



# MANAGEMENT DISCUSSION & ANALYSIS

## Q1 2018

# Management Discussion & Analysis – Q1 2018

## UAB Reports AED36m Net Profit for Q1 2018

representing a 29% uplift vs. same period in prior year

**8% increase**

in Total Income Q-o-Q

**Robust Liquidity profile**

maintained

**Cost Base**

Ongoing focus to rationalize  
costs

**‘Non-core’ portfolio**

managed down to 2% of Total Loans

**Loan : Deposit Ratio**

managed down to 85%

**CAR at 15.7%**

Post successful completion of AED688m  
Rights Issue

# Management Discussion & Analysis – Q1 2018

## Financial Performance Summary

**United Arab Bank P.J.S.C** ("UAB" or "the Bank") announces its Financial Results for the three months ended 31<sup>st</sup> March 2018.

Strong performance is evidenced across the period with the Bank reporting a Net Profit of **AED36m** for Q1 2018 representing a **29%** uplift against the same period in prior year with UAB continuing to: strengthen its core businesses; streamline the cost base; and maintain key banking fundamentals.

**Sheikh Faisal Bin Sultan Bin Salem Al Qassimi, Chairman of the Board of Directors, said,** "We are pleased to see the improved operating performance in Q1 2018 which demonstrates the strength of our 'core' business. We have significantly strengthened the Balance Sheet, concentrated on our core businesses, de-risked the business and captured bank-wide cost savings through the successful execution of our transformation strategy, all of which have enabled the Bank to report a 29% uplift in Net Profit. For UAB, 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,** "I am pleased to report that our financial performance is aided by a significant progress within our 'core' businesses recording a **13%** Q-on-Q uplift in Net Interest Income and **8%** Q-on-Q uplift in Total Income, whilst Operating Expenses continue to be robustly managed. These positive results provide tangible evidence that our revised business model is appropriate with UAB returning to its traditional Corporate Banking roots, complimented by Retail and Treasury propositions."

### **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	Negative

### **Distribution Network**

Branches	14
Automated Teller Machines	65



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## Financial Performance

Income Statement <i>(AED millions)</i>	2018	2017					Variance	
	Q1	FY	Q4	Q3	Q2	Q1	QoQ%	YoY%
Net Interest Income	128	489	114	130	126	119	13%	8%
Non-Interest Income	46	188	48	40	49	51	-4%	-11%
<b>Total Operating Income</b>	<b>174</b>	<b>677</b>	<b>162</b>	<b>170</b>	<b>175</b>	<b>171</b>	<b>8%</b>	<b>2%</b>
Provision for credit losses	-54	-289	-79	-94	-60	-56	-32%	-4%
<b>Net Operating Income</b>	<b>120</b>	<b>388</b>	<b>82</b>	<b>76</b>	<b>115</b>	<b>114</b>	<b>46%</b>	<b>5%</b>
Operating Expenses	-84	-370	-115	-82	-88	-87	-27%	-3%
<b>Net Profit</b>	<b>36</b>	<b>17</b>	<b>-32</b>	<b>-5</b>	<b>27</b>	<b>28</b>	<b>211%</b>	<b>29%</b>

Balance Sheet <i>(AED millions)</i>	2018	2017				Variance	
	Q1	Q4	Q3	Q2	Q1	QoQ%	YoY%
Loans and Advances	12,781	13,128	12,851	13,398	13,384	-3%	-5%
Investment Securities	3,725	3,413	3,306	3,427	3,387	9%	10%
Other Assets	3,936	4,197	4,442	4,332	4,502	-6%	-13%
<b>Total Assets</b>	<b>20,442</b>	<b>20,739</b>	<b>20,599</b>	<b>21,157</b>	<b>21,273</b>	<b>-1%</b>	<b>-4%</b>
Customer Deposits	14,969	15,050	14,316	13,881	15,673	-1%	-4%
Medium Term Borrowings	845	845	1,432	1,524	1,524	0%	-45%
Due to Banks	1,234	1,544	1,450	2,248	827	-20%	49%
Other Liabilities	856	1,136	1,214	1,322	1,090	-25%	-21%
<b>Total Liabilities</b>	<b>17,904</b>	<b>18,574</b>	<b>18,412</b>	<b>18,975</b>	<b>19,113</b>	<b>-4%</b>	<b>-6%</b>
Total Shareholders' Funds	2,538	2,165	2,187	2,182	2,160	17%	17%
<b>Total Liabilities &amp; Shareholders' Funds</b>	<b>20,442</b>	<b>20,739</b>	<b>20,599</b>	<b>21,157</b>	<b>21,273</b>	<b>-1%</b>	<b>-4%</b>



# Management Discussion & Analysis – Q1 2018

## Financial Performance (cont.)

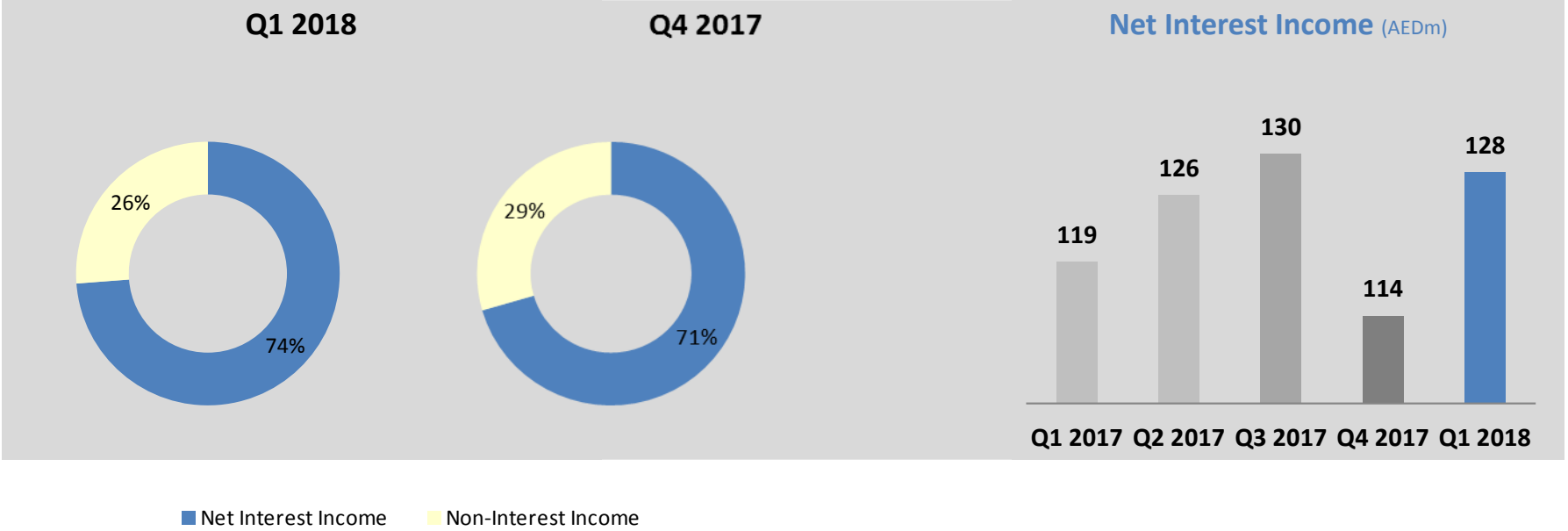
Gross Loans <i>(AED millions)</i>	2018	2017				Variance	
	Q1	Q4	Q3	Q2	Q1	QoQ%	YoY%
Core	13,788	13,872	13,446	13,947	13,810	-0.6%	-0.2%
Non-Core	320	287	323	443	565	11.7%	-43.3%
<b>Total Loans</b>	<b>14,108</b>	<b>14,159</b>	<b>13,770</b>	<b>14,390</b>	<b>14,375</b>	<b>0%</b>	<b>-2%</b>
%							
Core	98%	98%	98%	97%	96%	0%	1.7%
Non-Core	2%	2%	2%	3%	4%	12%	-42.3%
<b>Total Loans</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>		

Key Ratios	2018	2017				Variance	
	Q1	Q4	Q3	Q2	Q1	QoQ%	YoY%
<b>Regulatory</b>							
Capital Adequacy	15.7%	13.2%	13.3%	13.1%	13.2%	19.2%	19.5%
Tier 1	14.6%	12.0%	12.1%	11.9%	12.1%	21.8%	21.4%
Advances to Stable Resources	81.4%	82.0%	81.7%	81.8%	77.9%	-0.8%	4.4%
Eligible Liquid Assets	14.5%	15.2%	14.4%	14.3%	18.6%	-4.8%	-22.2%
<b>Performance</b>							
Cost : Income Ratio	48.1%	71.0%	48.0%	50.1%	50.7%	-32.2%	-5.2%
NPL's : Gross Loans	8.8%	8.5%	6.5%	6.5%	5.9%	3.2%	49.8%
Provision Coverage	107%	85%	102%	105%	117%	25.3%	-8.9%
Loans : Deposits Ratio	85%	87%	90%	97%	85%	-2.3%	0.0%



# Management Discussion & Analysis – Q1 2018

## Income Statement Review

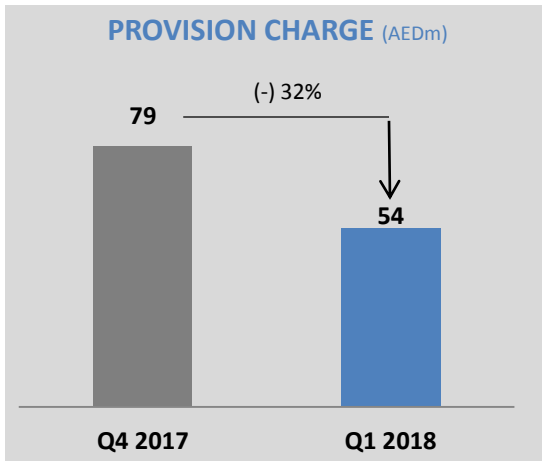
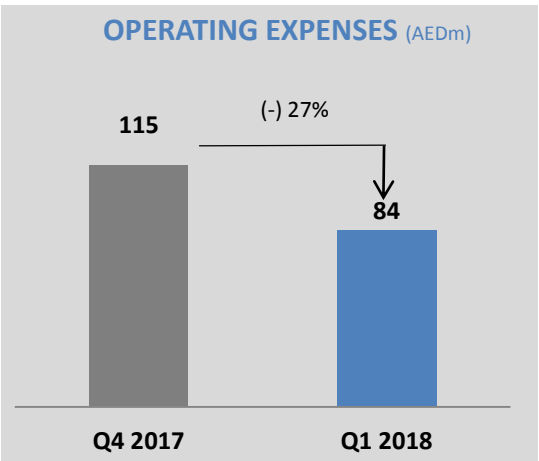


**Total Income** of AED174m in Q1 2018 was aided by capturing growth opportunities in the core business through proactively re-pricing the Bank’s assets, reducing cost of funds and generating stable non-interest income.

The Bank continues to generate stable Net Interest Income streams recording a **13%** Q-on-Q uplift (AED128m in Q1 2018 vs. AED114m in Q4 2017) given the strategic emphasis placed on deepening relationships within the Corporate Banking Unit and supported by proactive cost of funds management.

# Management Discussion & Analysis – Q1 2018

## Income Statement Review (cont.)

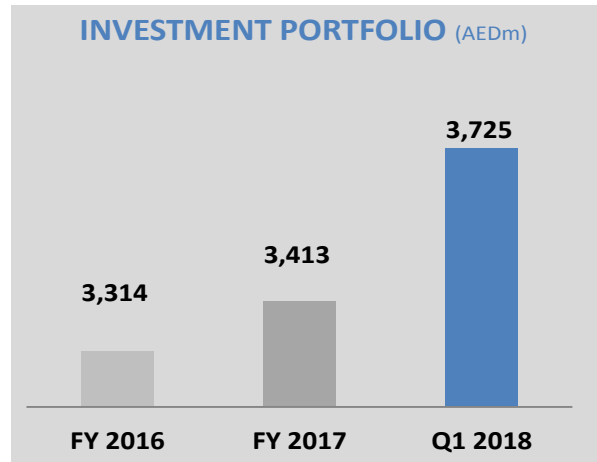
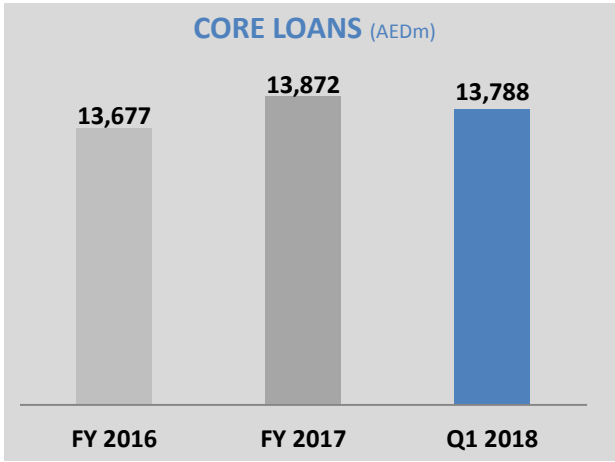


**Operating Expenses** for Q1 2018 were AED84m representing a **27%** reduction against Q4 2017, as the Bank continues to capture the benefits of the comprehensive review and subsequent overhaul of its cost base completed as part of the wider transformation strategy.

**Provision Charges** on a total portfolio basis continue to demonstrate significant improvement with a solid 32% reduction vs. Q4 2017 as the Bank focused on its remediation and recovery efforts.

# Management Discussion & Analysis – Q1 2018

## Balance Sheet Review



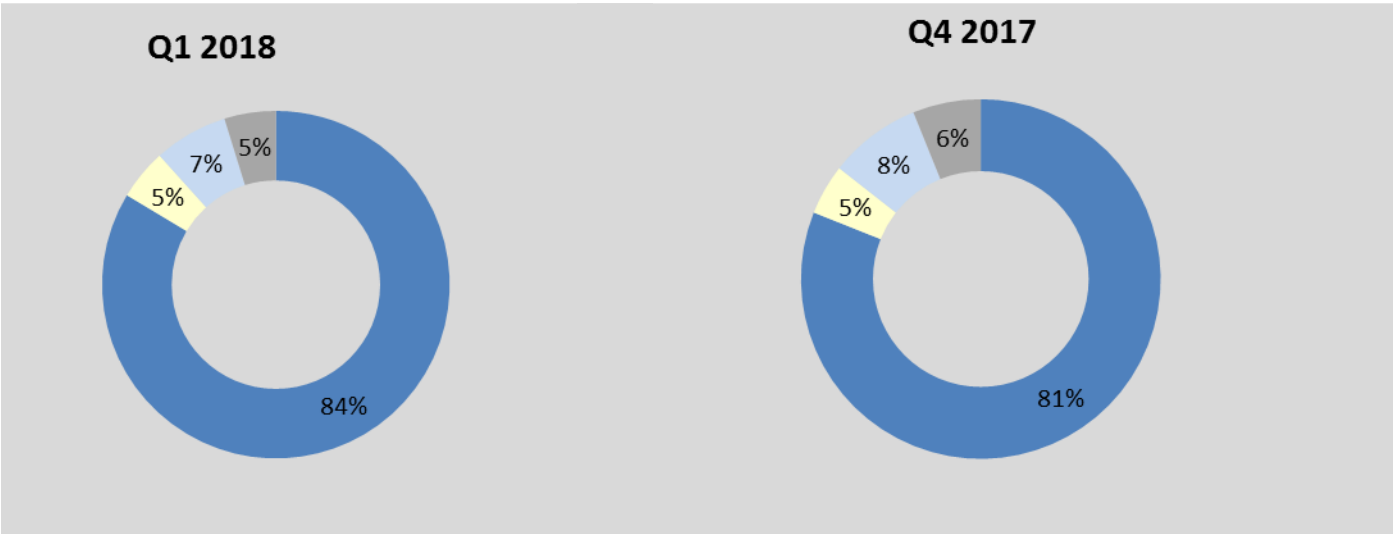
**Customer Loans** across the Bank’s core Corporate and Retail units remained stable compared to FY 2017 whilst the ‘non-core’ portfolio continued on its downward trajectory with further contraction of more than 56% across 2017. The Bank will continue to recycle risk weighted assets released from the 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 **9%** 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 – Q1 2018

## Balance Sheet Review (cont.)



■ Customer Deposits ■ Medium Term Borrowings ■ Due to Banks ■ Other Liabilities

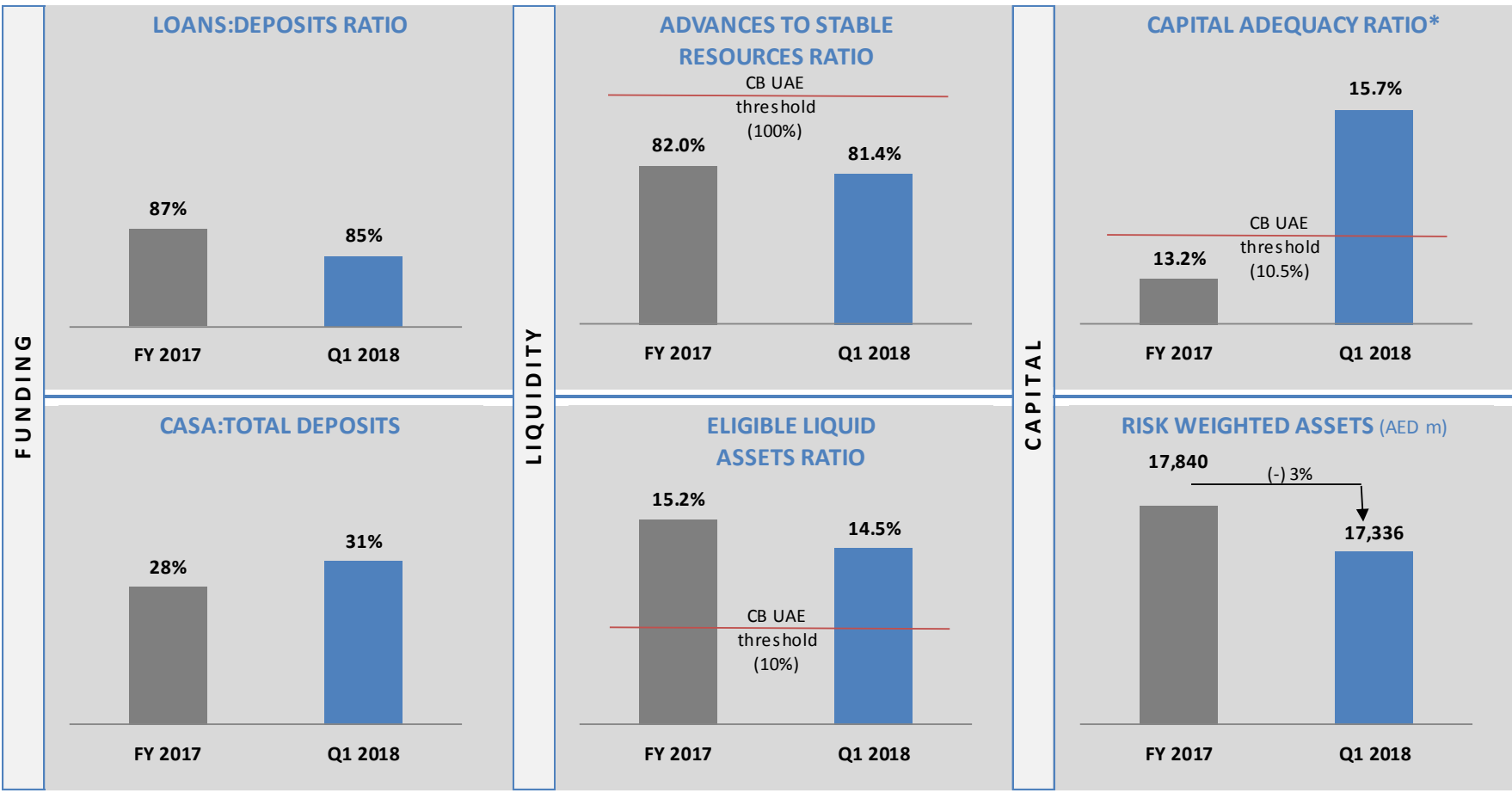
**Customer Deposits** have and will continue to represent the Bank’s key source of funds as evidenced through a stable **84%** concentration in Total Liabilities.

**Medium Term Borrowings** representing **5%** 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 – Q1 2018

## Solid Banking Fundamentals

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



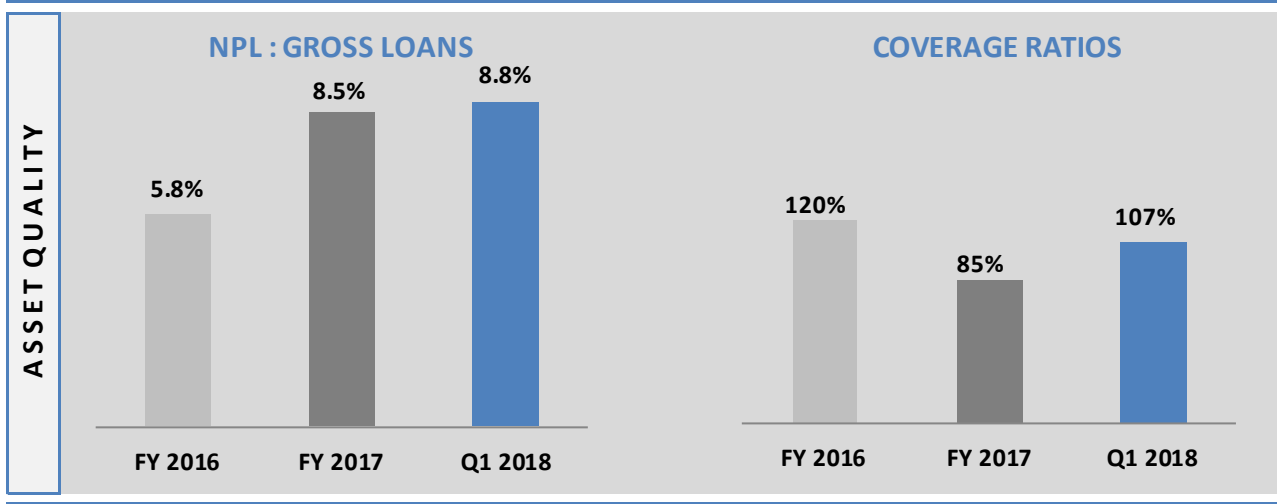
**Loan : Deposit Ratio** of 85% underpins a robust funding profile, whilst broadly stable **CASA%** supports reduction in cost of funds

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

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

# Management Discussion & Analysis – Q1 2018

## Asset Quality



The Bank has continued to record significant progress in proactively deleveraging its ‘non-core’ higher risk portfolios. In the 12 months of 2017 these ‘non-core’ portfolios reduced by more than 56% vs. 31<sup>st</sup> December 2016, whilst in total they have been managed down 88% since Q3 2015. As at 31<sup>st</sup> March 2018, the ‘non-core’ high risk portfolio constituted only 2% of Total Loans with this absolute reduction driving the decrease in Impairment Losses.

The proactive focus on de-risking the Balance Sheet has helped stabilize the Bank’s **NPL Ratio**. In addition, UAB’s decisive and prudent approach to provisioning and its commitment to maintaining its **Provision Coverage** is demonstrated with the ratio increasing to **107%** as at 31<sup>st</sup> March 2018 compared to 85% in 2017.