

**MANAGEMENT
DISCUSSION
& ANALYSIS**

Q3 2016



**البنك العربي المتحد
UNITED ARAB BANK**



UAB Reports Q3 2016 Results

Transformation strategy ahead of plan
to build a more **efficient, lower risk and sustainable Bank**

AED **88m Net Profit**
22% Uplift vs. Q3 2015

59% Reduction
in 'non-core' portfolios

28% Investment
Portfolio up vs. FY 2015

Robust liquidity profile
maintained

Capital Adequacy
Improving to 16.1%

44% lower
Provisions vs. YTD 2015

95% Loan : Deposit Ratio
improved

19% Reduction
in YoY Operating Expenses



United Arab Bank P.J.S.C ("UAB" or "the Bank") reported a Net Profit of AED88m for the nine months ended 30th September 2016, a 22% uplift vs. Q3 2015, underpinned by a robust capital, funding and liquidity profile.

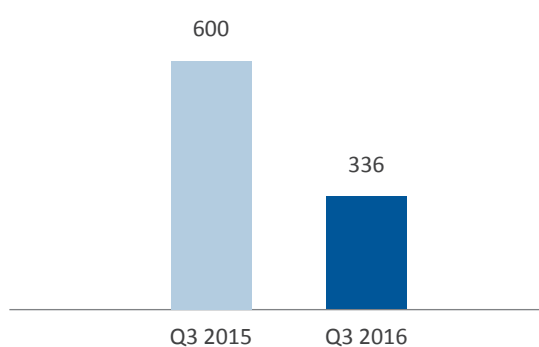
UAB's stable performance in Q3 2016 demonstrates a continuation of the Bank's Transformation Strategy implemented in the latter half of 2015, with the overarching objective to build a more efficient, lower risk and sustainable Bank.

As part of this strategic review, the Bank set out its priorities: strengthen its core businesses; run-down non-core activities (being the key to unlocking the full earnings power of the core); capture bank-wide cost reductions; deal with legacy issues; and steadily improve our key fundamentals, namely funding / capital / liquidity.

The picture in the third quarter is one of strong and accelerating progress against our strategy. The Bank continues to invest in its core businesses, which will be at the center of the future Bank, with non-core asset deleveraging ahead of plan. Cost remains firmly under control, whilst capital and liquidity have continued to be strengthened on a quarter on quarter basis.

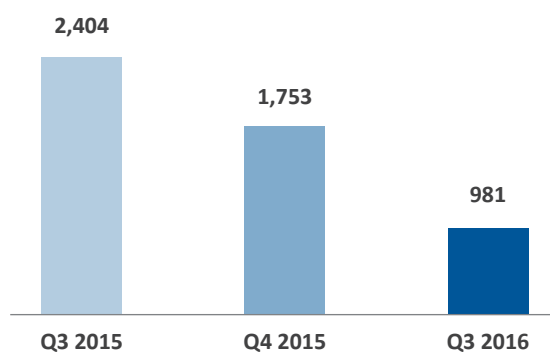
Provisions (AEDm)

44% lower than PY 2015



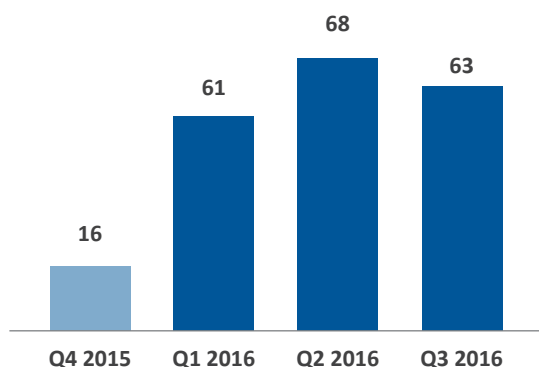
Non-Core Portfolio (AEDm)

59% reduction vs. Q3 2015



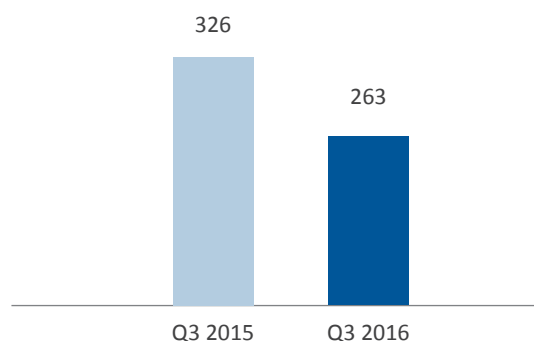
Non-Interest Income (AEDm)

404% growth vs. Q4 2015



Operating Expenses (AED m)

19% YoY reduction




Net Profit of AED88m for the first nine months of 2016 (22% uplift vs. PY 2015) provides tangible evidence that the transformation strategy is progressing ahead of plan. UAB's profitability is supported by a significant reduction in Provisions for Credit Losses compared to Q3 2015 (down 44%), sustained uplift in Non-Interest Income as the Bank generates ancillary revenue lines via improved cross-sales within its core businesses and material cost savings following the comprehensive review completed in the latter part of 2015.

UAB has continued its positive momentum in proactively deleveraging its 'non-core' higher risk portfolios. In the first 9 months of 2016 these have been managed down 44% vs. 31st December 2015, whilst overall they have reduced by 59% since 30th September 2015. Going forward this remains a significant element of the Bank's transformation strategy with the recycled Risk Weighted Assets the key to unlocking the full earnings power of our core business units.

Provisions for Credit Losses in Q3 2016 were AED336m, being a substantial 44% reduction compared to PY 2015, where the Bank adopted a proactive approach to manage the deterioration in asset quality and address the 'skip' phenomenon which occurred in the second half of 2015. In addition, the quarterly Provision Charge recorded in Q3 2016 tracked c.10% lower against Q1 / Q2 2016 respectively as the Bank begins to yield the benefit from its declining higher risk non-core portfolio.

The wide-ranging review and strategic overhaul of the cost base completed in Q4 2015 to ensure alignment with UAB's simplified operating model has resulted in Operating Expenses falling 19% vs. PY 2015 with the Bank's Cost : Income Ratio improving (Q3 2016 - 38% / FY 2015 - 41%). Given costs are firmly under control we are able to provide additional guidance that the Bank will record approximately 25% year on year savings in 2016 as UAB continues its journey towards a more efficient, lower risk and sustainable Bank.




 Sheikh Faisal Bin Sultan Bin Salem Al Qassimi, Chairman of the Board of Directors said, “We are pleased with the financial performance in the third quarter of 2016 as the Bank continues to progress well against its strategy. The Board and Management Team are committed to a clear approach: we set our priorities, we commit to our targets; and then we deliver.

Thus, over the past 12 months we have substantially strengthened the Balance Sheet, focused on our core activities, de-risked the business and captured cost savings through the successful execution of our strategy, all of which have enabled the Bank to report a 22% uplift in Net Profit and 44% reduction in provisions, whilst continuing to enhance our key funding, capital and liquidity metrics.

Although the Board does not underestimate the difficulties of managing the business in this challenging macro-economic environment whilst simultaneously implementing our strategy, we are confident in the ability of Samer Tamimi and his team to chart the right course for all stakeholders.

For UAB, our low risk and efficient UAE focused business model, together with the simplification and transformation of the Bank, positions us well to continue doing the right thing for our customers and deliver sustainable returns over the medium term for our shareholders.”

 **Samer Tamimi, Acting Chief Executive Officer** said “We have seen another period of good financial and strategic performance in Q3 2016 with the Bank reporting an underlying Net Profit of AED88m, supported by a robust capital, funding and liquidity profile.

As in previous quarters, these results provide tangible evidence that our revised business plan is appropriate given the economic environment and taken together, the picture in the third quarter is one of strong and accelerating progress against our transformation strategy.

Provision for credit losses are down 11% quarter on quarter given prudent risk management and a continued reduction in non-core assets, which now represent less than 7% of our total loan portfolio. The third quarter also saw UAB progressing its Branch Rationalization Program with the closure of 3 further branches, with the Bank having reduced its network by a 1/3rd whilst maintaining a pan-Emirate footprint. Given both branch and further role reductions combined with other simplification savings, costs are firmly under control and thus allow us to provide additional guidance on an improved annualized savings target of 25%.

Our priorities for the remaining part of 2016 and beyond remain unchanged: strengthen our core business; run-down our non-core portfolios; capture cost savings; and effective funding, capital and liquidity management. With a relentless risk management focus I am confident in our ability to face any macroeconomic headwinds while managing business performance, delivering operational efficiency and maintaining Balance Sheet strength”.





UAB Financial Highlights

Q3 2016 Results

Income Statement - Summary (AED millions)

	2016			2015				Variance	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	QoQ%	YoY%
Net Interest Income	148	159	189	199	258	265	264	-7%	-43%
Non-Interest Income	63	68	61	16	44	79	88	-8%	42%
Total Operating Income	211	227	249	215	303	344	352	-7%	-30%
Provision for credit losses	-104	-117	-114	-288	-466	-50	-84	-11%	-78%
Net Operating Income	107	109	135	-73	-163	294	268	-3%	-165%
Operating Expenses	-90	-84	-90	-165	-109	-111	-106	7%	-18%
Net Profit	17	26	45	-238	-273	183	161	-34%	106%

Balance Sheet (AED millions)

	2016			2015				Variance	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	QoQ%	YoY%
Loans and Advances	13,884	14,888	15,254	15,672	17,600	18,329	18,258	-7%	-21%
Investment Securities	3,286	3,267	3,043	2,559	2,852	2,838	2,673	1%	15%
Investment Properties	78	78	78	78	78	78	93	0%	0%
Other Assets	4,471	4,261	4,295	5,355	5,281	5,319	5,465	5%	-15%
Total Assets	21,719	22,495	22,670	23,664	25,812	26,564	26,489	-3%	-16%
Customer Deposits	14,539	15,259	15,040	16,775	18,277	18,241	18,346	-5%	-20%
Medium Term Borrowings	1,891	1,939	1,939	2,314	2,295	2,020	2,020	-2%	-18%
Due to Banks	1,690	1,845	2,192	1,038	1,469	2,047	1,604	-8%	15%
Other Liabilities	929	809	894	967	988	1,145	1,594	15%	-6%
Total Liabilities	19,049	19,852	20,065	21,094	23,029	23,453	23,563	-4%	-17%
Total Shareholders' Funds	2,670	2,643	2,605	2,570	2,783	3,111	2,926	1%	-4%
Total Liabilities & Shareholders' Funds	21,719	22,495	22,670	23,664	25,812	26,564	26,489	-3%	-16%



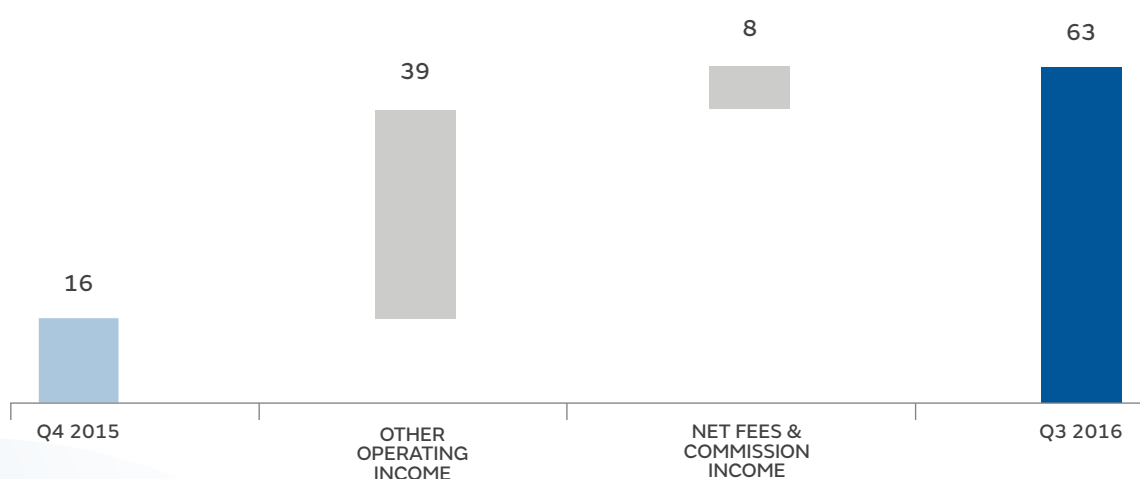
Key Ratios

	2016			2015				Variance	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	QoQ%	YoY%
Regulatory									
Capital Adequacy	16.1%	15.1%	15.0%	14.7%	14.4%	15.4%	14.5%	1.0%	1.7%
Advances to Stable Resources	78.5%	81.8%	84.3%	80.9%	89.3%	87.7%	86.4%	-3.3%	-10.7%
Eligible Liquid Assets	18.4%	15.1%	13.2%	18.7%	12.9%	N/A	N/A	3.4%	5.6%
Performance									
Cost : Income Ratio	42.5%	36.9%	36.0%	76.9%	36.1%	32.2%	30.2%	5.5%	6.3%
NPL's : Gross Loans	4.46%	4.33%	4.33%	4.01%	3.93%	2.86%	2.72%	0.13%	0.53%
Provision Coverage	109%	105%	112%	124%	130%	112%	114%	4%	-21%
Net Loans : Deposits Ratio	95%	98%	101%	93%	96%	100%	100%	-2%	-1%

Financial Review

	2016			2015				Variance	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	QoQ%	YoY%
Total Income (AED millions)									
Interest Income	230	239	259	265	319	315	318	-4%	-28%
Interest Expense	-81	-80	-70	-66	-61	-50	-54	2%	34%
Net Interest Income	148	159	189	199	258	265	264	-7%	-43%
Non-Interest Income									
Net Fees and Commission Income	14	28	18	6	20	41	35	-51%	-30%
FX Income	16	17	24	16	19	20	21	-3%	-13%
Other Operating Income	32	23	18	-7	5	17	31	43%	505%
Total Non Interest Income	63	68	61	16	44	79	88	-8%	42%
Total Income	211	227	249	215	303	344	352	-7%	-30%

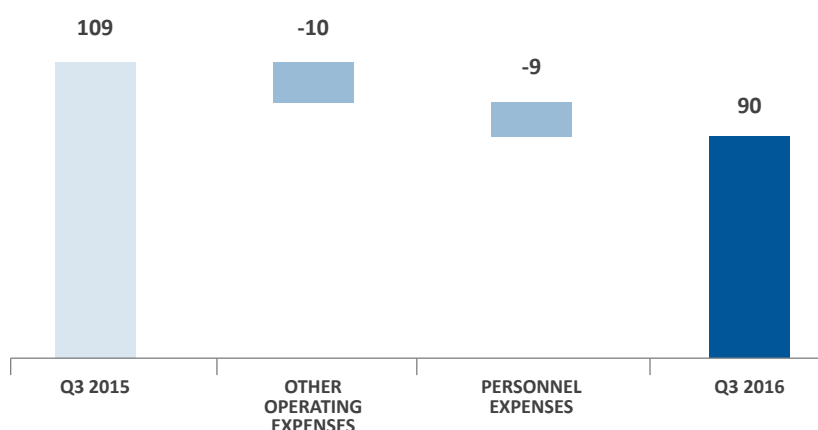
Non-Interest Income



Total Income was AED211m in Q3 2016 as the Bank deleverages its higher risk (albeit higher yielding) non-core portfolios complimented by robust cost of funds management. 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 solid performance across Net Fees & Commissions and Other Operating Income with Non-Interest income increasing 42% vs. Q3 2015 and demonstrating consistent quarter on quarter performance.

Operating Expenses (AED millions)	2016			2015				Variance	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	QoQ%	YoY%
Personnel Expenses	57	55	57	77	66	69	68	4%	-14%
Depreciation	8	9	9	8	8	8	7	-5%	6%
Other Operating Expenses	24	20	24	80	35	34	30	19%	-30%
Total Operating Expenses	90	84	90	165	109	111	106	7%	-18%

Operating Expenses



Operating Expenses for the quarter were AED90m, down 18% 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 Q3 2016, UAB subsequently closed 3 branches (in addition to 5 closed in H1 2016) which will deliver ongoing savings, with the business continuously evaluating the effectiveness of all distribution channels.

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 cost management objectives remain unchanged: to leverage capabilities; improve efficiencies; and avoid non-essential expenditure.



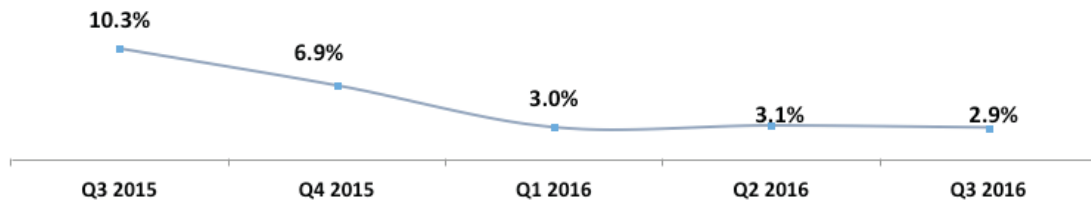
Impairment Charges

(AED millions)

Impairment Charges, net

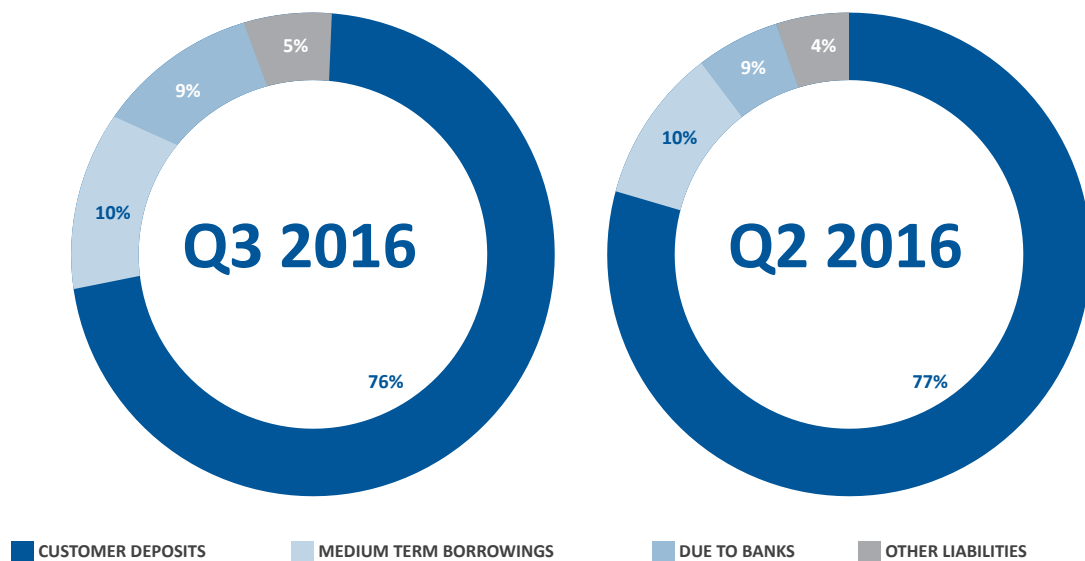
2016			2015				Variance	
Q3	Q2	Q1	Q4	Q3	Q2	Q1	QoQ%	YoY%
104	117	114	288	466	50	84	-11%	-78%

Cost of Risk



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

Net Impairment Charges in Q3 2016 were AED104m, c.10% lower than Q1 / Q2 2016 respectively, being a significant reduction compared to Q3 2015 (AED466m) and Q4 2015 (AED288m). Going forward, although provisions have decreased significantly, UAB's transition to a lower risk model should see these moderate further in the coming years.

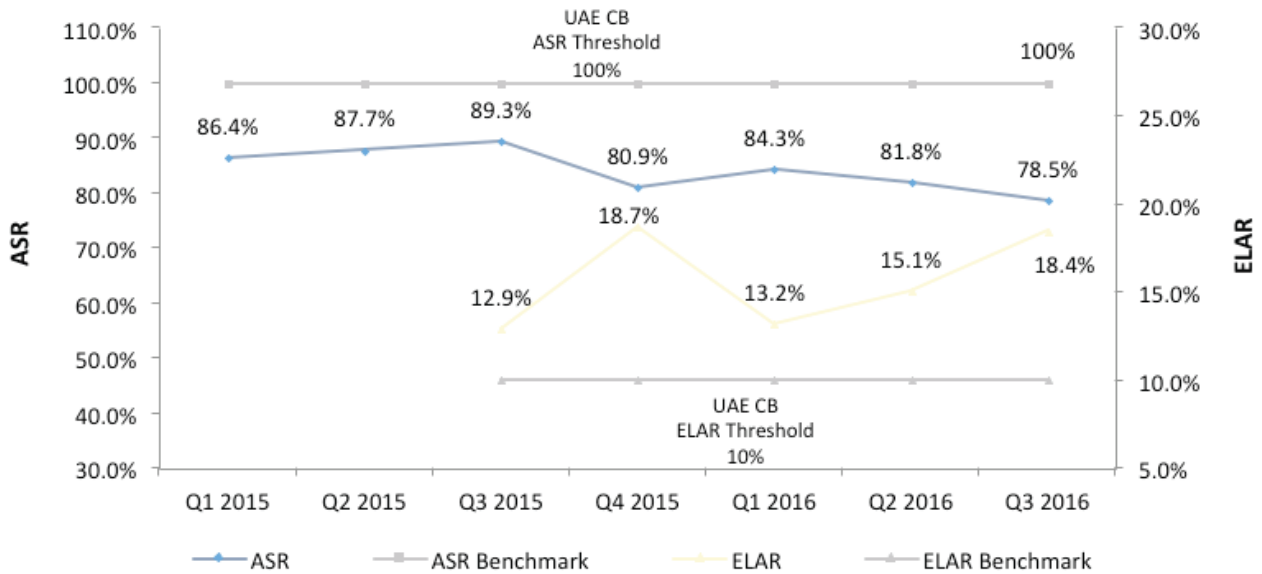


Customer Deposits have and will continue to represent the Bank's key source of funds as evidenced through a stable concentration in Total Liabilities, whilst the Bank's Loan : Deposit Ratio improved to 95% as at 30th September 2016.

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 in managing both Advances to Stable Resources and Eligible Liquid Asset Ratios comfortably above 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.

Capital Adequacy	2016			2015				Variance	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	QoQ%	YoY%
Total Regulatory Capital	16.1%	15.1%	15.0%	14.7%	14.4%	15.4%	14.5%	1.0%	1.7%
Tier 1 Capital	15.6%	14.6%	14.7%	14.2%	13.9%	14.6%	13.8%	1.0%	1.7%

In Q3 2016 the Bank's Capital Adequacy Ratio improved to 16.1%, 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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