



# MANAGEMENT DISCUSSION & ANALYSIS

## Q3 2018

# Management Discussion & Analysis – Q3 2018

## UAB Reports AED105m Net Profit for Q3 2018

representing 111% uplift vs. same period in prior year

**2% increase**

in 'Core' Income Y-o-Y

**Robust Liquidity profile**

maintained

**Cost Base**

Ongoing focus to rationalize  
costs

**'Non-core' portfolio**

managed down to 1.3% of Total  
Loans

**Loan : Deposit Ratio**

managed at 97%

**CAR at 15.6%**

Post successful completion of  
AED688m Rights Issue in early 2018

# Management Discussion & Analysis – Q3 2018

## Financial Performance Summary

**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 2018 reporting Net Profit of **AED105m** for the period representing an uplift of 111% against the same period in prior year and continue to rebuild the bank by strengthening its core businesses, streamlining the cost base and maintaining key banking fundamentals.

**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 third quarter, demonstrating the strength of our 'core' business. Our low risk and efficient UAE focused business model, positions us well to continue doing the right thing for our customers and deliver sustainable returns for our shareholders."

**Sheikh Mohamed Bin Abdulla Al Nuaimi, Acting Chief Executive Officer, commented,** "We have seen another period of good financial and operating performance in Q3 2018 with the Bank reporting Net Profit of AED105m, supported by robust capital, funding and liquidity profile. Our focus remains on growing the core business and reduce operating expenses whilst maintaining the cost of risk at acceptable levels."

### **Moody's Rating**

Bank Deposits	Baa3/P-3
Baseline Credit Assessment	ba2
Adjusted Baseline Credit Assessment	ba2
Counterparty Risk Assessment	Baa2(cr)/P-2(cr)
Outlook	Stable

### **Distribution Network**

Branches	14
Automated Teller Machines	66



# Management Discussion & Analysis – Q3 2018

## Financial Performance

Income Statement <i>(AED millions)</i>	2018				2017				Variance	
	YTD	Q3	Q2	Q1	YTD	Q3	Q2	Q1	QoQ%	YoY%
Net Interest Income	375	122	125	128	376	130	126	119	-2%	-7%
Non-Interest Income	127	38	43	46	140	40	49	51	-10%	-4%
<b>Total Operating Income</b>	<b>501</b>	<b>160</b>	<b>167</b>	<b>174</b>	<b>516</b>	<b>170</b>	<b>175</b>	<b>171</b>	<b>-4%</b>	<b>-6%</b>
Provision for credit losses	-150	-58	-38	-54	-210	-94	-60	-56	50%	-39%
<b>Net Operating Income</b>	<b>351</b>	<b>102</b>	<b>129</b>	<b>120</b>	<b>306</b>	<b>76</b>	<b>115</b>	<b>114</b>	<b>-21%</b>	<b>34%</b>
Operating Expenses	-246	-78	-84	-84	-256	-82	-88	-87	-7%	-4%
<b>Net Profit</b>	<b>105</b>	<b>24</b>	<b>45</b>	<b>36</b>	<b>50</b>	<b>-5</b>	<b>27</b>	<b>28</b>	<b>-46%</b>	<b>550%</b>

Balance Sheet <i>(AED millions)</i>	2018			2017				Variance	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	QoQ%	YoY%
Loans and Advances	13,082	12,757	12,781	13,128	12,851	13,398	13,384	3%	2%
Investment Securities	3,807	3,798	3,725	3,413	3,306	3,427	3,387	0%	15%
Other Assets	3,766	3,625	3,936	4,197	4,442	4,332	4,502	4%	-15%
<b>Total Assets</b>	<b>20,654</b>	<b>20,180</b>	<b>20,442</b>	<b>20,739</b>	<b>20,599</b>	<b>21,157</b>	<b>21,273</b>	<b>2%</b>	<b>0%</b>
Customer Deposits	13,494	13,881	14,969	15,050	14,316	13,881	15,673	-3%	-6%
Medium Term Borrowings	1,102	845	845	845	1,432	1,524	1,524	30%	-23%
Due to Banks	2,606	2,057	1,234	1,544	1,450	2,248	827	27%	80%
Other Liabilities	847	865	856	1,136	1,214	1,322	1,090	-2%	-30%
<b>Total Liabilities</b>	<b>18,049</b>	<b>17,648</b>	<b>17,904</b>	<b>18,574</b>	<b>18,412</b>	<b>18,975</b>	<b>19,113</b>	<b>2%</b>	<b>-2%</b>
Total Shareholders' Funds	2,605	2,532	2,538	2,165	2,187	2,182	2,160	3%	19%
<b>Total Liabilities &amp; Shareholders' Funds</b>	<b>20,654</b>	<b>20,180</b>	<b>20,442</b>	<b>20,739</b>	<b>20,599</b>	<b>21,157</b>	<b>21,273</b>	<b>2%</b>	<b>0%</b>



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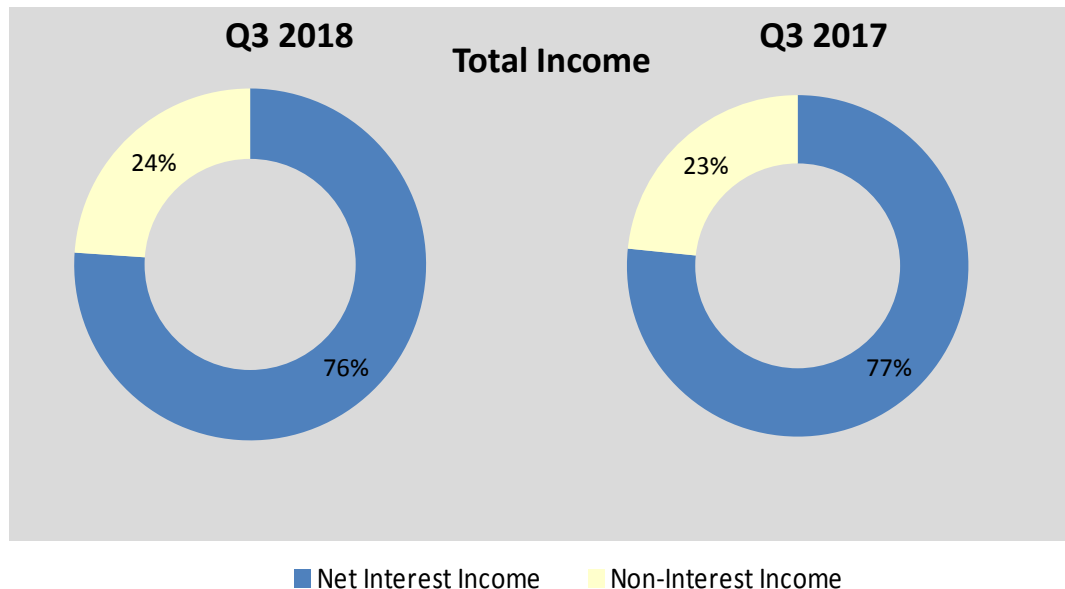
## Financial Performance (cont.)

Key Ratios	2018			2017				Variance	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	QoQ%	YoY%
<b>Regulatory</b>									
Capital Adequacy	15.6%	15.5%	15.7%	13.2%	13.3%	13.1%	13.2%	1.2%	17.6%
Tier 1	14.5%	14.4%	14.6%	12.0%	12.1%	11.9%	12.1%	1.3%	20%
Advances to Stable Resources	84.0%	85.0%	81.4%	82.0%	81.7%	81.8%	77.9%	-1.2%	3%
Eligible Liquid Assets	14.9%	14.1%	14.5%	15.2%	14.4%	14.3%	18.6%	5.4%	3%
<b>Performance</b>									
Cost : Income Ratio	48.9%	50.4%	48.1%	71.0%	48.0%	50.1%	50.7%	-3.1%	1.7%
NPL's : Gross Loans	8.4%	8.8%	8.8%	8.5%	6.5%	6.5%	5.9%	-4.2%	29.5%
Provision Coverage	91%	104%	107%	85%	102%	105%	117%	-12.7%	-11.3%
Loans : Deposits Ratio	97%	92%	85%	87%	90%	97%	85%	5.6%	8.0%



# Management Discussion & Analysis – Q3 2018

## Income Statement Review



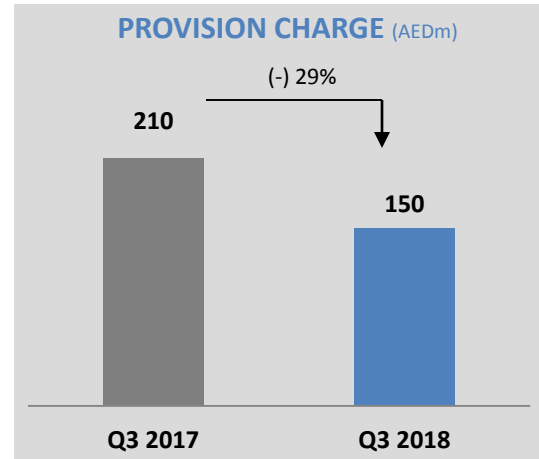
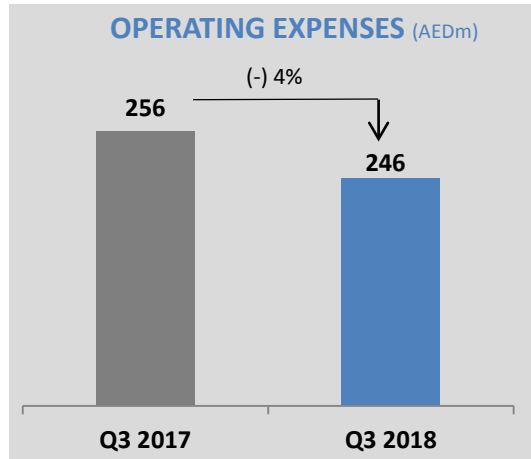
**Total Income** of **AED501m** in Q3 2018 was aided by capturing growth opportunities in the core businesses through proactively re-pricing the Bank's assets, generating stable non-interest income, increasing the investment book and prudent management of the cost of funds.

The Bank continues to generate stable **Net Interest Income** streams (AED375m in Q3 2018 vs. AED376m in Q3 2017) given the strategic emphasis placed on deepening relationships within the Corporate Banking Unit supported by proactive cost of funds management.



# Management Discussion & Analysis – Q3 2018

## Income Statement Review (cont.)



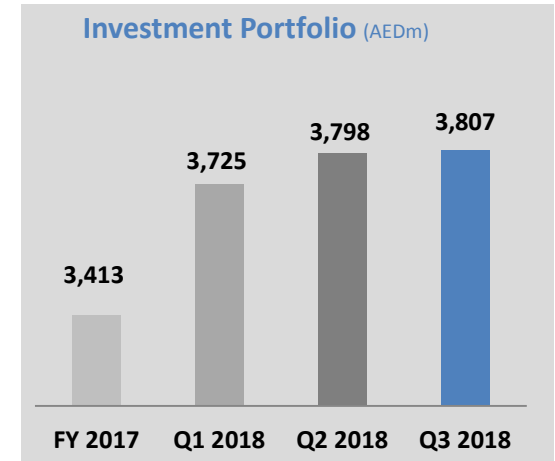
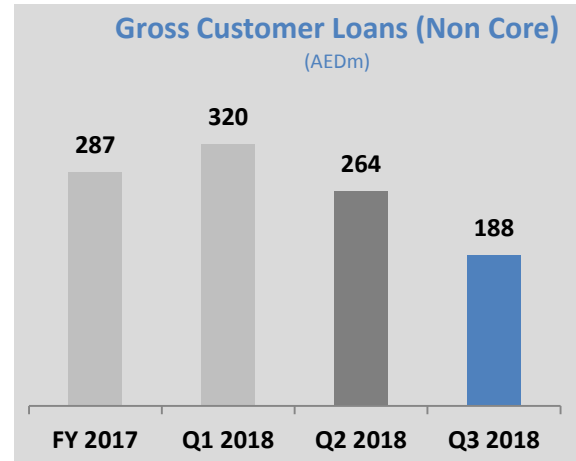
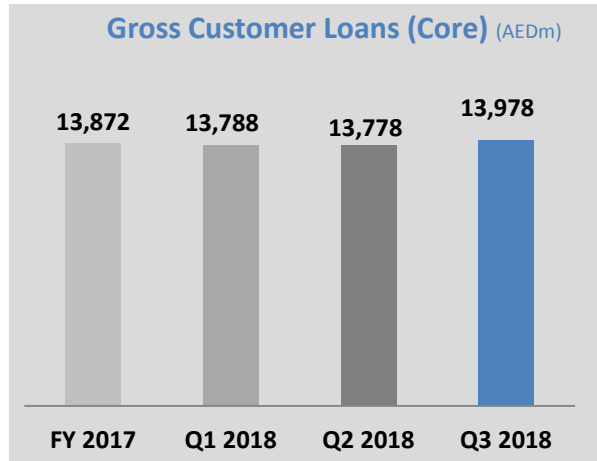
**Operating Expenses** for Q3 2018 were AED246m representing a **4%** reduction against same period in 2017, as the Bank continues to rationalize its cost base through optimization of staff costs and avoiding non essential general and administrative expenditure.

**Provision Charges** on a total portfolio basis continue to demonstrate significant improvement with a solid **29%** reduction vs. Q3 2017 given prudent risk management and focused reduction in higher risk assets.



# Management Discussion & Analysis – Q3 2018

## Balance Sheet Review



**Customer Loans** across the Bank's core Corporate and Retail units remained stable compared to FY 2017 whilst the 'non-core' portfolio continued on its downward trajectory being managed down **92%** since Q3 2015 and now constitutes 1.3% of Total Loans with this absolute reduction driving the decrease in Impairment Losses. The Bank will continue to recycle risk weighted assets released from the deleveraged 'non-core' portfolios to support growth of 'core' activities, whilst ensuring it captures all available cross-sales opportunities.

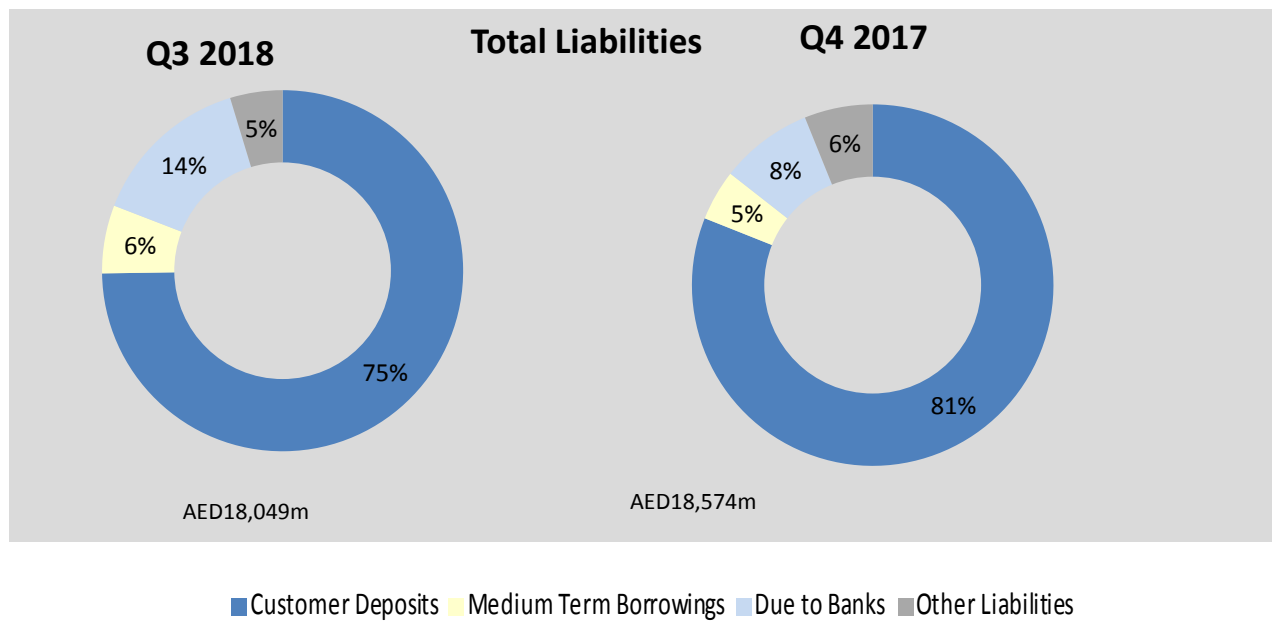
**Investment portfolio** recorded an uplift of **12%** vs. FY 2017 as surplus funds continue to be placed in High Quality Liquid Assets, whilst providing the Bank with a stable income stream.





# Management Discussion & Analysis – Q3 2018

## Balance Sheet Review (cont.)



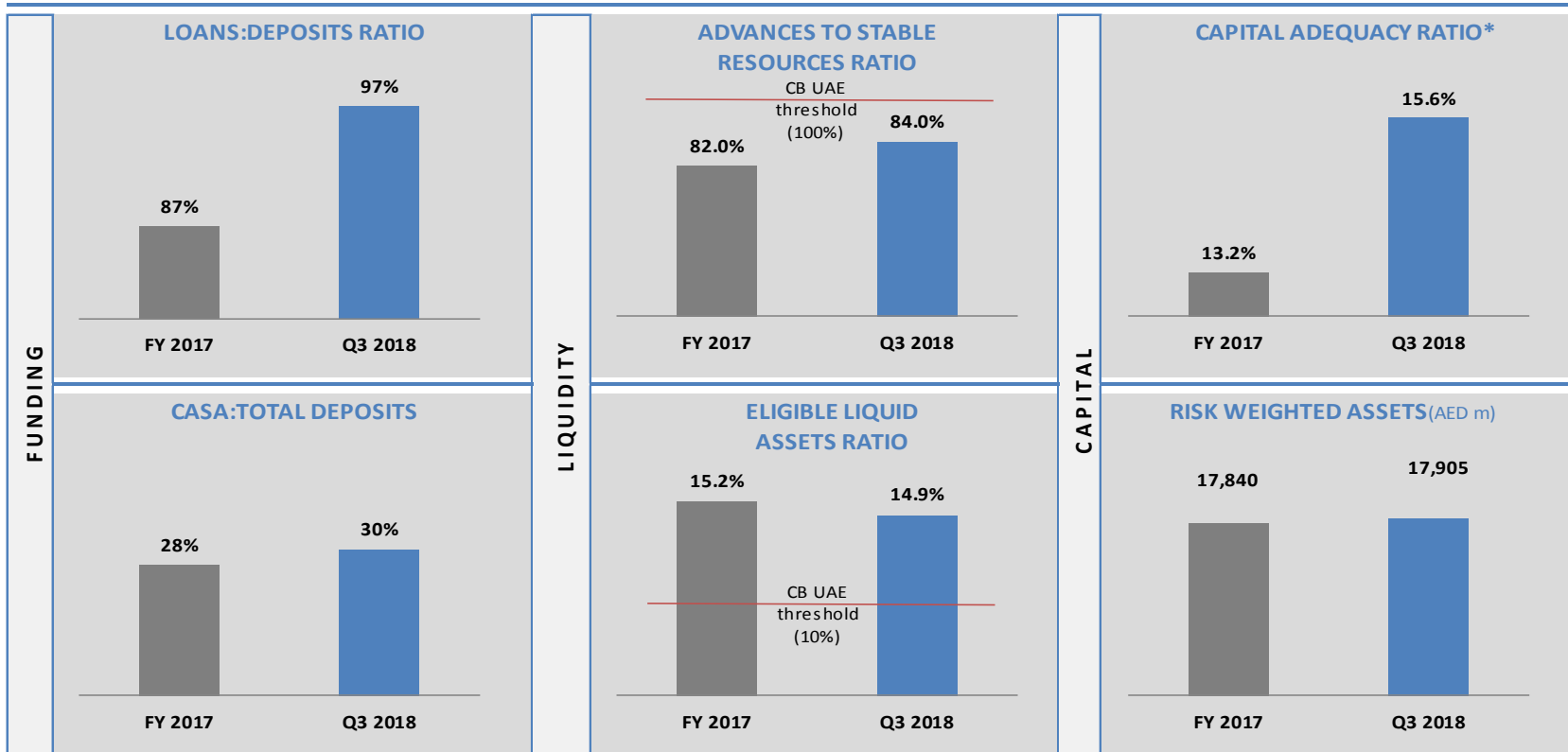
**Customer Deposits** have and will continue to represent the Bank's key source of funds as evidenced through **75%** concentration in Total Liabilities as on 30<sup>th</sup> September 2018. CASA:TD ratio improved to 30% from 28% in FY 2017 as the Bank continue to deploy various tactical initiatives to manage the increasing cost of funds.

**Medium Term Borrowings** representing **6%** of the total liabilities of the Bank continue to be effectively utilized to aid tenor management and represent a key part of UAB's liquidity and funding strategy.

# Management Discussion & Analysis – Q3 2018

## Solid Banking Fundamentals

Significant focus placed on Capital Adequacy, Funding and Liquidity which represent the fundamentals of a solid Bank.



**Loan : Deposit Ratio** of 97% underpins a robust funding profile, whilst broadly stable **CASA%** supports reduction in cost of funds.

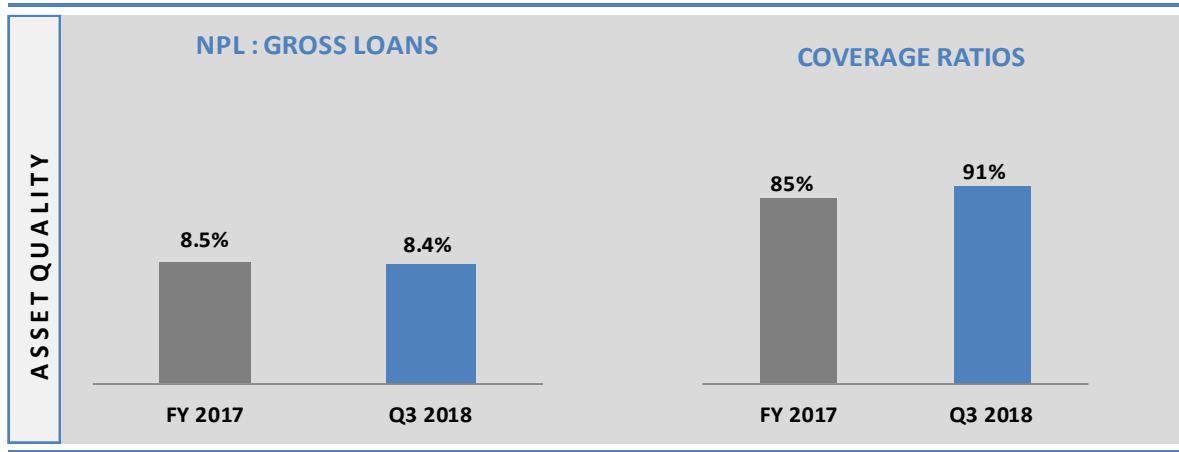
Strong **Liquidity base** substantiated by both ASR / ELAR Ratios managed well above CB UAE thresholds.

\*The **rights issue** completed in early 2018 helped maintain satisfactory buffer against regulatory requirements, whilst supporting 'core' business growth.



# Management Discussion & Analysis – Q3 2018

## Asset Quality



The proactive focus on de-risking the Balance Sheet has aided UAB in maintaining steady **NPL** ratio vs. FY 2017 with the Bank continuing its efforts to seek optimal resolution from exiting its riskier assets. UAB continued with its decisive and prudent provisioning approach to proactively recognize problem loans. Accordingly, the Bank's coverage ratio increased to 91% from 85% in 2017.

