MANAGEMENT DISCUSSION & ANALYSIS

Q1 2017

البـــنـــك الـــعـــربـــي المـتـحـد
UNITED ARAB BANK

www.uab.ae

UAB Reports Q1 2017 Results

Transformation entering its final phase as UAB transitions to **a safer, stronger and sustainable model**

Robust liquidity profile
maintained

85% Loan : Deposit Ratio
improved

'Non-core' portfolio
managed down to less than 4% of Total Loans

51% Reduction
in Impairment Losses Y-o-Y

Planned Capital Injection
will restore CAR to c.15%

13.2% Capital Adequacy
stable

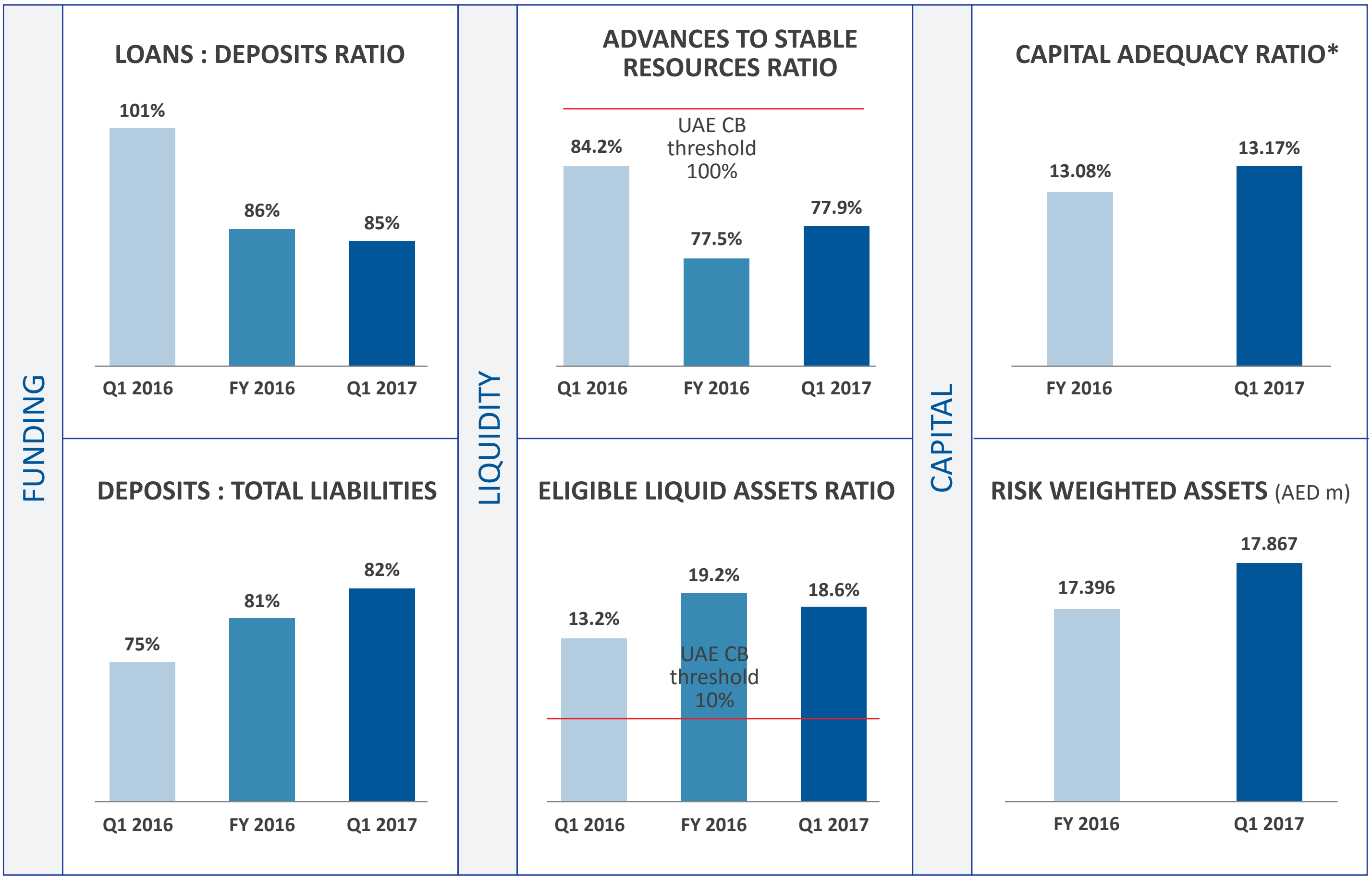
البنك العربي المتحد
UNITED ARAB BANK

United Arab Bank P.J.S.C ("UAB" or “the Bank”) reports a Net Profit of **AED28m** for the Three Months to 31st March 2017.

In H2 2015 UAB commenced its transformation journey to become a safer, stronger and sustainable Bank. As part of this strategy, the Bank set out its priorities: strengthen its core businesses; run down non-core portfolios; streamline the cost base; and steadily improve its key banking fundamentals. Against each of these objectives UAB has continued to record tangible progress in Q1 2017.

The Board and Management Team remain fully committed to completing the transformation which will ultimately provide the platform for UAB to generate sustainable returns for its shareholders across the medium term.

SOILD BANKING FUNDAMENTALS



Loan : Deposit Ratio of 85% underpins a robust funding profile, whilst Customer Deposits have and will continue to represent the Bank’s key source of funds

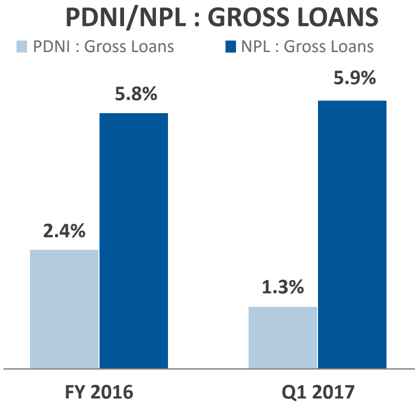
Strong liquidity base substantiated by both ASR / ELAR Ratios managed well above CB UAE thresholds

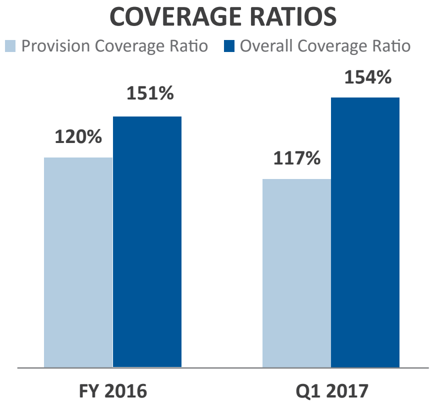
Capital Adequacy maintained above 13% as RWA’s recycled into core business activities

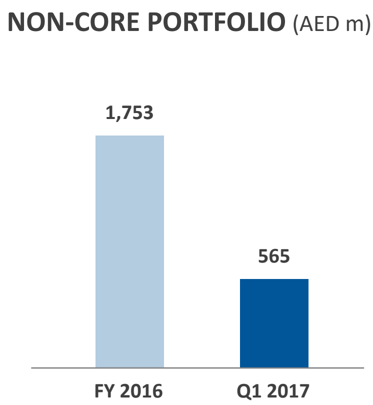
* Effective from 1st February 2017, Central Bank of the UAE (CB UAE) communicated a revised Capital Adequacy requirement of 10.5% (as per Basel III).

Note, previously the minimum threshold was 12% (as per Basel II).

ASSET QUALITY







The Bank has continued to record significant progress in proactively deleveraging its 'non-core' higher risk portfolios. In the first 3 months of 2017 these 'non-core' portfolios reduced by a further 14% vs. 31st December 2016, whilst in total they have been managed down 77% since Q3 2015. As at 31st March 2017, 'non-core' high risk assets constitute less than 4% of Total Loans with this absolute reduction aiding the 51% decrease in Y-o-Y impairment losses. Across 2017, this will remain a significant element of the Bank's transformation with the recycled Risk Weighted Assets used to unlock the full earning power of the Bank (as evidenced by asset growth recorded in the core business for the second consecutive quarter).

Further, the proactive focus on de-risking the Balance Sheet has also supported a material reduction in the Past Due but Not Impaired (PDNI) composition of our asset portfolios, decreasing to 1.3% of Total Loans vs. 2.4% for FY 2016, whilst the Bank's NPL Ratio as at Q1 2017 (5.9%) is broadly in line with both FY 2016 position and the wider peer group average.

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 117% as at 31st March 2017. Note, if collateral pledged against the underlying facilities are incorporated the Coverage Ratio increases to 154%.

Sheikh Faisal Bin Sultan Bin Salem Al Qassimi, Chairman of the Board of Directors, said, "The operating performance for Q1 2017 demonstrates tangible progress against our transformation strategy.

The challenges which the Bank has now largely overcome were significant, yet the decisive actions taken will see UAB well placed to deliver shareholder value in the medium term.

We remain committed to completing our strategy and believe that our low risk business model will make UAB a safer, stronger and sustainable Bank and ensure it continues to play a key role in supporting the broader UAE economy."

Samer Tamimi, Acting Chief Executive Officer, said, "2017 represents the final stage of UAB's transformation journey as the cost of risk begins to normalize, the Bank effectively completes the exit of its residual higher risk non-core portfolio and core business units begin to grow. To that effect the first quarter delivered tangible progress against these milestones.

The Bank's NPL ratio of 5.9% is supported by legacy 'non-core' SME exposures reducing to less than 4% of Total Loans, with the Provision coverage standing at 117%.

We strongly believe that our safe, low risk business model is the right one, and our strategic progress and improving financial performance position us well for future success."

UAB Financial Highlights
Q1 2017 Results

Income Statement ***(AED millions)***

	2017	2016				Variance	
	Q1	Q4	Q3	Q2	Q1	QoQ%	YoY%
Net Interest Income	119	138	148	159	189	-14%	-37%
Non-Interest Income	51	36	63	68	61	41%	-15%
Total Operating Income	**171**	**175**	**211**	**227**	**249**	**-2%**	**-31%**
Provision for credit losses	-56	-675	-104	-117	-114	-92%	-51%
Net Operating Income	**114**	**-501**	**107**	**109**	**135**	**123%**	**-15%**
Operating Expenses	-87	-110	-90	-84	-90	-21%	-3%
Net Profit	**28**	**-610**	**17**	**26**	**45**	**105%**	**-38%**

Balance Sheet ***(AED millions)***

	2017	2016				Variance	
	Q1	Q4	Q3	Q2	Q1*	QoQ%	YoY%
Loans and Advances	13,384	13,346	13,884	14,888	15,254	0%	-12%
Investment Securities	3,387	3,314	3,286	3,267	3,043	2%	11%
Other Assets	4,502	4,592	4,548	4,339	4,373	-2%	3%
Total Assets	**21,273**	**21,252**	**21,719**	**22,495**	**22,592**	**0%**	**-6%**
Customer Deposits	15,673	15,538	14,539	15,259	15,040	1%	4%
Medium Term Borrowings	1,524	1,524	1,891	1,939	1,939	0%	-21%
Due to Banks	827	1,095	1,690	1,845	2,192	-25%	-62%
Other Liabilities	1,090	1,007	928	809	894	8%	22%
Total Liabilities	**19,113**	**19,165**	**19,048**	**19,852**	**20,065**	**0%**	**-5%**
Total Shareholders' Funds	2,160	2,087	2,670	2,643	2,605	4%	-1%
Total Liabilities & Shareholders' Funds	**21,273**	**21,252**	**21,719**	**22,495**	**22,670**	**0%**	**-6%**

Gross Loans ***(AED millions)***

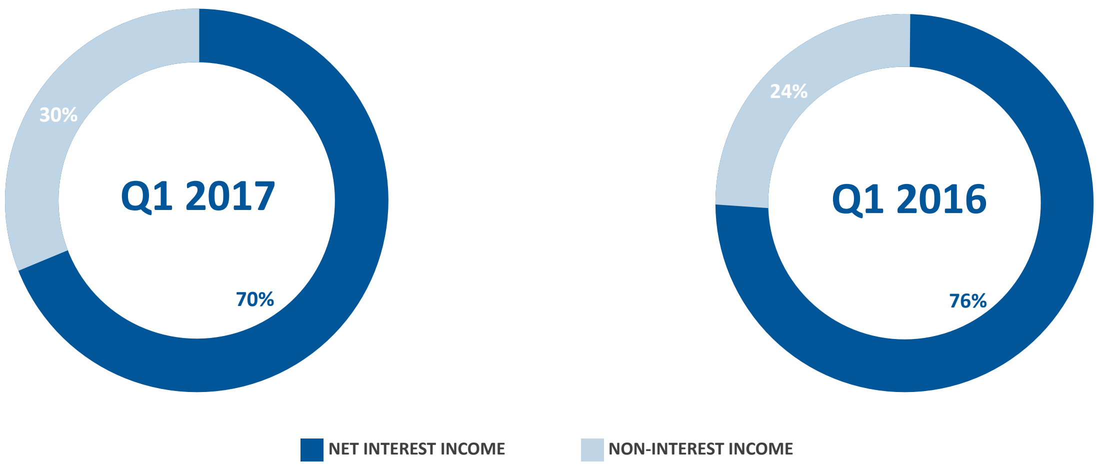
	2017	2016				Variance	
	Q1	Q4	Q3	Q2	Q1	QoQ%	YoY%
Core	13,810	13,677	13,610	14,436	14,623	1%	-6%
Non-Core	565	658	981	1,163	1,409	-14%	-60%
Total Loans	**14,375**	**14,335**	**14,591**	**15,599**	**16,032**	**0%**	**-10%**
%							
Core	96%	95%	93%	93%	91%	1%	5%
Non-Core	4%	5%	7%	7%	9%	-1%	-5%
Total Loans	**100%**	**100%**	**100%**	**100%**	**100%**		

Key Ratios

	2017	2016				Variance	
	Q1	Q4	Q3	Q2	Q1	QoQ%	YoY%
Regulatory							
Capital Adequacy	13.2%	13.1%	16.1%	15.1%	15.0%	0.1%	-1.9%
Advances to Stable Resources	77.9%	77.5%	78.5%	81.8%	84.3%	0.4%	-6.3%
Eligible Liquid Assets	18.6%	19.2%	18.4%	15.0%	13.2%	-0.5%	5.4%
Performance							
Cost : Income Ratio	50.7%	62.8%	42.5%	36.9%	36.0%	-12.0%	14.7%
NPL's : Gross Loans	5.87%	5.76%	4.46%	4.33%	4.33%	0.11%	1.54%
Provision Coverage	117%	120%	109%	105%	112%	-2%	5%
Net Loans : Deposits Ratio	85%	86%	95%	98%	101%	0%	-16%

* Carrying value of Investment Property restated by AED18m within UAB's Q2 2016 Financial Statements

البـنـك العـربـي المتـحـد
UNITED ARAB BANK



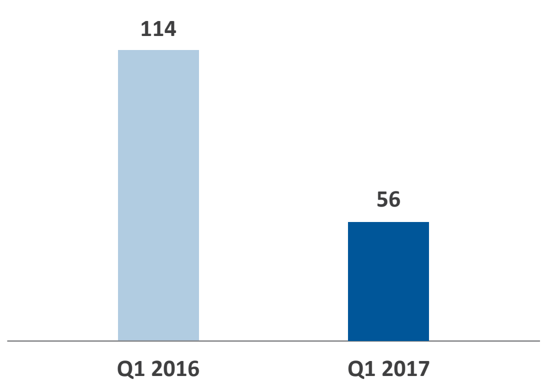
Total Income of AED171m in Q1 2017 was aided by recycling risk weighted assets from the ongoing deleveraging of the Bank's non-core portfolio to capture core growth opportunities. Further, a continuous focus on proactively re-pricing the Bank's asset portfolios contributed to partially offsetting the impact of declining yields as UAB exits its higher risk (albeit higher priced) exposures.

Given the strategic emphasis placed on deepening relationships within the Corporate Banking Unit and capturing associated cross-sales opportunities via the provision of complimentary Treasury services, the Bank continues to generate stable Non-Interest income streams. For the three months to 31st March 2017 UAB generated AED51m, being a 41% uplift vs. Q4 2016 with its composition of Total Income increasing to 30% (vs. 24% in Q1 2016).

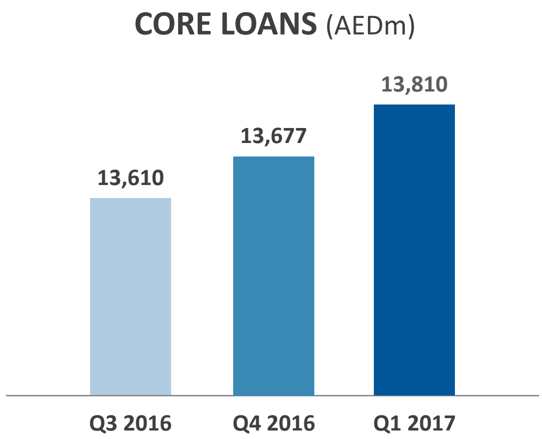
Operating Expenses for the quarter were AED87m, representing a 3% reduction against prior period as the Bank continues to capture the benefits of the comprehensive review and subsequent overhaul of its cost base completed as part of the wider transformation strategy. In 2016 this resulted in a 24% Y-o-Y reduction with the Management Team confident that further 'double digit' savings will be delivered in 2017 aided by the ongoing branch rationalization program.

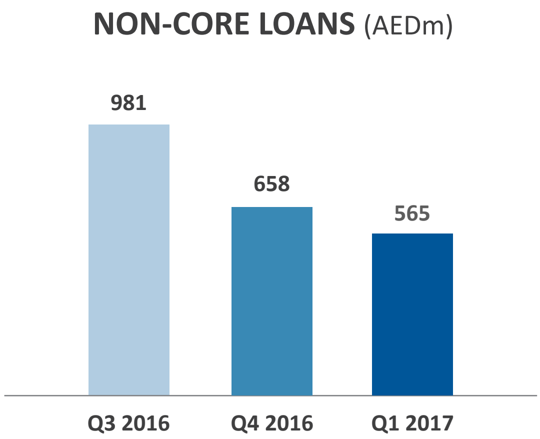
Going forward the Bank remains committed to ensuring the business is supported by an efficient operating model and will continue to invest in its people, processes, systems and other critical infrastructure. Our primary objectives remain unchanged: to leverage capabilities; improve efficiencies; and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

PROVISION CHARGE (AEDm)

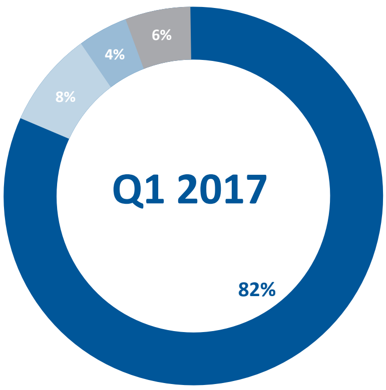


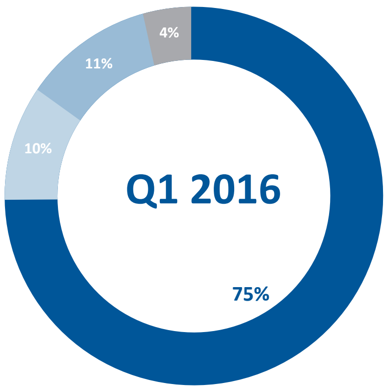
Provision Charges on a total portfolio basis decreased by 51% vs. prior year given the absolute decrease in the Bank's higher risk legacy SME exposures. Going forward the Bank will continue to focus on its remediation and recovery efforts with the aim to seek an optimal resolution for UAB.





Customer Loans across the core Corporate and Retail units increased for the second consecutive quarter as the non-core portfolio continued on its downward trajectory with further contraction of 14% in Q1 2017. The Bank will continue to recycle risk weighted assets released from deleveraged non-core portfolio to support growth of core assets, whilst ensuring it captures all available cross-sales opportunities.



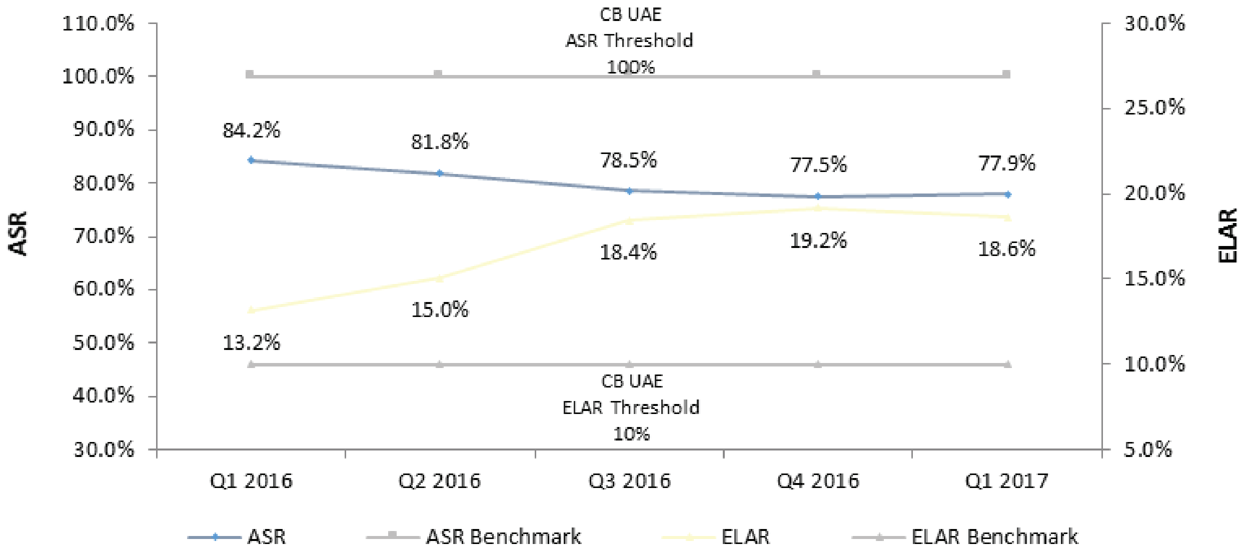


Customer Deposits have and will continue to represent the Bank's key source of funds as evidenced through a stable concentration in Total Liabilities, whilst the UAB's Loan : Deposit Ratio improved to 85% as at 31st March 2017.

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 11% 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.

البـنــك الــعــربــي المـتـحـد
UNITED ARAB BANK

Banking Fundamentals



Capital Adequacy	2017	2016				Variance	
	Q1	Q4	Q3	Q2	Q1	QoQ%	YoY%
Total Regulatory Capital	13.2%	13.1%	16.1%	15.1%	15.0%	0.1%	-1.9%
Tier 1 Capital	12.1%	12.2%	15.6%	14.6%	14.7%	-0.2%	-2.7%

The importance UAB places on maintaining a robust liquidity profile is demonstrated by its consistent approach in managing both its Advances to Stable Resources and Eligible Liquid Asset Ratios comfortably above CB UAE 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.

UAB continues to progress through the final stages of the regulatory approval process to support the issuance of an AT1 capital instrument which will restore CAR to c.15%, thus enabling the Bank to benefit from an additional buffer against the CB UAE threshold whilst in parallel support core business growth.

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, CB UAE 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 CB UAE'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

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

البـنــك الـعــربــي المـتـحـد
UNITED ARAB BANK

Given the ongoing transformation strategy underway, UAB is in the advances stages of determining the implications of IFRS 9 and ensuring the Bank's readiness to transition to the new accounting standard. Both Management and Board are in agreement that this change will:

- align our lower risk business model to an enhanced risk management / control framework;
- embed stringent credit discipline into all areas of the Bank;
- eliminates subjectivity from the assessment of provisions via the development of forward looking impairment models;
- lead to a simplified classification and measurement criteria for financial instruments based on target operating model; and
- provide users of financial statements with enhanced disclosures

Thus, UAB has been working extensively on assessing the implications of adopting IFRS 9 and submitted its QIA in Q4 2016 as per CB UAE 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 CB UAE as the sector moves towards 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

البـــنــك الـــعـــربـــي المـــتـــحـــد
UNITED ARAB BANK