



MANAGEMENT DISCUSSION & ANALYSIS

FY 2020

Management Discussion & Analysis – FY 2020

UAB Reports Financial Results for FY 2020

UAB continues to focus on its' 3Es: Excellence, Experience and Efficiency in which delivering an excellent customer experience comes at the top of management's priority and that what would ultimately lead to generating sustainable returns to the Bank's shareholders.

Adequate Liquidity profile

ASR 80.5%, ELAR 16.4%

99% Coverage Ratio

17% YoY Reduction in Operating Expenses

With ongoing focus to rationalize costs

Loan : Deposit Ratio

managed to 80%

20% QoQ Increase in Operating Income

CAR at 13.7%

CET1 at 12.5%

Well above currently applicable regulatory requirements

Management Discussion & Analysis – FY 2020

Financial Performance Summary

Sharjah, UAE, 21 March 2021 - United Arab Bank P.J.S.C ("UAB" or "the Bank") announces its Financial Results for the Twelve months ended 31st December 2020.

UAB's prudent provisioning approach impacted its financial results during the year 2020, consequently, the bank reported a net loss of AED667 million for the year ending 31 December 2020. Such decisive actions enable UAB to be fit for growth in the future and retain a robust risk buffer whilst addressing its legacy issues.

The results of FY 2020 were predominantly driven by higher impairment charges due to the Bank's exposure to NMC and associated accounts, challenging operating environment driven by COVID-19, low interest rate environment and legacy issues. Despite these macroeconomic headwinds, the Bank was able to maintain adequate levels of capital, with a Capital Adequacy ratio of 13.7% and CET 1 ratio of 12.5% that remains well above the regulatory requirements currently applicable. The Bank maintained adequate liquidity and a resilient funding profile with loans to deposits ratio of 80.1%, ASR of 80.5% and ELAR of 16.4%. In addition the Bank maintained comfortable Coverage Ratio of 99% which provides adequate risk buffers.

UAB has continued to streamline its cost base across 2020 to align itself to the rapidly changing environment and will continue to do so. To this effect, the bank has reduced its operating costs by 17% in FY 2020 vs. FY 2019. Additionally, the Bank continues to focus on growing its core businesses and revenues across its Wholesale Banking, Retail Banking and Financial Markets whilst moving towards a more agile operating model incorporating digital solutions and capabilities thereby positioning itself as the partner of choice among major corporate clientele segments.

Moody's Rating

Bank Deposits	Ba1/NP
Baseline Credit Assessment	b1
Adjusted Baseline Credit Assessment	ba3
Counterparty Risk Assessment	Baa3(cr)/P-3(cr)
Outlook	Negative

Fitch Rating

Long Term IDR	BBB+
Outlook	Stable

Distribution Network

Branches	7
Automated Teller Machines	53

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Financial Performance

Income Statement (AED millions)	2020					2019					Variance	
	FY	Q4	Q3	Q2	Q1	FY	Q4	Q3	Q2	Q1	QoQ%	YoY%
Net Interest Income	293.4	68.9	61.1	75.7	87.7	391.0	89.8	95.8	100.2	105.2	13%	-25%
Non-Interest Income	109.5	31.4	22.4	17.6	38.0	153.8	39.9	37.5	29.5	46.9	40%	-29%
Total Operating Income	402.9	100.4	83.5	93.4	125.6	544.8	129.7	133.3	129.7	152.0	20%	-26%
Operating Expenses	-262.0	-63.4	-67.1	-67.9	-63.6	-314.1	-81.5	-74.4	-77.1	-81.1	-6%	-17%
Operating Profit	140.8	37.0	16.4	25.4	62.0	230.7	48.2	59.0	52.6	71.0	125%	-39%
Provision for credit losses	-808.1	-339.3	-172.4	-114.4	-182.0	-701.5	-455.9	-157.7	-38.4	-49.4	97%	15%
Net Profit	-667.3	-302.4	-156.0	-89.0	-119.9	-470.8	-407.7	-98.7	14.1	21.6	94%	42%

Balance Sheet (AED millions)	2020				2019				Variance	
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	QoQ%	YoY%
Loans and Advances	9,014	10,005	10,370	11,172	11,563	12,511	12,379	12,503	-10%	-22%
Investment Securities	3,282	3,400	3,337	3,124	3,503	3,794	3,847	3,889	-3%	-6%
Other Assets	2,554	4,576	3,002	3,330	4,059	3,380	3,364	4,018	-44%	-37%
Total Assets	14,849	17,982	16,709	17,626	19,125	19,685	19,590	20,410	-17%	-22%
Customer Deposits	11,247	14,104	11,665	11,202	12,686	12,753	12,905	13,891	-20%	-11%
Medium Term Borrowings	-	-	-	1,487	1,487	1,487	1,487	955	-	-100%
Due to Banks	1,233	1,364	2,407	2,370	1,878	2,042	1,653	1,988	-10%	-34%
Other Liabilities	914	846	865	931	914	872	938	1,015	8%	0%
Total Liabilities	13,395	16,313	14,936	15,990	16,965	17,154	16,983	17,849	-18%	-21%
Shareholders' Equity	1,455	1,669	1,773	1,636	2,160	2,530	2,607	2,561	-13%	-33%
Total Liabilities & Shareholders' Funds	14,849	17,982	16,709	17,626	19,125	19,685	19,590	20,410	-17%	-22%

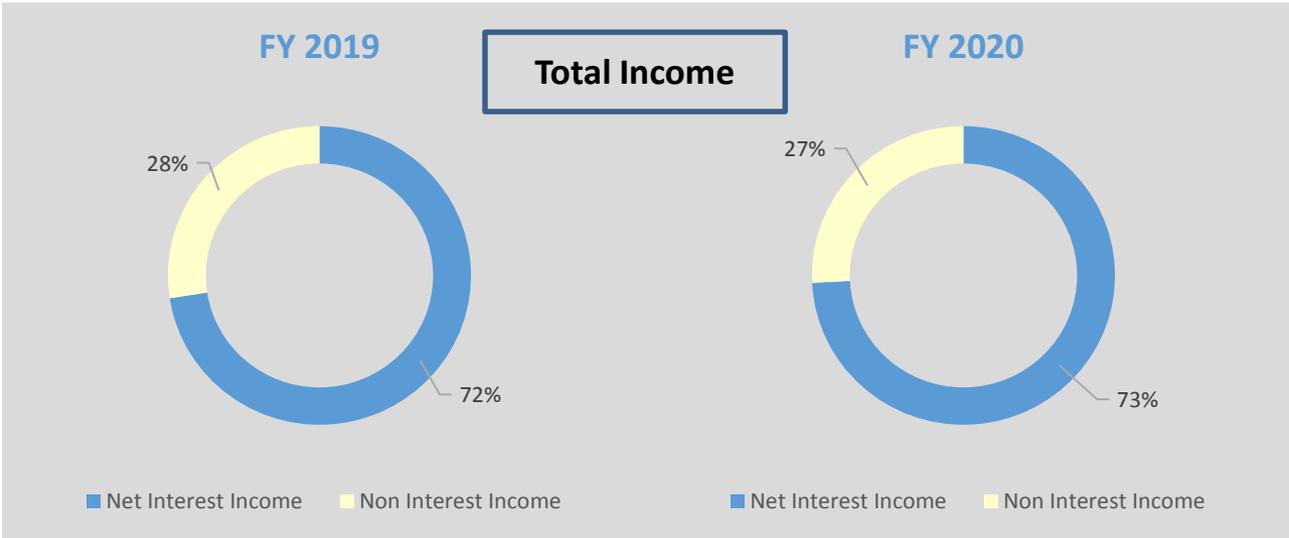
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Financial Performance (cont.)

Key Ratios	2020				2019				Variance	
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	QoQ%	YoY%
Regulatory										
Capital Adequacy	13.7%	14.0%	14.3%	11.8%	14.7%	16.0%	16.5%	15.8%	-0.3%	-1.1%
Tier 1	12.5%	12.9%	13.2%	10.6%	13.6%	14.9%	15.4%	14.7%	-0.4%	-1.1%
CET 1	12.5%	12.9%	13.2%	10.6%	13.6%	14.9%	15.4%	14.7%	-0.4%	-1.1%
Advances to Stable Resources	80.5%	74.7%	86.5%	89.8%	78.9%	84.8%	83.2%	77.2%	5.9%	1.6%
Eligible Liquid Assets	16.4%	23.6%	15.6%	16.4%	18.7%	14.0%	14.6%	15.2%	-7.2%	-2.3%
Performance										
Cost : Income Ratio	65.0%	65.7%	60.1%	50.6%	57.7%	56.0%	56.1%	53.3%	-0.6%	7.4%
NPL's : Gross Loans	15.7%	14.1%	14.9%	13.3%	11.4%	10.6%	9.2%	8.9%	1.6%	4.3%
Provision Coverage	98.7%	88.1%	85.5%	90.4%	98.9%	90.8%	93.6%	91.0%	10.6%	-0.2%
Loans : Deposits Ratio	80.1%	70.9%	88.9%	99.7%	91.2%	98.1%	95.9%	90.0%	9.2%	-11.0%
Return on Average Equity	-36.9%	-29.0%	-21.4%	-25.4%	-20.1%	-3.3%	2.8%	3.4%	-7.9%	-16.8%
Return on Average Assets	-3.9%	-3.0%	-2.3%	-2.6%	-2.4%	-0.4%	0.4%	0.4%	-1.0%	-1.5%
Cost of Risk	6.5%	5.7%	5.3%	6.2%	3.7%	2.5%	1.4%	1.6%	0.8%	2.8%
CASA %	25.7%	22.3%	25.8%	26.2%	24.8%	24.5%	26.2%	29.1%	3.4%	0.8%

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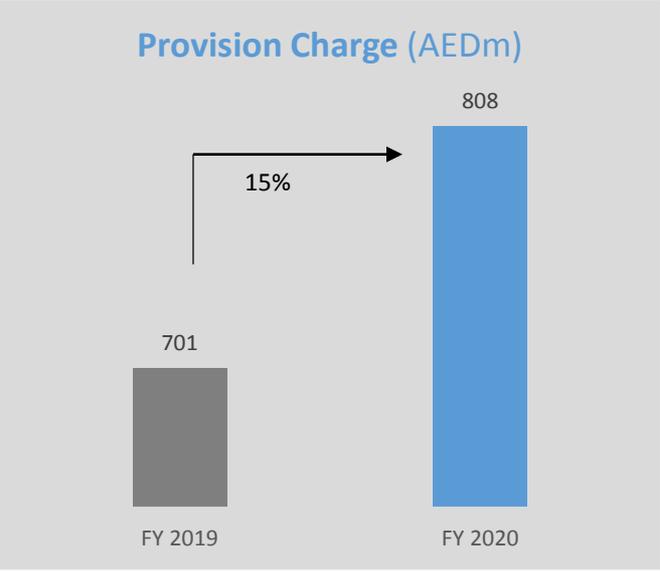
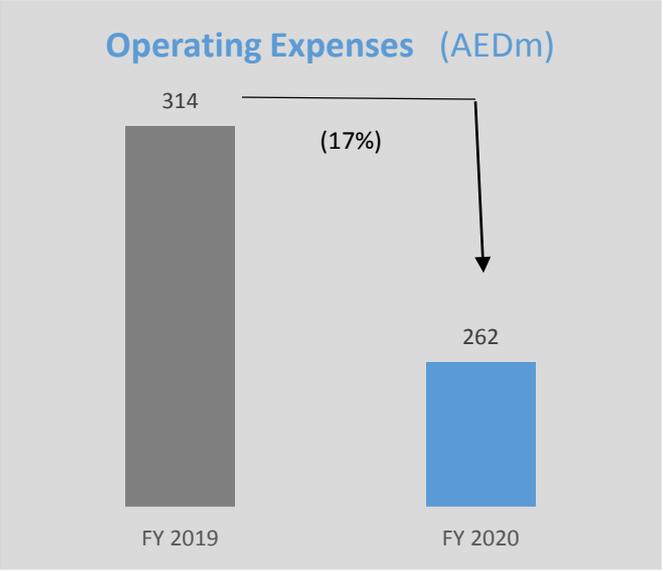
Income Statement Review



Total Income of **AED402.9m** in FY 2020 was impacted due to lower interest rates environment and challenging market conditions.

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Income Statement Review (cont.)

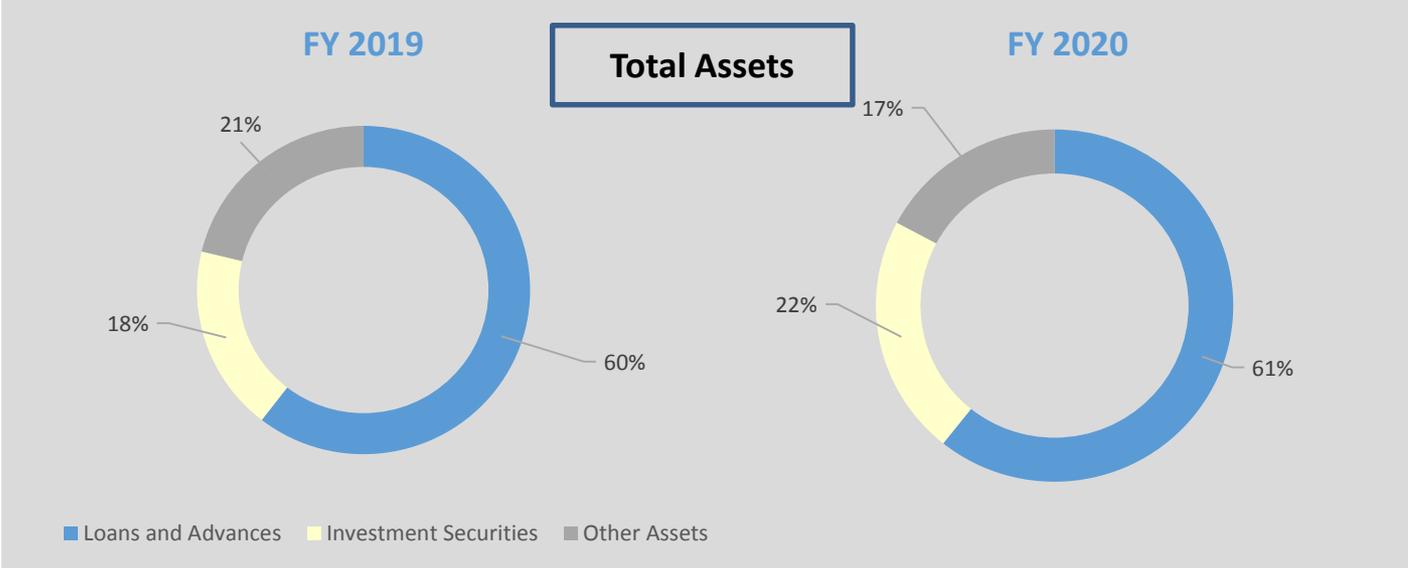


Operating Expenses for FY 2020 were AED262m, representing 17% reduction against FY 2019, as the Bank continues to rationalize its cost base through optimization of staff costs and avoiding non essential general and administrative expenditure and branch rationalization.

Provision Charges: Businesses across all sectors continue to be impacted due to the COVID-19 pandemic. The Bank is prudently managing risks to demonstrate transparency and take timely actions. This has resulted in increased Net Provisions charge by 15% vs FY 2019. The Bank will continue to focus on its remediation and recovery efforts noting that the Bank has taken additional impairment charges due to COVID'19 related Expected credit loss and on certain exposures that were classified as nonperforming loans during the Year.

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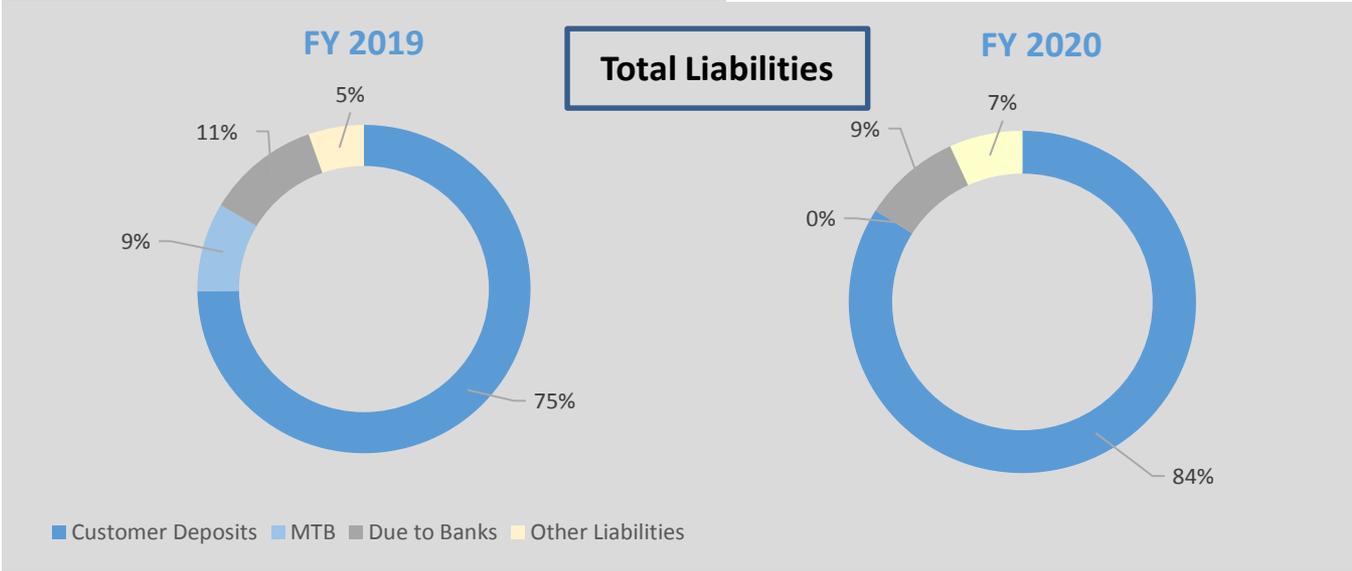
Balance Sheet Review



Asset mix is broadly in line with YE 2019. The Bank continues to support growth in ‘core’ businesses, whilst ensuring it captures all available cross-sales opportunities.

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Balance Sheet Review (cont.)

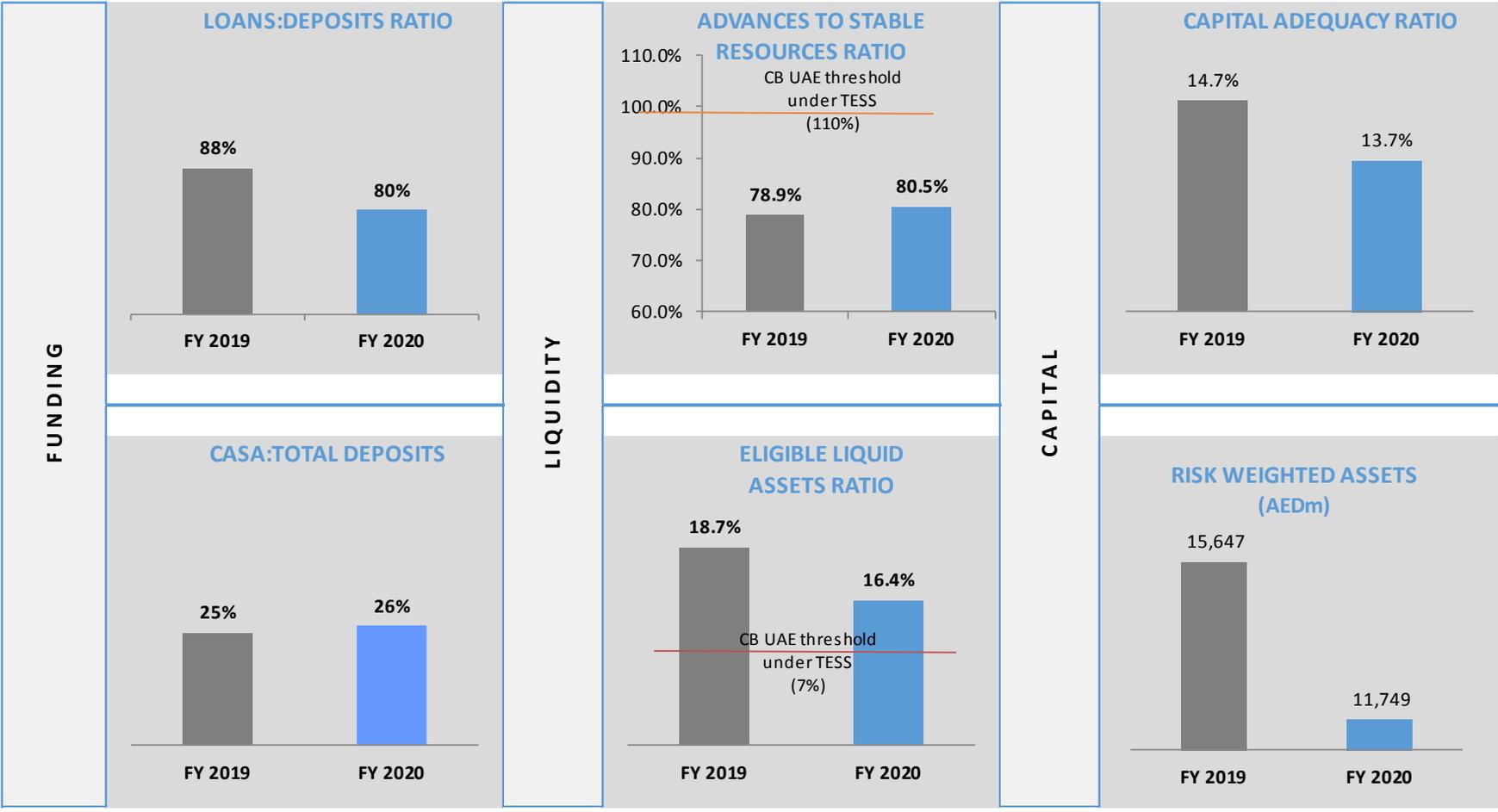


Customer Deposits have and will continue to represent the Bank’s key source of funds evidenced through 84% concentration in Total Liabilities. CASA:TD ratio at 25.7% as the Bank continues to deploy various tactical initiatives to efficiently manage the cost of funds.

Medium Term Borrowings In order to actively manage its balance sheet and optimize fund usage, the Bank has early repaid all its outstanding medium term borrowings in June 2020

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Liquidity Metrics and Capital Ratios



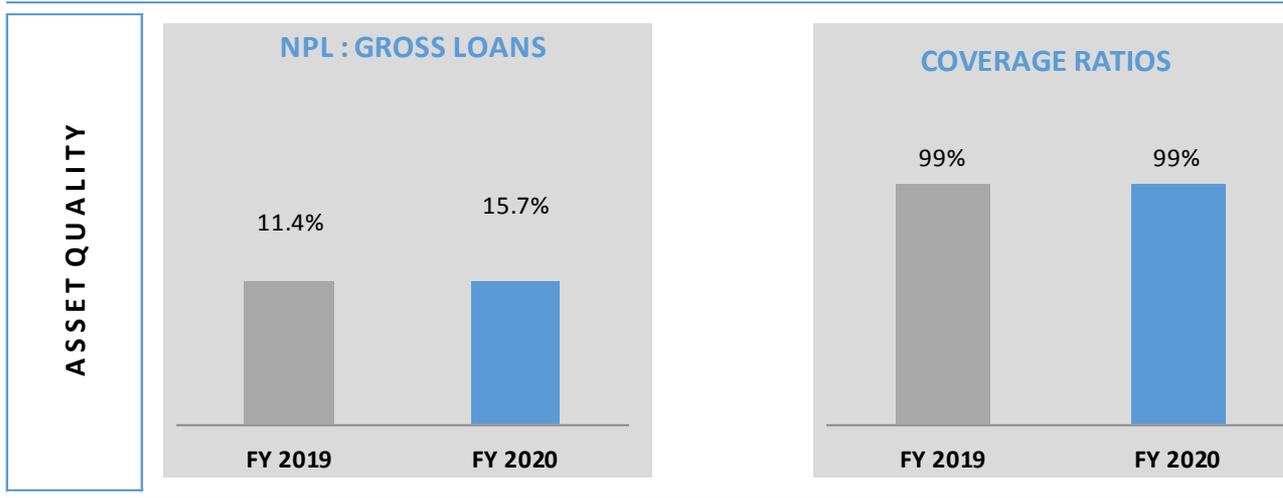
Loan : Deposit Ratio of 80% underpins a robust funding profile, whilst broadly **CASA%** at 26% which supports reduction in cost of funds

Satisfactory **Liquidity base** substantiated by both ASR / ELAR Ratios managed well above CB UAE thresholds

Overall Capital adequacy of 13.7% position with a Common Equity Tier1 (CET1) ratio of 12.5%, ahead of currently applicable regulatory requirements

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Asset Quality



In line with the Bank's approach to prudently manage credit risks, certain exposures were required to be classified during the Year. This along with a reduction in the loan book led to an increase in the NPL ratio.

Accordingly, the Bank's **NPL ratio** increased to 15.7% and **coverage ratio** reported 99% in line with last year's coverage ratio with the Bank continuing its efforts to optimize low risk lending as per the Bank's revised strategy.