%	-4%	-3%

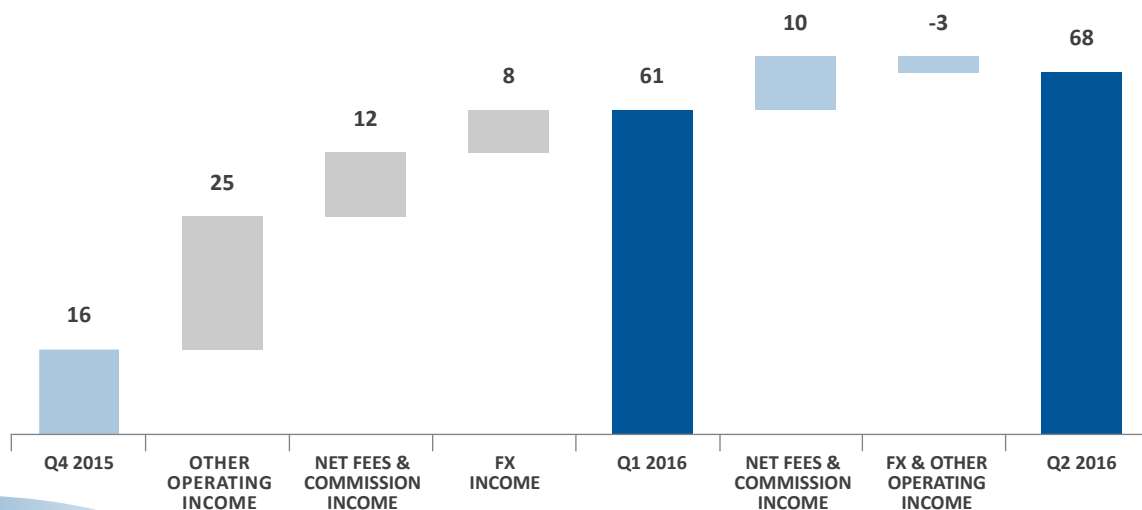
Financial Review

Total Income

(AED millions)

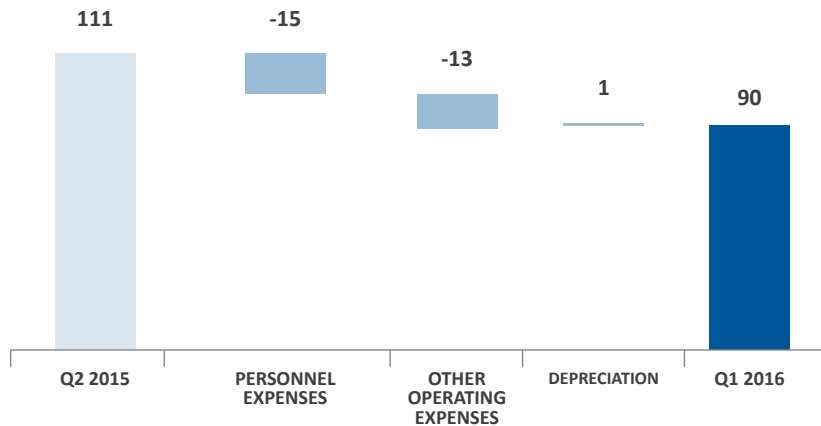
	2016		2015				Variance	
	Q2	Q1	Q4	Q3	Q2	Q1	QoQ%	YoY%
Interest Income	239	259	265	319	315	318	-8%	-24%
Interest Expense	-80	-70	-66	-61	-50	-54	14%	61%
Net Interest Income	159	189	199	258	265	264	-16%	-40%
Net Fees and Commission Income	28	18	6	20	41	35	54%	-31%
FX Income	17	24	16	19	20	21	-30%	-15%
Other Operating Income	23	18	-7	5	17	31	26%	32%
Total Non Interest Income	68	61	16	44	79	88	12%	-13%
Total Income	227	249	215	303	344	352	-9%	-34%

Non-Interest Income



Total Income AED227m in Q2 2016, with Non-Interest Income 12% up on Q1 2016 and 338% higher than Q4 2015. Given the strategic emphasis placed on deepening relationships within our 'core' Corporate Banking segment and capturing cross-sales opportunities (specifically within treasury), the Bank recorded solid performance across Net Fees & Commissions, FX and Other Operating Income.

Operating Expenses



Operating Expenses for the quarter were AED84m, down 24% against the same three month period in 2015 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 2016, UAB has subsequently closed 5 branches, which will deliver ongoing savings, with the business continuing to evaluate the effectiveness of all distribution channels. During Q2 2016, the Bank successfully 'insourced' relevant back office operations which will enhance both risk management and lower turnaround times.

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 and systems. Our primary objectives are to leverage capabilities, improve efficiencies and avoid non-essential expenditure.

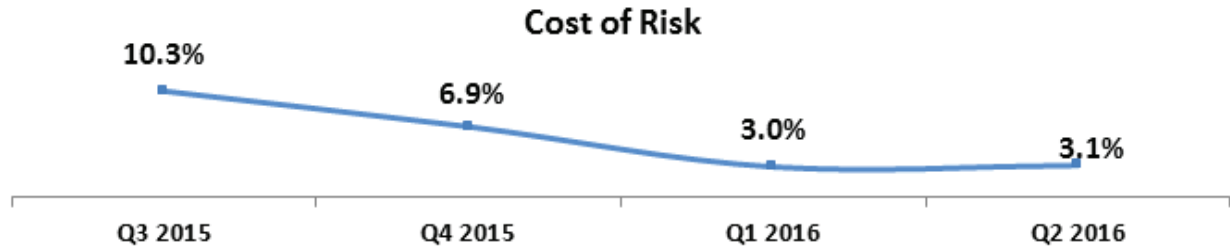


Impairment Charges

(AED millions)

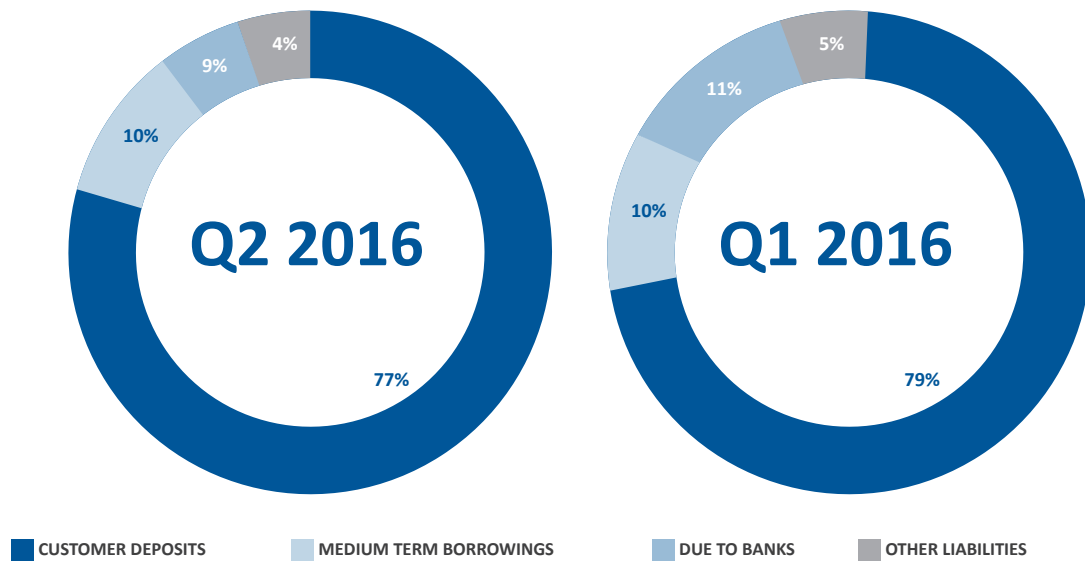
Impairment Charges, net

2016		2015				Variance	
Q2	Q1	Q4	Q3	Q2	Q1	QoQ%	YoY%
117	114	288	466	50	84	3%	134%



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

Net Impairment Charges in the second quarter were AED117m (broadly in line with Q1 2016), being a significant reduction compared to Q3 2015 (AED466m) and Q4 2015 (AED288m) respectively. Going forward, although provisions have decreased significantly, UAB's transition to a lower risk model should see these moderate further in the medium to long term.

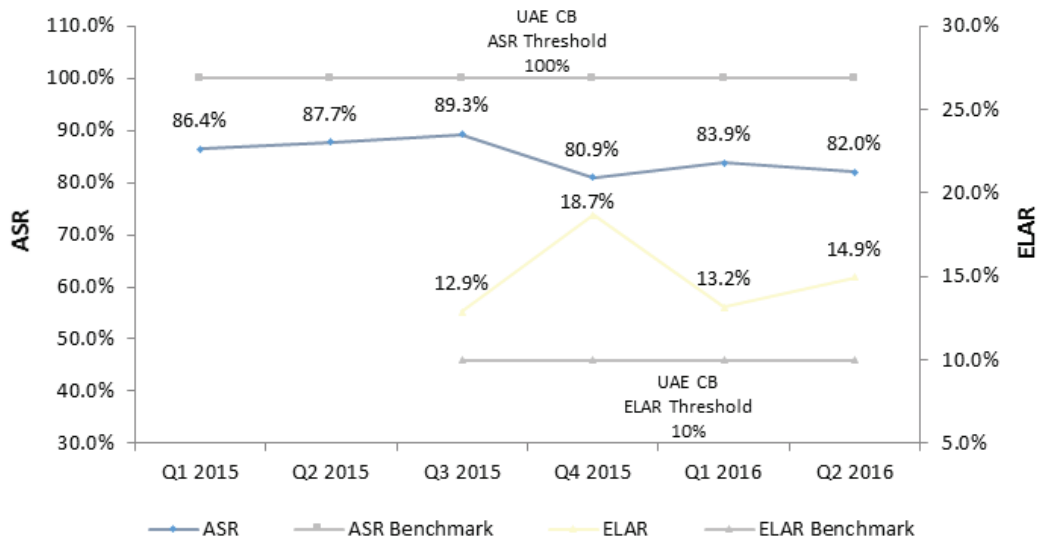


Customer Deposits have and will continue to represent the Bank's key source of funds as evidenced through an increased concentration in Total Liabilities (77% in Q2 2016 vs. 75% in Q1 2016), with the Loan : Deposit Ratio improving to 98% as at 30th June 2016.

In addition, Medium Term Borrowings continue to be effectively utilized to aid tenor management and represent a key part of UAB's liquidity and funding plans.



Banking Fundamentals



The importance UAB places on maintaining a robust liquidity profile is demonstrated by its consistent approach of maintaining Advances to Stable Resources Ratio and Eligible Liquid Asset Ratio 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	
	Q2	Q1	Q4	Q3	Q2	Q1	QoQ%	YoY%
Total Regulatory Capital	15.1%	15.0%	14.7%	14.4%	15.4%	14.5%	0.1%	-0.3%
Tier 1 Capital	14.6%	14.7%	14.2%	13.9%	14.6%	13.8%	-0.1%	0.0%

In Q2 2016 the Bank's Capital Adequacy Ratio improved to 15.1%, ensuring UAB remains 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	Stable

Samer Tamimi
Acting Chief Executive Officer



Thank you



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