

## United Arab Bank

**June 2009**

# **Rating Report**

## **United Arab Bank**

### **United Arab Emirates**

**June 2009**

**Capital Intelligence Ltd**

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# UNITED ARAB BANK

Sharjah, United Arab Emirates

June 2009

<b>RATINGS</b>				<b>FINANCIAL HIGHLIGHTS</b>				
	<b>Current</b>	<b>Last Changed From</b>	<b>Date</b>	<b>USD (mn) AED (mn)</b>	<b>2008 USD</b>	<b>2008 AED</b>	<b>2007 AED</b>	<b>2006 AED</b>
<b>Sovereign</b>	<b>AA- A1+ Stable</b>	A+	May 07	Total Assets	2,059	7,560	6,185	4,790
Long-Term:		A1	May 07	Net Loans	1,501	5,511	3,944	3,341
Short-Term:		-	-	Total Deposits*	1,653	6,070	4,819	3,601
Outlook				Total Capital	365	1,341	1,283	1,093
<b>Foreign Currency</b>	<b>BBB+ A2</b>	BBB	May 08	Gross Income	114	419	344	277
Long-Term:		A3	May 08	Net Income	68	250	211	158
Short-Term:				Exchange Rate: USD/AED		3.6725	3.6725	3.6725
				*Customer + Interbank				
<b>Financial Strength</b>	<b>BBB</b>	BBB-	Apr 07	%		<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Support</b>	<b>3</b>	4	May 07	NPL / Gross Loans		1.58	2.34	2.64
<b>Outlook</b>	<b>Stable Stable</b>			Loan-Loss Reserves / NPLs		131.94	115.09	106.65
Foreign Currency		Positive	May 06	Capital Adequacy Ratio		12.90	19.30	21.70
Financial Strength		-	-	Net Loans / Stable Funds		86.75	73.54	76.81
				Interest Differential		3.95	4.08	4.26
				Cost / Income		35.11	32.78	35.36
				ROAA		3.64	3.85	3.55

## RATINGS DRIVERS

### Supporting the Rating

- Significant strategic shareholder; Commercial Bank of Qatar (CBQ) holds 40% of shares
- Sound asset quality; diversified credit portfolio, high level of short-term loans and low maturity gaps
- Low credit exposures to sectors that have been directly impacted by the slowdown
- Strong profitability ratios; good performance in Q1 2009
- Good support from the federal government and the central bank

### Constraining the Rating

- Liquidity ratios tightened at end 2008, although there was an improvement in Q1 2009
- Slowing domestic economy. Uncertain short to medium-term prospects for major sectors

## RATING RATIONALE

UAB is less affected by the current economic downturn than many other banks in the country. This is largely due to its overall conservative outlook and its historically low risk appetite for real estate loans, mortgage finance and consumer and credit card loans, the three sectors which are presently experiencing some problems. UAB's principal activity is to provide working capital finance to medium and large UAE-based groups with diversified business interests. Consequently, the Bank has a high proportion of short-term exposures in its credit portfolio and asset/liability maturity gaps are low. The Bank also has a higher proportion of lending to manufacturing companies than any other local bank. UAB's net profit and capital did not suffer unduly from mark-to-market and impairment losses since the investment portfolio has historically been relatively small and exposures to equities were negligible at year-end.

UAB's asset quality ratios remained strong at end 2008 and end March 2009. Non-performing loans (NPLs) were very low and loan-loss reserves continued to exceed NPLs. The slowing economy could push up UAB's NPLs over the coming quarters but given the Bank's relatively low exposures to the sectors that are most impacted by the downturn these are likely to be manageable.

The Bank does not anticipate any requirement for additional capital this year. Since no cash dividends were distributed for 2008, capital increased in the first quarter of 2009. The Bank also contracted its balance sheet in Q1 2009 resulting in an improvement in the capital adequacy ratio to a comfortable 17.3% at end March 2009. UAB is a very profitable bank owing to its wide interest differential, strong non-interest revenues and relatively low risk charge. The Bank performed well in Q1 2009. Liquidity ratios tightened at end 2008 although there were slight improvements in key ratios at the end of Q1 2009.

UAB's foreign currency ratings are unchanged at BBB+ long-term and A2 short-term; the ratings are underpinned by CBQ's ownership, its management control of the Bank and the liquidity support extended by the federal government and central bank. The financial strength rating is maintained at BBB. UAB's good asset quality and profitability support the financial strength rating. A 'Stable' outlook is appended to all the ratings given the Bank's strong Q1 2009 results, its relatively low exposures to the most seriously affected sectors of the economy and improved liquidity and capital adequacy ratios. However, liquidity ratios, particularly net loans to stable funds (87% at end 2008 and 85% at end March 2009) remain much higher than they have been in the past.

### **Bank History**

<b>Major Shareholders as of 31 March 2009 (%)</b>	
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.

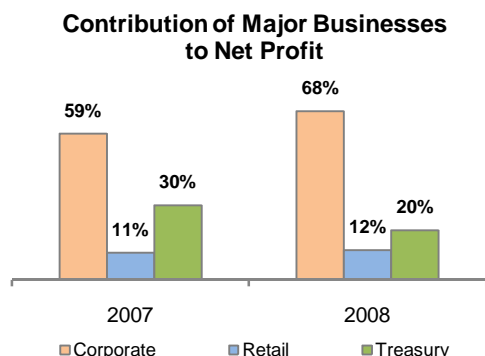
CBQ is considerably larger than UAB (see table to the right). It is in fact one of Qatar's largest commercial banks and provides a wide range of retail, corporate, investment and Islamic banking products and services.

CBQ is very profitable and has sound asset quality. In recent years, it has expanded regionally through the acquisition of strategic interests in regional financial institutions (National Bank of Oman and UAB to date). Regional expansion remains an important objective. UAB will benefit 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.

<b>Commercial Bank of Qatar Key Financials 2008</b>	
Total Assets (USD billion)	16.8
Total Capital (USD billion)	2.7
Net Profit (USDmn)	468
ROAA (%)	3.19
NPLs/Gross Loans (%)	1.44
LLR/NPLs (%)	59.06
Capital Adequacy Ratio (%)	15.66

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 strong core competencies in risk management and corporate banking, and was earlier the deputy CEO at National Bank of Oman. A chief risk officer was also appointed, on secondment from CBQ. A new position of group head – retail banking has also been filled recently.

## Current Business Model



UAB ranks among the smaller banks in the country. With total assets of USD2.06 billion at end 2008 it was ranked eighteenth in Capital Intelligence's (CI's) peer group table of 18 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, 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, which 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.

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. UAB has recently launched its priority banking service for high net worth individuals, under the brand name Sadara, with the assistance and advice from CBQ. Corporate and retail divisions are run as separate business units, but the two divisions work closely together. Islamic banking facilities are not offered at present but are being considered.

UAB currently operates a small network of nine branches spread across the country. Operations are centralised. The Bank is likely to open three or four customer service outlets to expand its reach in Abu Dhabi, Sharjah and other emirates. 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. The underlying principles governing all aspects of banking remain conservative. Credit decisions are largely centralised and closely monitored by the head office. The board as well as the board executive credit committee are actively involved in setting business strategy, risk appetite, credit policy and monitor risk governance and compliance.

## Principal Business Strategies

The Bank continues to emphasise corporate banking activities with the primary focus on lending to medium-sized corporate customers with diversified businesses. The retail banking business continues to be viewed as a supplementary business which provides good returns. In view of the current slow down in the country the Bank has scaled back its growth plans although it still sees room for selective opportunistic increase in market share of target businesses, and expects to register a moderate increase in its asset base and revenues this year. The Bank was relatively less impacted by the financial turmoil of Q4 2008 due to its low exposures to investments and diversified loan book with low exposure to vulnerable market segments. UAB continues to focus on non-funds based business. The strategic emphasis will be on maximising existing synergies with CBQ and NBO. New retail and wealth management services are also being developed, with guidance and assistance from CBQ and these will be primarily targeted at the large UAE nationals segment and wealthy businessmen with long term commitment to the UAE.

## SIGNIFICANT RECENT DEVELOPMENTS IN THE FINANCIAL SECTOR

**Prompt action by the central bank and the federal government** The UAE central bank and the federal government acted promptly to support the banking sector following the sudden tightening of liquidity in September 2008. The central bank set up an AED50 billion line of credit for banks while the federal government pledged to provide around AED70 billion deposits to local banks. Of this, AED50 billion was disbursed in two tranches in Q4 2008. Banks were also given the option to convert

these deposits to seven-year Tier 2 capital this year. Recent newspaper reports indicate that necessary legislation is being passed by the federal government to guarantee till end 2012 the deposits of all banks operating in the country.

Meanwhile, the government of Abu Dhabi injected AED16 billion additional Tier 1 capital into five Abu Dhabi-based banks. These cash injections have helped substantially to improve liquidity although liquidity levels nevertheless continue to be tighter than at end 2007.

**The governments of Dubai and Abu Dhabi are raising additional funds** The Dubai government, which reportedly has outstanding loans of around USD80 billion, raised new funds in Q1 this year to meet the repayment obligations of entities owned by it. Around USD10 billion has to be repaid before the end of the year. The Dubai government announced an USD20 billion bond programme in Q1 2009; the UAE central bank subscribed to 50% of the bonds. Meanwhile with credit default swap spreads of Dubai government paper falling from their October 2008 peak, and with confidence and appetite returning to the UAE markets, a few entities were able to raise new funds in April 2009. The Dubai Electricity and Water Authority and the Dubai Civil Aviation Authority raised a total of USD2.84 billion through syndicated arrangements. The emirate of Abu Dhabi also raised USD3 billion on 1 April 2009 through a sale of bonds, under its USD10 billion programme.

**Central bank tightens prudential norms measures** Banks are required to raise their Tier 1 capital adequacy ratio (CAR) to 11% by June 2009 and to 12% by June 2010. Individual bank balance sheets have been stress tested to locate inadequacies within the system. The central bank had earlier required all banks to move to Basel II by end 2008, but the guidelines have not yet been developed and the formal implementation of Basel II is awaited.

**Tighter supervision** Central bank inspection teams visited all banks in Q4 2008 to review asset quality. The provision charges of all banks were reviewed by a special committee set up by the central bank. The portfolios were reviewed again in March 2009 prior to the announcement of results by banks. Auditors have been instructed by the central bank to ensure that their reviews are thorough. Regular meetings of all CEOs and credit heads of all banks have been organised to ensure close monitoring of liquidity and asset quality.

### **Asset quality implications**

Real Estate: The real estate sector in Abu Dhabi has grown substantially over the last few years with the launch of a number of projects. While the pace of construction has clearly slowed this year, the Abu Dhabi government has announced its intention to continue spending on infrastructure related projects. Many of the ongoing projects in the emirate are being built by companies affiliated to the state and funding for these entities is likely to be arranged on a priority basis by the government. In Abu Dhabi, real estate prices have not declined as much as in Dubai and rentals continue to be high with demand for commercial and residential space exceeding supply.

The real estate sector in Dubai was severely hit in the current downturn and a number of recently completed housing units have seen a substantial fall in value (up to 50% from peak prices in certain areas). Major declines have mainly been observed in new freehold investment projects developed over the last few years which foreigners have been allowed to purchase. Rentals have also dropped, in some cases up to 50% in some new freehold areas. There could be further declines in a year's time when supply is expected to rise with the completion of several projects. Many real estate projects which were in the pre-launch stage have been cancelled. However, those that were under construction are likely to be completed although completion dates may be extended due to funding delays. The problems in the real estate sector could spread to other sectors in case of a prolonged downturn since some business groups have invested in this area in recent years.

Home Mortgage Loans: The fall in real estate prices is likely to result in some deterioration in the mortgage loan portfolios of banks in the UAE, particularly in cases where the loans were used for speculative purposes. Job losses among the expatriate community in Dubai will compound the problem. Banks already report higher delinquent debts in their personal loan, auto loan and credit card portfolios. This is expected to rise in the second half of the current year. (UAB is one of the few banks who have not extended any home mortgage loans).

**Tourism and Trading:** Given the global nature of the current downturn, the hotel and tourism industries in the country are also at risk with hotel occupancies having slumped substantially over the last six months. The trading sector is likely to be negatively impacted. Lower demand from the construction sector has already affected the demand for building materials. Reduced population and lower levels of tourist arrivals will also impact the trading sector which is a major contributor to the country's GDP.

**Construction:** There are reports that the construction sector in Dubai is experiencing payment delays. Although the Dubai government is widely expected to meet its commitments over the next few months, private sector companies may see high receivables build-up and cash flow strains, resulting in higher NPLs for the banking sector. Restructured loans are expected to rise across all banks.

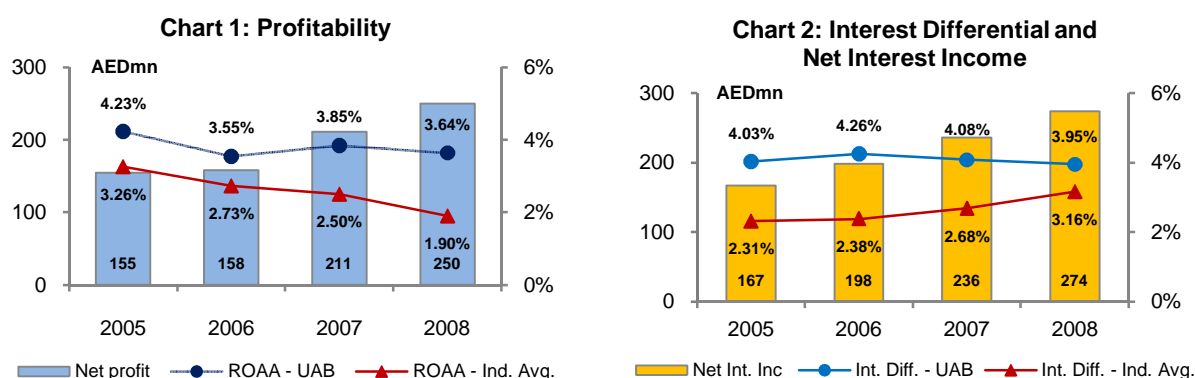
In Abu Dhabi, where demand continues to exceed supply, rentals have not fallen. The Abu Dhabi government is pressing ahead with its integrated infrastructure projects under its Abu Dhabi Plan 2030 which envisages investments in a number of diverse industries.

**Timeline for NPL growth:** Corporate banking NPLs are not expected to rise till perhaps Q4 2009. It is not clear to what extent businesses in the country had invested in the real estate sector during the boom. If the sector does not show any signs of recovery over the next six to eight months, the problems could spread to other sectors. Banks are likely to restructure loans in the most deserving cases, while loans of severely stressed customers will be classified as NPLs.

Most banks reported an increase in retail NPLs in 2008 and in Q1 2009. NPLs are likely to rise over the coming quarters, particularly if more jobs are lost. Individuals who have borrowed heavily to speculate in Dubai's real estate market (no figures are available for this but the numbers are reported to be fairly high) are likely to account for the bulk of delinquencies. Foreign banks who had aggressively promoted personal loans, cards and mortgage loan products to expatriates in the country are particularly vulnerable.

## **KEY FINANCIAL ISSUES**

The 2008 accounts were audited by Ernst and Young. 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 good performances over the last several years were underpinned by its wide interest differential, high non-interest revenue base and low risk charge. The Bank's return on average assets ratio (ROAA) has been higher than the industry average over the last several years (see Chart 1).

**Good operating income** Operating profit rose by 17.7% to AED272mn in 2008 reflecting good growth in net interest income and substantially higher non-interest revenues. The operating profit to average total assets ratio remained high at 3.95%, although the ratio came down from 4.21% in the previous year. Although operating expenses jumped by 30.6% to AED147mn owing to higher staff costs arising from increased headcount and inflation-led salary increases, the cost to income ratio was a satisfactory 35.11%.

**Low impairment charge owing to good asset quality and a very small exposure to equities** The loan-loss provision charge rose by 10.2% to AED21.8mn, but the provision charge to average total assets ratio remained low at 0.32%. There was no impairment charge on equity investments since the bulk of an already small portfolio had been disposed of before the end of the year. Net profit rose by 18.4% to AED250mn in 2008. Although the ROAA fell by 21 basis points to 3.64% it was nevertheless much higher than the industry average of 1.9%.

**High interest differential** UAB's net interest differential has been consistently higher than the industry average for the last several years (see Chart 2), although the gap narrowed last year. The Bank's net interest differential fell by 13 basis points to 3.95 with the decline in interest rates in 2008 resulting in lower average yields on interest bearing assets. Nevertheless owing to the substantial increase in lending during the year (net loans rose by 39.7% year-on-year) net interest income increased by nearly 16% to AED274mn.

UAB's lower than industry average funding cost (2.19% as against an industry average of 2.93% in 2008) contributes to its good interest differential. An important reason for UAB's low funding cost is its sizeable interest free demand balances (36.5% of customer deposits at end 2008) from a loyal and growing customer base.

Table 1: Non-Interest Income			
AEDmn	2008	2007	%Δ
Fees, Commissions	67	43	56.1
Foreign Exchange	41	30	39.1
Securities Dealings	6	9	-28.4
Other Income	31	26	17.4
<b>Total Non-Interest Income</b>	<b>146</b>	<b>108</b>	<b>34.9</b>
NII/Avg Tot. Asts. – Invest (%)	2.12	1.96	-
NII/Avg Tot. Asts. – Avg (%)	1.60	2.26	-

*NII – Non-interest income*

**Good non-interest income base** Fees, commissions and foreign exchange trading profits rose substantially last year (see Table 1) reflecting the strong growth in corporate banking activities. The sizeable 38.4% year-on-year increase in contingent balances also contributed to the growth in fee income. Securities trading profits declined in 2008, but there were no mark-to-market losses since fair value changes on the local bonds portfolio had been put

through capital. Other income in Table 2 comprised customer service charges, premium received on options and forward contracts and income from collections. Non-interest revenues represented a high 2.12% of average total assets in 2008 and accounted for 34.7% of gross income.

## **BALANCE SHEET**

Table 2: Breakdown of Investments		
AEDmn	2008	2007
Equities	0.3	17.5
Debt	495.4	241.4
<b>Total Investments</b>	<b>495.7</b>	<b>258.9</b>
Of which, Available-for-sale	459.0	222.2
Held-to-maturity	36.7	36.7
Investments/Total Assets	6.6%	4.2%
Impact on P&L of 10% Δ in indices	0.2	2.0

**Relatively small investment portfolio** UAB's investment book more than doubled last year with purchases of mainly local debt securities – issuers include local governments, government-related entities, banks and infrastructure related entities. However, the investment portfolio represented a relatively low 6.6% of total assets at end 2008.

The bulk of investments were classified as available-for-sale at end 2008 (see Table 2). Valuation losses of AED102mn on the AFS portfolio were adjusted from capital last year. Fair value losses represented 8.3% of total capital at end 2008. The Bank did not incur impairment losses on its equity holdings since the portfolio was very small. The sale of equities last year has reduced market and equity risk substantially.

**Table 3: Gross Loans by Sector**  
2008

Sector	2008		2007	
	AED mn	% of Total	AED mn	% of Total
Manufacturing	1,523	27.0	770	18.9
Trade	1,192	21.1	1,090	26.8
Retail Loans	878	15.6	551	13.5
Business Loans to Individuals	631	11.2	611	15.0
Financial Insts.	396	7.0	268	6.6
Construction	378	6.7	198	4.9
Government	348	6.2	282	6.9
Services	204	3.6	203	5.0
Transport/Others	94	1.6	95	2.4
Gross Loans	5,644	100.0	4,068	100.0
Related Party/Gross Loans (%)	3.5	-	3.1	-
Net Loans Growth Rate (%)	39.3	-	18.4	-

**Diversified portfolio with moderately low customer concentrations** The Bank lends primarily to medium-sized and large UAE based entities with solid businesses in the region which are typically spread across several sectors. Since the average size of a loan is small customer concentration levels are moderately low (by UAE standards) – the ten largest borrowing customers (including a public utility) accounted for 18% of gross loans at end 2008 and 14% of non-funded exposures. Exposures are spread across a wide range of sectors and industries.

**Loans to manufacturing companies** constituted the largest sectoral exposure at end 2008 (see Table 3) and is one of the best performing portfolios of the Bank.

**Trading sector finance** formed the second largest sectoral exposure. Facilities are extended mainly to large well established companies engaged in wholesale trading in products that have shown high demand growth in the UAE (foodstuffs, building & construction materials, industrial supplies & equipment) and a long standing client base in UAE and other GCC countries. 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. UAB does however have a small real estate exposure (amounting to 5.8% of gross loans which is included under Business Loans to Individuals in Table 3) comprising loans to nationals to build villas and buildings against the mortgage of property. The portfolio is performing well.

Other business loans, largely secured, are short and medium-term exposures to business groups which are used for various commercial 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 4% of gross loans at end 2008 and the exposure was 273% covered by the value of the underlying collateral.

**Retail loans** accounted for 15.6% of gross loans at end 2008. Loans are primarily extended to employees of corporate customers and government institutions on the Bank's approved list against the assignment of salaries and end of service benefits. Retail NPLs represented 5.5% of gross retail loans at end 2008. This could rise over the coming quarters as expatriates who have lost jobs leave the country.

**Government and public sector** UAB's low exposure to the government sector at end 2008 was largely in the form of syndicated loan facilities extended to large public sector entities and utilities. The exposure reduced further in 2009.

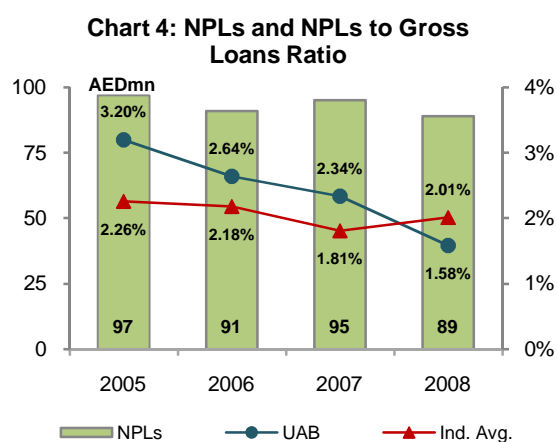
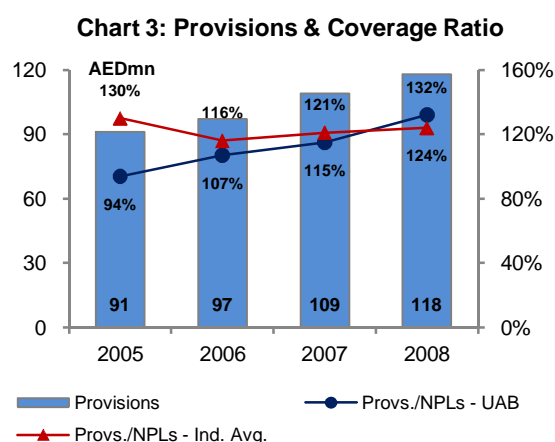
**Loans to financial institutions and cross border exposure** The portfolio of loans to financial institutions is small and comprised loans to investment, finance and insurance companies apart from commercial banks. The bulk of the exposure was to UAE-based companies. The Bank had no exposures to troubled Saudi, Kuwaiti or Bahraini companies and financial institutions at end March 2009. There were no NPLs in the portfolio at end 2008.

**Construction finance** accounted for 6.7% of gross loans at end 2008 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** The portfolio has grown substantially over the last two years – rising by 32.7% in 2007 and by 38.4% in 2008. Given the decline in corporate banking activities in the country, contingent balances are likely to grow at a much slower pace this year. UAB's contingent business portfolio was equivalent to 86.8% of its total assets at end 2008 (2007: 76.5%).

**High level of short-term exposures** As a primarily corporate bank with a strong focus on providing working capital facilities for companies UAB 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 2008, unchanged from the previous year-end, while loans with maturities of less than three months accounted for 48% of the total (see Table 4). The remaining loans are primarily medium-term in nature.

	< 1 yr	1-5 yrs	> 5 yrs	Total
2008	68	30	2	100
2007	68	30	2	100
2006	69	29	2	100



Note: NPLs at end 2008 and end 2007 in the charts and in the text refer to impaired loans (180+ days overdue) and past due loans (90 to 180 days overdue). NPLs at end 2006 and end 2005 comprise only impaired loans. An impaired loan is defined by the Bank as a past due loan over 180 days.

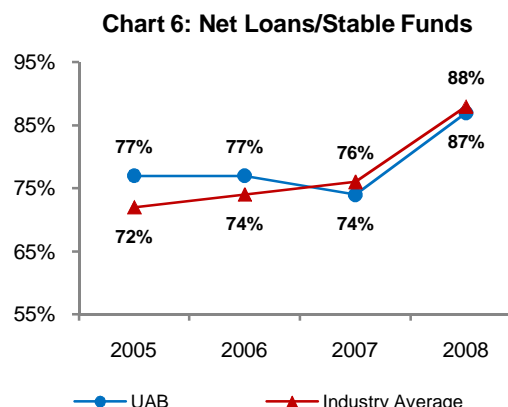
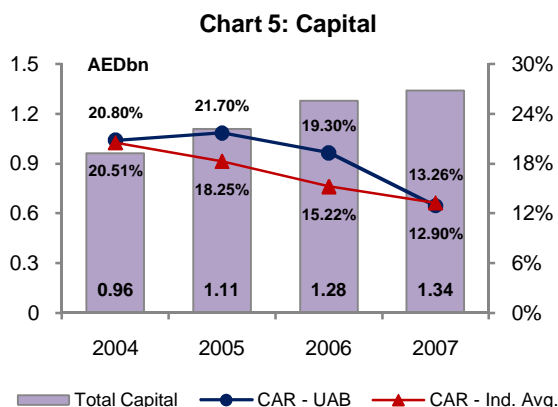
**Sound asset quality** NPLs declined by 6% to AED89mn at end 2008 due to recoveries/write-offs, resulting in a fall in the NPLs to gross loans ratio to 1.58% at end 2008, from 2.34% at end 2007. UAB's NPL ratio fell below the industry average of 2.01% for the first time last year (see Chart 4). Impaired loans (over 180 days past due) represented 85% of total NPLs, while the balance comprised past due loans that were 90 to 180 days old. Loan-loss reserves have exceeded NPLs over the last three years. The coverage ratio strengthened to 132% at end 2008, above the industry average of 124% (see Chart 3). Collateral covered 85% of NPLs that were 90 to 180 days overdue. The Bank does not consider these loans as impaired.

Restructured loans were low at AED76mn at end 2008 (2007: AED105mn). This accounted for a low 1.35% of gross loans.

Type of Customer	% of Gross Loans
Medium & large companies	59.3
Retail	15.6
Individuals	11.2
Small, medium-sized companies	7.7
Public sector, government	6.2
<b>Total</b>	<b>100.0</b>

UAB's good asset quality in recent years was partly due to the strong performances of local companies reflecting good economic growth over several years. The current slow down could therefore push up NPLs in the future. However, UAB has no exposure to the real estate development sector and to mortgage finance. Its retail loan book could see an increase in bad debts over the coming quarters but

the Bank has built additional general provisions for just such an eventuality. Other favourable factors include the Bank's diversified credit portfolio, good credit risk management systems, strong collateral and solid loan-loss provisioning.



**Capital adequacy ratio fell in 2008 but improved in Q1 2009** Total capital rose by a modest 4.6% to AED1.34 billion at end 2008 with a strong net profit of AED250mn offset by net fair value losses of AED102mn on investments. There was also an AED78mn cash dividend payout in early 2008, being the dividend declared for the year 2007. In fact regulatory capital rose only marginally to AED1.1 billion, while risk weighted assets (as per local norms) increased by a substantial 53% to AED8.2 billion. Consequently, the CAR fell to 12.9% at end 2008 from a high 19.3% at end 2007. However, the CAR improved to 17.3% at end March 2009 following the issue of bonus shares without any cash payout.

The Bank had the option to convert AED353mn of federal deposits received in Q4 2008 into Tier 2 capital like many other banks in the country. But it chose not to do so since the Bank believes that it is adequately capitalized to support its growth plans for the coming years. Moreover, the Bank is confident that its shareholders, who it believes have the capability and willingness to contribute additional equity if required, will provide assistance in case of need. UAB chose to retain its entire 2008 net profit by issuing bonus shares instead of cash dividends. This helped to increase paid-up capital in Q1 2009. The Bank's Basel I CAR rose to 17.3% at end March 2009.

	2008		2007	
	AEDmn	%	AEDmn	%
Demand	1,816	36.5	1,649	40.0
Savings	55	1.2	58	1.4
Time	3,098	62.3	2,416	58.6
<b>Total</b>	<b>4,969</b>	<b>100.0</b>	<b>4,123</b>	<b>100.0</b>
Growth Rate	20.5%	-	26.0%	-

**Large demand balances provide ample low-cost funding** Customer deposits have grown at a strong pace over the last few years (see Table 6). UAB has large demand balances in its customer deposit base (36.5% at end 2008) reflecting its primarily corporate customer base. The Bank states that demand balances have proved remarkably stable over the years, compensating

for relatively low saving deposits (see Table 6). At end 2008, deposits also included AED353mn received from the federal government with deposit maturities varying between three and five years as part of the government's stimulus package announced in September 2008.

Customer deposits funded 65.7% of the balance sheet. Other major sources of funding were capital (17.7%) and interbank liabilities (14.6%). Interbank liabilities rose by 58% to AED1.1 billion at end 2008 – including a small borrowing from CBQ and the central bank – reflecting the tight liquidity conditions at year-end, but interbank borrowings declined to AED941mn at the end of Q1 2009. Interbank assets and liquid assets exceeded interbank liabilities by AED276mn.

There are some customer concentrations in the deposit base, although UAB's concentration levels are lower than those of many other UAE banks – the ten largest depositors accounted for 14% of total customer deposits at end 2008 (2007: 20%).

**Liquidity ratios have tightened** In common with other banks in the country, the net loans to stable funds ratio rose to nearly 87% at end 2008 (marginally lower than the industry average) from 73.5% at the end of the previous year. The liquid asset ratio also fell sharply to 18.2% at end 2008 from 30.3% at end 2007, due to the fall in value of local bonds investments. There was a slight improvement in the net loans to stable funds ratio at the end of Q1 2009 and the liquid asset ratio also strengthened

reflecting improved liquidity conditions in the financial sector. Overall, UAB has endured the liquidity crisis of the last quarter of 2008 without any major problems, although key ratios need to be strengthened further.

<b>Table 7: Asset Less Liabilities/Total Assets %</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
0-3 months	-7	-2	-5	-1
3-12 months	6	6	7	8
Over 12 months	1	-4	-2	-7

**Low maturity mismatches** (see table to the left) 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.

## **CURRENT YEAR UPDATE (Q1 2009)**

The table below highlights UAB's financials for the first quarter of 2009:

<b>AEDmn</b>	<b>Mar 09</b>	<b>Dec 08</b>	<b>Δ%</b>	<b>AEDmn</b>	<b>Q1 09</b>	<b>Q1 08</b>	<b>Δ%</b>
Total Assets	7,204	7,560	-4.7	Net Interest Income	78.30	64.23	21.9
NPLs	95	89	6.7	Non-Interest Income	38.18	31.19	22.4
Provisions	129	118	9.3	<b>Gross Income</b>	<b>116.48</b>	<b>95.42</b>	<b>22.1</b>
Net Loans	5,135	5,511	-6.8	Operating Expenses	39.66	31.34	26.5
Total Deposits	5,657	6,070	-6.8	<b>Operating Profit</b>	<b>76.82</b>	<b>64.08</b>	<b>19.9</b>
Total Capital	1,403	1,341	4.6	Provisions	-11.00	-9.55	15.2
<b>%</b>	<b>Mar 09</b>	<b>Dec 08</b>		Tax	0	0	-
NPLs/Gross Loans		1.80	1.58	<b>Net Profit</b>	<b>65.82</b>	<b>54.53</b>	<b>20.7</b>
Loan-Loss Reserves/NPLs		135.79	131.94				
Net Loans/Stable Funds		84.57	86.75				
Liquid Asset Ratio		20.35	18.20				
Capital Adequacy Ratio		17.30	12.90				
Cost To Income		34.05	35.11				
ROAA		*3.57	3.64				

\*Annualised

**Good growth in net profit** UAB reported a 20.7% increase in net profit in Q1 2009 owing to strong net interest and non-interest income. Net interest income increased by 21.9% due to an improved net interest margin and higher average loan volumes compared to Q1 2008. Non-interest revenues rose by 22.4% reflecting increased fees and commissions and higher profits from foreign exchange trading. The Bank made an AED11mn loan-loss provision charge in Q1 2009. There were no impairment losses on investments as fair value adjustments were taken through equity. The ROAA was a strong annualised 3.57%, slightly below the ROAA for the full year 2008.

**The balance sheet contracted over Q1** Net loans shrank by 6.8% in Q1 2009 primarily due to a fall in loans extended to manufacturing companies, financial institutions, and the government and contracting sectors. Contingent accounts also fell over the quarter, by 6.3% to AED6.1billion. There were corresponding declines in customer deposits (to AED4.6 billion from AED5 billion at end 2008) and bank borrowings (AED941mn, from AED1 billion).

**Key liquidity ratios improved although they remain tight** Liquidity measured in terms of the net loans to stable funds ratio improved slightly to 84.57%. The Bank also increased its placements with banks, pushing up the liquid asset ratio to 20.35%, from 18.2% at end 2008.

**Increase in CAR** Total capital rose by 4.6% to AED1.4 billion due to the retention of 2008 earnings (no cash dividends were paid) and a good Q1 result, while balance sheet assets and non-funds based exposures declined over the quarter. This led to an increase in the CAR to 17.3%.

**Asset quality ratios remain strong** NPLs rose by 6.7% over Q1 2009 primarily due to higher impaired loans (over 180 days past due) in both the corporate and retail portfolios. Loans that were overdue for between 90 and 180 days rose only slightly. The Bank increased its specific and general provisions over the quarter leading to a 9.3% rise in loan-loss reserves, resulting in an improved provision coverage ratio of 135.79% at end March 2009.

## **OUTLOOK**

Although the balance sheet contracted in the first quarter, the Bank may grow its loan book at a modest pace over the coming quarters particularly if the economy improves. The Bank does not intend to change its traditionally conservative stance towards lending to the real estate and contracting sectors. While selective loan growth will be considered, importance is being given to maintaining strong asset quality and liquidity. Liquidity conditions have eased in recent months but liquidity remains tight overall. UAB is going ahead with its plans to launch its special services for high net worth individuals and open a few more customer service points which should aid deposit collection this year.

# UNITED ARAB BANK

AE20

PERFORMANCE RATIOS				
External Audit	AUD 12/2008	AUD 12/2007	AUD 12/2006	AUD 12/2005
<b>A . SIZE FACTORS</b>				
1 . Total Assets (USD 000)	2,058,665	1,684,039	1,304,197	1,125,286
2 . Total Capital (USD 000)	365,229	349,311	297,583	260,985
<b>B . ASSET QUALITY</b>				
3 . Total Assets Growth Rate (Year on Year %)	22.25	29.12	15.90	29.62
4 . Loan-Loss Reserve to Gross Loans (%)	2.09	2.69	2.82	3.00
5 . Non-Performing Loans to Gross Loans (%)	1.58	2.34	2.64	3.20
6 . Loan-Loss Reserve to Non-Performing Loans (%)	131.94	115.09	106.65	93.71
7 . Unprovided Non-Performing Loans to Free Capital (%)				0.67
8 . Loan-Loss Provision Charge on Gross Loans (%)	0.39	0.49	0.60	0.60
9 . Reserve for Dimin. of Investments to Total Investments (%)				
10 . Related Party Loans to Total Capital (%)	43.17	28.73	25.10	26.68
11 . Total Contingents on Total Assets (%)	86.80	76.66	74.59	77.20
<b>C . CAPITAL ADEQUACY</b>				
12 . CI Risk Asset Ratio (%)	11.97	16.28	17.27	16.82
13 . Estimated BIS Risk Asset Ratio (%)	12.35	16.75	17.49	17.08
14 . Estimated BIS RAR on Tier One Capital (%)	13.06	16.28	17.40	16.58
15 . Actual Risk Asset Ratio to Local Standards (%)	12.90	19.30	21.70	20.80
16 . Internal Capital Generation (%)	17.65	10.67	9.87	16.64
17 . Total Capital Growth Rate (Year on Year %)	4.56	17.38	14.02	67.14
18 . Total Capital to Total Assets (%)	17.74	20.74	22.82	23.19
19 . Total Capital to Gross Loans (%)	23.83	31.65	31.79	31.50
20 . Free Capital Funds (AED 000)	1,294,692	1,239,913	1,076,198	940,907
21 . Estimated BIS RAR Shortfall (AED 000)	0	0	0	0
22 . Risk Weighted Assets on Total Footings (%)	76.89	70.09	74.72	76.63
<b>D . LIQUIDITY</b>				
23 . Net Loans to Total Deposits (%)	90.79	81.84	92.77	95.28
24 . Net Loans to Total Customer Deposits (%)	110.90	95.66	102.07	101.59
25 . Net Loans to Stable Funds (%)	86.75	73.54	76.81	76.74
26 . Customer Deposits to Total Deposits (%)	81.87	85.56	90.89	93.79
27 . Liquid Asset Ratio (%)	18.20	30.26	22.67	21.05
28 . Quasi-Liquid Asset Ratio (%)	23.43	34.44	26.96	24.55
29 . FX Currency Assets to FX Currency Liabilities (%)				
30 . FX Currency Loans to FX Currency Deposits (%)				
31 . Interbank Assets to Interbank Liabilities (%)	97.63	113.59	181.04	265.26
32 . Net Interbank Assets (AED 000)	-24,003	94,612	265,926	317,796
<b>E . PROFITABILITY</b>				
33 . Return on Average Assets (%)	3.64	3.85	3.55	4.23
34 . Return on Average Equity (%)	19.07	17.79	15.42	20.21
35 . Underlying Profits on Average Assets (%)	3.39	3.12	2.83	3.98
36 . Underlying Profits on Average Equity (%)	17.74	14.43	12.32	19.01
37 . Funding Cost (%)	2.19	2.71	2.99	6.25
38 . Interest on Average Earning Assets (%)	6.14	6.79	7.25	10.28
39 . Interest Differential (%)	3.95	4.08	4.26	4.03
40 . Non-Interest Income to Gross Income (%)	34.72	31.38	28.30	34.91
41 . Operating Expenses to Gross Income (%)	35.11	32.78	35.36	32.61
42 . Operating Profit Growth Rate (%)	17.68	29.17	3.30	74.59
43 . Operating Profit on Average Assets (%)	3.96	4.21	4.01	4.73
44 . Risk Provisioning Charge to Operating Profit (%)	8.02	8.56	11.62	10.62
45 . Dividend Payout Ratio (%)	0.00	37.04	32.14	0.00
<b>RATES</b>				
Exchange Rate (Units per USD)	3.6725	3.6725	3.6725	3.6725
Inflation Rate (%) (Estimated)	13.00	11.00	9.30	6.20
Imputed Interest Rate on Free Capital (%) (6 month USD LIBOR at year-end)	3.05	5.25	5.30	3.76

NOTES:

## BALANCE SHEET - ASSETS (AED 000)

RISK WGHT	External Audit	AUD				Growth (%)				Breakdown (%)					
		12/2008 USD 000	12/2008	12/2007	12/2006	12/2005	12/2008	12/2007	12/2006	12/2005	12/2008	12/2007	12/2006	12/2005	
		<b>LIQUID ASSETS:</b>													
0%		Cash & 7 Day	10,546	38,729	29,015	25,527	31,264	33.48	13.66	-18.35	7.84	0.51	0.47	0.53	0.76
0%		Central Bank	88,163	323,778	231,614	164,324	198,500	39.79	40.95	-17.22	24.67	4.28	3.74	3.43	4.80
10%		Treasury Bills													
20%		Government Securities													
20%		Other-Certificates of Deposits	6,807	25,000	820,000	302,000	130,000	-96.95	171.52	132.31	766.67	0.33	13.26	6.31	3.15
		<b>TOTAL LIQUID ASSETS</b>	<b>105,516</b>	<b>387,507</b>	<b>1,080,629</b>	<b>491,851</b>	<b>359,764</b>	<b>-64.14</b>	<b>119.71</b>	<b>36.71</b>	<b>69.10</b>	<b>5.13</b>	<b>17.47</b>	<b>10.27</b>	<b>8.71</b>
		<b>DEPOSITS WITH BANKS:</b>													
20%		Short - Up to 1 Year	269,105	988,289	790,554	594,074	510,098	25.01	33.07	16.46	23.52	13.07	12.78	12.40	12.34
20%		Short - Other													
100%		Non - OECD Medium Term													
		<b>TOTAL DEPOSITS WITH BANKS</b>	<b>269,105</b>	<b>988,289</b>	<b>790,554</b>	<b>594,074</b>	<b>510,098</b>	<b>25.01</b>	<b>33.07</b>	<b>16.46</b>	<b>23.52</b>	<b>13.07</b>	<b>12.78</b>	<b>12.40</b>	<b>12.34</b>
100%		<b>MARKETABLE SECURITIES</b>	<b>107,725</b>	<b>395,620</b>	<b>258,881</b>	<b>205,246</b>	<b>144,519</b>	<b>52.82</b>	<b>26.13</b>	<b>42.02</b>	<b>47.13</b>	<b>5.23</b>	<b>4.19</b>	<b>4.29</b>	<b>3.50</b>
		<b>LOANS AND ADVANCES:</b>													
20%		Government Guaranteed	94,703	347,795	282,457	202,661	87,886	23.13	39.37	130.60	-39.51	4.60	4.57	4.23	2.13
50%		First Mortgage Loans													
100%		Bills Disc. & Short Term	1,413,589	5,191,406	3,675,658	2,079,045	2,001,478	41.24	76.80	3.88	56.40	68.67	59.43	43.41	48.43
100%		Medium/Long Term													
100%		Other													
100%		Non-Performing Loans	24,270	89,133	94,823	90,855	97,270	-6.00	4.37	-6.60	11.48	1.18	1.53	1.90	2.35
100%		Loan-Loss Reserve	-32,022	-117,602	-109,131	-96,894	-91,156	7.76	12.63	6.29	10.94	-1.56	-1.76	-2.02	-2.21
		<b>NET LOANS AND ADVANCES</b>	<b>1,500,540</b>	<b>5,510,732</b>	<b>3,943,807</b>	<b>3,340,950</b>	<b>2,951,741</b>	<b>39.73</b>	<b>18.04</b>	<b>13.19</b>	<b>24.71</b>	<b>72.89</b>	<b>63.77</b>	<b>69.75</b>	<b>71.43</b>
100%		<b>UNQUOTED INVESTMENTS</b>	<b>27,250</b>	<b>100,076</b>	<b>76</b>	<b>2,592</b>	<b>55,710</b>	<b>&lt;&lt;&lt;&lt;</b>	<b>-97.07</b>	<b>-95.35</b>	<b>51.68</b>	<b>1.32</b>	<b>0.00</b>	<b>0.05</b>	<b>1.35</b>
		<b>NON-FINANCIAL SUBS &amp; AFFILS.</b>													
		<b>FINANCIAL SUBS &amp; AFFILIATES</b>													
100%		<b>FIXED ASSETS</b>	<b>12,692</b>	<b>46,613</b>	<b>42,931</b>	<b>16,676</b>	<b>17,560</b>	<b>8.58</b>	<b>157.44</b>	<b>-5.03</b>	<b>-0.75</b>	<b>0.62</b>	<b>0.69</b>	<b>0.35</b>	<b>0.42</b>
100%		<b>OTHER ASSETS</b>	<b>35,837</b>	<b>131,612</b>	<b>67,754</b>	<b>138,273</b>	<b>93,221</b>	<b>94.25</b>	<b>-51.00</b>	<b>48.33</b>	<b>116.76</b>	<b>1.74</b>	<b>1.10</b>	<b>2.89</b>	<b>2.26</b>
		<b>TOTAL ASSETS</b>	<b>2,058,665</b>	<b>7,560,449</b>	<b>6,184,632</b>	<b>4,789,662</b>	<b>4,132,613</b>	<b>22.25</b>	<b>29.12</b>	<b>15.90</b>	<b>29.62</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>
		<b>CONTINGENT ACCOUNTS:</b>													
100%		Fin. Gtees/SLCs/Acceptances	912,088	3,349,642	2,139,096	1,734,498	1,600,899	56.59	23.33	8.35	16.57	51.04	45.12	48.55	50.18
50%		Commitments to Extend Credit	687,989	2,526,638	1,962,473	1,416,227	1,242,193	28.75	38.57	14.01	27.90	38.50	41.39	39.64	38.94
20%		LCs/Bank & Govt Guarantees	186,884	686,333	639,530	421,736	347,303	7.32	51.64	21.43	-9.56	10.46	13.49	11.81	10.89
10%		Bonding for Banks & Govts													
5%		IR Swaps/Bank & Govt LCs													
		<b>TOTAL CONTINGENT ACCOUNTS</b>	<b>1,786,961</b>	<b>6,562,613</b>	<b>4,741,099</b>	<b>3,572,461</b>	<b>3,190,395</b>	<b>38.42</b>	<b>32.71</b>	<b>11.98</b>	<b>16.93</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>
		<b>TOTAL FOOTINGS</b>	<b>3,845,626</b>	<b>14,123,062</b>	<b>10,925,731</b>	<b>8,362,123</b>	<b>7,323,008</b>	<b>29.26</b>	<b>30.66</b>	<b>14.19</b>	<b>23.77</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
		<b>RISK WEIGHTED ASSETS</b>	<b>2,956,924</b>	<b>10,859,302</b>	<b>7,657,833</b>	<b>6,247,782</b>	<b>5,611,918</b>	<b>41.81</b>	<b>22.57</b>	<b>11.33</b>	<b>25.56</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

## BALANCE SHEET - LIABILITIES (AED 000)

	USD 000	12/2008	12/2007	12/2006	12/2005	12/2008	12/2007	12/2006	12/2005	12/2008	12/2007	12/2006	12/2005		
<b>INTERBANK LIABILITIES:</b>															
		Current & 7 Day	275,641	1,012,292	695,942	328,148	192,302	45.46	112.08	70.64	-3.41	13.39	11.25	6.85	4.65
		Short													
		Other													
		<b>TOTAL INTERBANK LIABILITIES</b>	<b>275,641</b>	<b>1,012,292</b>	<b>695,942</b>	<b>328,148</b>	<b>192,302</b>	<b>45.46</b>	<b>112.08</b>	<b>70.64</b>	<b>-3.41</b>	<b>13.39</b>	<b>11.25</b>	<b>6.85</b>	<b>4.65</b>
<b>CUSTOMER DEPOSITS:</b>															
		Demand	494,496	1,816,038	1,649,091	1,092,639	1,081,542	10.12	50.93	1.03		24.02	26.66	22.81	26.17
		Savings	15,071	55,348	57,571	57,003	53,403	-3.86	1.00	6.74		0.73	0.93	1.19	1.29
		Time	843,546	3,097,921	2,416,092	2,123,580	1,770,556	28.22	13.77	19.94	-25.39	40.98	39.07	44.34	42.84
		Other													
		<b>TOTAL CUSTOMER DEPOSITS</b>	<b>1,353,113</b>	<b>4,969,307</b>	<b>4,122,754</b>	<b>3,273,222</b>	<b>2,905,501</b>	<b>20.53</b>	<b>25.95</b>	<b>12.66</b>	<b>22.43</b>	<b>65.73</b>	<b>66.66</b>	<b>68.34</b>	<b>70.31</b>
		<b>OFFICIAL DEPOSITS</b>	<b>24,009</b>	<b>88,173</b>								<b>1.17</b>			
		<b>TOTAL DEPOSITS + INTERBANK</b>	<b>1,652,763</b>	<b>6,069,772</b>	<b>4,818,696</b>	<b>3,601,370</b>	<b>3,097,803</b>	<b>25.96</b>	<b>33.80</b>	<b>16.26</b>	<b>20.43</b>	<b>80.28</b>	<b>77.91</b>	<b>75.19</b>	<b>74.96</b>
		<b>OTHER LIABILITIES</b>	<b>40,673</b>	<b>149,372</b>	<b>83,092</b>	<b>95,418</b>	<b>76,343</b>	<b>79.77</b>	<b>-12.92</b>	<b>24.99</b>	<b>79.31</b>	<b>1.98</b>	<b>1.34</b>	<b>1.99</b>	<b>1.85</b>
		<b>MEDIUM/LONG TERM LIABILITIES</b>			<b>0</b>	<b>0</b>	<b>0</b>						<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>TIER TWO CAPITAL:</b>															
		Asset Revaluation Reserve	-20,810	-76,425	35,851	5,631	28,028	-313.17	536.67	-79.91	-9,049.66	-1.01	0.58	0.12	0.68
		Hybrid Capital Instruments	0	0	0	0	0	-	-	-	-	0.00	0.00	0.00	0.00
		Subordinated Term Debt	0	0	0	0	0	-	-	-	-	0.00	0.00	0.00	0.00
		<b>TOTAL TIER TWO CAPITAL</b>	<b>-20,810</b>	<b>-76,425</b>	<b>35,851</b>	<b>5,631</b>	<b>28,028</b>	<b>-313.17</b>	<b>536.67</b>	<b>-79.91</b>	<b>-9,049.66</b>	<b>-1.01</b>	<b>0.58</b>	<b>0.12</b>	<b>0.68</b>
<b>TIER ONE CAPITAL:</b>															
		Paid Up Capital	217,051	797,121	711,715	635,460	508,368	12.00	12.00	25.00	50.00	10.54	11.51	13.27	12.30
		Minority Interests	0	0	0	0	0	-	-	-	-	0.00	0.00	0.00	0.00
		Reserves	168,988	620,609	535,278	451,783	422,071	15.94	18.48	7.04	79.84	8.21	8.65	9.43	10.21
		<b>TOTAL TIER ONE CAPITAL</b>	<b>386,039</b>	<b>1,417,730</b>	<b>1,246,993</b>	<b>1,087,243</b>	<b>930,439</b>	<b>13.69</b>	<b>14.69</b>	<b>16.85</b>	<b>62.21</b>	<b>18.75</b>	<b>20.16</b>	<b>22.70</b>	<b>22.51</b>
		<b>TOTAL CAPITAL</b>	<b>365,229</b>	<b>1,341,305</b>	<b>1,282,844</b>	<b>1,092,874</b>	<b>958,467</b>	<b>4.56</b>	<b>17.38</b>	<b>14.02</b>	<b>67.14</b>	<b>17.74</b>	<b>20.74</b>	<b>22.82</b>	<b>23.19</b>
		<b>TOTAL LIABILITIES AND CAPITAL</b>	<b>2,058,665</b>	<b>7,560,449</b>	<b>6,184,632</b>	<b>4,789,662</b>	<b>4,132,613</b>	<b>22.25</b>	<b>29.12</b>	<b>15.90</b>	<b>29.62</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

## PROFIT AND LOSS ACCOUNT (AED 000)

	USD 000	12/2008	12/2007	12/2006	12/2005	Growth (%)				% of Average Total Assets					
						12/2008	12/2007	12/2006	12/2005	12/2008	12/2007	12/2006	12/2005		
		Interest Income	106,927	392,688	350,072	298,499	344,424	12.17	17.28	-13.33	129.75	5.71	6.38	6.69	9.41
		Interest Expense	-32,422	-119,070	-114,136	-100,012	-177,118	4.32	14.12	-43.53	466.60	-1.73	-2.08	-2.24	-4.84
		<b>Net Interest</b>	<b>74,505</b>	<b>273,618</b>	<b>235,936</b>	<b>198,487</b>	<b>167,306</b>	<b>15.97</b>	<b>18.87</b>	<b>18.64</b>	<b>41.01</b>	<b>3.98</b>	<b>4.30</b>	<b>4.45</b>	<b>4.57</b>
		Fees and Commissions	18,224	66,927	42,865	43,268	30,407	56.13	-0.93	42.30	29.36	0.97	0.78	0.97	0.83
		FX Trading Income	11,226	41,226	29,643	17,678	15,676	39.07	67.68	12.77	22.31	0.60	0.54	0.40	0.43
		Dealing Securities Income	1,766	6,487	9,064	-12,875	21,270	-28.43	170.40	-160.53		0.09	0.17	-0.29	0.58
		Other Investment Income													
		Other Income	8,417	30,910	26,339	30,284	22,384	17.35	-13.03	35.29	37.14	0.45	0.48	0.68	0.61
		<b>Non Interest Income</b>	<b>39,632</b>	<b>145,550</b>	<b>107,911</b>	<b>78,355</b>	<b>89,737</b>	<b>34.88</b>	<b>37.72</b>	<b>-12.68</b>	<b>70.46</b>	<b>2.12</b>			

## 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 %)	$\frac{(\text{CURRENT YEAR TOTAL ASSETS} - \text{LAST YEAR TOTAL ASSETS}) \times 100}{\text{LAST YEAR TOTAL ASSETS}}$
4. LOAN-LOSS RESERVE TO GROSS LOANS (%)	$\frac{\text{LOAN-LOSS RESERVE} \times 100}{\text{GROSS LOANS}}$
5. NON-PERFORMING LOANS TO GROSS LOANS (%)	$\frac{\text{NON-PERFORMING LOANS} \times 100}{\text{GROSS LOANS}}$
6. LOAN-LOSS RESERVE TO NON-PERFORMING LOANS (%)	$\frac{\text{LOAN-LOSS RESERVE} \times 100}{\text{NON-PERFORMING LOANS}}$
7. UNPROVIDED NON-PERFORMING LOANS TO FREE CAPITAL (%)	$\frac{\text{NON-PERFORMING LOANS} - \text{LOAN LOSS RESERVE} \times 100}{\text{FREE CAPITAL}}$
8. LOAN-LOSS PROVISION CHARGE ON GROSS LOANS (%)	$\frac{\text{PROVISIONS FOR DOUBTFUL DEBTS CHARGE} \times 100}{\text{GROSS LOANS}}$
9. RESERVE FOR DIMINUTION OF INVESTMENTS TO TOTAL INVESTMENTS (%)	$\frac{\text{RESERVE FOR DIMINUTION OF INVESTMENTS} \times 100}{\text{TOTAL INVESTMENTS}}$
10. RELATED PARTY LOANS TO TOTAL CAPITAL (%)	$\frac{\text{RELATED PARTY LOANS} \times 100}{\text{TIER ONE} + \text{TIER TWO CAPITAL}}$
11. TOTAL CONTINGENTS ON TOTAL ASSETS (%)	$\frac{\text{TOTAL CONTINGENTS} \times 100}{\text{TOTAL ASSETS}}$
C. Capital Adequacy Ratios	
12. CI RISK ASSET RATIO (%)	$\frac{\text{FREE CAPITAL FUNDS} \times 100}{\text{RISK WEIGHTED ASSETS} - \text{NON-FINANCIAL SUBS.} - \text{FIXED ASSETS}}$
13. ESTIMATED BIS RISK ASSET RATIO (%)	$\frac{(\text{TOTAL CAPITAL} - \text{FINANCIAL SUBSIDIARIES}) \times 100}{\text{RISK WEIGHTED ASSETS}}$
14. ESTIMATED BIS RAR ON TIER ONE CAPITAL (%)	$\frac{\text{TIER ONE CAPITAL} - \text{FINANCIAL SUBSIDIARIES} \times 100}{\text{RISK WEIGHTED ASSETS}}$
15. ACTUAL RISK ASSET RATIO TO LOCAL STANDARDS (%)	AS REPORTED BY LOCAL CENTRAL OR COMMERCIAL BANKS
16. INTERNAL CAPITAL GENERATION (%)	$\frac{(\text{NET PROFIT} - \text{DIVIDENDS} - \text{EXTRAORDINARY ITEMS}) \times 100}{\text{TIER ONE CAPITAL}}$
17. TOTAL CAPITAL GROWTH RATE (YEAR ON YEAR %)	$\frac{(\text{CURRENT YEAR TOTAL CAPITAL} - \text{LAST YEAR TOTAL CAPITAL}) \times 100}{\text{LAST YEAR TOTAL CAPITAL}}$
18. TOTAL CAPITAL TO TOTAL ASSETS (%)	$\frac{\text{TOTAL CAPITAL} \times 100}{\text{TOTAL ASSETS}}$
19. TOTAL CAPITAL TO GROSS LOANS (%)	$\frac{\text{TOTAL CAPITAL} \times 100}{\text{GROSS LOANS}}$
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 (%)	$\frac{\text{RISK WEIGHTED ASSETS} \times 100}{\text{TOTAL FOOTINGS}}$
D. Liquidity Ratios	
23. NET LOANS TO TOTAL DEPOSITS (%)	$\frac{\text{NET LOANS} \times 100}{\text{TOTAL CUSTOMER DEPOSITS} + \text{INTERBANK}}$
24. NET LOANS TO TOTAL CUSTOMER DEPOSITS (%)	$\frac{\text{NET LOANS} \times 100}{\text{TOTAL CUSTOMER DEPOSITS}}$
25. NET LOANS TO STABLE FUNDS (%)	$\frac{\text{NET LOANS} \times 100}{\text{STABLE FUNDS}}$
26. CUSTOMER DEPOSITS TO TOTAL DEPOSITS (%)	$\frac{\text{TOTAL CUSTOMER DEPOSITS} \times 100}{\text{TOTAL DEPOSITS} + \text{INTERBANK}}$
27. LIQUID ASSET RATIO (%)	$\frac{(\text{TOTAL LIQUID ASSETS} + \text{TOTAL DEPOSITS WITH BANKS}) \times 100}{\text{TOTAL ASSETS}}$
28. QUASI-LIQUID ASSET RATIO (%)	$\frac{\text{QUASI-LIQUID ASSETS} \times 100}{\text{TOTAL ASSETS}}$
29. FOREIGN CURRENCY ASSETS TO FOREIGN CURRENCY LIABILITIES (%)	$\frac{\text{FOREIGN CURRENCY ASSETS} \times 100}{\text{FOREIGN CURRENCY LIABILITIES}}$
30. FOREIGN CURRENCY LOANS TO FOREIGN CURRENCY DEPOSITS (%)	$\frac{\text{FOREIGN CURRENCY LOANS} \times 100}{\text{FOREIGN CURRENCY BORROWINGS} + \text{FOREIGN CURRENCY DEPOSITS}}$
31. INTERBANK ASSETS TO INTERBANK LIABILITIES (%)	$\frac{\text{TOTAL DEPOSITS WITH BANKS} \times 100}{\text{TOTAL INTERBANK LIABILITIES}}$
32. NET INTERBANK ASSETS (LOCAL CURRENCY)	TOTAL DEPOSITS WITH BANKS - TOTAL INTERBANK LIABILITIES

## E. Profitability Ratios

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

## Definitions

<b>FREE CAPITAL:-</b>	FREE CAPITAL FUNDS - TIER TWO CAPITAL
<b>STABLE FUNDS:-</b>	TOTAL CUSTOMER DEPOSITS + OFFICIAL DEPOSITS + MEDIUM/LONG TERM LIABILITIES + FREE CAPITAL FUNDS.
<b>QUASI LIQUID ASSETS:-</b>	TOTAL LIQUID ASSETS + TOTAL DEPOSITS WITH BANKS + MARKETABLE SECURITIES.
<b>TOTAL INVESTMENTS:-</b>	MARKETABLE SECURITIES + UNQUOTED INVESTMENTS + NON-FINANCIAL SUBSIDIARIES & AFFILIATES + FINANCIAL SUBSIDIARIES & AFFILIATES.
<b>RISK WEIGHTED ASSETS:-</b>	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.
<b>GROSS LOANS:-</b>	GOVERNMENT GUARANTEED, FIRST MORTGAGE LOANS, BILLS DISC. & SHORT TERM, MEDIUM/LONG TERM LOANS, OTHER LOANS, NON-PERFORMING LOANS.
<b>EQUITY:-</b>	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.

**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.

**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.