



# MANAGEMENT DISCUSSION & ANALYSIS

## Q3 2020

# Management Discussion & Analysis – Q3 2020

## UAB Reports Financial Results for Q3 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**  
maintained

**15% Reduction in YoY  
Operating Expenses**  
With ongoing focus to  
rationalize costs

**Loan : Deposit Ratio**  
managed to 71%

**CAR at 14.0%**  
Well above currently applicable  
regulatory requirements

# Management Discussion & Analysis – Q3 2020

## Financial Performance Summary

Sharjah, UAE, 10 November 2020 - United Arab Bank P.J.S.C ("UAB" or "the Bank") announces its Financial Results for the nine months ended 30<sup>th</sup> September 2020.

UAB's prudent provisioning approach impacted its financial results during the year 2020, consequently, the bank reported a net loss of AED365 million for the nine months ending 30 September 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 Q3 2020 were predominantly driven by higher impairment charges due to the 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 14% 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 71%.

This period demonstrated the resilience of the Bank's customers and the dedication of its employees as the focus remained on delivering uninterrupted services to customers amidst a very challenging environment. The Bank has taken proactive steps to alleviate the financial pressure on individuals and businesses during this time, in line with the Central Bank of the UAE's Targeted Economic Support Scheme in response to Covid-19. The Bank has supported its customers through the deferral of finance repayments, while waiving certain fees to help customers manage the difficulties they may be facing.

The Bank is confident that the proactive actions taken by the Government of UAE to support the economy would lead to considerable improvements in the domestic operating environment in the near future.

### **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	58

# Management Discussion & Analysis – Q3 2020

## Financial Performance

Income Statement (AED millions)	2020				2019					Variance		
	YTD	Q3	Q2	Q1	FY	Q4	YTD Q3	Q3	Q2	Q1	QoQ%	YoY%
Net Interest Income	224.5	61.1	75.7	87.7	391.0	89.8	301.2	95.8	100.2	105.2	-19%	-25%
Non-Interest Income	78.0	22.4	17.6	38.0	153.8	39.9	113.9	37.5	29.5	46.9	27%	-32%
<b>Total Operating Income</b>	<b>302.5</b>	<b>83.5</b>	<b>93.4</b>	<b>125.6</b>	<b>544.8</b>	<b>129.7</b>	<b>415.1</b>	<b>133.3</b>	<b>129.7</b>	<b>152.0</b>	-11%	-27%
Operating Expenses	-198.6	-67.1	-67.9	-63.6	-314.1	-81.5	-232.6	-74.4	-77.1	-81.1	-1%	-15%
<b>Operating Profit</b>	<b>103.9</b>	<b>16.4</b>	<b>25.4</b>	<b>62.0</b>	<b>230.7</b>	<b>48.2</b>	<b>182.5</b>	<b>59.0</b>	<b>52.6</b>	<b>71.0</b>	-35%	-43%
Provision for credit losses	-468.8	-172.4	-114.4	-182.0	-701.5	-455.9	-245.5	-157.7	-38.4	-49.4	51%	91%
<b>Net Profit</b>	<b>-364.9</b>	<b>-156.0</b>	<b>-89.0</b>	<b>-119.9</b>	<b>-470.8</b>	<b>-407.7</b>	<b>-63.0</b>	<b>-98.7</b>	<b>14.1</b>	<b>21.6</b>	<b>75%</b>	<b>479%</b>

Balance Sheet (AED millions)	2020				2019				Variance	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	QoQ%	YoY%	
Loans and Advances	10,005	10,370	11,172	11,563	12,511	12,379	12,503	-4%	-13%	
Investment Securities	3,400	3,337	3,124	3,503	3,794	3,847	3,889	2%	-3%	
Other Assets	4,576	3,002	3,330	4,059	3,380	3,364	4,018	52%	13%	
<b>Total Assets</b>	<b>17,982</b>	<b>16,709</b>	<b>17,626</b>	<b>19,125</b>	<b>19,685</b>	<b>19,590</b>	<b>20,410</b>	<b>8%</b>	<b>-6%</b>	
Customer Deposits	14,104	11,665	11,202	12,686	12,753	12,905	13,891	21%	11%	
Medium Term Borrowings	-	-	1,487	1,487	1,487	1,487	955	0%	-100%	
Due to Banks	1,364	2,407	2,370	1,878	2,042	1,653	1,988	-43%	-27%	
Other Liabilities	846	865	931	914	872	938	1,015	-2%	-7%	
<b>Total Liabilities</b>	<b>16,313</b>	<b>14,936</b>	<b>15,990</b>	<b>16,965</b>	<b>17,154</b>	<b>16,983</b>	<b>17,849</b>	<b>9%</b>	<b>-4%</b>	
Shareholders' Equity	1,669	1,773	1,636	2,160	2,530	2,607	2,561	-6%	-23%	
<b>Total Liabilities &amp; Shareholders' Funds</b>	<b>17,982</b>	<b>16,709</b>	<b>17,626</b>	<b>19,125</b>	<b>19,685</b>	<b>19,590</b>	<b>20,410</b>	<b>8%</b>	<b>-6%</b>	

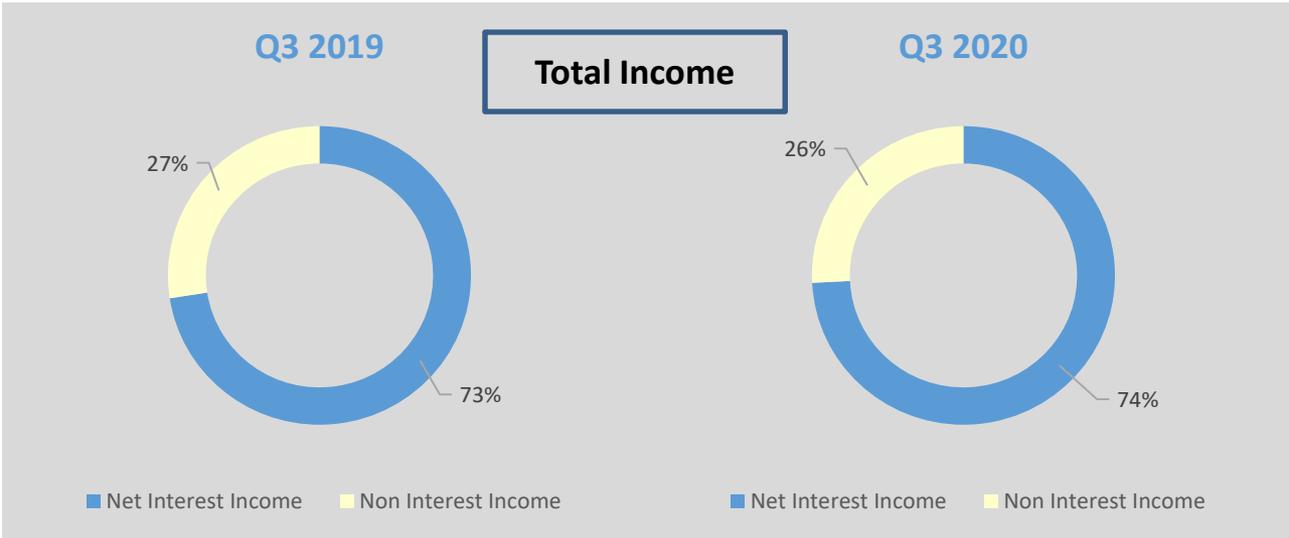
# Management Discussion & Analysis – Q3 2020

## Financial Performance (cont.)

Key Ratios	2020			2019			Variance		
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	QoQ%	YoY%
<b>Regulatory</b>									
Capital Adequacy	14.0%	14.3%	11.8%	14.7%	16.0%	16.5%	15.8%	-0.3%	-0.7%
Tier 1	12.9%	13.2%	10.6%	13.6%	14.9%	15.4%	14.7%	-0.3%	-0.7%
CET 1	12.9%	13.2%	10.6%	13.6%	14.9%	15.4%	14.7%	-0.3%	-0.7%
Advances to Stable Resources	74.7%	86.5%	89.8%	78.9%	84.8%	83.2%	77.2%	-11.8%	-4.3%
Eligible Liquid Assets	23.6%	15.6%	16.4%	18.7%	14.0%	14.6%	15.2%	7.9%	4.9%
<b>Performance</b>									
Cost : Income Ratio	65.7%	60.1%	50.6%	57.7%	56.0%	56.1%	53.3%	5.6%	8.0%
NPL's : Gross Loans	14.1%	14.9%	13.3%	11.4%	10.6%	9.2%	8.9%	-0.8%	2.7%
Provision Coverage	88.1%	85.5%	90.4%	98.9%	90.8%	93.6%	91.0%	2.6%	-10.8%
Loans : Deposits Ratio	70.9%	88.9%	99.7%	91.2%	98.1%	95.9%	90.0%	-18.0%	-20.2%
Return on Average Equity (annualized)	-25.5%	-21.4%	-25.4%	-20.1%	-3.3%	2.8%	3.4%	-4.1%	-5.4%
Return on Average Assets (annualized)	-2.6%	-2.3%	-2.6%	-2.4%	-0.4%	0.4%	0.4%	-0.3%	-0.2%
Cost of Risk	5.7%	5.3%	6.2%	3.7%	2.5%	1.4%	1.6%	0.4%	2.0%
CASA %	22.3%	25.8%	26.2%	24.8%	24.5%	26.2%	29.1%	-3.5%	-2.5%

# Management Discussion & Analysis – Q3 2020

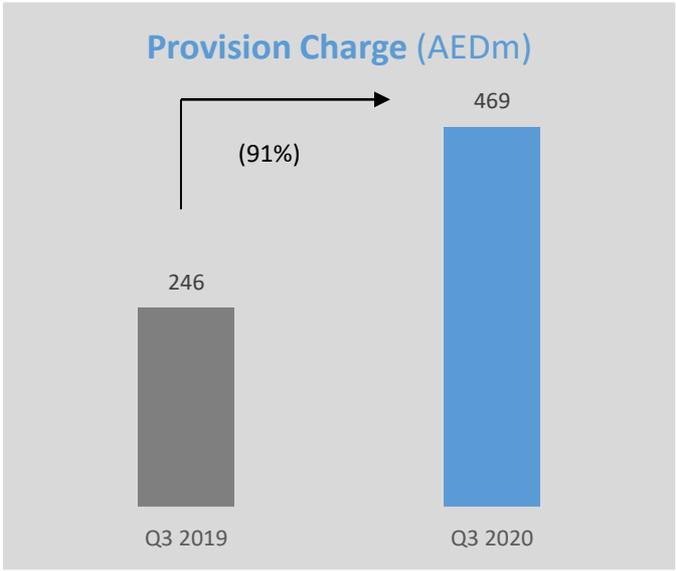
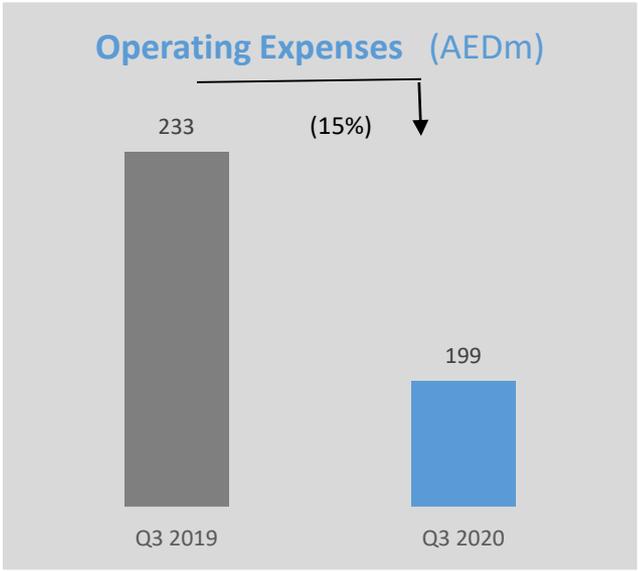
## Income Statement Review



**Total Income** of AED302.5m in Q3 2020 was impacted due to lower interest rates environment and challenging market conditions.

# Management Discussion & Analysis – Q3 2020

## Income Statement Review (cont.)

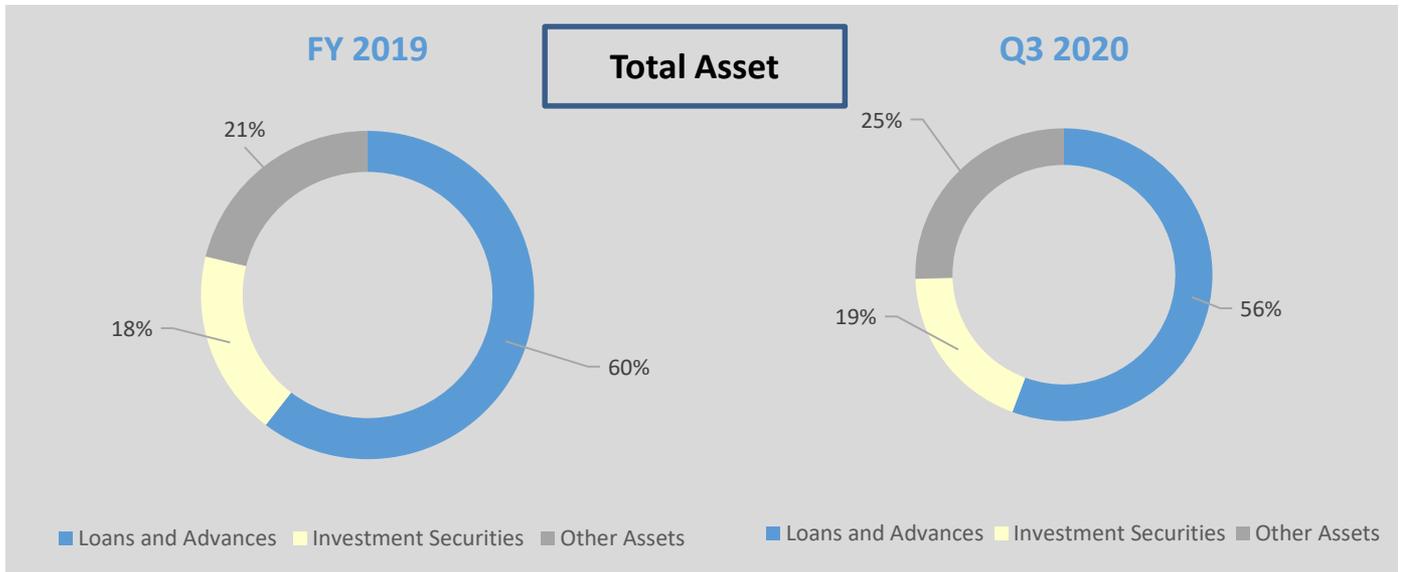


**Operating Expenses** for Q3 2020 were AED199m, representing 15% reduction against Q3 2019, as the Bank continues to rationalize its cost base through optimization of staff costs and avoiding non essential general and administrative expenditure and branch rationalization.

**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 91% vs Q3 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 quarter.

# Management Discussion & Analysis – Q3 2020

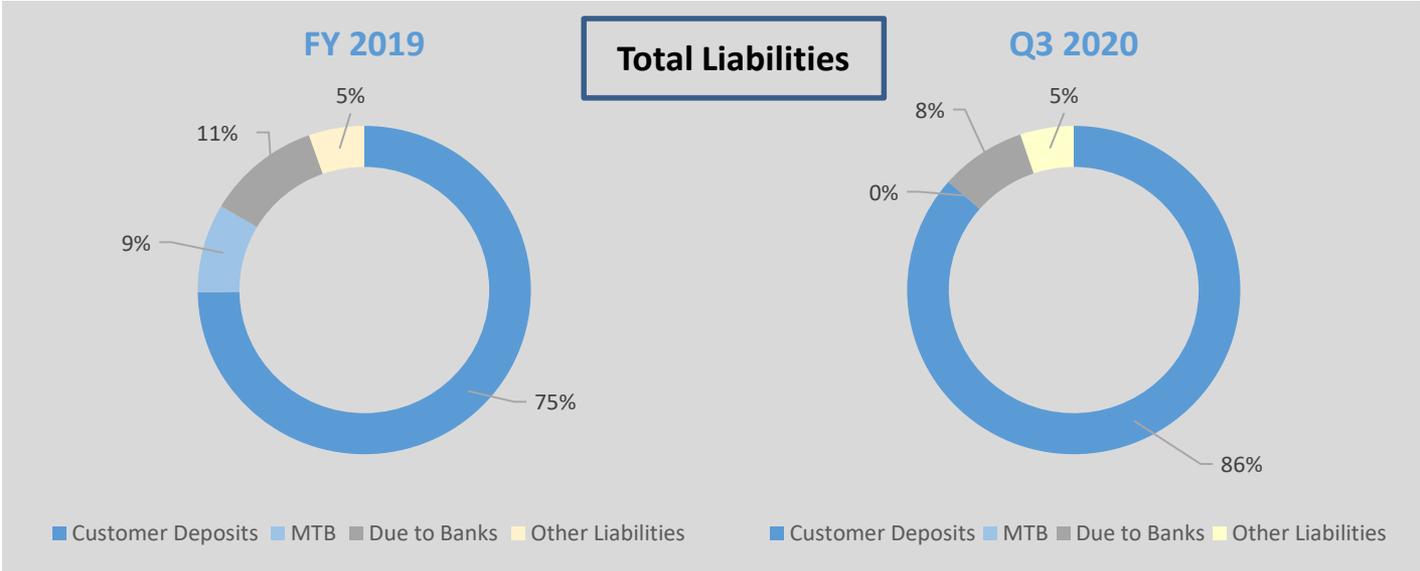
## Balance Sheet Review



**Total 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.

# Management Discussion & Analysis – Q3 2020

## Balance Sheet Review (cont.)

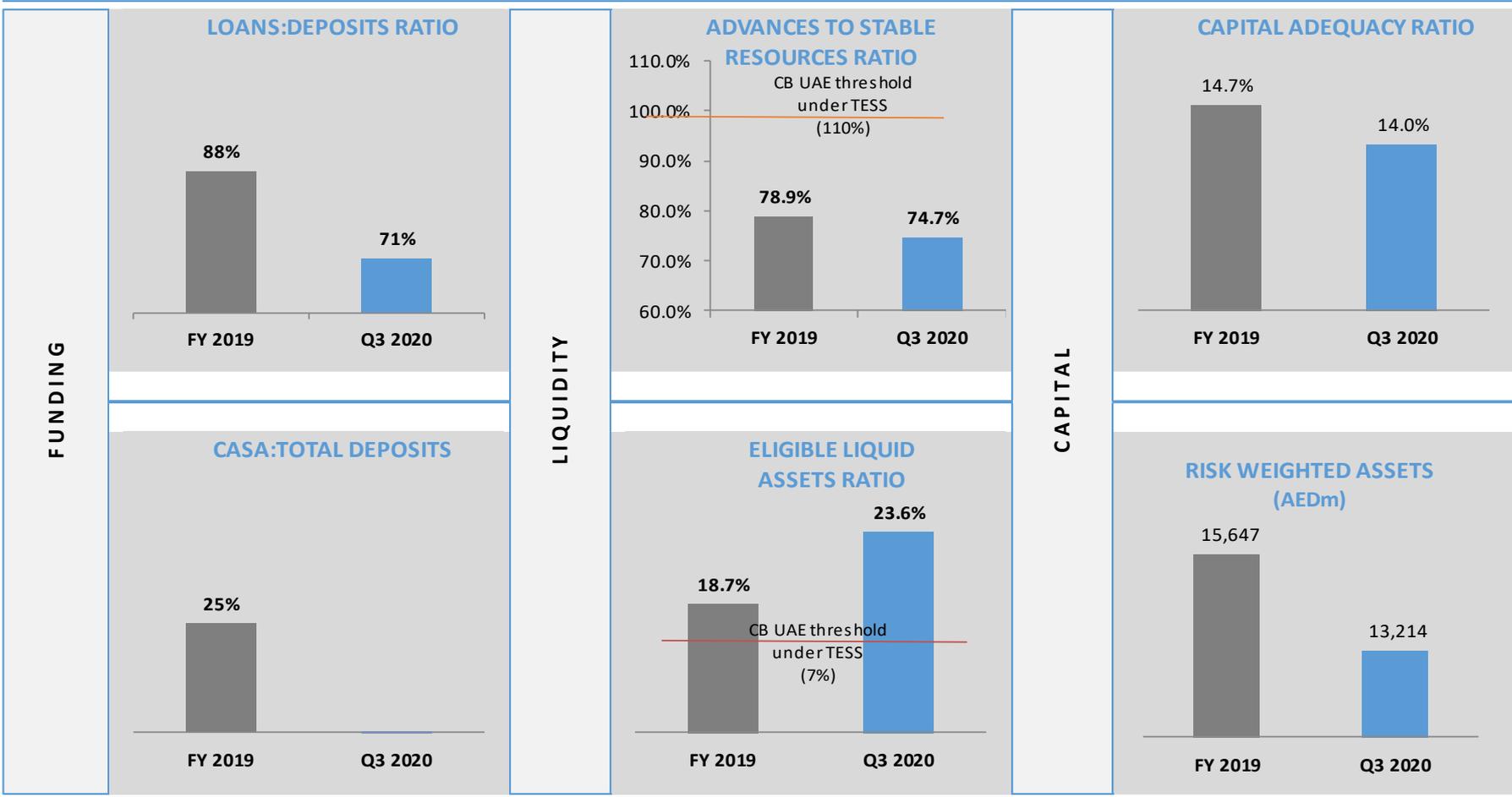


**Customer Deposits** have and will continue to represent the Bank’s key source of funds evidenced through a stable 86% concentration in Total Liabilities. CASA:TD ratio at 22% as the Bank continues to deploy various tactical initiatives to efficiently manage the cost of funds.

**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

# Management Discussion & Analysis – Q3 2020

## Liquidity Metrics and Capital Ratios



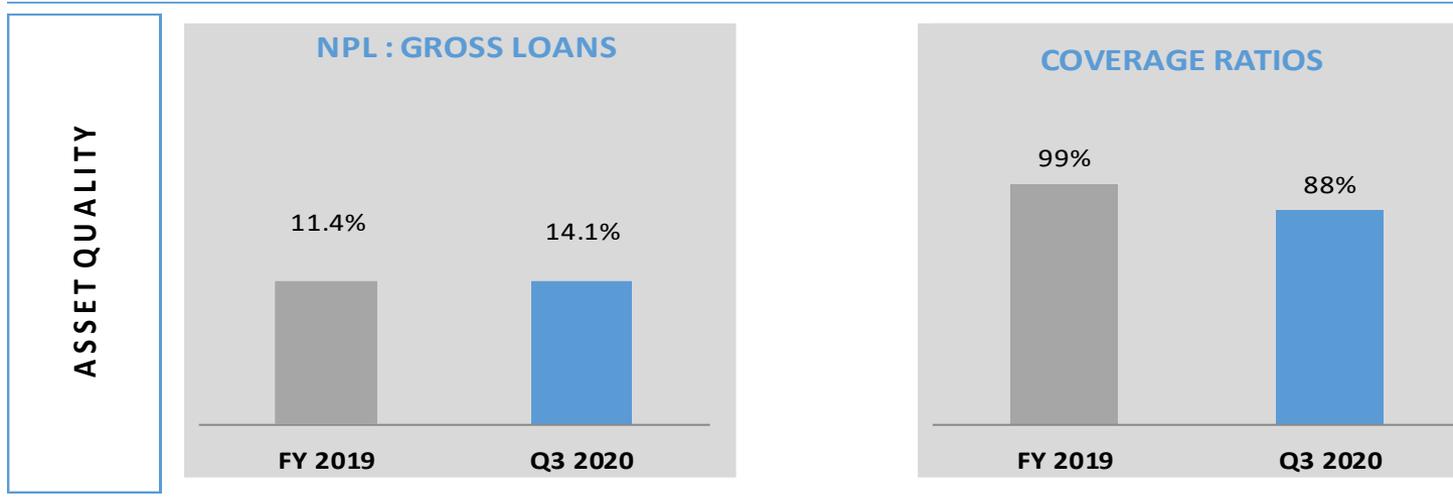
**Loan : Deposit Ratio** of 71% underpins a robust funding profile, whilst broadly **CASA%** at 22% which supports reduction in cost of funds

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

Overall Capital adequacy of 14.0% position with a Common Equity Tier1 (CET1) ratio of 12.9%, ahead of currently applicable regulatory requirements

# Management Discussion & Analysis – Q3 2020

## Asset Quality



In line with the Bank's approach to prudently manage credit risks, certain exposures were required to be classified during the period. 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 14.1% and **coverage ratio** reported 88% with the Bank continuing its efforts to optimize low risk lending as per the Bank's revised strategy.