BANK RATING

United Arab Bank

July 2010

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Bank Rating Report

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UNITED ARAB BANK

Sharjah, United Arab Emirates
July 2010

RATINGS

	Current	Last Changed From	Date
Sovereign			
Long-Term:	**AA-**	A +	May 07
Short-Term:	**A1+**	A1	May 07
Outlook	**Stable**	-	
Foreign Currency			
Long-Term:	**BBB+**	BBB	May 08
Short-Term:	**A2**	A3	May 06
Financial Strength	**BBB**	BBB-	May 06
Support	**3**	4	May 08
Outlook			
Foreign Currency	**Stable**	Positive	May 06
Financial Strength	**Stable**	Positive	May 06

FINANCIAL HIGHLIGHTS

USD (mn) **AED (mn)**	**2009** **USD**	**2009** **AED**	**2008** **AED**	**2007** **AED**
Total Assets	1,905	6,995	7,560	6,185
Net Loans	1,300	4,773	5,511	3,944
Total Deposits*	1,415	5,197	6,070	4,819
Total Capital	453	1,663	1,341	1,283
Gross Income	128	471	419	344
Net Income	76	281	250	211
**Customer + Interbank*				
Exchange Rate(units per USD)		*3.6725*	*3.6725*	*3.6725*

%	**2009**	**2008**	**2007**
NPL / Gross Loans	3.30	1.58	2.34
Loan-Loss Reserves /NPLs	82.38	131.94	115.09
Capital Adequacy Ratio	18.90	12.90	19.30
Net Loans / Stable Funds	78.93	86.75	73.54
Interest Differential	4.54	4.01	4.08
Cost / Income	33.00	35.11	32.78
ROAA	3.86	3.64	3.85

RATINGS DRIVERS

Supporting the Rating

- Strategic shareholder Commercial Bank of Qatar (CBQ) holds 40% of shares
- Low credit exposures to sectors that have been directly impacted by the slowdown
- Strong profitability ratios underpinned by a wide interest differential and high non-interest revenues
- Solid capital adequacy
- Good support from the federal government and the central bank

Constraining the Rating

- NPLs (non-performing loans) increased substantially in 2009 and the coverage ratio declined
- Small balance sheet size
- Uncertain short to medium-term growth prospects for the real estate sector, although modest growth has been forecast for the GDP of Abu Dhabi, where some of the Bank's activities are centred

RATING RATIONALE

United Arab Bank's (UAB) overall conservative outlook and low exposures to the troubled sectors of the domestic economy such as real estate and credit cards as well as to regional entities contributed to the Bank's continuing good financial position last year. Although non-performing loans (NPLs) increased in 2009 due to higher classifications in both the corporate and retail loan portfolios, the NPLs to gross loans ratio remained reasonably low. The coverage ratio declined but was at a high level and the ratio of unprovided NPLs to free capital was very low.

Tighter risk criteria and a very cautious stance led to a decline in net loans in 2009. However, the Bank plans to expand its loan book in 2010, particularly in Abu Dhabi, where economic activity is showing encouraging signs of growth. UAB continues to focus on providing working capital loans to mid-sized and large UAE corporate groups with diversified businesses. Short-term loans formed a high percentage of the Bank's loan portfolio, unlike many other banks in the country.

Market risks in the balance sheet remained low – the Bank has a small investment portfolio and negligible exposure to equities. UAB's solid capital adequacy ratio at end 2009 and end June 2010 is a major risk mitigant. The Bank's wide net interest differential, large non-interest revenue base and low risk charge underpin its historically strong operating profitability and return on average assets. Liquidity ratios improved last year and although they tightened again in H1 2010 they remain at border-line acceptable levels.

UAB's Foreign Currency ratings are affirmed at BBB+ long-term and A2 short-term; the ratings reflect its ownership and management by CBQ, the strength of the balance sheet and the liquidity support extended by the federal government and the central bank. The Support Rating is unchanged at 3. The Financial Strength rating is maintained at BBB with UAB's strong profitability, high capital adequacy and good asset quality being major factors supporting the rating. A Stable Outlook is appended to all the ratings given the Bank's good H1 2010 results and its relatively low exposures to the most seriously affected sectors of the economy.

BANK HISTORY

Major Shareholders as of 30 April 2010	
Commercial Bank of Qatar	40.0%
H E Sheikh Faisal bin Sultan Al Qassimi	8.3%
GIBCA Company Ltd	5.6%
Mr Juma Al Majid Abdullah Al Muhairi	5.2%

United Arab Bank (UAB) was incorporated in the emirate of Sharjah in 1975 by leading UAE businessmen and France's Societe Generale (SocGen). For strategic reasons, SocGen sold its 20% stake in early 2005.

There was no impact on management quality due to SocGen's withdrawal. The general manager of the Bank at that time, who was previously on secondment from SocGen, became an employee of the Bank. UAB's correspondent banking facilities were also not affected by the withdrawal, a testimony to the Bank's good reputation in the interbank markets. SocGen continues to maintain a special correspondent banking relationship with UAB

In late 2007, Commercial Bank of Qatar acquired a 34.7% interest in UAB and entered into a strategic alliance with the Bank. CBQ raised its holdings to 40% at end-March 2008 and has a management services agreement. CBQ is the second largest bank in Qatar, and a publicly held company listed on the Doha Securities Market.

Commercial Bank of Qatar Key Financials 2009	2009	2008
Total Assets (USD billion)	15.7	16.9
Total Capital (USD billion)	3.8	2.7
Net Profit (USDmn)	419	468
ROAA (%)	2.56	3.19
NPLs/Gross Loans (%)	3.05	1.11
LLRs/NPLs (%)	55.53	51.03
Capital Adequacy Ratio (%)	18.86	15.66

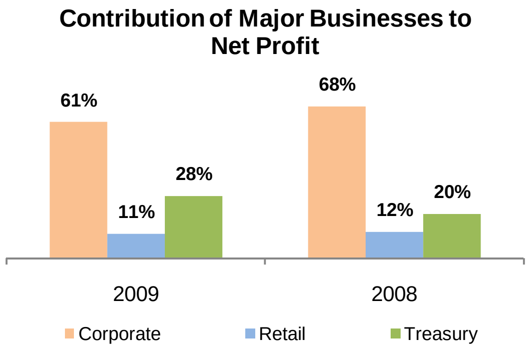
CBQ is considerably larger than UAB (see table to the right). It is in fact one of Qatar's largest commercial banks and provides a wide range of retail, corporate, investment and Islamic banking products and services. CBQ is profitable and with a solid capital adequacy ratio. However, the Bank's asset quality ratios weakened in 2009 owing to the downturn in the economies of the Gulf region. The Bank expanded in the GCC through the acquisition of strategic interests in regional financial institutions (National Bank of Oman and UAB to date). UAB benefits from CBQ's retail banking strengths, and although access to Qatari corporate business will increase, this is unlikely to be a major gain given the largely domestic flavour of UAB's business.

H E Sheikh Faisal Bin Sultan Al Qassimi, a member of the ruling family of Sharjah and an important founder shareholder, continues as chairman of UAB. Four of the nine board members are representatives of CBQ, and Mr Omar Hussein Alfardan is the deputy chairman of the Bank. CBQ did not make any changes to the management team at UAB after assuming management control. In Q1 2009, following the retirement of UAB's long-standing general manager, Mr Paul Trowbridge has taken charge as the new CEO. Mr Trowbridge is an experienced international banker with core competencies in risk management and corporate banking, and was earlier the deputy CEO at National Bank of Oman.

Current Business Model

UAB ranks among the smaller banks in the country. With total assets of USD1.9 billion at end 2009 it was ranked eighteenth in CI's peer group table of eighteen banks.

The Bank is primarily a corporate banking institution. It offers a range of corporate banking and foreign exchange and treasury services to mainly medium and large companies in the UAE. These are chiefly well established companies with multiple sources of revenues and diversified businesses, and which have experienced steady growth over several years.



The Bank is well regarded in the domestic banking sector, and the larger banks at times find themselves competing with UAB. The Bank manages to overcome the shortcomings associated with its small size by offering top quality, customised services and by building strong relationships with target client groups. Earnings from corporate banking activities contributed 61% of net profit in 2009.

A full-fledged retail banking division was also created following the appointment of a new head of the business in 2009. UAB offers all the basic products and services to run a retail banking division within a bank including credit cards, internet banking and some personal loan products. The Bank offers priority banking services for high net worth individuals under the brand name Sadara, with assistance and advice from CBQ. Corporate and retail divisions are run as separate business units, but the two divisions work closely together. The Bank set up an Islamic window recently through which it offers Shari'a-compliant retail deposit products and financing facilities to middle- and high-income families.

UAB currently operates a small network of 9 branches spread across the country; the network is being expanded to 13 this year with the establishment of new branches in Abu Dhabi, Fujairah, Sharjah and Ras Al Khaimah. Operations are centralised.

The risk architecture was substantially overhauled with the help of CBQ A board level Audit and Risk Committee was set up in 2009 to supplement the role of the Board Credit Committee. The Risk Management Group was set up the same year with the appointment of a chief risk officer (CRO), who was on secondment from CBQ. He recently handed over the task to a newly appointed CRO. In addition, dedicated departments for operational risk management and legal were established.

A regional credit division was set up at CBQ to co-ordinate the functions of the credit divisions of CBQ with those of the two banks that it manages. Credit assessment continues to be strict and the credit culture, which was instilled by SocGen and further promoted by the present management team, continues to be good. Credit decisions are largely centralised and closely monitored by the local head office and the regional credit function. The board and the board executive credit committee are actively involved in setting business strategy, risk appetite, credit policy and monitoring the risk governance and compliance functions. The retail collections and recovery department was strengthened last year.

Principal Business Strategies

The Bank's principal strategies have not changed. It aims to deliver consistently profitable growth as in the past. It continues to emphasise corporate banking activities, with the primary focus on lending to medium-sized corporate customers with diversified businesses. Lending policies remain very cautious in view of the difficult operating environment. The Bank's credit risk policy focuses on growth through diversification. Some credit expansion is planned this year in key sectors such as trade, manufacturing and services and new relationships are being built with large, diversified, local business conglomerates. The retail banking business is expected to grow with the expansion of the branch and ATM networks. Retail policies focus on middle- and high-income expatriates and UAE nationals where the risks are relatively contained. The product range is being expanded and new premium lounges are being set up. New credit and debit card offerings have been planned. In the Islamic banking area, UAB plans to introduce a car finance product.

SIGNIFICANT RECENT DEVELOPMENTS IN THE FINANCIAL SECTOR

UAE's GDP declined in 2009 According to IMF estimates, UAE's real GDP contracted by 0.7% in 2009 after expanding by 5.1% in the previous year. This was due to a 6.3% fall in the oil sector GDP (as against a 1.6% rise in 2008) and a much slower rise in the non-oil sector GDP (1%) compared to the previous year (6.3%). Since September 2008, the sharp slowdown in construction and real estate activities across all the emirates (although to a lesser degree in Abu Dhabi) contributed to the much slower non-oil sector expansion in 2009.

According to IMF estimates Abu Dhabi's GDP declined by 0.1% in 2009, with the decline in the emirate's oil sector GDP (6.3%) offset by the growth in its non-oil sector GDP (6.3%). Total output of Dubai and the northern Emirates shrank by 1.3% in 2009 reflecting the decline in global trade and tourism as well as weak real estate markets.

A modest upturn in GDP growth is projected for 2010 The IMF has projected a 1% increase in the country's GDP in 2010 on the back of a 3% growth in oil sector GDP reflecting rising energy prices over the last 12 months. Non-oil sector GDP is expected to remain flat with a slight contraction in Dubai's GDP offset by a modest increase in Abu Dhabi's non-oil sector output. UAE's GDP growth rate is expected to rise to 3% in 2011 and 4% in 2012 provided uncertainties concerning Dubai's real estate and construction sectors[1] are addressed quickly and the Abu Dhabi government increases its spending. The IMF also believes that a "speedy, orderly, co-operative and predictable" restructuring of Dubai World (DW) followed by the operational restructuring of other Dubai government real estate entities coupled with increased transparency of economic and financial data is critical to delivering sustainable growth after 2010 for Dubai.

DW's debt restructuring announcement The Dubai government's surprise announcement seeking a standstill of DW's USD23.5 billion debt until May 2011 has dented its reputation as a reliable counterparty. For the first time the government made a clear distinction between what it considers as obligations pertaining to government entities and those like DW that are regarded as related parties.

The Dubai government's assistance for related parties was implied but not certain and 'timely' support could no longer be taken for granted The total debt of Dubai Holdings (DH), DW and Investment Corporation Dubai (ICD) (the three holding companies owned either jointly or severally by Sheikh Mohammed, the ruler of Dubai, and the government of Dubai) was estimated by the IMF at USD85 billion. In addition, the government of Dubai has outstanding obligations of around USD24 billion. The total debt[2] of the Dubai government and related parties represented a substantial 130% of Dubai's 2009 GDP.

Abu Dhabi's support for Dubai cannot be considered axiomatic It is now clear that Abu Dhabi's support for Dubai-government controlled entities is not self-evident. The IMF report quotes Abu Dhabi as stating that they "did not want to create moral hazard by supporting potentially non-viable

[1] The Dubai government borrowed heavily between 2004 and 2008 from local and foreign banks to fund its real estate projects and the development of infrastructure. Its borrowings had short-term maturities while cash flows from its various projects accrued only over the long-term. When the financial crisis began in Q4 2008 Dubai was exposed to significant maturity mis-match risks eventually leading to its asking for a standstill agreement for DW's debts.

[2] The IMF states that this excludes information that is not in the public domain such as syndicated loans for which documentation is incomplete, bilateral loans, accounts payable, suppliers credit, as well as derivatives, commitments and other liabilities.

corporations, but would provide support if necessary to limit contagion to the UAE economy and banking system."

Nevertheless, substantial support from Abu Dhabi was forthcoming when needed The government of Abu Dhabi has provided indirect support to Dubai since the global financial crisis began in September 2008. The UAE central bank subscribed to USD10 billion of long-term debt issued by the government of Dubai in Q1 2009. In November 2009, the government of Dubai announced that it had commitments from two Abu Dhabi government owned banks, Al Hilal Bank and the National Bank of Abu Dhabi, to lend USD5 billion. To date, USD500mn has been drawn from each bank.

Some details of the DW restructuring The government of Dubai announced on 20 May 2010 that it had reached an agreement on the terms of the restructuring with its major creditors which hold roughly 60% of the total debt owed to banks. The outstanding bank debt of USD14.4 billion is denominated in both local and foreign currencies and consists of syndicated loans, bilateral loans and bonds. Creditor banks will be paid 100% of the principal through the issuance of two tranches of new debt. DW intends to repay USD4.4 billion over five years and USD10 billion over eight years. The remaining five and eight year maturities which will be backed by a Dubai government guarantee. The Dubai government will convert its USD9 billion loan to DW into equity.

According to press reports, creditors have been offered a 1% interest payment in cash and an additional payment at rates varying from 1.5% to 2.5% on maturity with two of the options backed by a government guarantee against shortfalls. Since DW's creditors had extended loans primarily on an unsecured basis, they have little option but to accept the restructuring terms offered by DW. Nakheel has offered 100% payment of principal and accrued interest or profits to its bank creditors through an extension of maturity. Nakheel's creditor banks had lent primarily on a secured basis.

Dubai's government-owned and government-related entities make a significant contribution to the emirate's GDP Economic growth in the emirate over the last several years has been led by the significant expansion of these companies. Dubai's future is therefore inextricably linked to the improvement in the financials of these government related entities. But Dubai's eventual recovery will depend not only on the successful restructuring of DW but also on the orderly unwinding of the debts of its other property related companies as well as on perceived improvements in financial disclosures of its many companies. In the future these companies will have to rely on the strength of their financials rather than on implicit government support to raise funds.

The supply overhang in the commercial and residential properties market is likely to rise by mid 2010 before falling again. Further growth in the real estate sector is not likely to take place until and unless most of the unsold housing and commercial units are absorbed. The Dubai government's current focus is on expanding the emirate's non-real estate sectors such as trade, tourism and logistics where it has already developed very strong infrastructure. Recent increases in global trade and higher demand from rapidly expanding economies in Asia could augur well for the economy of Dubai.

The DW restructuring is likely to set the tone for a possible restructuring of debt owed by other Dubai government entities in the near future This will eventually permit other Dubai entities to raise funds from the bond market. In fact, Dubai's future growth could largely depend on this. A strong beginning was made in April 2010 with a successful USD1 billion bond issuance by the Dubai Water and Electricity Authority, a strong credit with a good financial track record. However, the bond was issued at an expensive 8.5%.

UAE's future economic growth is dependent on high levels of spending by the government of Abu Dhabi The emirate of Abu Dhabi has expanded substantially over the last few years owing to large investments made in infrastructure and the real estate, tourism, hospitality and manufacturing sectors. The Abu Dhabi government is supporting its ongoing projects in all the sectors although many private sector funded projects have been delayed or abandoned. Three reclaimed islands off the coast of Abu Dhabi are being developed for commercial and residential purposes and for leisure activities. Massive construction projects have begun in several locations onshore including a USD22 billion 'green' city. A Formula 1 race track was finished in 2009 and museums are being built in collaboration with the Louvre and Guggenheim. The emirate has plans to develop projects worth USD180 billion over the next five years. Funding is not a significant constraint for the government of Abu Dhabi and its entities, several of which have successfully raised medium-term funding over the last 12 to 18 months.

The UAE central bank and the federal government have provided substantial support to the banking sector The central bank stepped in with an AED50 billion line of credit for banks when the liquidity crisis began in September 2008. In November 2009, when local and international markets reacted adversely to the announcement of DW's debt standstill, the central bank announced once again that it stood behind UAE banks and branches of foreign banks operating in the country and made available a special liquidity facility linked to the banks' current accounts with the central bank. The federal government disbursed AED50 billion of deposits to local banks in Q4 2008, of which a large portion was converted into Tier 2 debt. In addition, the government has guaranteed all customer and interbank deposits for a period of three years.

Central bank tightens prudential norms measures Banks are required to raise their Tier 1 capital adequacy ratio (CAR) to 12% by mid-2010. The average capital adequacy ratio of UAE banks rose to 20.3% at end-March 2010 from 13.3% at end 2008. All banks had implemented the Basel II framework at end 2009. The central bank has also proposed that all banks classify loans over 90 days past due as non-performing. Although many banks have moved to the 90 days norm, a few large banks continue to use 180 days. The central bank is also examining the possibility of increasing general provisions of banks. One proposal that is still being debated by the banking sector is to raise general provisions to 1.25% of total risk-weighted assets. NPLs have increased across the banking sector. The average NPLs to gross loans ratio of local banks rose to 4.25% at end 2009 from 2.07% at end 2008, while the NPL provision coverage ratio fell to 92% from 105%.

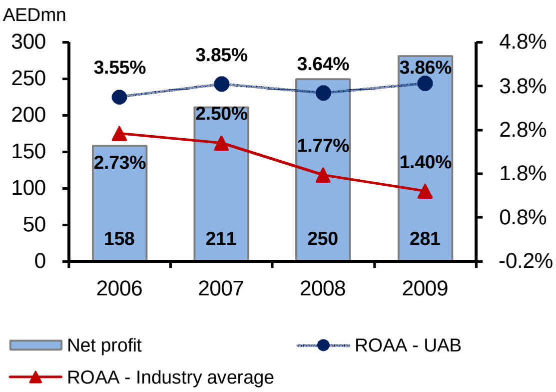
KEY FINANCIAL ISSUES

The 2009 accounts were audited by Ernst and Young in accordance with the International Standards on Auditing. The financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements under UAE law. The auditor's report is unqualified.

Consistently strong results UAB's management has delivered remarkably strong performances for several years. The results have been underpinned largely by the Bank's very wide interest differential, high non-interest revenue base and relatively low charge for credit risk. In addition, impairment provisions on investments have been low, compared with peers, because of the Bank's relatively small securities holdings and its very small exposure to equities.

UAB's return on average assets (ROAA) has been significantly higher than the industry average[3] for several years (see Chart 1) with the difference between the two ratios at a substantial 246 basis points in 2009.

Chart 1: Profitability



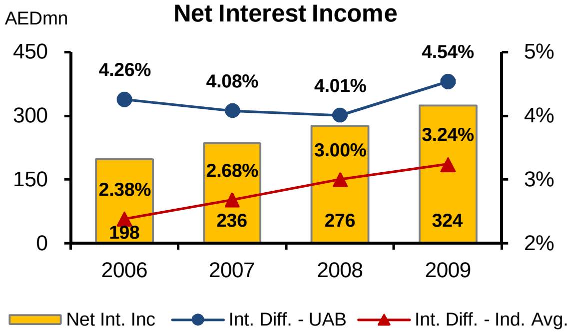
UAB's net profit grew at a slower rate in 2009 (12.2%) than in 2008 (18.4%). This was because non-interest income rose by a modest 2.4% last year, while in the previous year non-interest income rose by a substantial 32.3%. In addition, the loan-loss provision charge rose to AED34.5mn last year from

[3] *Industry averages are based on the financials of the 18 largest domestic banks in the UAE that collectively accounted for 81% of total banking assets at end 2009.*

AED21.8mn in 2008. Despite this, ROAA improved to a still very high 2009 3.86% in 2009 (see Chart 1).

Good operating income; modest growth in costs The Bank reported a 15.9% increase in operating profit in 2009. UAB's operating profit of AED315.3mn represented 4.33% of average total assets in 2009, up 37 basis points from 2008. The improved ratio partly reflected the year-on-year decline in total assets in 2009. Cost control measures, lower inflationary pressures and a reduction in headcount to 383 from 430 at end 2008 helped to slow the operating cost growth rate to 5.6% last year from 30.6% in the previous year. Costs amounted to AED155.3mn in 2009 or 2.13% of average total assets (2008: 2.14%).

Chart 2: Interest Differential and Net Interest Income



High interest differential UAB had the second highest net interest differential among local banks in 2009 and the Bank's ratio has been substantially higher than the industry average for many years (see Chart 2). The Bank's net interest spread rose by 53 basis points to 4.54% in 2009. This was attributed to:

- a general increase in lending rates in October 2008 (in line with the market)
- selective increases in lending rates in 2009
- repayment of expensive deposits taken towards end 2008 and their replacement with lower cost funds
- a substantial 19.6% year-on-year increase in interest-free demand balances in 2009

The principal reason for the significant difference between UAB's net interest differential and the industry average was its very low funding cost. UAB's funding cost of 1.73%, which was the third lowest among UAE banks in 2009, was a substantial 86 basis points lower than the average for UAE banks. Its average yield on interest-bearing assets was 6.26% in 2009, while the industry average was 43 basis points lower at 5.83%.

Table 1: Non-Interest Income

(AEDmns)	2009	2008	%∆
Fees, Commissions	67	67	-
Foreign exchange	38	41	-7.3
Securities Dealings	Neg.	4	-
Other Income	41	31	31.4
Total Non-Interest Income	**146**	**143**	**2.4**
Non-Interest Income/Average Total Assets (%)			
UAB	2.01	2.08	-
Industry Average	1.49	1.54	-

Notes: Neg. - negligible

Good non-interest income base UAB's non-interest revenues contribute substantially to its earnings. Non-interest income amounted to a high 2.01% of average total assets in 2009, well above the average for its peer group. However, non-interest income registered only modest growth in 2009 reflecting the decline in corporate banking activities during the year. Fees and commissions remained flat while foreign exchange trading profits fell (see Table 1). However, other income rose substantially due to an increase in service charges levied on customers and increased income from custodial and brokerage services.

BALANCE SHEET

Table 2: Breakdown of Investments		
AEDmn	**2009**	**2008**
Equities	0.4	0.3
Debt	438.5	495.4
Total Investments	**438.9**	**495.7**
Of which, Available-for-sale	438.9	459.0
Held-to-maturity	-	36.7
Investments/Total Assets	6.3%	6.6%

Small investment portfolio with negligible exposures to equities UAB's investments declined by 11.5% in 2009 to AED439mn (see Table 2). This amounted to a low 6.3% of total assets. The portfolio comprised mainly local debt securities – issuers were mainly local governments, government-related entities, banks and infrastructure-related entities, and included well-managed Dubai-government entities with strong operations. The portfolio is marked to market every month and there were no impairments as of end 2009. UAB has no exposures to Dubai World or Dubai Holdings. The Bank had unrealised gains of AED42.5mn on its available-for-sale investments in 2009, as against a loss of AED105mn in 2008. This was adjusted from capital.

Table 3: Gross loans* by Sector				
	2009		**2008**	
Sector	**AED mn**	**% of Total**	**AED mn**	**% of Total**
Manufacturing	1,154	23.5	1,523	27.0
Trade	1,118	22.7	1,192	21.1
Retail Loans	721	14.7	878	15.6
Pers. Bus. Loans	679	13.8	631	11.2
Financial Insts.	454	9.2	396	7.0
Construction	424	8.6	378	6.7
Government	249	5.1	348	6.2
Services	51	1.0	204	3.6
Transport/Others	70	1.4	94	1.6
Gross Loans*	4,920	100.0	5,644	100.0

**including interest in suspense*

Diversified portfolio with moderately low customer concentrations The Bank lends primarily to UAE-based entities with annual turnover of over AED20mn and with solid regional businesses typically spread across several economic sectors. Roughly, 58% of gross loans at end 2009 represented exposures to medium-sized and large companies. Exposures to small companies were low at 9% of gross loans.

Since the average size of a loan is small, customer concentrations are moderately low (by UAE standards) – the ten largest borrowing customers (including a public utility) accounted for 17.3% of gross loans at end 2009 (end 2008: 18%) and 13.3% of non-funded exposures (end 2008: 14%). The largest credit exposure to a single obligor (a government of Sharjah entity) was AED161.5mn. UAB's funded exposures were spread across a wide range of sectors and industries (see Table 3).

Loans to manufacturing companies constituted the largest sectoral exposure at end 2009 (see Table 3) and is one of the best performing portfolios of the Bank. However, total exposures to this sector contracted by nearly a quarter last year.

Trading sector finance formed the second largest sectoral exposure. Facilities are extended mainly to large well-established companies engaged in wholesale trading (mainly in products that have shown high demand growth in the UAE). Impaired loans in the trading sector portfolio continue to be low

Low real estate exposure The Bank does not have exposures to real estate developers working on freehold properties in designated areas in the country which have seen the sharpest reduction in prices in recent months. Nor does it have a retail home mortgage exposure. However, UAB does have indirect exposures via loans secured by real estate. This amounted to AED642mn at end 2009.

Personal business loans are largely secured, are short and medium-term exposures to business groups which are used for various business purposes. As long as credit risks are correctly assessed and property and share collateral values are frequently valued and closely monitored, the portfolio should (and does) perform well.

Loans against shares UAB has extended share financing facilities to some of its high net worth customers. Total loans against shares represented 8.2% of gross loans at end 2009 and the exposure was 182% covered by the value of the underlying collateral.

Retail loans were extended primarily to employees of corporate customers and government institutions on the Bank's approved list against the assignment of salaries and end-of-service benefits. However, the Bank also had exposures to low-income expatriates, and that category of loans saw increased delinquencies last year following substantial job losses among the expatriate community. Retail NPLs rose to 10.7% of retail gross loans at end 2009, up from 5.5% at end 2008. Defaults continued to rise in H1 2010. Retail delinquencies at UAB were overall at a manageable level since the Bank had very few credit card receivables and no home mortgage or vehicle finance products. UAB tightened its credit criteria for retail loans last year.

Government and public sector UAB's low exposure to the government sector at end 2009 was largely in the form of syndicated loan facilities extended to large public-sector entities and utilities. The exposure declined in 2009. The Bank has no loans to Dubai World or Dubai Holdings.

Loans to financial institutions and cross border exposure The portfolio of loans to financial institutions is small and comprised loans to investment, finance and insurance companies in addition to commercial banks. The bulk of the exposure was to UAE-based companies and the portfolio was 98% covered by collateral. Total cross-border loans amounted to a low 1.5% of gross loans at end 2009.

Construction finance accounted for 8.6% of gross loans at end 2009 and impairment levels were low. The portfolio includes loans to companies to build warehouses, factories and staff quarters and loans to contracting companies working on infrastructure projects.

Large contingent account portfolio Contingent accounts fell by 3.0% last year, after rising strongly over the previous two years (38.4% in 2008 and 32.7% in 2007). UAB's contingent business portfolio was equivalent to 91.0% of its total assets at end 2009 (2008: 86.8%).

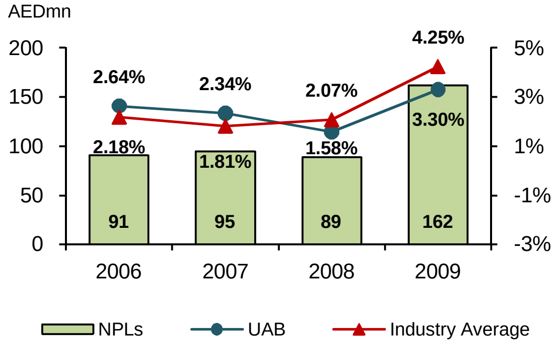
High level of short-term loans Since UAB primarily provides working capital facilities for companies, the Bank tends to have a relatively high proportion of short-term loans on its balance sheet. Loans with maturities of less than one year represented 68% of net loans at end 2009, unchanged from the previous year-end (see Table 4).

Table 4: Loans by Maturity (%)

	< 1year	1-5 years	> 5 years	Total
2009	68	28	4	100
2008	68	30	2	100
2007	68	30	2	100
2006	69	29	2	100

Note: The term NPLs in the charts and in the text refers to the total of impaired loans (defined by the Bank as 180+ days overdue) and past due loans (90 to 180 days overdue).

Chart 3: NPLs & NPLs to Gross Loans Ratio



NPLs rose in 2009 but the NPLs to gross loans ratio was still at an acceptable level UAB's NPLs increased by 81.9% to AED162.2mn due to increased delinquencies in the retail loan portfolio, the classification of one corporate account which was renegotiated during the year and overdue trade finance exposures. Impaired retail loans represented 57.4% of total impaired loans of AED132mn. Loans that were past due between 90 and 180 days rose to AED30.2mn from AED13.5mn. Out of two large corporate loans classified in 2009, the Bank states that one is likely to be moved back to the performing category this year.

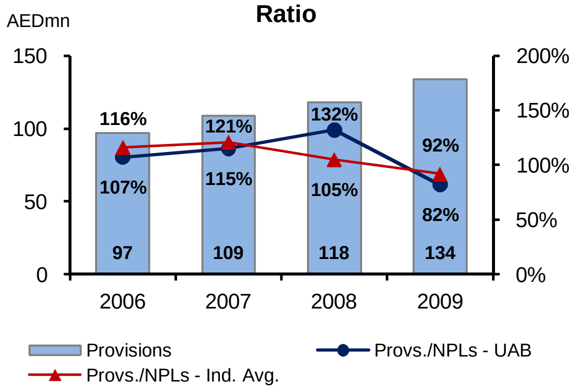
The Bank's NPLs to gross loans ratio increased to 3.3% at end 2009 from a low 1.5% at end 2008. However, the ratio was well below the industry average, reflecting the Bank's relatively small unsecured retail credit book and very low card receivables. The Bank also had no exposures to the Saad and Al Gosaibi groups of Saudi Arabia, which defaulted last year.

However, UAB's restructured loans increased to AED96.2mn at end 2009 (1.96% of gross loans) from AED76mn at end 2008 (1.35%). On the plus side, restructured loans declined by 16.8% in H1 2010.

Retail NPLs could rise in 2010, although the rate of increase is unlikely to be as high as in 2009. UAB has no exposure to the real estate development sector or to mortgage finance. Other favourable factors include the Bank's diversified credit portfolio and good credit risk management systems.

The NPL coverage ratio declined in 2009, but remained reasonably high UAB's loan-loss reserves to NPLs ratio had been above 100% for several years. The ratio fell to 82% at end 2009 following the substantial increase in NPLs. This was lower than the industry average (see Chart 4). However, UAB's large capital provided additional cover – the ratio of unprovided NPLs to free capital was a very low 1.75% at end 2009.

Chart 4: NPLs, Provisions & Coverage Ratio



The Bank also held collateral, consisting of cash, securities, letters of guarantee and properties, valued at AED41mn at end 2009 against impaired loans of AED144mn. In addition, 28% of total past due loans were also covered by collateral. Total provisions and the value of collateral covered 115% of NPLs at end 2009.

UAB's high profitability can absorb increased provision charges if required The loan-loss provision charge amounted to a low (compared to other banks) 0.47% of average total assets in 2009. The risk charge to operating profit ratio was also very low at 10.94%. The Bank is well placed to absorb higher charges if required.

Solid capital adequacy ratio (CAR) The Basel II CAR rose to 18.9% at end 2009, from 12.9% at end 2008 partly due to a 12.9% decline in risk-weighted assets and partly due to increased capital. Unlike many other banks in the country, the Bank chose not to convert AED353mn of deposits that it had received in Q4 2008 from the federal Ministry of Finance into Tier 2 capital, since it believes that it is sufficiently well capitalised and that the growth in retained earnings will adequately support risk asset growth in 2009 and 2010. Moreover, the Bank was confident that its principal shareholders, who it believes have the capability and willingness to contribute additional equity if required, will provide assistance in case of need.

Total capital rose by 24% to AED1.66 billion at end 2009. This was due to strong earnings in 2009 (AED281mn) and mark-to-market gains from the AFS investment portfolio (AED42mn), while the cash dividend payment for 2008 (AED149mn) was below the increase in retained earnings. The Bank's paid-up capital has increased over the years due to the issuance of bonus shares and shareholders have not had to inject new capital for several years.

Large demand balances provide ample low-cost funding UAB's customer deposits declined by 10.5% in 2009 due to a fall in time deposits. The Bank had raised high-cost deposits towards end 2008 in view of the liquidity problems in the country at that time. These deposits were repaid on maturity last year and deposit rates were reduced.

Table 5: Customer Deposit Composition

	2009		2008	
	AEDbn	%	AEDbn	%
Demand	2,173	48.9	1,816	36.5
Savings	81	1.8	55	1.2
Time	2,194	49.3	3,098	62.3
Total	4,448	100.0	4,969	100.0
Growth Rate	-10.5%	-	20.5%	-

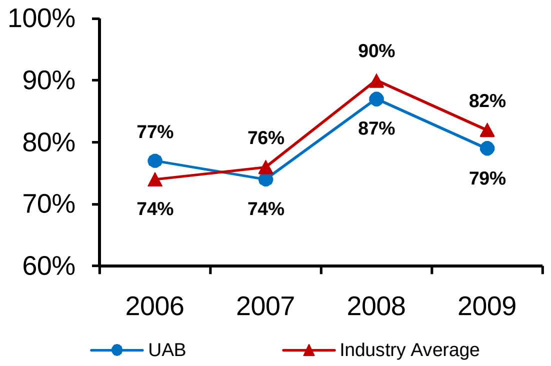
Demand balances, which are an important source of funding for the Bank, increased by 19.6% in 2009 and accounted for 48.9% of total customer deposits at year-end. Although the growth rate of demand balances has fluctuated over the years, the bulk of it has proved to be remarkably stable, compensating for the Bank's relatively low level of saving deposits (see Table 5). At end 2009, deposits also included AED353mn received from the federal government, with deposit maturities ranging from three to five years, as part of the government's 2008 stimulus package.

Customer deposits and capital are principal sources of funding Customer deposits and capital funded 87.4% of total assets at end 2009 (2008: 83.5%). Interbank liabilities were relatively low at 10.7% of the balance sheet and a fourth source comprised borrowings from the Bank's principal shareholder.

There are customer concentrations in the deposit base, although UAB's concentration levels are lower than those of many other UAE banks – the ten largest depositors (excluding the UAE Ministry of Finance) accounted for 17% of total non-government customer deposits at end 2009.

Liquidity ratios improved at end 2009 UAB's net loans to stable funds ratio fell to 78.93% at end 2009 from 86.75% at end 2008, reflecting easier liquidity conditions in the market and the contraction of net loans. Although customer deposits also shrank over the year, this was partly offset by an increase in capital. The Bank's net loans to stable funds ratio was better than the industry average (see Chart 6).

Chart 6: Net Loans/Stable Funds



UAB's liquid asset ratio rose to 24.16% at end 2009 from 18.20% at end 2008 due to a substantial increase in bank deposits at year-end. Liquid assets and bank deposits less short-term interbank liabilities covered 21.16% of total customer deposits at end 2009, as against 7.31% at end 2008. Overall, liquidity levels at end 2009 were acceptable.

Table 6: Asset *Less* Liabilities/Total Assets

%	2008	2008	2007	2006
0-3 months	-5	-7	-2	-5
3-12 months	9	6	6	7
Over 12 months	-4	1	-4	-2

Low maturity mis-matches (see table 6) UAB's maturity gaps (measured in terms of assets less liabilities over total assets in different maturity buckets) have been lower than those of many banks in the UAE, primarily reflecting a high level of short-term loans in the Bank's credit portfolio.

Current Year Update (H1 2010)

The table below highlights UAB's unaudited financials for the first half of 2010:

AED(mn)	Jun 10	Dec09	Δ%
Total Assets	6,761	6,995	-3.3
NPLs	167	162	3.1
Provisions	128	134	-4.5
Net Loans	5,175	4,773	8.4
Total Deposits	4,969	5,197	-4.4
Total Capital	1,666	1,663	0.2
%		**Jun 10**	**Dec 09**
NPLs/ Gross Loans		3.15	3.30
Loan-Loss Reserves/NPLs		76.65	82.38
Net Loans/Stable Funds		82.96	78.93
Liquid Asset Ratio		14.56	24.16
Capital Adequacy Ratio		19.40	18.90
Cost To Income		35.10	33.00
ROAA		*4.09	3.86

**annualised*

AED (000)	H1 10	H1 09	Δ%
Net Interest Income	160,546	158,928	1.0
Non-Interest Income	72,339	71,894	0.6
Gross Income	**232,885**	**230,822**	**0.9**
Operating Expenses	81,739	80,092	2.1
Operating Profit	**151,146**	**150,730**	**0.3**
Provisions	-10,351	-17,000	-39.1
Tax	0	0	-
Net Profit	**140,795**	**133,730**	**5.3**

Small increase in net profit, but key profitability ratios remain strong UAB reported a 5.3% rise in net profit in H1 2010 over the corresponding period of the previous year. ROAA remained strong at 4.09% (annualised) and the operating profit to average total assets ratio was a high 4.40% (annualised). Net interest income rose by a modest 1%. Non-interest revenues increased marginally with higher fees and commissions offset by lower profits from foreign exchange trading. Operating cost increase was also modest, at 2.1%. Provision charges were substantially lower than in H1 2009.

The balance sheet contracted in H1, liquidity ratios weakened Total assets fell by 3.3%, primarily due to a fall in bank deposits - there was a decline in interbank liabilities as well. Net loans, however, rose by 8.4% - the portfolio included AED3mn of Islamic financing which was introduced in Q2 of the year. Customer deposits rose by 4.2% due to Islamic deposits of AED335mn raised during the second quarter. The net loans to stable funds ratio rose to 82.96% from 78.93% at end 2009. The proportion of liquid assets and bank deposits fell to 14.56% of total assets from a much higher 24.16% at end 2009 reflecting the fall in interbank placements following the repayment of interbank borrowings. The liquid asset ratio net of interbank liabilities fell to 9.6% at end June 2010 from 13.5% at end 2009. Contingent accounts fell slightly over the half year reflecting the continuing slowdown in corporate banking activities.

Increase in CAR The Basel II ratio rose to a solid 19.4% at end-June 2010, which was well above the regulatory minimum of 12%. Capital rose very marginally due to the payment of AED149mn of cash dividends for 2009. The Bank states it has adequate capital to support the growth in risk assets planned for this year.

Asset quality ratios remain strong NPLs increased by 3.1% in H1 2010 due to some retail credit delinquencies and the classification of one exposure to the trade sector, while gross loans rose by 8.1% over the half-year. Consequently, the NPLs to gross loans ratio fell very slightly to 3.15%. But loan-loss provisions declined by 4.5%, leading to a fall in the coverage ratio to 76.65%. Restructured loans that were not classified as impaired amounted to AED80mn at end-June 2010 (2009: AED96.2mn). These loans represented 1.51% of gross loans, down from 1.96% at end 2009.

OUTLOOK

The balance sheet contracted in H1 2010, but UAB expects business volumes to pick up over the next few quarters. Risk management processes were substantially strengthened last year and the Bank is now ready to book new loans as the economy expands. UAB is targeting local business groups in Abu Dhabi, where government spending is driving GDP growth. UAB's corporate defaults have been low in recent quarters. While retail NPLs could rise further, losses are likely to be well within the Bank's capacity to absorb. The Bank's profitability ratios are likely to remain robust this year.

UNITED ARAB BANK

AE20

PERFORMANCE RATIOS	External Audit	AUD 12/2009	AUD 12/2008	AUD 12/2007	AUD 12/2006
A . SIZE FACTORS					
1 . Total Assets (USD 000)		1,904,677	2,058,665	1,684,039	1,304,197
2 . Total Capital (USD 000)		452,762	365,229	349,311	297,583
B . ASSET QUALITY					
3 . Total Assets Growth Rate (Year on Year %)		-7.48	22.25	29.12	15.90
4 . Loan-Loss Reserve to Gross Loans (%)		2.72	2.09	2.69	2.82
5 . Non-Performing Loans to Gross Loans (%)		3.30	1.58	2.34	2.64
6 . Loan-Loss Reserve to Non-Performing Loans (%)		82.38	131.94	115.09	106.65
7 . Unprovided Non-Performing Loans to Free Capital (%)		1.75			
8 . Loan-Loss Provision Charge on Gross Loans (%)		0.70	0.39	0.49	0.60
9 . Reserve for Dimin. of Investments to Total Investments (%)					
10 . Related Party Loans to Total Capital (%)		30.82	43.17	28.73	25.10
11 . Total Contingents on Total Assets (%)		90.98	86.80	76.66	74.59
C . CAPITAL ADEQUACY					
12 . CI Risk Asset Ratio (%)		15.68	11.97	16.28	17.27
13 . Estimated BIS Risk Asset Ratio (%)		16.20	12.35	16.75	17.49
14 . Estimated BIS RAR on Tier One Capital (%)		16.54	13.06	16.28	17.40
15 . Actual Risk Asset Ratio to Local Standards (%)		18.90	12.90	19.30	21.70
16 . Internal Capital Generation (%)		7.73	12.13	12.87	14.55
17 . Total Capital Growth Rate (Year on Year %)		23.97	4.56	17.38	14.02
18 . Total Capital to Total Assets (%)		23.77	17.74	20.74	22.82
19 . Total Capital to Gross Loans (%)		33.89	23.83	31.65	31.79
20 . Free Capital Funds (AED 000)		1,599,835	1,294,692	1,239,913	1,076,198
21 . Estimated BIS RAR Shortfall (AED 000)		0	0	0	0
22 . Risk Weighted Assets on Total Footings (%)		76.85	76.89	70.09	74.72
D . LIQUIDITY					
23 . Net Loans to Total Deposits (%)		91.85	90.79	81.84	92.77
24 . Net Loans to Total Customer Deposits (%)		107.31	110.90	95.66	102.07
25 . Net Loans to Stable Funds (%)		78.93	86.75	73.54	76.81
26 . Customer Deposits to Total Deposits (%)		85.59	81.87	85.56	90.89
27 . Liquid Asset Ratio (%)		24.16	18.20	30.26	22.67
28 . Quasi-Liquid Asset Ratio (%)		29.37	23.43	34.44	26.96
29 . FX Currency Assets to FX Currency Liabilities (%)					
30 . FX Currency Loans to FX Currency Deposits (%)					
31 . Interbank Assets to Interbank Liabilities (%)		177.80	97.63	113.59	181.04
32 . Net Interbank Assets (AED 000)		582,623	-24,003	94,612	265,926
E . PROFITABILITY					
33 . Return on Average Assets (%)		3.86	3.64	3.85	3.55
34 . Return on Average Equity (%)		18.69	19.07	17.79	15.42
35 . Underlying Profits on Average Assets (%)		4.24	3.39	3.12	2.83
36 . Underlying Profits on Average Equity (%)		20.56	17.74	14.43	12.32
37 . Funding Cost (%)		1.73	2.09	2.71	2.99
38 . Interest on Average Earning Assets (%)		6.26	6.09	6.79	7.25
39 . Interest Differential (%)		4.54	4.01	4.08	4.26
40 . Non-Interest Income to Gross Income (%)		31.05	34.05	31.38	28.30
41 . Operating Expenses to Gross Income (%)		33.00	35.11	32.78	35.36
42 . Operating Profit Growth Rate (%)		15.90	17.68	29.17	3.30
43 . Operating Profit on Average Assets (%)		4.33	3.96	4.21	4.01
44 . Risk Provisioning Charge to Operating Profit (%)		10.94	8.02	8.56	11.62
45 . Dividend Payout Ratio (%)		53.23	31.29	24.05	0.00
RATES					
Exchange Rate (Units per USD)		3.6725	3.6725	3.6725	3.6725
Inflation Rate (%) (Estimated)		1.00	13.00	11.00	9.30
Imputed Interest Rate on Free Capital (%) (6 month USD LIBOR at year-end)		0.43	3.05	5.25	5.30

NOTES:

BALANCE SHEET - ASSETS (AED 000)

RISK WGHT	External Audit	12/2009 USD 000	AUD 12/2009	AUD 12/2008	AUD 12/2007	AUD 12/2006	Growth (%) 12/2009	12/2008	12/2007	12/2006	Breakdown (%) 12/2009	12/2008	12/2007	12/2006
	LIQUID ASSETS:													
0%	Cash & 7 Day	10,841	39,814	38,729	29,015	25,527	2.80	33.48	13.66	-18.35	0.57	0.51	0.47	0.53
0%	Central Bank	86,851	318,960	323,778	231,614	164,324	-1.49	39.79	40.95	-17.22	4.56	4.28	3.74	3.43
10%	Treasury Bills													
20%	Government Securities													
20%	Other-Certificates of Deposits	0	0	25,000	820,000	302,000	-100.00	-96.95	171.52	132.31	0.00	0.33	13.26	6.31
	TOTAL LIQUID ASSETS	97,692	358,774	387,507	1,080,629	491,851	-7.41	-64.14	119.71	36.71	5.13	5.13	17.47	10.27
	DEPOSITS WITH BANKS:													
20%	Short - Up to 1 Year	362,547	1,331,453	988,289	790,554	594,074	34.72	25.01	33.07	16.46	19.03	13.07	12.78	12.40
20%	Short - Other													
100%	Non - OECD Medium Term													
	TOTAL DEPOSITS WITH BANKS	362,547	1,331,453	988,289	790,554	594,074	34.72	25.01	33.07	16.46	19.03	13.07	12.78	12.40
100%	MARKETABLE SECURITIES	99,199	364,309	395,620	258,881	205,246	-7.91	52.82	26.13	42.02	5.21	5.23	4.19	4.29
	LOANS AND ADVANCES:													
20%	Government Guaranteed			347,795	282,457	202,661		23.13	39.37	130.60		4.60	4.57	4.23
50%	First Mortgage Loans													
100%	Bills Disc. & Short Term	1,292,013	4,744,919	5,191,406	3,675,658	2,079,045	-8.60	41.24	76.80	3.88	67.83	68.67	59.43	43.41
100%	Medium/Long Term					1,065,283				24.41				22.24
100%	Other													
100%	Non-Performing Loans	44,152	162,150	89,133	94,823	90,855	81.92	-6.00	4.37	-6.60	2.32	1.18	1.53	1.90
100%	Loan-Loss Reserve	-36,371	-133,572	-117,602	-109,131	-96,894	13.58	7.76	12.63	6.29	-1.91	-1.56	-1.76	-2.02
	NET LOANS AND ADVANCES	1,299,795	4,773,497	5,510,732	3,943,807	3,340,950	-13.38	39.73	18.04	13.19	68.24	72.89	63.77	69.75
100%	UNQUOTED INVESTMENTS	20,422	75,000	100,076	76	2,592	<<<<	131,578.95	-97.07	-95.35	1.07	1.32	0.00	0.05
100%	NON-FINANCIAL SUBS & AFFILS.													
	FINANCIAL SUBS & AFFILIATES													
100%	FIXED ASSETS	17,137	62,935	46,613	42,931	16,676	35.02	8.58	157.44	-5.03	0.90	0.62	0.69	0.35
100%	OTHER ASSETS	7,885	28,959	131,612	67,754	138,273	-78.00	94.25	-51.00	48.33	0.41	1.74	1.10	2.89
	TOTAL ASSETS	1,904,677	6,994,927	7,560,449	6,184,632	4,789,662	-7.48	22.25	29.12	15.90	100.00	100.00	100.00	100.00
	CONTINGENT ACCOUNTS:													
100%	Fin. Gtees/SLCs/Acceptances	900,966	3,308,799	3,349,642	2,139,096	1,734,498	-1.22	56.59	23.33	8.35	51.99	51.04	45.12	48.55
50%	Commitments to Extend Credit	703,543	2,583,761	2,526,638	1,962,473	1,416,227	2.26	28.75	38.57	14.01	40.60	38.50	41.39	39.64
20%	LCs/Bank & Govt Guarantees	128,411	471,588	686,333	639,530	421,736	-31.29	7.32	51.64	21.43	7.41	10.46	13.49	11.81
10%	Bonding for Banks & Govts													
5%	IR Swaps/Bank & Govt LCs													
	TOTAL CONTINGENT ACCOUNTS	1,732,920	6,364,148	6,562,613	4,741,099	3,572,461	-3.02	38.42	32.71	11.98	100.00	100.00	100.00	100.00
	TOTAL FOOTINGS	3,637,597	13,359,075	14,123,062	10,925,731	8,362,123	-5.41	29.26	30.66	14.19	-	-	-	-
	RISK WEIGHTED ASSETS	2,795,368	10,265,988	10,859,302	7,657,833	6,247,782	-5.46	41.81	22.57	11.33	-	-	-	-

BALANCE SHEET - LIABILITIES (AED 000)

	USD 000	12/2009	12/2008	12/2007	12/2006	12/2009	12/2008	12/2007	12/2006	12/2009	12/2008	12/2007	12/2006
INTERBANK LIABILITIES:													
Current & 7 Day	203,902	748,830	1,012,292	695,942	328,148	-26.03	45.46	112.08	70.64	10.71	13.39	11.25	6.85
Short													
Other													
TOTAL INTERBANK LIABILITIES	203,902	748,830	1,012,292	695,942	328,148	-26.03	45.46	112.08	70.64	10.71	13.39	11.25	6.85
CUSTOMER DEPOSITS:													
Demand	591,587	2,172,603	1,816,038	1,649,091	1,092,639	19.63	10.12	50.93	1.03	31.06	24.02	26.66	22.81
Savings	22,053	80,990	55,348	57,571	57,003	46.33	-3.86	1.00	6.74	1.16	0.73	0.93	1.19
Time	597,565	2,194,559	3,097,921	2,416,092	2,123,580	-29.16	28.22	13.77	19.94	31.37	40.98	39.07	44.34
Other													
TOTAL CUSTOMER DEPOSITS	1,211,205	4,448,152	4,969,307	4,122,754	3,273,222	-10.49	20.53	25.95	12.66	63.59	65.73	66.66	68.34
OFFICIAL DEPOSITS			88,173								1.17		
TOTAL DEPOSITS + INTERBANK	1,415,107	5,196,982	6,069,772	4,818,696	3,601,370	-14.38	25.96	33.80	16.26	74.30	80.28	77.91	75.19
OTHER LIABILITIES	36,807	135,175	149,372	83,092	95,418	-9.50	79.77	-12.92	24.99	1.93	1.98	1.34	1.99
MEDIUM/LONG TERM LIABILITIES				0	0			-	-			0.00	0.00
TIER TWO CAPITAL:													
Asset Revaluation Reserve	-9,644	-35,416	-76,425	35,851	5,631	-53.66	-313.17	536.67	-10,594.02	-0.51	-1.01	0.58	0.12
Hybrid Capital Instruments			0	0	0		-	-	-		0.00	0.00	0.00
Subordinated Term Debt			0	0	0		-	-	-		0.00	0.00	0.00
TOTAL TIER TWO CAPITAL	-9,644	-35,416	-76,425	35,851	5,631	-53.66	-313.17	536.67	-10,594.02	-0.51	-1.01	0.58	0.12
TIER ONE CAPITAL:													
Paid Up Capital	271,314	996,401	797,121	711,715	635,460	25.00	12.00	12.00	25.00	14.24	10.54	11.51	13.27
Minority Interests	0	0	0	0	0	-	-	-	-	0.00	0.00	0.00	0.00
Reserves	191,092	701,785	620,609	535,278	451,783	13.08	15.94	18.48	7.04	10.03	8.21	8.65	9.43
TOTAL TIER ONE CAPITAL	462,406	1,698,186	1,417,730	1,246,993	1,087,243	19.78	13.69	14.69	16.85	24.28	18.75	20.16	22.70
TOTAL CAPITAL	452,762	1,662,770	1,341,305	1,282,844	1,092,874	23.97	4.56	17.38	14.02	23.77	17.74	20.74	22.82
TOTAL LIABILITIES AND CAPITAL	1,904,677	6,994,927	7,560,449	6,184,632	4,789,662	-7.48	22.25	29.12	15.90	100.00	100.00	100.00	100.00

PROFIT AND LOSS ACCOUNT (AED 000)

	USD 000	12/2009	12/2008	12/2007	12/2006	Growth (%) 12/2009	12/2008	12/2007	12/2006	% of Average Total Assets 12/2009	12/2008	12/2007	12/2006
Interest Income	114,843	421,762	389,956	350,072	298,499	8.16	11.39	17.28	-13.33	5.80	5.67	6.38	6.69
Interest Expense	-26,494	-97,300	-113,514	-114,136	-100,012	-14.28	-0.54	14.12	-43.53	-1.34	-1.65	-2.08	-2.24
Net Interest	88,349	324,462	276,442	235,936	198,487	17.37	17.17	18.87	18.64	4.46	4.02	4.30	4.45
Fees and Commissions	18,317	67,271	66,927	42,865	43,268	0.51	56.13	-0.93	42.30	0.92	0.97	0.78	0.97
FX Trading Income	10,410	38,230	41,226	29,643	17,678	-7.27	39.07	67.68	12.77	0.53	0.60	0.54	0.40
Dealing Securities Income	5	20	3,663	9,064	-12,875	-99.45	-59.59	170.40	-160.53	0.00	0.05	0.17	-0.29
Other Investment Income													
Other Income	11,057	40,605	30,910	26,339	30,284	31.37	17.35	-13.03	35.29	0.56	0.45	0.48	0.68
Non Interest Income	39,789	146,126	142,726	107,911	78,355	2.38	32.26	37.72	-12.68	2.01	2.08	1.97	1.76
GROSS INCOME	128,138	470,588	419,168	343,847	276,842	12.27	21.91	24.20	7.70	6.47	6.10	6.27	6.21
Staff Expenses	40,601	149,107	141,584	107,804	93,348	5.31	31.33	15.49	17.61	2.05	2.06	1.96	2.09
Depreciation	1,690	6,207	5,566	4,901	4,544	11.52	13.57	7.86	2.41	0.09	0.08	0.09	0.10
Other Expenses													
OPERATING EXPENSES	42,291	155,314	147,150	112,705	97,892	5.55	30.56	15.13	16.80	2.13	2.14	2.05	2.19
OPERATING PROFIT	85,847	315,274	272,018	231,142	178,950	15.90	17.68	29.17	3.30	4.33	3.96	4.21	4.01
Provisions for Doubtful Debts	-9,393	-34,496	-21,820	-19,794	-20,796	58.09	10.24	-4.82	13.03	-0.47	-0.32	-0.36	-0.47
Prov. for Dimin. of Investments													
GROSS PROFIT (or -LOSS)	76,454	280,778	250,198	211,348	158,154	12.22	18.38	33.63	2.14	3.86	3.64	3.85	3.55
Extraordinary Items													
Tax & Equivalent													
NET PROFIT (or -LOSS)	76,454	280,778	250,198	211,348	158,154	12.22	18.38	33.63	2.14	3.86	3.64	3.85	3.55
Transfers/Adjustments	40,609	149,138	-1,172	-761	-1,350	12,825.09	-54.01	43.63	-100.34	2.05	-0.02	-0.01	-0.03
APPROPRIATION:													
Minority Interests			0	0	0		-	-	-		0.00	0.00	0.00
Bonus Shares	54,263	199,280	85,406	76,255	127,092	133.33	12.00	-40.00	0.00	2.74	1.24	1.39	2.85
Dividends	40,697	149,460	78,289	50,837	0	90.91	54.00	-	-	2.05	1.14	0.93	0.00
Movement in Reserves	22,104	81,176	85,331	83,495	29,712	-4.87	2.20	181.01	-92.96	1.12	1.24	1.52	0.67
TOTAL	117,064	429,916	249,026	210,587	156,804	72.64	18.25	34.30	-71.45	5.91	3.62	3.84	3.51

UNITED ARAB BANK

CAPITAL intelligence

RATIO FORMULAE

A. Size Factors	
1. TOTAL ASSETS (USD 000)	
2. TOTAL CAPITAL (USD 000)	
B. Asset Quality Ratios	
3. TOTAL ASSETS GROWTH RATE (YEAR ON YEAR %)	(CURRENT YEAR TOTAL ASSETS - LAST YEAR TOTAL ASSETS) X 100 LAST YEAR TOTAL ASSETS
4. LOAN-LOSS RESERVE TO GROSS LOANS (%)	LOAN-LOSS RESERVE X 100 GROSS LOANS
5. NON-PERFORMING LOANS TO GROSS LOANS (%)	NON-PERFORMING LOANS X 100 GROSS LOANS
6. LOAN-LOSS RESERVE TO NON-PERFORMING LOANS (%)	LOAN-LOSS RESERVE X 100 NON-PERFORMING LOANS
7. UNPROVIDED NON-PERFORMING LOANS TO FREE CAPITAL (%)	NON-PERFORMING LOANS - LOAN LOSS RESERVE X 100 FREE CAPITAL
8. LOAN-LOSS PROVISION CHARGE ON GROSS LOANS (%)	PROVISIONS FOR DOUBTFUL DEBTS CHARGE X 100 GROSS LOANS
9. RESERVE FOR DIMINUTION OF INVESTMENTS TO TOTAL INVESTMENTS (%)	RESERVE FOR DIMINUTION OF INVESTMENTS X 100 TOTAL INVESTMENTS
10. RELATED PARTY LOANS TO TOTAL CAPITAL (%)	RELATED PARTY LOANS X 100 TIER ONE + TIER TWO CAPITAL
11. TOTAL CONTINGENTS ON TOTAL ASSETS (%)	TOTAL CONTINGENTS X 100 TOTAL ASSETS
C. Capital Adequacy Ratios	
12. CI RISK ASSET RATIO (%)	FREE CAPITAL FUNDS X 100 RISK WEIGHTED ASSETS - NON-FINANCIAL SUBS. - FIXED ASSETS
13. ESTIMATED BIS RISK ASSET RATIO (%)	(TOTAL CAPITAL - FINANCIAL SUBSIDIARIES) X 100 RISK WEIGHTED ASSETS
14. ESTIMATED BIS RAR ON TIER ONE CAPITAL (%).	TIER ONE CAPITAL - FINANCIAL SUBSIDIARIES X 100 RISK WEIGHTED ASSETS
15. ACTUAL RISK ASSET RATIO TO LOCAL STANDARDS (%)	AS REPORTED BY LOCAL CENTRAL OR COMMERCIAL BANKS
16. INTERNAL CAPITAL GENERATION (%).	(NET PROFIT - DIVIDENDS -EXTRAORDINARY ITEMS) X 100 TIER ONE CAPITAL
17. TOTAL CAPITAL GROWTH RATE (YEAR ON YEAR %)	(CURRENT YEAR TOTAL CAPITAL - LAST YEAR TOTAL CAPITAL) X 100 LAST YEAR TOTAL CAPITAL
18. TOTAL CAPITAL TO TOTAL ASSETS (%)	TOTAL CAPITAL X 100 TOTAL ASSETS
19. TOTAL CAPITAL TO GROSS LOANS (%)	TOTAL CAPITAL X 100 GROSS LOANS
20. FREE CAPITAL FUNDS (LOCAL CURRENCY)	TOTAL CAPITAL - FINANCIAL & NON FINANCIAL SUBSIDIARIES - FIXED ASSETS
21. ESTIMATED BIS RAR SHORTFALL (LOCAL CURRENCY)	IF BIS RISK ASSET RATIO IS LESS THAN 8% (0.08 X RISK WEIGHTED ASSETS) - (TOTAL CAPITAL - FINANCIAL SUBSIDIARIES)
22. RISK WEIGHTED ASSETS ON TOTAL FOOTINGS (%)	RISK WEIGHTED ASSETS X 100 TOTAL FOOTINGS
D. Liquidity Ratios	
23. NET LOANS TO TOTAL DEPOSITS (%)	NET LOANS X 100 TOTAL CUSTOMER DEPOSITS & INTERBANK
24. NET LOANS TO TOTAL CUSTOMER DEPOSITS (%)	NET LOANS X 100 TOTAL CUSTOMER DEPOSITS
25. NET LOANS TO STABLE FUNDS (%)	NET LOANS X 100 STABLE FUNDS
26. CUSTOMER DEPOSITS TO TOTAL DEPOSITS (%)	TOTAL CUSTOMER DEPOSITS X 100 TOTAL DEPOSITS & INTERBANK
27. LIQUID ASSET RATIO (%)	(TOTAL LIQUID ASSETS + TOTAL DEPOSITS WITH BANKS) X 100 TOTAL ASSETS
28. QUASI-LIQUID ASSET RATIO (%)	QUASI-LIQUID ASSETS X 100 TOTAL ASSETS
29. FOREIGN CURRENCY ASSETS TO FOREIGN CURRENCY LIABILITIES (%)	FOREIGN CURRENCY ASSETS X 100 FOREIGN CURRENCY LIABILITIES
30. FOREIGN CURRENCY LOANS TO FOREIGN CURRENCY DEPOSITS (%)	FOREIGN CURRENCY LOANS X 100 FOREIGN CURRENCY BORROWINGS + FOREIGN CURRENCY DEPOSITS
31. INTERBANK ASSETS TO INTERBANK LIABILITIES (%)	TOTAL DEPOSITS WITH BANKS X 100 TOTAL INTERBANK LIABILITIES
32. NET INTERBANK ASSETS (LOCAL CURRENCY)	TOTAL DEPOSITS WITH BANKS - TOTAL INTERBANK LIABILITIES

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E. Profitability Ratios	
33. RETURN ON AVERAGE ASSETS (%)	NET PROFIT (or LOSS) X 100 AVERAGE TOTAL ASSETS
34. RETURN ON AVERAGE EQUITY (%)	NET PROFIT (or LOSS) X 100 AVERAGE TIER ONE CAPITAL +AVERAGE REVALUATION RESERVE
35. UNDERLYING PROFITS ON AVERAGE ASSETS (%)	(OPERATING PROFIT - INTEREST ON AVERAGE FREE CAPITAL) X 100 AVERAGE TOTAL ASSETS
36. UNDERLYING PROFITS ON AVERAGE EQUITY (%)	(OPERATING PROFIT - INTEREST ON AVERAGE FREE CAPITAL) X 100 AVERAGE TIER ONE CAPITAL + AVERAGE REVALUATION RESERVE
37. FUNDING COST (%)	INTEREST EXPENSE X 100 AVERAGE TOTAL DEPOSITS & INTERBANK+AVERAGE MEDIUM/LONG TERM LIABILITIES+AVERAGE HYBRID CAPITAL INSTRUMENTS+AVERAGE SUBORDINATED TERM DEBT
38. INTEREST ON AVERAGE EARNING ASSETS (%)	INTEREST INCOME X 100 AVERAGE CASH & 7 DAY+AVERAGE T-BILLS+AVERAGE GOVERNMENT SECURITIES+AVERAGE OTHER LIQUID ASSETS+AVERAGE TOTAL DEPOSITS WITH BANKS+AVERAGE MARKETABLE SECURITIES+AVERAGE NET LOANS
39. INTEREST DIFFERENTIAL (%)	INTEREST ON AVERAGE EARNING ASSETS (%) - FUNDING COST (%)
40. NON-INTEREST INCOME TO GROSS INCOME (%)	(GROSS INCOME - NET INTEREST) X 100 GROSS INCOME
41. OPERATING EXPENSES TO GROSS INCOME (%)	OPERATING EXPENSES X 100 GROSS INCOME
42. OPERATING PROFIT GROWTH RATE (YEAR ON YEAR %)	(CURRENT YEAR OPERATING PROFIT - LAST YEAR OPERATING PROFIT) X 100 LAST YEAR OPERATING PROFIT
43. OPERATING PROFIT ON AVERAGE ASSETS (%)	OPERATING PROFIT X 100 AVERAGE TOTAL ASSETS
44. RISK PROVISIONING CHARGE TO OPERATING PROFIT (%)	PROV. CHARGE FOR DOUBTFUL DEBTS & DIM. OF INVESTMENTS X 100 OPERATING PROFIT
45. DIVIDEND PAYOUT RATIO (%)	DIVIDENDS X 100 NET PROFIT (or LOSS)

Definitions

FREE CAPITAL:-	FREE CAPITAL FUNDS - TIER TWO CAPITAL
STABLE FUNDS:-	TOTAL CUSTOMER DEPOSITS + OFFICIAL DEPOSITS + MEDIUM/LONG TERM LIABILITIES + FREE CAPITAL FUNDS.
QUASI LIQUID ASSETS:-	TOTAL LIQUID ASSETS + TOTAL DEPOSITS WITH BANKS + MARKETABLE SECURITIES.
TOTAL INVESTMENTS:-	MARKETABLE SECURITIES + UNQUOTED INVESTMENTS + NON-FINANCIAL SUBSIDIARIES & AFFILIATES + FINANCIAL SUBSIDIARIES & AFFILIATES.
RISK WEIGHTED ASSETS:-	WEIGHTED TOTAL OF ASSETS APPLYING THE FOLLOWING PERCENTAGES:- 100% Non-OECD medium term deposits, marketable securities, bills discounted & short term loans, medium/long term loans, other loans, non-performing loans, loan-loss provisions, unquoted investments, non-financial subsidiaries & affiliates, fixed assets, other assets, financial guarantees / standby LCs / acceptances. 50% First mortgage loans, bid & performance bonds. 20% Government securities, other liquid assets, up to 1 year deposits with banks, short/other deposits with banks, government guaranteed / collateralised loans, LCs / bank & government guarantees. 10% T-Bills, bonding for banks & governments. 5% Interest rate swaps/bank & government LCs.
GROSS LOANS:-	GOVERNMENT GUARANTEED, FIRST MORTGAGE LOANS, BILLS DISC. & SHORT TERM, MEDIUM/LONG TERM LOANS, OTHER LOANS, NON-PERFORMING LOANS.
EQUITY:-	TIER ONE CAPITAL + ASSET REVALUATION RESERVE

RATINGS DEFINITIONS

Foreign and Local Currency Ratings

Foreign currency ratings refer to an entity's ability and willingness to meet its foreign currency denominated financial obligations as they come due. Foreign currency ratings take into account the likelihood of a government imposing restrictions on the conversion of local currency to foreign currency or on the transfer of foreign currency to residents and non-residents.

Local currency ratings for non-sovereign issuers are an opinion of an entity's ability and willingness to meet all of its financial obligations on a timely basis, regardless of the currency in which those obligations are denominated and absent transfer and convertibility restrictions. Both foreign currency and local currency ratings are internationally comparable assessments.

Foreign and local currency ratings take into account the economic, financial and country risks that may affect creditworthiness as well as the likelihood that an entity would receive external support in the event of financial difficulties.

Ratings assigned to banks and corporates are generally not higher than the local and foreign currency ratings assigned by CI to the relevant sovereign government. However, it may be possible for an issuer with particular strengths and attributes such as inherent financial strength, geographically diversified cash flow, substantial foreign assets, and guaranteed external support, to be rated above the sovereign.

The following rating scale applies to both foreign currency and local currency ratings. Short-term ratings assess the time period up to one year.

Long-Term Issuer Ratings

Investment Grade

AAA The highest credit quality. Exceptional capacity for timely fulfilment of financial obligations and most unlikely to be affected by any foreseeable adversity. Extremely strong financial condition and very positive non-financial factors.

AA Very high credit quality. Very strong capacity for timely fulfilment of financial obligations. Unlikely to have repayment problems over the long term and unquestioned over the short and medium terms. Adverse changes in business, economic and financial conditions are unlikely to affect the institution significantly.

A High credit quality. Strong capacity for timely fulfilment of financial obligations. Possesses many favourable credit characteristics but may be slightly vulnerable to adverse changes in business, economic and financial conditions.

BBB Good credit quality. Satisfactory capacity for timely fulfilment of financial obligations. Acceptable credit characteristics but some vulnerability to adverse changes in business, economic and financial conditions. Medium grade credit characteristics and the lowest investment grade category.

Speculative Grade

BB Speculative credit quality. Capacity for timely fulfilment of financial obligations is vulnerable to adverse changes in internal or external circumstances. Financial and/or non-financial factors do not provide significant safeguard and the possibility of investment risk may develop.

B Significant credit risk. Capacity for timely fulfilment of financial obligations is very vulnerable to adverse changes in internal or external circumstances. Financial and/or non-financial factors provide weak protection; high probability for investment risk exists.

C Substantial credit risk is apparent and the likelihood of default is high. Considerable uncertainty as to the timely repayment of financial obligations. Credit is of poor standing with financial and/or non-financial factors providing little protection.

RS Regulatory supervision. The obligor is under the regulatory supervision of the authorities due to its weak financial condition. The likelihood of default is extremely high without continued external support.

SD Selective default. The obligor has failed to service one or more financial obligations but CI believes that the default will be restricted in scope and that the obligor will continue honouring other financial commitments in a timely manner.

D The obligor has defaulted on all, or nearly all, of its financial obligations.

Short-Term Issuer Ratings

Investment Grade

A1 Superior credit quality. Highest capacity for timely repayment of short-term financial obligations that is extremely unlikely to be affected by unexpected adversities. Institutions with a particularly strong credit profile have a "+" affixed to the rating.

A2 Very strong capacity for timely repayment but may be affected slightly by unexpected adversities.

A3 Strong capacity for timely repayment that may be affected by unexpected adversities.

Speculative Grade

B Adequate capacity for timely repayment that could be seriously affected by unexpected adversities.

C Inadequate capacity for timely repayment if unexpected adversities are encountered in the short term.

RS Regulatory supervision. The obligor is under the regulatory supervision of the authorities due to its weak financial condition. The likelihood of default is extremely high without continued external support.

SD Selective default. The obligor has failed to service one or more financial obligations but CI believes that the default will be restricted in scope and that the obligor will continue honouring other financial commitments in a timely manner.

D The obligor has defaulted on all, or nearly all, of its financial obligations.

Capital Intelligence appends "+" and "-" signs to foreign and local currency **long term** ratings in the categories from "AA" to "C" to indicate that the strength of a particular bank is, respectively, slightly greater or less than that of similarly rated peers. Rating symbols written in lower case (e.g. aaa/a1) indicate that the issuer has not participated in the rating process and CI has relied on publicly available information and other information sources it considers reliable.

Outlook – expectations of improvement, no change or deterioration in a rating over the 12 months following its publication are denoted Positive, Stable or Negative.

Qualified – in cases where data and/or co-operation are such that it is not possible to formulate ratings to CI's high standards of robustness and reliability the letter "q" is appended to the ratings.

Financial Strength Ratings

CI's financial strength ratings provide an opinion of a bank's inherent financial strength, soundness and risk profile. These ratings do not address sovereign risk factors, including transfer risk, which may affect an institution's capacity to honour its financial obligations, be they local or foreign currency. Financial strength ratings also exclude support factors, which are addressed by foreign and local currency ratings, as well as CI's support ratings. However, financial strength ratings do take into account the bank's operating environment including the economy, the structure, strength and stability of the financial system, the legal system, and the quality of banking regulation and supervision. Financial strength ratings do not assess the likelihood that specific obligations will be repaid in a timely manner.

The following rating scale applies to the financial strength rating.

AAA	Financially in extremely strong condition with positive financial trends; significant strengths in other non-financial areas. Operating environment likely to be highly attractive and stable.
AA	Financially in very strong condition and significant strengths in other non-financial areas. Operating environment likely to be very attractive and stable.
A	Strong financial fundamentals and very favourable non-financial considerations. Operating environment may be unstable but institution's market position and/or financial strength more than compensate.
BBB	Basically sound overall; slight weaknesses in financial or other factors could be remedied fairly easily. May be limited by unstable operating environment.
BB	One or two significant weaknesses in the bank's financial makeup could cause problems. May be characterised by a limited franchise; other factors may not be sufficient to avoid a need for some degree of temporary external support in cases of extraordinary adversity. Unstable operating environment likely.
B	Fundamental weaknesses are present in the bank's financial condition or trends, and other factors are unlikely to provide strong protection from unexpected adversities; in such an event, the need for external support is likely. Bank may be constrained by weak market position and/or volatile operating environment.
C	In a very weak financial condition, either with immediate problems or with limited capacity to withstand adversities. May be operating in a highly volatile operating environment.
D	Extremely weak financial condition and may be in an untenable position.

Capital Intelligence appends "+" and "-" signs to financial strength ratings in the categories from "AA" to "C" to indicate that the strength of a particular institution is, respectively, slightly greater or less than that of similarly rated peers. Rating symbols written in lower case (e.g. aaa/a1) indicate that the issuer has not participated in the rating process and CI has relied on publicly available information and other information sources it considers reliable.

Outlook – expectations of improvement, no change or deterioration in a rating over the 12 months following its publication are denoted Positive, Stable or Negative.

Qualified – in cases where data and/or co-operation are such that it is not possible to formulate ratings to CI's high standards of robustness and reliability the letter "q" is appended to the ratings.

Support Ratings

CI's support ratings assess the likelihood that, in the event of difficulties, a bank would receive sufficient financial assistance from the government or private owners to enable it to continue meeting its financial obligations in a timely manner. Support ratings complement CI's financial strength ratings which, in effect, indicate the likelihood that a bank will fail due to inherent financial weaknesses and/or an unstable operating environment and therefore may require external support to avoid defaulting on its obligations. Neither financial strength ratings or support ratings take account of transfer and convertibility risks associated with sovereign events. The overall creditworthiness of an institution and default risk is captured by CI's foreign currency ratings. Foreign currency ratings take into account all factors affecting the likelihood of repayment including inherent financial strength, external support, the operating environment, and sovereign-related risks.

Although subjective, support ratings are based on a thorough assessment of a bank's ownership, market position and importance within the sector and economy, as well as the country's regulatory and supervisory framework and the credit standing of potential supporters.

The following rating scale applies to support ratings.

1. The likelihood of a bank receiving support in the event of difficulties is extremely high. The characteristics of a bank with this support rating may include strong government ownership and/or clear legal guarantees on the part of the state. The bank may also be of such importance to the national economy that state intervention is virtually assured. The ability and willingness of potential supporters to provide sufficient and timely support is extremely strong.

2. The likelihood of support is very high. The ability and willingness of potential supporters to provide sufficient and timely support is very strong.

3. The likelihood of support is high. The ability and willingness of potential supporters to provide sufficient and timely support is strong.

4. The likelihood of support is moderate. There is some uncertainty about the ability and willingness of potential supporters to provide sufficient and timely assistance.

5. The likelihood of support is low. There is considerable uncertainty about the ability and willingness of potential supporters to provide sufficient and timely assistance.