



FINANCIAL STATEMENTS

41 INDEPENDENT AUDITORS' REPORT

43 CONSOLIDATED INCOME STATEMENT

44 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

45 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

46 CONSOLIDATED STATEMENT OF CASH FLOWS

47 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

48 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS





United Arab Bank P.J.S.C.
CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF UNITED ARAB BANK PUBLIC JOINT STOCK COMPANY

Report on the Financial Statements

We have audited the accompanying financial statements of consolidated financial statements of United Arab Bank Public Joint Stock Company (the "Bank") and its subsidiary (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and applicable provisions of the articles of association of the Bank, Federal Law No.8 of 1984 (as amended) and Federal Law No.10 of 1980 and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2012, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

We also confirm that, in our opinion, the consolidated financial statements include, in all material respects, the applicable requirements of Federal Law No.8 of 1984 (as amended), Federal Law No.10 of 1980 and the articles of association of the Bank and its subsidiary; proper books of account have been kept by the Group and the contents of the Directors' report relating to these consolidated financial statements are consistent with the books of account. We have obtained all the information and explanations which we required for the purpose of our audit and, to the best of our knowledge and belief, no violations of the Federal Law No. 8 of 1984 (as amended), Federal Law No. 10 of 1980 or of the articles of association of the Bank and its subsidiary have occurred during the year which would have had a material effect on the business of the Group or on its consolidated financial position.

For Ernst & Young

The logo for Ernst & Young, featuring the company name in a stylized, cursive script.

Signed by:
Joseph Murphy
Partner
Registration No. 492

23 January, 2013

Sharjah, United Arab Emirates

United Arab Bank P.J.S.C.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2012

	Notes	2012 AED'000	2011 AED'000
Interest and similar income	4	720,691	520,746
Interest expenses and similar charges	5	(153,642)	(89,368)
NET INTEREST INCOME		<u>567,049</u>	<u>431,378</u>
Net fees and commission income		80,597	77,742
Net exchange income arising from dealing in foreign currencies		36,247	30,983
Other operating income	6	<u>81,135</u>	<u>41,391</u>
TOTAL OPERATING INCOME		765,028	581,494
Provision for credit losses	7	(121,605)	(70,534)
NET OPERATING INCOME		<u>643,423</u>	<u>510,960</u>
Personnel expenses		(144,646)	(126,977)
Depreciation on property and equipment	8	(12,418)	(11,070)
Other operating expenses		<u>(76,541)</u>	<u>(42,759)</u>
TOTAL OPERATING EXPENSES		<u>(233,605)</u>	<u>(180,806)</u>
PROFIT FOR THE YEAR		<u>409,818</u>	<u>330,154</u>
BASIC AND DILUTED EARNINGS PER SHARE	9	<u>AED 0.40</u>	<u>AED 0.33</u>

United Arab Bank P.J.S.C.**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME***Year ended 31 December 2012*

	<i>Notes</i>	<i>2012 AED'000</i>	<i>2011 AED'000</i>
Profit for the year		409,818	330,154
Other comprehensive income			
Net unrealised gain on available for sale investments	19	6,120	7,782
Reversal of loss on sale of available for sale investments	19	10,316	4,530
Reversal of loss on redemption of available for sale investments	19	4,741	3,624
Net loss on revaluation of property and equipment	8	<u>(6,465)</u>	<u>-</u>
Total comprehensive income for the year		<u>424,530</u>	<u>346,090</u>

United Arab Bank P.J.S.C.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Notes	2012 AED'000	2011 AED'000
ASSETS			
Cash and balances with UAE Central Bank	10	1,132,160	548,594
Due from banks	11	1,332,281	1,468,301
Loans and advances	7	10,881,493	8,056,301
Investments	12	1,336,480	595,663
Investment properties	13	12,900	-
Property and equipment	8	171,125	106,155
Other assets	14	146,150	57,081
TOTAL ASSETS		15,012,589	10,832,095
LIABILITIES AND SHAREHOLDERS' FUNDS			
LIABILITIES			
Due to banks		1,771,872	870,523
Customers' deposits	15	10,094,283	7,823,429
Medium term borrowings	16	642,617	-
Other liabilities	17	255,942	107,118
TOTAL LIABILITIES		12,764,714	8,801,070
SHAREHOLDERS' FUNDS			
Share capital	18	996,401	996,401
Special reserve	18	296,870	255,888
Statutory reserve	18	379,425	338,443
General reserve	18	9,311	9,311
Revaluation reserve	18	14,593	21,671
Retained earnings		545,155	424,368
Cumulative changes in fair values	19	6,120	(15,057)
TOTAL SHAREHOLDERS' FUNDS		2,247,875	2,031,025
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		15,012,589	10,832,095

The financial statements were approved by the Board of Directors on 23 January 2013 and signed on its behalf by:



Sheikh Faisal Bin Sultan Bin Salem Al Qassimi
(Chairman)



Paul Trowbridge
(Chief Executive Officer)

United Arab Bank P.J.S.C.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

	Notes	2012 AED'000	2011 AED'000
OPERATING ACTIVITIES			
Profit for the year		409,818	330,154
Items not involving cash flow:			
Depreciation	8	12,418	11,070
Provision for credit losses	7	121,605	70,534
Items considered separately:			
Net gain on sale of available for sale investments		(39,326)	(941)
Net gain on revaluation of investment properties		(1,192)	-
Loss on disposal of property and equipment		-	41
Changes in operating assets and liabilities:			
Loans and advances		(2,946,797)	(2,595,127)
Due from UAE Central Bank		(218,631)	(44,835)
Cash margin held by counterparty banks against borrowings and derivative transactions	11	3,329	322,058
Other assets	14	(89,069)	(23,024)
Due to banks maturing after three months		688,532	9,023
Customers' deposits	15	2,270,854	2,973,263
Other liabilities	17	148,824	12,062
Net cash from operating activities		<u>360,365</u>	<u>1,064,278</u>
INVESTING ACTIVITIES			
Purchase of property and equipment	8	(83,853)	(44,013)
Purchase of investment properties		(11,708)	-
Purchase of investments		(2,502,304)	(328,279)
Redemption / sale of non trading investments		<u>1,821,990</u>	<u>261,833</u>
Net cash used in investing activities		<u>(775,875)</u>	<u>(110,459)</u>
FINANCING ACTIVITIES			
Medium term borrowings	16	642,617	-
Directors' remuneration		(8,400)	(3,600)
Cash dividends paid		(199,280)	(159,424)
Net cash from (used in) financing activities		<u>434,937</u>	<u>(163,024)</u>
INCREASE IN CASH AND CASH EQUIVALENTS		<u>19,427</u>	<u>790,795</u>
Cash and cash equivalents at 1 January		1,243,623	452,828
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		<u>1,263,050</u>	<u>1,243,623</u>
Cash and cash equivalents comprise the following statement of financial position amounts with original maturities of three months or less:			
Cash and balances with UAE Central Bank		554,201	189,266
Due from banks maturing within three months		1,324,104	1,456,795
Due to banks maturing within three months		(615,255)	(402,438)
		<u>1,263,050</u>	<u>1,243,623</u>

The attached notes 1 to 26 form part of these consolidated financial statements.

United Arab Bank P.J.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2012

	Share capital AED'000	Special reserve AED'000	Statutory reserve AED'000	General reserve AED'000	Revaluation reserve AED'000	Retained earnings AED'000	Cumulative changes in fair values AED'000	Total AED'000
At 1 January 2012	996,401	255,888	338,443	9,311	21,671	424,368	(15,057)	2,031,025
Profit for the year	-	-	-	-	-	409,818	-	409,818
Other comprehensive income for the year	-	-	-	-	(6,465)	-	21,177	14,712
Total comprehensive income for the year	-	-	-	-	(6,465)	409,818	21,177	424,530
Depreciation transfer for land and building	-	-	-	-	(613)	613	-	-
Dividend paid	-	-	-	-	-	(199,280)	-	(199,280)
Directors' remuneration	-	-	-	-	-	(8,400)	-	(8,400)
Transfer to special reserve	-	40,982	-	-	-	(40,982)	-	-
Transfer to statutory reserve	-	-	40,982	-	-	(40,982)	-	-
At 31 December 2012	996,401	296,870	379,425	9,311	14,593	545,155	6,120	2,247,875

	Share capital AED'000	Special reserve AED'000	Statutory reserve AED'000	General reserve AED'000	Revaluation reserve AED'000	Retained earnings AED'000	Cumulative changes in fair values AED'000	Total AED'000
At 1 January 2011	996,401	222,873	305,428	9,311	22,847	322,092	(30,993)	1,847,959
Profit for the year	-	-	-	-	-	330,154	-	330,154
Other comprehensive income for the year	-	-	-	-	-	-	15,936	15,936
Total comprehensive income for the year	-	-	-	-	-	330,154	15,936	346,090
Depreciation transfer for land and building	-	-	-	-	(1,176)	1,176	-	-
Dividend paid	-	-	-	-	-	(159,424)	-	(159,424)
Directors' remuneration	-	-	-	-	-	(3,600)	-	(3,600)
Transfer to special reserve	-	33,015	-	-	-	(33,015)	-	-
Transfer to statutory reserve	-	-	33,015	-	-	(33,015)	-	-
At 31 December 2011	996,401	255,888	338,443	9,311	21,671	424,368	(15,057)	2,031,025

United Arab Bank P.J.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

1 INCORPORATION AND ACTIVITIES

United Arab Bank was incorporated as a public company with limited liability in the Emirate of Sharjah in 1975 by a decree of His Highness The Ruler of Sharjah and has been registered as a public joint stock company under the UAE Commercial Companies Law No. (8) of 1984 (as amended). The Bank's registered office is located in the Emirate of Sharjah, United Arab Emirates. The address of the registered office is PO Box 25022, Sharjah, United Arab Emirates.

The Bank carries on the business of commercial banking through its offices and branches in the United Arab Emirates. The Bank also carries on Islamic banking operations through Islamic windows at selected branches.

Investment in a newly formed subsidiary

On 28 November 2011, Al Sadarah Investment Company was formed as an investment company by the Bank. Al Sadarah Investment Company started its operations from 3 May 2012 when the share capital was introduced into the subsidiary. The Company is incorporated as a fully owned subsidiary of the Group and the financial results of the subsidiary are fully consolidated in the Bank's consolidated financial statements for the period ended 31 December 2012.

The issued and fully paid up capital of the Al Sadarah Investment Company is 300 shares of AED 1,000 each totalling AED 300,000 (31 December 2011: nil). Principal activities of the subsidiary are to make financial investments on its own, invest in commercial projects and provide investment advisory services.

2 BASIS OF PREPARATION

Accounting convention

The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of derivative financial instruments, investments other than held to maturity investments, investment properties and land and buildings. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

The consolidated financial statements have been presented in UAE Dirhams which is the functional currency of the Group and all values are rounded to the nearest thousand (AED'000) except when otherwise indicated.

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and applicable requirements of United Arab Emirates laws.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary as at 31 December 2012 (collectively referred to as the "Group"). The following subsidiary has been consolidated within these consolidated financial statements:

<i>Name</i>	<i>Legal Status</i>	<i>Beneficial ownership</i>	<i>Country of incorporation</i>	<i>Principal activities</i>
Al Sadarah Investment Company	Limited liability company	100 %	Sharjah, UAE	Investments and investment advisory services

Subsidiaries are fully consolidated from the date of acquisition or establishment, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Where necessary, the accounting policies of subsidiaries are aligned to ensure consistency with the policies adopted by the Group. All intra-group balances, transactions, unrealised gains and losses and dividends resulting from intra-group transactions are eliminated in full.

United Arab Bank P.J.S.C.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

At 31 December 2012

2 BASIS OF PREPARATION (continued)**Basis of consolidation (continued)**

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences, recorded in equity, if any;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new and amended IFRS and IFRIC interpretations effective as of 1 January 2012:

- IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets
- IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters IFRS 7 Financial Instruments: Disclosures (Amendments)
- IFRS 7 Financial Instruments : Disclosures – Enhanced Derecognition Disclosure Requirements

The adoption of the new and amended IFRS and IFRIC interpretations with effect from 1 January 2012 has no effect on the consolidated financial statements of the Group.

Standards issued but not yet effective

A number of standards and interpretations have been issued, but are not yet effective, up to the date of issuance of the Group's financial statements. The Group intends to adopt these standards when they become effective. Management of the Group believe that none of these standards and interpretations would have any effect on the consolidated financial statements except for the following:

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings) would be presented separately from items that will never be reclassified (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets). The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012, and will therefore be applied in the Group's first annual report after becoming effective.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

United Arab Bank P.J.S.C.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***At 31 December 2012***2 BASIS OF PREPARATION (continued)****Standards issued but not yet effective (continued)***IFRS 13 Fair Value Measurement*

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance, but based on the preliminary analyses, no material impact is expected. This standard becomes effective for annual periods beginning on or after 1 January 2013.

Significant management judgements and estimates

In the process of applying the Group's accounting policies, management has exercised judgment and estimates in determining the amounts recognised in the consolidated financial statements. The most significant uses of judgement and estimates are as follows:

Going concern

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

Classification of investments

Management decides on acquisition of an investment whether it should be classified as held to maturity, held for trading or available for sale.

For those investments deemed to be held to maturity, management ensures that the requirements of IAS 39 are met and, in particular, that the Group has the intention and ability to hold these to maturity.

The Group classifies investments as trading if they are acquired primarily for the purpose of making a short term profit by the dealers.

All other investments are classified as available for sale.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgement is required to establish fair values. The judgements include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. The valuation of financial instruments is described in more details in Note 25.

Impairment of investments

The Group treats held to maturity and available for sale investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where there is an objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that the loss event (or events) has an impact on the estimated future cash flows that can be reliably estimated. The determination of what is "significant" or "prolonged" requires considerable judgment. The Group evaluates a number of factors, including the amount of decline and the length of period of the decline, the normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities and debt securities. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

United Arab Bank P.J.S.C.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***At 31 December 2012***2 BASIS OF PREPARATION (continued)****Significant management judgements and estimates (continued)*****Impairment losses on loans and advances***

The Group reviews its individually significant loans and advances at each reporting date to assess whether a provision for impairment should be recorded in the consolidated income statement. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about the probability of default and probable losses in the event of default, the value of the underlying security, and realisation costs. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the provisions.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilisation, loan to collateral ratio etc.), concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

The impairment loss on loans and advances is disclosed in more detail in Note 7.

3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below:

Revenue recognition

For all financial instruments measured at amortised cost and interest bearing financial instruments classified as available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Fees earned for provision of services over a period of time are accrued over that period. These fees include commission income, custody and other management advisory fees.

Other fee income and expense are recognised when earned or incurred. Dividend income is recognised when the right to receive payment is established.

When the Group enters into an interest rate swap to change interest from fixed to floating (or vice versa) the amount of interest income or expense is adjusted by the net interest on the swap.

Cash and cash equivalents

Cash and cash equivalents as referred to in the consolidated statement of cash flows comprise cash on hand, non-restricted current accounts with the Central Bank and amounts due from (to) banks on demand or with an original maturity of three months or less.

Due from banks

After initial measurement, amounts due from banks are subsequently measured at amortised cost using the effective interest rate less allowance for impairment, if any.

United Arab Bank P.J.S.C.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***At 31 December 2012***3 SIGNIFICANT ACCOUNTING POLICIES (continued)****Loans and advances**

Loans and advances are stated at amortised cost net of interest suspended, provisions for impairment and any amounts written off. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in interest and similar income in the consolidated income statement and the losses arising on impairment of such loans and advances are recognised in the consolidated income statement in the provision for credit losses.

Trading investments

These are initially recognised at fair value. Gains and losses arising from changes in fair values are included in the consolidated income statement for the year. Interest and dividends received are included in interest and other income respectively according to the terms of the contract or when the right to the payment has been established.

Non – trading investments

Non – trading investments are classified as follows:

- Held to maturity
- Available for sale

All non-trading investments are initially recognised at cost, being the fair value of the consideration given including acquisition charges associated with the investment.

Held to maturity

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Group has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the effective interest rate (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in "interest and similar income" in the consolidated income statement. The losses arising from impairment of such investments are recognised in the consolidated income statement as "Provision for credit losses."

Available for sale

Available for sale financial investments are those which are designated as such or do not qualify to be classified as designated at fair value through profit and loss, held to maturity or loans and advances. They include equity instruments and debt securities. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, these are subsequently measured at fair value. The losses arising from impairment of such investments are recognised in the consolidated income statement in 'Impairment losses on financial investment.' That portion of any fair value changes relating to an effective hedging relationship is recognised directly in the consolidated income statement. Fair value changes, which are not part of an effective hedging relationship, are reported as a separate component of equity until the security is derecognised or the security is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported as "cumulative changes in fair value" within equity is included in the consolidated income statement for the period.

Derecognition of financial assets and financial liabilities***Financial assets***

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when;

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and
- either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

United Arab Bank P.J.S.C.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***At 31 December 2012***3 SIGNIFICANT ACCOUNTING POLICIES (continued)****Derecognition of financial assets and financial liabilities (continued)**

When the Group has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards for the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in the consolidated income statement.

Determination of fair value

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist, options pricing models, credit models and other relevant models.

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. The fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Group's best estimate of the most appropriate model assumptions. Models are adjusted to reflect the spread for bid and ask prices, to reflect costs to close out positions, counterparty credit and liquidity spread and limitations in the models. An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 25.

Investment properties

Investment properties including investment properties under construction are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated income statement in the period in which they arise. Fair values are evaluated, at least annually, by an accredited external, independent valuer, applying a valuation model recommended by the International Valuation Standards Committee.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the consolidated income statement in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

United Arab Bank P.J.S.C.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***At 31 December 2012***3 SIGNIFICANT ACCOUNTING POLICIES (continued)****Property and equipment**

Property and equipment are stated at cost or valuation excluding the costs of day to day servicing, less accumulated depreciation and any impairment in value. Freehold land is not depreciated as it is deemed to have an indefinite life.

Revaluation of land and building is carried out on an open market basis for existing use. Net surpluses arising on revaluation are credited to a revaluation reserve, except that a revaluation increase is recognised as income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense. A decrease as a result of a revaluation is recognised as an expense, except that it is charged directly against any related revaluation surplus to the extent that the decrease does not exceed the amount held in the revaluation surplus in respect of that same asset. On disposal the related revaluation surplus is credited to retained earnings. Fair value is determined from market based evidence by appraisal that is undertaken by professionally qualified valuers. Revaluations are made with regularity to ensure that their carrying value does not differ materially from their fair value at the reporting date.

Depreciation is calculated on a straight line basis over the estimated useful lives of property and equipment as follows:

Buildings	over 20 years
Motor vehicles	over 3 years
Furniture, fixtures and equipment	over 3 to 8 years

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other operating income' in the consolidated income statement in the year the asset is derecognised.

Deposits

All money market and customer deposits are carried at cost less amounts repaid. An adjustment is made to these, if part of an effective fair value hedging strategy, to adjust the value of the deposit for the fair value being hedged with the resultant changes being recognised in the consolidated income statement.

Employees' end of service benefits

With respect to its national employees, the Group makes contributions to a pension fund established by the General Pension and Social Security Authority calculated as a percentage of employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

The Group provides end of service benefits to its other expatriate employees. The entitlement to these benefits is usually based upon the employees' length of service and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment and are not less than the liability arising under the UAE Labour Laws.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and the costs to settle the obligation are both probable and able to be reliably measured. The expense relating to any provision is presented in the consolidated income statement net of any reimbursement.

Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the consolidated financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated income statement in 'Provision for credit losses'. The premium received is recognised in the consolidated income statement in 'Net fees and commission income' on a straight line basis over the life of the guarantee.

United Arab Bank P.J.S.C.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***At 31 December 2012***3 SIGNIFICANT ACCOUNTING POLICIES (continued)****Leases**

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated income statement on a straight-line basis over the lease term.

Derivatives

The Group enters into derivative instruments including forwards, futures, forward rate agreements, swaps and options in the foreign exchange, interest rate and capital markets. These are stated at fair value. Derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in other liabilities in the consolidated statement of financial position.

Changes in the fair values of derivatives held for trading or to offset other trading positions are included in other operating income (expenses) in the consolidated income statement.

For the purposes of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; (b) cash flow hedges which hedge the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

Changes in the fair value of derivatives that are designated and qualify, as fair value hedges and that prove to be highly effective in relation to the hedged risk, are included in other operating income (expenses) along with the corresponding changes in the fair value of the hedged assets or liabilities which are attributable to the risk being hedged.

Changes in the fair value of derivatives that are designated, and qualify, as cash flow hedges and that prove to be highly effective in relation to the hedged risk are recognised in other comprehensive income as "cumulative changes in fair values," and the ineffective portion is recognised in the consolidated income statement. The gains or losses on cash flow hedges recognised initially in other comprehensive income are transferred to the consolidated income statement in the period in which the hedged transaction impacts the income. Where the hedged transaction results in the recognition of an asset or a liability, the associated gain or loss that had been initially recognised in other comprehensive income is included in the initial measurement of the cost of the related asset or liability.

Changes in fair value of derivatives or non-derivatives that are designated and qualify, as net investment hedges and that prove to be highly effective in relation to the hedged risk are accounted for in a way similar to cash flow hedges.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Upon such discontinuance:

- in the case of fair value hedges of interest-bearing financial instruments any adjustment to the carrying amount relating to the hedged risk is amortised in the consolidated income statement over the remaining term to maturity.
- in the case of cash flow hedges, any cumulative gain or loss on the hedging instrument recognised in other comprehensive income is retained therein as "cumulative changes in fair value" until the forecasted transaction occurs. When such transaction occurs, the gain or loss retained in cumulative changes in fair values is recognised in the consolidated income statement or included in the initial measurement of the cost of the related asset or liability, as appropriate. Where the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in cumulative changes in fair values is transferred to the consolidated income statement.

Certain derivative transactions, while providing effective economic hedges under the Group's asset and liability management and risk management positions, do not qualify for hedge accounting under the specific rules in IAS 39 and are therefore accounted for as derivatives held for trading and the related fair value gains and losses reported in other operating income (expenses).

Derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through the consolidated income statement. These embedded derivatives are measured at fair value with the changes in fair value recognised in the consolidated income statement.

United Arab Bank P.J.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment and uncollectibility of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default or delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) Financial assets carried at amortised cost

For financial assets carried at amortised cost (such as amounts due from banks, loans and advances to customers as well as held-to-maturity investments), the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest and similar income'. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'Credit loss expense'.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

See Note 7 for details of impairment losses on financial assets carried at amortised cost and an analysis of the impairment allowance on loans and advances.

United Arab Bank P.J.S.C.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***At 31 December 2012***3 SIGNIFICANT ACCOUNTING POLICIES (continued)****Impairment and uncollectibility of financial assets (continued)****(ii) Available-for-sale financial investments**

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement – is removed from other comprehensive income and recognised in the consolidated income statement. Impairment losses on equity investments are not reversed through the consolidated income statement; increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement, the impairment loss is reversed through the consolidated income statement.

(iii) Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using discount rates that reflect current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated income statement.

Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the settlement date, i.e. the date that the asset is delivered to the counter party. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the timeframe generally established by regulation or convention in the market place.

United Arab Bank P.J.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in these consolidated financial statements.

Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Foreign currencies

Foreign currency transactions are recorded at rates of exchange ruling at the value dates of the transactions. Monetary assets and liabilities in foreign currencies are translated into United Arab Emirates Dirhams at middle market rates of exchange ruling at the reporting date. Any resultant gains and losses are taken to the consolidated income statement.

Segment reporting

The Group's segmental reporting is based on the following operating segments: Retail banking, Corporate banking and Others.

Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

4 INTEREST AND SIMILAR INCOME

	2012 AED'000	2011 AED'000
Interest on loans and advances to customers	664,097	490,434
Interest on money market and inter bank transactions	15,217	9,811
Interest on investments	<u>41,377</u>	<u>20,501</u>
	<u>720,691</u>	<u>520,746</u>

5 INTEREST EXPENSES AND SIMILAR CHARGES

	2012 AED'000	2011 AED'000
Interest on customer deposits	132,715	83,633
Interest and expenses on inter bank transactions	<u>20,927</u>	<u>5,735</u>
	<u>153,642</u>	<u>89,368</u>

United Arab Bank P.J.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

6 OTHER OPERATING INCOME

	2012 AED'000	2011 AED'000
Charges recovered from customers	20,975	22,511
Other banking income	15,225	10,595
Income from collections	4,707	4,084
Others	40,228	4,201
	<u>81,135</u>	<u>41,391</u>

7 LOANS AND ADVANCES

	2012 AED'000	2011 AED'000
The composition of the loans and advances portfolio is as follows:		
(a) By type:		
Overdrafts	1,305,880	1,215,160
Loans (medium and short term)*	7,588,016	5,140,721
Loans against trust receipts	1,393,290	1,116,257
Bills discounted	633,676	617,756
Other cash advances	34,804	42,434
Bills drawn under letters of credit	104,014	27,769
Gross amount of loans and advances	11,059,680	8,160,097
Less: Provision for impairment on loans and advances	(164,056)	(95,781)
Interest in suspense	(14,131)	(8,015)
Net loans and advances	<u>10,881,493</u>	<u>8,056,301</u>

* Includes retail loans of AED 3,160,051,000 (2011: AED 1,946,826,000)

	2012 AED'000	2011 AED'000
(b) By economic sector:		
Government and public sector	715,871	508,157
Trade	1,882,602	1,934,871
Personal loans (retail and business)	4,298,409	3,053,718
Manufacturing	1,892,247	1,309,306
Construction	591,197	412,263
Services	815,862	435,404
Financial institutions	565,656	265,916
Transport and communication	262,066	152,232
Agriculture	4,255	6,322
Others	31,515	81,908
Gross amount of loans and advances	<u>11,059,680</u>	<u>8,160,097</u>

United Arab Bank P.J.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

7 LOANS AND ADVANCES (continued)

Loans and advances are stated net of interest in suspense and provision for impairment of loans and advances. The movements for interest in suspense and provisions are as follows:

	2012		2011	
	<i>Interest in suspense AED'000</i>	<i>Impairment provisions AED'000</i>	<i>Interest in suspense AED'000</i>	<i>Impairment provisions AED'000</i>
Balance at 1 January	8,015	95,781	10,433	136,859
Suspended/provided during the year	9,617	125,155	11,051	84,621
Released during the year	(2,472)	(3,550)	(5,880)	(14,087)
	7,145	121,605	5,171	70,534
Amounts written off during the year	(1,029)	(53,330)	(7,589)	(111,612)
Balance at 31 December	14,131	164,056	8,015	95,781

At 31 December 2012, the gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance and on which interest is not being accrued or where interest is suspended amounted to AED 175,744,000 (2011: AED 127,491,000).

Sector wise analysis of impaired loans and advances and related provisions is as follows:

	2012		2011	
	<i>Gross exposure AED'000</i>	<i>Specific provision and interest in suspense AED'000</i>	<i>Gross exposure AED'000</i>	<i>Specific provision and interest in suspense AED'000</i>
By economic sector				
Trade	84,037	36,619	86,575	22,927
Personal loans (retail and business)	74,487	29,623	31,987	24,761
Manufacturing	2,561	2,519	2,951	2,597
Construction	2,096	1,314	2,150	1,197
Services	9,297	4,742	325	271
Transport and communication	3,252	3,252	3,477	3,477
Agriculture	14	14	26	26
Total	175,744	78,083	127,491	55,256

The fair value of collateral that the Group holds relating to loans to corporate and retail customers individually determined to be impaired at 31 December 2012 amounts to AED 82,295,000 (2011: AED 37,816,000). The collateral consists of cash, securities, letters of guarantee and properties.

Collateral repossessed

During the year, the Group did not repossess any material amount of collaterals.

United Arab Bank P.J.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

8 PROPERTY AND EQUIPMENT

	<i>Freehold land and buildings AED'000</i>	<i>Motor vehicles, furniture, fixtures and equipment AED'000</i>	<i>Capital work-in- progress AED'000</i>	<i>Total AED'000</i>
Cost or valuation:				
At 1 January 2012	39,844	79,691	42,072	161,607
Additions	-	8,846	75,007	83,853
Transfers	5,984	14,646	(20,630)	-
Loss on revaluation	(6,465)	-	-	(6,465)
At 31 December 2012	<u>39,363</u>	<u>103,183</u>	<u>96,449</u>	<u>238,995</u>
Depreciation:				
At 1 January 2012	6,031	49,421	-	55,452
Charge for the year	997	11,421	-	12,418
At 31 December 2012	<u>7,028</u>	<u>60,842</u>	<u>-</u>	<u>67,870</u>
Net carrying value:				
At 31 December 2012	<u>32,335</u>	<u>42,341</u>	<u>96,449</u>	<u>171,125</u>

	<i>Freehold land and buildings AED'000</i>	<i>Motor vehicles, furniture, fixtures and equipment AED'000</i>	<i>Capital work-in- progress AED'000</i>	<i>Total AED'000</i>
Cost or valuation:				
At 1 January 2011	39,844	63,859	14,899	118,602
Additions	-	11,585	32,457	44,042
Transfers	-	5,284	(5,284)	-
Disposals	-	(1,037)	-	(1,037)
At 31 December 2011	<u>39,844</u>	<u>79,691</u>	<u>42,072</u>	<u>161,607</u>
Depreciation:				
At 1 January 2011	4,471	40,878	-	45,349
Charge for the year	1,560	9,510	-	11,070
Relating to disposals	-	(967)	-	(967)
At 31 December 2011	<u>6,031</u>	<u>49,421</u>	<u>-</u>	<u>55,452</u>
Net carrying value:				
At 31 December 2011	<u>33,813</u>	<u>30,270</u>	<u>42,072</u>	<u>106,155</u>

The cost of freehold land included above is AED 5,224,000 (2011: AED 5,224,000).

During 2012, additions to capital work in progress relate to expenditure incurred in connection with the purchase of a building and furniture, fixtures and equipment amounting to AED 75,007,000 (2011: AED 32,457,000). These shall be recognised under "freehold land and buildings" and "motor vehicles, furniture, fixtures and equipment" respectively upon completion.

United Arab Bank P.J.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

8 PROPERTY AND EQUIPMENT (continued)

Revaluation of freehold land and buildings

The Group engaged independent valuers, M/s Continental Real Estate Property Consultants and JAJ Consultants, to determine the fair value of the land and buildings. Fair value is determined by reference to open market values on an existing use basis.

If the freehold land and building were measured using the cost model, the net carrying amount at 31 December 2012 would be AED 11,963,000 (2011: AED 12,142,000).

9 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share is calculated by dividing the profit for the year attributable to equity holders of the Bank by the weighted average number of shares outstanding during the year as follows:

	2012	2011
Profit for the year net of directors' remuneration of AED 8,400,000 (2011: AED 3,600,000)	AED 401,418,000	AED 326,554,000
Weighted average number of shares of AED 1 each outstanding during the year	996,401,280	996,401,280
Basic and diluted earnings per share	AED 0.40	AED 0.33

The figures for basic and diluted earnings per share is the same as the Bank has not issued any instruments which would have an impact on earnings per share when exercised.

10 CASH AND BALANCES WITH UAE CENTRAL BANK

	2012	2011
	AED'000	AED'000
Cash on hand	64,875	49,828
Balances with UAE Central Bank:		
Clearing accounts	489,326	139,438
Reserve requirements	477,959	359,328
Certificates of deposit	100,000	-
	<u>1,132,160</u>	<u>548,594</u>

The reserve requirements, kept with the UAE Central Bank in AED and USD, are not available for use in the Group's day to day operations and cannot be withdrawn without its approval. However, the Central Bank vide its Circular 4310/2008 dated 24 September 2008, has temporarily permitted banks to overdraw their current accounts (a) up to the amount of reserves at interest of 3% above the prevailing Central Bank Repo rate, and (b) in excess of reserves at interest of 5% above the prevailing Central Bank Repo rate. The level of reserve required changes every month in accordance with the UAE Central Bank directives.

11 DUE FROM BANKS

Due from banks includes AED 803,839,000 (2011: AED 457,565,000) placed with foreign banks outside the UAE. AED 8,177,000 (2011: AED 11,506,000) is held as margin for derivative transactions.

United Arab Bank P.J.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

12 INVESTMENTS

	2012			2011		
	Quoted AED'000	Unquoted AED'000	Total AED'000	Quoted AED'000	Unquoted AED'000	Total AED'000
Debt:						
<i>Held for trading</i>						
Local	-	-	-	-	-	-
Overseas	12,579	-	12,579	-	-	-
	<u>12,579</u>	<u>-</u>	<u>12,579</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Available for sale</i>						
Local	1,145,458	-	1,145,458	578,182	-	578,182
Overseas	168,093	-	168,093	17,075	-	17,075
	<u>1,313,551</u>	<u>-</u>	<u>1,313,551</u>	<u>595,257</u>	<u>-</u>	<u>595,257</u>
Total debt securities	<u>1,326,130</u>	<u>-</u>	<u>1,326,130</u>	<u>595,257</u>	<u>-</u>	<u>595,257</u>
Equity:						
<i>Available for sale</i>						
Local	-	-	-	-	-	-
Overseas	10,274	76	10,350	330	76	406
Total equities	<u>10,274</u>	<u>76</u>	<u>10,350</u>	<u>330</u>	<u>76</u>	<u>406</u>
Total investments	<u>1,336,404</u>	<u>76</u>	<u>1,336,480</u>	<u>595,587</u>	<u>76</u>	<u>595,663</u>

Included in the above are investment securities amounting to AED 683,385,000 (2011: AED 77,393,000) held under repurchase agreement with the lenders.

13 INVESTMENT PROPERTIES

Investment properties include plots of land in the UAE, which have been acquired by management during the year, either for development in the future as investment properties or for undetermined future use. The Group has obtained fair values for these plots of land based on open market valuations carried out by independent valuers. This has resulted in net gain on valuation of investment properties of AED 1,192,000 (31 December 2011: nil) which has been included in the consolidated income statement.

14 OTHER ASSETS

	2012 AED'000	2011 AED'000
Interest receivable	60,221	26,819
Positive fair value of derivatives (Note 21)	36,448	4,584
Prepayments and other assets	49,481	25,678
	<u>146,150</u>	<u>57,081</u>

United Arab Bank P.J.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

15 CUSTOMERS' DEPOSITS

	2012 AED'000	2011 AED'000
Term and call deposits	6,442,090	5,324,014
Current accounts	3,258,103	2,404,935
Saving accounts	394,090	94,480
	<u>10,094,283</u>	<u>7,823,429</u>

Deposits include AED 178,863,000 (31 December 2011: AED 178,863,000) received from the Ministry of Finance, United Arab Emirates, in the last quarter of 2008. This amount was originally available for a period of 5 years (2011: 5 years), subject to certain conditions to be adhered to during the tenure of the deposits and is repayable in a lump sum on maturity. The deposits carry interest at 120 basis points above the US Treasury 5 year notes or 4%, whichever is higher, payable on a quarterly basis.

16 MEDIUM TERM BORROWINGS

The Group has arranged two US dollar term loan facilities totalling USD 175,000,000, being AED 642,617,000 (31 December 2011: AED nil). Both facilities carry a floating interest rate, being a margin over LIBOR, and both facilities are repayable in full in 2015.

17 OTHER LIABILITIES

	2012 AED'000	2011 AED'000
Interest payable	45,228	22,168
Staff related provisions	50,123	41,954
Negative fair value of derivatives (Note 21)	38,079	5,362
Others	122,512	37,634
	<u>255,942</u>	<u>107,118</u>

Staff related provisions

The aggregate employee entitlement liability comprises:

	2012 AED'000	2011 AED'000
Employees' end of service benefits	34,036	31,084
Other liabilities	16,087	10,870
	<u>50,123</u>	<u>41,954</u>

In accordance with UAE labour law the Group provides for end of service benefit for its expatriate employees. Movements in the liability recognised in the consolidated statement of financial position in respect of end of service benefits are as follows:

	2012 AED'000	2011 AED'000
Liability as at 1 January	31,084	31,723
Expense recognised in the income statement	6,877	4,973
End of service benefits paid	(3,925)	(5,612)
Liability as at 31 December	<u>34,036</u>	<u>31,084</u>

United Arab Bank P.J.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

18 SHARE CAPITAL AND RESERVES

a) Share capital

The authorised, issued and fully paid up share capital of the Bank comprises 996,401,280 (2011: 996,401,280) shares of AED 1 each.

b) Special reserve

Article 82 of Federal Law No. 10 of 1980 concerning the Central Bank, the Monetary System and Organisation of Banking requires that 10% of the net profit is transferred to a non-distributable special reserve until this reserve equals 50% of the paid up share capital.

c) Statutory reserve

Article 192 of the UAE Commercial Companies Law No.(8) of 1984 (as amended) and the Articles of Association of the Bank, require that 10% of the net profit is transferred to a non-distributable statutory reserve until this reserve equals 50% of the paid up share capital.

d) General reserve

The general reserve may be utilised for any purpose to be determined by a resolution of the shareholders of the bank at an ordinary general meeting, on the recommendation of the Board of Directors.

e) Revaluation reserve

The revaluation reserve is used to record increases in the fair value of freehold land and building and decreases to the extent that such decreases relate to an increase on the same asset previously recognised in other comprehensive income.

f) Dividends

The directors have proposed a cash dividend amounting to AED 249,100,320 at AED 0.25 per share of AED 1 each (2011: cash dividend of AED 199,280,200 at AED 0.20 per share of AED 1 each). This is subject to the approval of the regulator and the shareholders at the Annual General Assembly to be held in February 2013.

19 CUMULATIVE CHANGES IN FAIR VALUES

	2012 AED'000	2011 AED'000
At 1 January	(15,057)	(30,993)
Net unrealised gain on available for sale investments	6,120	7,782
Reversal of loss on sale of available for sale investments	10,316	4,530
Reversal of loss on redemption of available for sale investments	4,741	3,624
At 31 December	<u>6,120</u>	<u>(15,057)</u>

United Arab Bank P.J.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

20 RELATED PARTY TRANSACTIONS

The Group carries out transactions in the ordinary course of business with related parties, defined as shareholders who have a significant equity interest in the Group, and all Directors of the Group and companies in which such shareholders and Directors have a significant interest and key management personnel. The significant balances outstanding at 31 December and transactions during the year with related parties were as follows:

	<i>Balance as at 31 December 2012 AED'000</i>	<i>Balance as at 31 December 2011 AED'000</i>
<i>Key management personnel of the Group:</i>		
Loans and advances	<u>10,851</u>	<u>11,934</u>
Customers' deposits	<u>21,185</u>	<u>7,196</u>
<i>Shareholders:</i>		
Investments	<u>52,298</u>	<u>-</u>
Due from banks	<u>100,963</u>	<u>183,997</u>
Due to banks	<u>276,404</u>	<u>183,709</u>
Medium term borrowings	<u>91,775</u>	<u>-</u>
<i>Directors:</i>		
Loans and advances	<u>47,919</u>	<u>4,799</u>
Customers' deposits	<u>36,835</u>	<u>46,846</u>
Commitments and contingencies	<u>45</u>	<u>962</u>
<i>Other related entities:</i>		
Loans and advances	<u>45,813</u>	<u>36,076</u>
Investments	<u>2,471</u>	<u>-</u>
Due from banks	<u>128,523</u>	<u>118,977</u>
Customers' deposits	<u>256,533</u>	<u>294,432</u>
Commitments and contingencies	<u>274,477</u>	<u>242,678</u>
	2012	2011
	AED'000	AED'000
<i>Shareholders, directors, their related entities and key management personnel</i>		
Accrued interest income	<u>59</u>	<u>54</u>
Accrued interest expense	<u>650</u>	<u>820</u>

United Arab Bank P.J.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

20 RELATED PARTY TRANSACTIONS (continued)

The income and expenses and purchase and sale of investments in respect of related parties during the year are as follows:

	2012 AED'000	2011 AED'000
<i>Shareholders, directors, their related entities and key management personnel</i>		
Interest income	5,828	3,204
Interest expense	8,807	7,975
Gain from sale of investments	3,701	-
Directors' remuneration	8,400	3,600
Purchase of investments	152,092	-
Sale of investments	100,496	-

Terms and conditions of transactions with related parties

The above mentioned outstanding balances arose from the ordinary course of business. Outstanding balances at year end are unsecured. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2012, the Group has not made any provision for doubtful debts relating to amounts owed by related parties (2011: nil).

Compensation of key management personnel is as follows:

	2012 AED'000	2011 AED'000
Short term benefits	19,580	16,715
Employees' end of service benefits	884	1,305
Total compensation as at 31 December	20,464	18,020
	2012	2011
Number of key management personnel	22	20

The Group has leased office space in various premises owned by a related party. The property rental and associated expenses for the year amounted to AED 2,405,000 (2011: AED 2,409,000). The property rentals are negotiated each year at market rates.

21 DERIVATIVES

In the ordinary course of business the Group enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. Derivative financial instruments include forwards, futures, swaps and options.

The table below shows the fair values of derivative financial instruments, recorded as assets and liabilities, together with the notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are neither indicative of the market risk nor credit risk.

United Arab Bank P.J.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

21 DERIVATIVES (continued)

At 31 December 2012

	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000	Notional amounts by term to maturity		
				Within 3 months AED'000	3-12 months AED'000	1-5 years AED'000
<i>Derivatives held for trading:</i>						
Forward foreign exchange contracts	140	(6)	719,061	592,091	126,970	-
Foreign currency options	35,080	(35,080)	4,032,652	603,876	2,762,290	666,486
Interest rate swaps	1,228	(2,993)	553,931	36,721	150,000	367,210
	<u>36,448</u>	<u>(38,079)</u>	<u>5,305,644</u>	<u>1,232,688</u>	<u>3,039,260</u>	<u>1,033,696</u>
<i>Derivatives held for cash flow hedge:</i>						
Interest rate swaps	-	-	-	-	-	-

At 31 December 2011

	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000	Notional amounts by term to maturity		
				Within 3 months AED'000	3-12 months AED'000	1-5 years AED'000
<i>Derivatives held for trading:</i>						
Forward foreign exchange contracts	6	(37)	489,089	393,833	95,256	-
Foreign currency options	4,157	(4,157)	643,823	476,573	57,110	110,140
Interest rate swaps	405	(336)	186,721	-	100,000	86,721
	<u>4,568</u>	<u>(4,530)</u>	<u>1,319,633</u>	<u>870,406</u>	<u>252,366</u>	<u>196,861</u>
<i>Derivatives held for cash flow hedge:</i>						
Interest rate swaps	16	(832)	235,000	-	85,000	150,000

Derivatives often involve at their inception only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the Group.

Over-the-counter derivatives may expose the Group to the risks associated with the absence of an exchange market on which to close out an open position.

The derivatives are recorded at fair value by using the published price quotations in an active market or counterparty prices or valuation techniques using a valuation model that has been tested against the prices of actual market transactions and the Group's best estimate of the most appropriate model inputs (Note 25).

Derivative product types*Forwards Contracts*

Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. The Group has credit exposure to the counterparties of forward contracts.

Options

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

United Arab Bank P.J.S.C.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***At 31 December 2012***21 DERIVATIVES (continued)****Derivative product types (continued)***Swaps*

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index.

Interest rate swaps relate to contracts taken out by the Group with other financial institutions in which the Group either receives or pays a floating rate of interest in return for paying or receiving, respectively, a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

In a currency swap, the Group pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross-settled.

Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the Group. Approximately 60% (2011: 77%) of the Group's derivative contracts are entered into with other financial institutions.

Purpose of derivatives

In the normal course of meeting the needs of the Group's customers, the Group is party to forward foreign exchange and option contracts, interest rate swaps and forward rate agreements. In addition, as part of its asset and liability management, the Group uses these derivative instruments for hedging purposes in order to reduce its own exposure to current and expected risks. This is achieved by hedging specific transactions as well as strategic hedging against overall balance sheet exposures.

The Group uses interest rate swaps to hedge against the cash flow risks arising on certain floating rate loans and investments. In such cases, the hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as cash flow hedges.

Since strategic hedging does not qualify for special hedge accounting, forward foreign exchange and option contracts and interest rate swaps, other than mentioned above, are accounted for as trading instruments.

22 CONTINGENT LIABILITIES AND COMMITMENTS***Credit related commitments***

The Group's contractual amounts in respect of letters of credit, guarantees and acceptances commit the Group to make payments on behalf of customers contingent upon the customer satisfying the terms of the contract. The contractual amounts represent the credit risk, assuming that the amounts are fully advanced, guarantees are called for full amount following performance failure, and that any collateral or other security is of no value. However, the total contractual amount of commitments does not necessarily represent future cash requirements since many of such commitments will expire or terminate without being funded.

The loan commitments represent the contractual commitments to make the loan. These generally have fixed expiry dates or other termination clauses. Since commitments may expire without being drawn down, and as conditions precedent to draw down have to be fulfilled, the total contract amounts do not necessarily represent future cash requirements.

United Arab Bank P.J.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

22 CONTINGENT LIABILITIES AND COMMITMENTS (continued)

The Group has the following credit related commitments:

	2012 AED'000	2011 AED'000
<i>Contingent liabilities</i>		
Letters of credit	719,979	614,231
Guarantees and acceptances	<u>3,239,710</u>	<u>3,326,368</u>
	<u>3,959,689</u>	<u>3,940,599</u>
<i>Commitments</i>		
Undrawn loan commitments	<u>2,227,225</u>	<u>2,260,065</u>

23 RISK MANAGEMENT

Introduction

Risk is inherent in all the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities.

Risk Management covers all risks including credit, market and operational risk, and processes from origination to approval and ongoing control, review, maintenance and reporting of exposures. It also covers the high level organisation, roles and responsibilities of Board and management level committees, and authorities and processes relating to risk management, internal controls, compliance and internal audit functions.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. These are monitored through the Group's strategic planning process.

Risk management structure

The Board of Directors are ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board Credit Committee

The Board Credit Committee (BCC) has the responsibility to establish credit risk strategy and monitor the overall credit process within the Group for maintaining a diversified portfolio, avoiding undesired risk concentrations, improving the overall asset quality of the portfolio, and complying with Credit Policy and regulatory guidelines.

Board Audit and Risk Committee

The Board Audit and Risk Committee (BARC) has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, and policies for enhancement of the Group's risk management framework to best practices standards, including effective internal control structures, monitoring of aggregate risk exposures (credit, market, liquidity, operational, legal, etc), ensuring the independence of the Internal Audit function, and compliance with regulatory requirements.

The Risk Management Group

The Risk Management Group is responsible for implementing and maintaining risk related procedures to ensure an independent control process. It works closely with the commercial organisation to support their activities, while safe-guarding the risk profile of the Group. It institutes prudent risk monitoring and control mechanisms (processes and systems) to ensure compliance of individual risk assets and portfolios to agreed terms and policy parameters. It reviews and presents all credit submissions, risk policy and portfolio management reports to the BCC and BARC.

Group Treasury

Group Treasury is responsible for managing the Group's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Group.

United Arab Bank P.J.S.C.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***At 31 December 2012***23 RISK MANAGEMENT (continued)****Introduction (continued)***Internal Audit*

Risk management processes throughout the Group are audited annually by the internal audit function that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Board Audit and Risk Committee.

Risk measurement and reporting systems

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to identify, analyse and control at an early stage. This information is presented and explained to the Board of Directors, the Board Audit and Risk Committee, and the head of each business division. The report includes aggregate credit exposure, hold limit exceptions, liquidity ratios and risk profile changes. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Board receives a comprehensive credit risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the credit related risks of the Group.

For all levels throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

Regular briefings are given to the Chief Executive Officer, General Management Risk Committee and all other relevant members of management of the Group on all aspects of risk taken by the Group including the utilisation of limits, proprietary investments and liquidity, plus any other risk developments.

Risk Mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

The Group actively uses collateral to reduce its credit risks.

Risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that a customer or counterparty will fail to meet a commitment, resulting in financial loss to the Group. Such risk arises from lending, trade finance, treasury and other activities undertaken by the Group. Credit risk is actively monitored in accordance with the credit policies which clearly define delegated lending authorities, policies and procedures. The management of credit risk also involves the monitoring of risk concentrations by industrial sector as well as by geographic location.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

United Arab Bank P.J.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

23 RISK MANAGEMENT (continued)

Credit Risk (continued)

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position, including contingent liabilities and commitments. The maximum exposure is shown, before the effect of mitigation through the use of credit enhancements, master netting and collateral agreements.

	<i>Notes</i>	<i>Maximum exposure 2012 AED'000</i>	<i>Maximum exposure 2011 AED'000</i>
Cash and balances with UAE Central Bank (excluding cash on hand)	10	1,067,285	498,766
Due from banks	11	1,332,281	1,468,301
Loans and advances (net of provisions)	7	10,881,493	8,056,301
Investments in debt securities	12	1,326,130	595,257
Other assets (excluding prepayments)	14	<u>108,342</u>	<u>44,669</u>
Total		<u>14,715,531</u>	<u>10,663,294</u>
Letters of credit	22	719,979	614,231
Guarantees and acceptances	22	3,239,710	3,326,368
Undrawn loan commitments	22	<u>2,227,225</u>	<u>2,260,065</u>
Total		<u>6,186,914</u>	<u>6,200,664</u>
Total credit risk exposure		<u>20,902,445</u>	<u>16,863,958</u>

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references have been made to the specific notes. The effect of collateral and other risk mitigation techniques is discussed below.

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty as of 31 December 2012 was AED 322,000,000 (2011: AED 230,000,000) before taking account of collateral or other credit enhancements and AED 322,000,000 (2011: AED 230,000,000) net of such protection.

United Arab Bank P.J.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

23 RISK MANAGEMENT (continued)

Credit Risk (continued)

The Group's maximum exposure to credit risk, after provisions but before taking into account any collateral held or other credit enhancements can be analysed by the following geographical regions:

	2012		2011	
	Assets AED'000	Contingent liabilities and commitments AED'000	Assets AED'000	Contingent liabilities and commitments AED'000
United Arab Emirates	13,392,957	6,035,850	9,893,293	6,012,291
Other Middle East countries	743,692	56,199	637,710	77,195
Europe	177,218	57,908	104,559	50,053
USA	58,560	3,331	4,086	4,552
Rest of the world	343,104	33,626	23,646	56,573
Total	<u>14,715,531</u>	<u>6,186,914</u>	<u>10,663,294</u>	<u>6,200,664</u>

An industry sector analysis of the Group's on-balance sheet financial assets (excluding cash on hand), after provisions but before taking into account collateral held or other credit enhancements, is as follows:

	Maximum exposure 2012 AED'000	Maximum exposure 2011 AED'000
Financial services	3,336,316	2,339,656
Trade	1,882,602	1,934,871
Manufacturing	1,892,247	1,309,306
Government and public sector	1,536,784	872,315
Construction	591,197	412,263
Other services	1,356,163	560,236
Others	4,298,409	3,338,443
	<u>14,893,718</u>	<u>10,767,090</u>
Less: Impairment provision on loans and advances	<u>(178,187)</u>	<u>(103,796)</u>
	<u>14,715,531</u>	<u>10,663,294</u>

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. The main types of collateral obtained are cash, securities, charges over real estate properties, vehicles, plant and machinery, inventory and trade receivables.

The Group also obtains guarantees from parent companies for loans to their subsidiaries or other group companies.

Management monitor the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitor the market value of collateral obtained during its periodic review of credit facilities and of the adequacy of the allowance for impairment losses.

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

United Arab Bank P.J.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

23 RISK MANAGEMENT (continued)**Credit Risk (continued)****Credit quality per class of financial assets**

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality by class of assets for certain key statement of financial position items, based on the Group's credit rating system.

	<i>Neither past due nor impaired</i>			<i>Past due or</i>	<i>Total</i>
	<i>High grade</i>	<i>Standard grade</i>	<i>Sub-standard grade</i>	<i>individually impaired</i>	
	<i>2012</i>	<i>2012</i>	<i>2012</i>	<i>2012</i>	<i>2012</i>
	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>
Balances with UAE Central Bank	1,067,285	-	-	-	1,067,285
Due from banks	419,684	912,597	-	-	1,332,281
Investments	1,209,875	116,255	-	-	1,326,130
Loans and advances (Gross)	3,482,878	6,541,874	632,033	402,895	11,059,680
Other assets	19,682	122,896	3,572	-	146,150
	<u>6,199,404</u>	<u>7,693,622</u>	<u>635,605</u>	<u>402,895</u>	<u>14,931,526</u>

	<i>Neither past due nor impaired</i>			<i>Past due or</i>	<i>Total</i>
	<i>High grade</i>	<i>Standard grade</i>	<i>Sub-standard grade</i>	<i>individually impaired</i>	
	<i>2011</i>	<i>2011</i>	<i>2011</i>	<i>2011</i>	<i>2011</i>
	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>
Balances with UAE Central Bank	498,766	-	-	-	498,766
Due from banks	1,181,030	287,271	-	-	1,468,301
Investments	217,798	377,459	-	-	595,257
Loans and advances (Gross)	2,591,359	4,950,314	294,355	324,069	8,160,097
Other assets	8,869	47,205	1,007	-	57,081
	<u>4,497,822</u>	<u>5,662,249</u>	<u>295,362</u>	<u>324,069</u>	<u>10,779,502</u>

Past due loans and advances include those that are only past due by a few days. The majority of the past due loans are not considered to be impaired.

United Arab Bank P.J.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

23 RISK MANAGEMENT (continued)

Credit Risk (continued)

Credit risk exposure of the Group's on-balance sheet financial assets for each internal risk rating

	Moody's equivalent grades	Historical default rates 2012	Historical default rates 2011	Total 2012 AED'000	Total 2011 AED'000
High grade					
Risk rating class 1	Aaa	-	-	2,794,496	1,179,922
Risk rating class 2	Aa1-A3	0.25%	0.25%	3,431,054	3,309,031
Standard grade					
Risk rating class 3	Ba1	0.50%	0.50%	3,269,599	2,574,478
Risk rating class 4	Ba2-Ba3	1.25%	1.25%	691,389	589,887
Unrated (incl Retail)		1.00%	1.00%	3,894,708	2,495,348
Sub Standard grade					
Risk rating class 5A	B3	3.00%	1.50%	423,059	118,961
Risk rating class 5B	Caa-C	5.00%	2.50%	213,669	371,972
Impaired					
Risk rating class 6,7 & 8	D	-	-	175,744	127,491
				14,893,718	10,767,090
Less: Impairment provision and interest in suspense on loans and advances				(178,187)	(103,796)
				14,715,531	10,663,294

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics (including Moody's Risk Analyst, a web based financial analysis and internal credit rating system), combined with processed market information to provide the main inputs for the measurement and management of counterparty risk. All internal risk ratings are tailored to the various categories and reviewed periodically in accordance with the Group's rating policy. The attributable risk ratings are assessed and updated regularly. The Moody's ratings and equivalent grades are relevant only for certain of the exposures in each risk rating class.

Aging analysis of past due but not impaired loans per class of on-balance sheet financial assets

	Less than 30 days 2012 AED'000	31 to 60 days 2012 AED'000	61 to 90 days 2012 AED'000	More than 91 Days 2012 AED'000	Total 2012 AED'000
Loans and advances	165,169	41,517	16,544	3,921	227,151
	2011 AED'000	2011 AED'000	2011 AED'000	2011 AED'000	2011 AED'000
Loans and advances	138,213	49,865	8,500	-	196,578

United Arab Bank P.J.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

23 RISK MANAGEMENT (continued)

Credit risk (continued)

The fair value of the collateral that the Group held at 31 December 2012 for past due but not impaired loans and advances to customers covers approximately 50% (2011: 22%) of the outstanding balance.

Carrying amount per class of on-balance sheet financial assets whose terms have been renegotiated

	2012 AED'000	2011 AED'000
Loans and advances	<u>444,492</u>	<u>228,637</u>

Liquidity risk

Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Group might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, management have arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and of monitoring future cash flows and liquidity on a daily basis. The Group has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Group maintains a portfolio of marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can access to meet liquidity needs. In addition, the Group maintains a statutory deposit with the Central Bank of UAE equal to 14% of current deposits and 1% of time deposits. In accordance with the Group's policy, the liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. The most important of these is to maintain limits on the ratio of net liquid assets to customer liabilities, set to reflect market conditions. Net liquid assets consist of cash, short term bank deposits and liquid debt securities available for immediate sale, less deposits for banks and other issued securities and borrowings due to mature within the next month. The ratios as at the year end were as follows:

	2012	2011
Advances to Stable Resources Ratio	85.6%	87.1%
Net Liquid Assets to Customer Deposits Ratio	30.5%	28.2%
Capital Adequacy Ratio	18.9%	20.3%

The Group stresses the importance of current accounts, time deposits and savings accounts as a source of funds to finance lending to customers. They are monitored using the advances to stable deposit ratio, which compares loans and advances to customers as a percentage of core customer current and savings accounts, together with term funding.

United Arab Bank P.J.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

23 RISK MANAGEMENT (continued)

Liquidity risk (continued)

Maturities of assets and liabilities based on the remaining period at the reporting date to the contractual maturity date not taking account of the effective maturities as indicated by the Group's deposit retention history and the availability of liquid funds, as at 31 December 2012 is as follows:

	<i>Less than 3 months</i>	<i>From 3 months to 6 months</i>	<i>From 6 months to 12 months</i>	<i>Sub total less than 12 months</i>	<i>1-5 years</i>	<i>Over 5 years</i>	<i>Sub total over 12 months</i>	<i>Undated</i>	<i>Total</i>
	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>
ASSETS									
Cash and balances									
with UAE Central Bank	1,032,160	80,000	20,000	1,132,160	-	-	-	-	1,132,160
Due from banks	1,332,281	-	-	1,332,281	-	-	-	-	1,332,281
Loans and advances (Gross)	4,196,483	1,041,120	914,809	6,152,412	3,342,484	1,564,784	4,907,268	-	11,059,680
Investments	-	-	-	-	682,054	643,821	1,325,875	10,605	1,336,480
Investment properties	-	-	-	-	-	-	-	12,900	12,900
Property and equipment	-	-	-	-	-	-	-	171,125	171,125
Other assets	108,342	-	37,808	146,150	-	-	-	-	146,150
Provision for impairment of loans and advances and interest in suspense	(178,187)	-	-	(178,187)	-	-	-	-	(178,187)
Sub-total	<u>6,491,079</u>	<u>1,121,120</u>	<u>972,617</u>	<u>8,584,816</u>	<u>4,024,538</u>	<u>2,208,605</u>	<u>6,233,143</u>	<u>194,630</u>	<u>15,012,589</u>
LIABILITIES AND SHAREHOLDERS' FUNDS									
Due to banks	615,255	-	592,523	1,207,778	564,094	-	564,094	-	1,771,872
Customers' deposits	7,523,002	858,827	1,182,950	9,564,779	529,504	-	529,504	-	10,094,283
Medium term borrowings	-	-	-	-	642,617	-	642,617	-	642,617
Other liabilities	221,906	-	-	221,906	-	-	-	34,036	255,942
Shareholders' funds	-	-	-	-	-	-	-	2,247,875	2,247,875
Sub-total	<u>8,360,163</u>	<u>858,827</u>	<u>1,775,473</u>	<u>10,994,463</u>	<u>1,736,215</u>	<u>-</u>	<u>1,736,215</u>	<u>2,281,911</u>	<u>15,012,589</u>
Net liquidity gap	<u>(1,869,084)</u>	<u>262,293</u>	<u>(802,856)</u>	<u>(2,409,647)</u>	<u>2,288,323</u>	<u>2,208,605</u>	<u>4,496,928</u>	<u>(2,087,281)</u>	<u>-</u>

United Arab Bank P.J.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

23 RISK MANAGEMENT (continued)

Liquidity risk (continued)

The maturity profile of assets and liabilities at 31 December 2011 was as follows:

	<i>Less than 3 months</i>	<i>From 3 months to 6 months</i>	<i>From 6 months to 12 months</i>	<i>Sub total less than 12 months</i>	<i>1-5 years</i>	<i>Over 5 years</i>	<i>Sub total over 12 months</i>	<i>Undated</i>	<i>Total</i>
	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>
ASSETS									
Cash and balances with UAE Central Bank	548,594	-	-	548,594	-	-	-	-	548,594
Due from banks	1,468,301	-	-	1,468,301	-	-	-	-	1,468,301
Loans and advances (Gross)	2,842,664	1,100,174	697,684	4,640,522	2,479,823	1,039,752	3,519,575	-	8,160,097
Investments	-	17,075	46,500	63,575	460,230	71,452	531,682	406	595,663
Property and equipment	-	-	-	-	-	-	-	106,155	106,155
Other assets	44,670	-	12,411	57,081	-	-	-	-	57,081
Provision for impairment of loans and advances and interest in suspense	(103,796)	-	-	(103,796)	-	-	-	-	(103,796)
Sub-total	4,800,433	1,117,249	756,595	6,674,277	2,940,053	1,111,204	4,051,257	106,561	10,832,095
LIABILITIES AND SHAREHOLDERS' FUNDS									
Due to banks	402,438	-	418,085	820,523	50,000	-	50,000	-	870,523
Customers' deposits	5,978,928	548,060	689,762	7,216,750	606,679	-	606,679	-	7,823,429
Other liabilities	76,034	-	-	76,034	-	-	-	31,084	107,118
Shareholders' funds	-	-	-	-	-	-	-	2,031,025	2,031,025
Sub-total	6,457,400	548,060	1,107,847	8,113,307	656,679	-	656,679	2,062,109	10,832,095
Net liquidity gap	(1,656,967)	569,189	(351,252)	(1,439,030)	2,283,374	1,111,204	3,394,578	(1,955,548)	-

United Arab Bank P.J.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

23 RISK MANAGEMENT (continued)

Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2012 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

Financial liabilities	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2012						
Due to banks	28,516	587,423	595,885	579,325	-	1,791,149
Customers' deposits	3,749,686	3,784,598	2,071,362	566,040	-	10,171,686
Medium term borrowings	-	-	-	671,535	-	671,535
Other liabilities	87,836	79,904	-	-	-	167,740
Financial derivatives	-	676	1,810	10,295	-	12,781
Total undiscounted financial liabilities	<u>3,866,038</u>	<u>4,452,601</u>	<u>2,669,057</u>	<u>1,827,195</u>	<u>-</u>	<u>12,814,891</u>
31 December 2011						
Due to banks	25,324	377,647	421,038	51,695	-	875,704
Customers' deposits	2,599,131	3,390,147	1,256,776	651,270	-	7,897,324
Other liabilities	34,809	24,993	-	-	-	59,802
Financial derivatives	-	579	5,748	1,657	-	7,984
Total undiscounted financial liabilities	<u>2,659,264</u>	<u>3,793,366</u>	<u>1,683,562</u>	<u>704,622</u>	<u>-</u>	<u>8,840,814</u>

The disclosed financial derivative instruments in the above table are the gross undiscounted cash flows. However, these amounts may be settled gross or net. The following table shows the corresponding reconciliation of those amounts to their carrying amounts.

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2012						
Inflows	-	658	1,755	10,432	-	12,845
Outflows	-	(676)	(1,810)	(10,295)	-	(12,781)
Net	-	(18)	(55)	137	-	64
Discounted at applicable interbank rates	-	(18)	(54)	129	-	57

United Arab Bank P.J.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

23 RISK MANAGEMENT (continued)**Liquidity risk (continued)**

Analysis of financial liabilities by remaining contractual maturities (continued)

	<i>On demand</i> AED'000	<i>Less than 3 months</i> AED'000	<i>3 to 12 months</i> AED'000	<i>1 to 5 years</i> AED'000	<i>Over 5 years</i> AED'000	<i>Total</i> AED'000
31 December 2011						
Inflows	-	611	6,005	1,743	-	8,359
Outflows	-	(579)	(5,748)	(1,657)	-	(7,984)
Net	-	32	257	86	-	375
Discounted at applicable interbank rates	-	31	253	81	-	365

The table below shows the contractual maturity profile of the Group's contingent liabilities and commitments:

	<i>On demand</i> AED'000	<i>Less than 3 months</i> AED'000	<i>3 to 12 months</i> AED'000	<i>1 to 5 years</i> AED'000	<i>Over 5 years</i> AED'000	<i>Total</i> AED'000
2012						
Contingent liabilities	377,705	2,254,594	1,073,591	253,799	-	3,959,689
Commitments	2,227,225	-	-	-	-	2,227,225
Total	2,604,930	2,254,594	1,073,591	253,799	-	6,186,914
2011						
Contingent liabilities	372,702	2,416,165	555,790	595,942	-	3,940,599
Commitments	2,260,065	-	-	-	-	2,260,065
Total	2,632,767	2,416,165	555,790	595,942	-	6,200,664

The Group expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

Market risk

Market risk arises from fluctuations in interest rates, foreign exchange rates and equity prices. The Board has set limits on the value of risk that may be accepted. This is monitored on a regular basis by the Group's Asset and Liability Committee (ALCO).

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or reprice in a given period. The Board has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's consolidated income statement. There is no material impact on the Group's equity.

United Arab Bank P.J.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

23 RISK MANAGEMENT (continued)

Interest rate risk (continued)

The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2012, including the effect of hedging instruments.

	2012		2011	
	<i>Change in basis points</i>	<i>Sensitivity of net interest income AED'000</i>	<i>Change in basis points</i>	<i>Sensitivity of net interest income AED'000</i>
Currency				
All currencies	+25	10,973	+25	9,938
All currencies	-25	(10,973)	-25	(9,938)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits.

As the UAE Dirham and other GCC currencies are currently pegged to the US Dollar, balances in US Dollars are not considered to represent significant currency risk.

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2012 on its non trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the AED, with all other variables held constant on the consolidated income statement (due to the fair value of currency sensitive non trading monetary assets and liabilities) and equity (due to change in the fair value of currency swaps used as cash flow hedges). A negative amount in the table reflects a potential net reduction in the consolidated income statement, while a positive amount reflects a net potential increase.

Currency	<i>Change in currency rate in % 2012</i>	<i>Effect on profit 2012 AED'000</i>	<i>Change in currency rate in % 2011</i>	<i>Effect on profit 2011 AED'000</i>
Euro	+10	(12)	+10	(131)
GBP	+10	(3)	+10	26

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

United Arab Bank P.J.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

24 SEGMENTAL ANALYSIS

Primary segment information

For the purposes of reporting to the chief operating decision makers, the Group is organised into three segments:

- Retail banking - Principally handling individual customers' deposits, and providing consumer type loans, overdrafts, credit card facilities and funds transfer facilities as well as Islamic banking services
- Corporate banking - Principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers
- Others - Principally providing money market, trading and treasury services, as well as the management of the funding operations of the Bank and Al Sadarah Investment Company and includes the SME business and head office functions.

The segments are the basis on which the Group reports its primary segment information. Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is charged / credited to business segments based on a pool rate which approximates the marginal cost of funds.

No income from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total income in 2012 or 2011.

Segmental information for the year ended 31 December 2012 was as follows:

	<i>Retail banking AED'000</i>	<i>Corporate banking AED'000</i>	<i>Others AED'000</i>	<i>Total AED'000</i>
Interest and other income	252,240	503,411	163,019	918,670
Interest and other expense	(109,430)	(168,048)	(97,351)	(374,829)
Impairment losses on loans and advances	(72,688)	(48,917)	-	(121,605)
Depreciation	(3,270)	(8,791)	(357)	(12,418)
Profit for the year	<u>66,852</u>	<u>277,655</u>	<u>65,311</u>	<u>409,818</u>
Segment assets	<u>3,204,681</u>	<u>7,861,740</u>	<u>3,946,168</u>	<u>15,012,589</u>
Segment liabilities	<u>3,061,588</u>	<u>7,006,527</u>	<u>2,696,599</u>	<u>12,764,714</u>
Other segment information				
Capital expenditure				
- Property and equipment	<u>16,770</u>	<u>48,628</u>	<u>18,455</u>	<u>83,853</u>

United Arab Bank P.J.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

24 SEGMENTAL ANALYSIS (continued)

Primary segment information (continued)

Segmental information for the year ended 31 December 2011 was as follows:

	<i>Retail banking</i> AED'000	<i>Corporate banking</i> AED'000	<i>Others</i> AED'000	<i>Total</i> AED'000
Interest and other income	141,245	409,987	119,630	670,862
Interest and other expense	(43,997)	(126,200)	(88,907)	(259,104)
Impairment losses on loans and advances	(70,120)	(414)	-	(70,534)
Depreciation	(2,785)	(8,095)	(190)	(11,070)
Profit for the year	<u>24,343</u>	<u>275,278</u>	<u>30,533</u>	<u>330,154</u>
Segment assets	<u>2,169,957</u>	<u>6,062,062</u>	<u>2,600,076</u>	<u>10,832,095</u>
Segment liabilities	<u>1,640,653</u>	<u>5,936,497</u>	<u>1,223,920</u>	<u>8,801,070</u>
Other segment information				
Capital expenditure				
-Property and equipment	<u>8,065</u>	<u>25,131</u>	<u>10,846</u>	<u>44,042</u>

Secondary segment information

The Group operates in only one geographic area, the Middle East. Accordingly, no further geographical analysis of operating income, profit and net assets is given.

25 FAIR VALUES OF FINANCIAL INSTRUMENTS

Determination of fair value and fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques that use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

United Arab Bank P.J.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

25 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)**Determination of fair value and fair value hierarchy (continued)**

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	<i>Level 1</i> <i>AED'000</i>	<i>Level 2</i> <i>AED'000</i>	<i>Level 3</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
31 December 2012				
Financial assets				
<i>Derivative financial instruments</i>				
Interest rate swaps – trading	-	1,228	-	1,228
Forward foreign exchange contracts	-	140	-	140
Currency options	-	35,080	-	35,080
	-	36,448	-	36,448
<i>Financial investments available for-sale</i>				
<i>Quoted investments</i>				
Government debt securities	461,032	-	-	461,032
Other debt securities	865,098	-	-	865,098
Equities	10,274	-	-	10,274
<i>Unquoted investments</i>				
Equities	-	-	76	76
	1,336,404	-	76	1,336,480
	1,336,404	36,448	76	1,372,928
Financial liabilities				
	<i>Level 1</i> <i>AED'000</i>	<i>Level 2</i> <i>AED'000</i>	<i>Level 3</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
<i>Derivative financial instruments</i>				
Interest rate swaps – trading	-	2,993	-	2,993
Forward foreign exchange contracts	-	6	-	6
Currency options	-	35,080	-	35,080
	-	38,079	-	38,079

United Arab Bank P.J.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

25 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

Determination of fair value and fair value hierarchy (continued)

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
31 December 2011				
Financial assets				
<i>Derivative financial instruments</i>				
Interest rate swaps - trading	-	405	-	405
Interest rate swaps - hedging	-	16	-	16
Forward foreign exchange contracts	-	6	-	6
Currency options	-	4,157	-	4,157
	<u>-</u>	<u>4,584</u>	<u>-</u>	<u>4,584</u>
<i>Financial investments available for-sale</i>				
<i>Quoted investments</i>				
Government debt securities	308,585	-	-	308,585
Other debt securities	262,172	24,500	-	286,672
Equities	330	-	-	330
<i>Unquoted investments</i>				
Equities	-	-	76	76
	<u>571,087</u>	<u>24,500</u>	<u>76</u>	<u>595,663</u>
	<u>571,087</u>	<u>29,084</u>	<u>76</u>	<u>600,247</u>
Financial liabilities				
	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
<i>Derivative financial instruments</i>				
Interest rate swaps - trading	-	336	-	336
Interest rate swaps - hedging	-	832	-	832
Forward foreign exchange contracts	-	37	-	37
Currency options	-	4,157	-	4,157
	<u>-</u>	<u>5,362</u>	<u>-</u>	<u>5,362</u>

Financial instruments recorded at fair value

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Derivatives

Derivative products valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency options and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

United Arab Bank P.J.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

25 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

Financial instruments recorded at fair value (continued)

Financial investments – available-for-sale

Available-for-sale financial assets valued using a valuation technique or pricing models primarily consist of unquoted equities and debt securities. These assets are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Movements in level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing amount of Level 3 financial assets and liabilities which are recorded at fair value:

	At 1 January 2012 AED'000	Total gain or loss recorded in profit and loss AED'000	Purchase AED'000	Sales / redemptions AED'000	Total gain or loss recorded in equity AED'000	Transfer to level 2 AED'000	At 31 December 2012 AED'000
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Financial assets

Financial investments

available for-sale:

Unquoted investments	76	-	-	-	-	-	76
Total level 3 financial assets	76	-	-	-	-	-	76

	At 1 January 2011 AED'000	Total gain or loss recorded in profit and loss AED'000	Purchase AED'000	Sales / redemptions AED'000	Total gain or loss recorded in equity AED'000	Transfer to level 2 AED'000	At 31 December 2011 AED'000
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Financial assets

Financial investments

available for-sale:

Unquoted investments	75,076	-	-	75,000	-	-	76
Total level 3 financial assets	75,076	-	-	75,000	-	-	76

Gains or losses on level 3 financial instruments included in the profit or loss for the year

No gains or losses on level 3 financial instruments were included in the profit or loss for the year. (2011: nil)

United Arab Bank P.J.S.C.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***At 31 December 2012***25 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)****Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions**

The impact on the fair value of level 3 instruments of using reasonably possible alternative assumptions by class of instrument is negligible.

In order to determine reasonably possible alternative assumptions the Group adjusted key unobservable models inputs as follows:

- For debt securities (other than asset backed securities), the Group adjusted the probability of default and loss given default assumptions by increasing and decreasing the assumptions by 10%, which is a range that is consistent with the Group's internal credit risk ratings for the counterparties.
- For equities, the Group did not have a material exposure for the years 2011 and 2012 and accordingly no sensitivity analysis has been done.

Fair value of financial assets and liabilities not carried at fair value

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the consolidated financial statements:

Asset for which fair value approximates carrying value

For financial assets and financial liabilities that have short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without specific maturity.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit and maturity. For other variable rate instruments an adjustment is also made to reflect the change in required credit spread since the instrument was first recognised.

26 CAPITAL ADEQUACY

The Group actively manages the capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules/ratios") and adopted by the Central Bank of UAE in supervising the Bank.

Capital management

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Group manages its capital base and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital base, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

The risk asset ratio calculations, in accordance with the capital adequacy guidelines as per Basel II accord established for the global banking industry, are as follows:

United Arab Bank P.J.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

26 CAPITAL ADEQUACY (continued)**Risk weighted exposures**

	<i>Balance</i>		<i>Risk weighted equivalent</i>	
	2012 <i>AED'000</i>	<i>2011</i> <i>AED'000</i>	2012 <i>AED'000</i>	<i>2011</i> <i>AED'000</i>
Assets				
Cash and claims on, guaranteed by or collateralised by securities of central governments and central banks of OECD countries	64,099	49,828	-	-
Claims on banks and public sector companies incorporated in OECD countries and short term claims on banks incorporated in non-OECD countries	1,574,365	1,496,946	314,873	299,389
Claims secured by mortgage of residential property	2,213,562	1,291,158	2,213,562	1,291,158
Claims on public sector entities, central governments, central banks and longer term claims on banks incorporated in non-OECD countries and all other assets, including claims on private sector entities				
Claims at 0%	3,759,577	1,842,819	-	-
Claims at 20%	-	60	-	12
Claims at 50%	156,424	173,415	78,212	86,708
Claims at 100%	7,344,666	6,026,409	7,344,666	6,026,409
General Provision – classified under Tier 2	(100,104)	(48,540)	-	-
	15,012,589	10,832,095		
Off balance sheet items				
Credit commitments and contingent items (note 22)	6,186,914	6,200,664	2,358,823	2,466,509
Derivatives (note 21)	5,305,644	1,319,633	4,551	3,705
Credit risk weighted assets and off balance sheet items			12,314,687	10,173,890
Total risk weighted assets			12,314,687	10,173,890
Capital Adequacy Ratio			18.9%	20.3%

Regulatory capital consists mainly of Tier 1 capital, which comprises share capital, share premium, retained earnings including current year profit, foreign currency translation less accrued dividends. Certain adjustments are made to IFRS-based results and reserves, as prescribed by the Central Bank of UAE. The other component of regulatory capital is Tier 2 capital, which includes General provisions and Cumulative changes in fair values.

The Group has complied with all the requirements as set by the Central Bank of UAE in respect of capital adequacy.



United Arab Bank P.J.S.C.**BASEL II - PILLAR 3 DISCLOSURES**

At 31 December 2012

These disclosures are being made in compliance with Circular No. 27/2009 dated 17th November 2009 issued by the Central bank of UAE and are in conformity with Basel II capital adequacy calculations for 31 December 2012 prepared in terms of the circular. References have been made to the Audited Financial Statements of 31st December 2012 for additional details only, where considered relevant.

These disclosures pertain to operations of United Arab Bank and its subsidiaries (the "group") as at 31st December 2012.

A. CAPITAL STRUCTURE

Category	Summarized terms & conditions and main features	2012 AED'000	2011 AED'000
Tier 1 Capital			
1. Paid up share capital	Ordinary Shares of AED 1 each	996,401	996,401
2. Reserves			
a. Statutory reserve	Under Article 192 of UAE Commercial Companies (incl. Share Premium) Law No 8 of 1984	338,443	305,428
b. Special reserve	Under Article 82 of Union Law No. 10 of 1980	255,888	222,873
c. General reserve	As per Shareholders' resolutions on recommendation of Board	9,311	9,311
d. Retained earnings	After transfer of Net Profit but before appropriations for the year	627,119	493,998
Tier 1 Capital - Subtotal		2,227,162	2,028,011
Tier 2 capital			
General provisions	In terms of rules laid down by the Central Bank of the UAE	100,103	48,540
Revaluation reserve	Revaluation reserve on Bank's property assets	14,593	21,671
Cumulative changes in fair values	Unrealized loss on available-for-sale investments	2,754	(15,057)
Less: Deductions for inadmissible items	Revaluation reserve on Bank's property assets	(14,593)	(21,671)
Tier 2 Capital - Subtotal		102,857	33,483
Tier 3 capital			
		-	-
Total eligible capital after deductions - Capital Base		2,330,019	2,061,494

United Arab Bank P.J.S.C.

BASEL II - PILLAR 3 DISCLOSURES

At 31 December 2012

B. CAPITAL ADEQUACY

a) Qualitative disclosures

United Arab Bank ("The Bank") has adopted Standardized Approach for computation of Credit and Market Risks and Basic Indicator Approach for Operational Risks, in terms of guidelines for implementation of Basel II capital accord issued by the Central Bank of the UAE under Circular No. 27/2009 dated 17th November 2009.

Risk Management objectives and policies

The Bank has established a Group Risk Department headed by the Chief Risk Officer (CRO). This department is responsible for managing all the three risk segments, namely Credit, Market and Operational risks. The Bank has also created the Board Audit and Risk Committee (BARC), which approves Bank's policies on all audit and risk issues and provides oversight of the Audit, Risk and Compliance functions of the bank. These steps ensure that the risk management framework has a solid foundation and is able to address all relevant risks in a coordinated and well structured manner.

- Credit Risk

Credit risk is the risk that a customer or counterparty will fail to meet a commitment, resulting in financial loss to the Bank. Such risk arises from lending, trade finance, treasury and other activities undertaken by the Bank. Credit risk is actively monitored in accordance with the credit policies which clearly define delegated lending authorities, policies and procedures. The management of credit risk also involves the monitoring of risk concentrations by industrial sector as well as by geographic location.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and to take corrective action.

- Market Risk

The main components of the Bank's Market Risk are interest risk, foreign exchange risk and equity price risk.

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or re-price in a given period. The Bank's Treasury Department manages this risk through monitoring of such gaps on a regular basis.

Fluctuations in exchange rates for different currencies are a source of Foreign Exchange Risk. The Board has established limits on the open Foreign Exchange position in order to manage such risks. These Forex Positions are monitored on a daily basis and hedging strategies are used by the Treasury Department to ensure that positions are maintained within the established limits.

United Arab Bank P.J.S.C.

BASEL II - PILLAR 3 DISCLOSURES

At 31 December 2012

B. CAPITAL ADEQUACY (continued)

a) Qualitative disclosures (continued)

Equity Price risk arises due to fluctuations in prices of Bank's equity holdings. This risk is avoided by keeping exposures at very low levels, besides regular monitoring of the prices.

In addition to the above safeguards, market risks are also reviewed on a regular basis by the Bank's Asset and Liability Committee (ALCO), and corrective measures taken where considered necessary.

- Operational Risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss.

The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff training and assessment processes, including the use of Internal Audit.

b) Quantitative Disclosures

In terms of Circular No. 27/2009 dated 17th November 2009 issued by the Central bank of the UAE, minimum capital requirement is 12% of the Risk Weighted Assets. Computations of the Group's Capital Adequacy Ratio are as follows:

Category	2012 AED'000	2011 AED'000
Risk Weighted Assets		
1. Credit Risk - Standardized Approach	11,375,263	9,480,711
2. Market Risk - Standardized Approach	7,883	2,375
3. Operational Risk - Basic Indicator Approach	769,700	646,025
Total Risk Weighted Assets	12,152,846	10,129,111
Capital Base	2,330,019	2,061,494
Capital Ratio (%)		
a. Total for the Group	19.2%	20.4%
b. Tier 1 ratio only for the Group	18.3%	20.0%

United Arab Bank P.J.S.C.

BASEL II - PILLAR 3 DISCLOSURES

At 31 December 2012

C. CREDIT RISK UNDER STANDARDIZED APPROACH

1. Details of Exposures, Risk Mitigants and Risk Weighted Assets as at 31 December 2012:

Category	On Balance Sheet Exposures	Specific Provision & Interest In Suspense	Off Balance Sheet Exposures	Exposure before Credit Risk Mitigants	Credit Risk Mitigants	Exposure after Credit Risk Mitigants	Risk Weighted Assets
	(Gross outstanding)		(Net after Credit Conversion Factor - CCF)				
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Claims On Sovereigns	2,202,664	-	-	2,202,664	-	2,202,664	-
Claims On Non-Central Govt Public Sector Entities (PSEs)	883,897	-	-	883,897	-	883,897	106,005
Claims On Multi Lateral Development Banks	-	-	-	-	-	-	-
Claims On Banks	1,672,991	-	70,849	1,743,840	-	1,743,840	457,242
Claims On Securities Firms	-	-	-	-	-	-	-
Claims On Corporates	5,900,160	-	2,561,067	8,461,227	-	8,461,227	7,704,738
Claims Included In The Regulatory Retail Portfolio	1,758,610	-	-	1,758,610	-	1,758,610	1,361,192
Claims Secured By Residential Property	1,383,342	-	-	1,383,342	-	1,383,342	509,775
Claims Secured By Commercial Real Estate	792,363	-	-	792,363	-	792,363	792,363
Past Due Loans	179,665	(78,083)	-	101,582	-	101,582	103,543
Higher-Risk Categories	-	-	-	-	-	-	-
Other Assets	417,084	-	-	417,084	-	417,084	340,405
Claims On Securitized Assets	-	-	-	-	-	-	-
Credit Derivatives (Banks Selling Protection)	-	-	-	-	-	-	-
TOTAL	15,190,776	(78,083)	2,631,916	17,744,609	-	17,744,609	11,375,263

United Arab Bank P.J.S.C.

BASEL II - PILLAR 3 DISCLOSURES

At 31 December 2012

C. CREDIT RISK UNDER STANDARDIZED APPROACH (continued)

Details of Exposures, Risk Mitigants and Risk Weighted Assets as at 31 December 2011:

Category	On Balance Sheet Exposures	Specific Provision & Interest In Suspense	Off Balance Sheet Exposures	Exposure before Credit Risk Mitigants	Credit Risk Mitigants	Exposure after Credit Risk Mitigants	Risk Weighted Assets
	(Gross outstanding)		(Net after Credit Conversion Factor - CCF)				
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Claims On Sovereigns	1,005,334	-	-	1,005,334	-	1,005,334	-
Claims On Non-Central Govt Public Sector Entities (PSEs)	352,316	-	-	352,316	-	352,316	24,028
Claims On Multi Lateral Development Banks	-	-	-	-	-	-	-
Claims On Banks	1,602,334	-	80,955	1,683,289	-	1,683,289	491,826
Claims On Securities Firms	-	-	-	-	-	-	-
Claims On Corporates	4,951,781	-	2,625,452	7,577,233	-	7,577,233	6,756,549
Claims Included In The Regulatory Retail Portfolio	1,402,097	-	-	1,402,097	-	1,402,097	1,088,178
Claims Secured By Residential Property	679,831	-	-	679,831	-	679,831	252,745
Claims Secured By Commercial Real Estate	601,237	-	-	601,237	-	601,237	601,237
Past Due Loans	127,491	(55,256)	-	72,235	-	72,235	102,554
Higher-Risk Categories	-	-	-	-	-	-	-
Other Assets	213,470	-	-	213,470	-	213,470	163,594
Claims On Securitized Assets	-	-	-	-	-	-	-
Credit Derivatives (Banks Selling Protection)	-	-	-	-	-	-	-
TOTAL	10,935,891	(55,256)	2,706,407	13,587,042	-	13,587,042	9,480,711

United Arab Bank P.J.S.C.

BASEL II - PILLAR 3 DISCLOSURES

At 31 December 2012

C. CREDIT RISK UNDER STANDARDIZED APPROACH (continued)

2. Gross Exposure under Standardized Approach based on External Ratings

a) Qualitative Disclosures

For purposes of Computing Risk Weighted Assets, only ratings assigned by ECAIs (External Credit Assessment Institutions) as approved by the Central Bank of UAE are being considered.

b) Quantitative Disclosures

Gross Exposure before Credit Risk Mitigants (CRM)

	2012			2011		
	<i>Rated</i> AED'000	<i>Unrated</i> AED'000	<i>Total</i> AED'000	<i>Rated</i> AED'000	<i>Unrated</i> AED'000	<i>Total</i> AED'000
Claims On Sovereigns	2,202,664	-	2,202,664	1,005,334	-	1,005,334
Claims On Non-Central Govt Public Sector Entities (PSEs)	883,897	-	883,897	352,316	-	352,316
Claims On Multi Lateral Development Banks	-	-	-	-	-	-
Claims On Banks	1,562,279	181,561	1,743,840	1,381,878	301,411	1,683,289
Claims On Securities Firms	-	-	-	-	-	-
Claims On Corporates	65,318	8,395,909	8,461,227	80,745	7,496,488	7,577,233
Claims Included In The Regulatory Retail Portfolio	-	1,758,610	1,758,610	-	1,402,097	1,402,097
Claims Secured By Residential Property	-	1,383,342	1,383,342	-	679,831	679,831
Claims Secured By Commercial Real Estate	-	792,363	792,363	-	601,237	601,237
Past Due Loans	-	101,582	101,582	-	72,235	72,235
Higher-Risk Categories	-	-	-	-	-	-
Other Assets	-	417,084	417,084	-	213,470	213,470
Claims On Securitized Assets	-	-	-	-	-	-
Credit Derivatives (Banks Selling Protection)	-	-	-	-	-	-
TOTAL	4,714,158	13,030,451	17,744,609	2,820,273	10,766,769	13,587,042

United Arab Bank P.J.S.C.**BASEL II - PILLAR 3 DISCLOSURES**

At 31 December 2012

C. CREDIT RISK UNDER STANDARDIZED APPROACH (continued)**3. Exposure by Currency Type**

The Bank's exposures are mainly in local currency, hence, risk of exposures in foreign currency is minimal. For details kindly refer to Note 23 "Risk Management – Currency Risk" of Notes to the Financial Statements as at 31 December 2012.

4. Exposure by Geographical Region

The Bank has branches only in the UAE; hence, its exposures are mainly within the country. For details kindly refer to Note 23 "Risk Management – Credit Risk" of Notes to the Financial Statements as at 31 December 2012.

5. Exposure by Economic Sector

For details kindly refer to Note 23 "Risk Management – Credit Risk" of Notes to the Financial Statements as at 31 December 2012.

6. Exposures by Residual Contractual Maturity

For details kindly refer to Note 23 "Risk Management – Liquidity Risk" of Notes to the Financial Statements as at 31 December 2012.

7. Past due and impaired loans**a) Qualitative Disclosures****Definitions of past due and impaired**

Past due accounts are those where the obligations are not met on the due date.

A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more event(s) that has occurred after the initial recognition of the asset, and based on reliable estimates which impact(s) future cash flows of the financial assets or group of financial assets.

Evidence of impairment may include (a) indications that the borrower or a group of borrowers is experiencing significant financial difficulty, (b) the probability that they will enter bankruptcy or other financial reorganisation, (c) default or delinquency in interest or principal payments, (d) conduct of the account is not in line with the Central Bank of UAE guidelines (e) where observable data indicates that there is a measurable decrease in the estimated future cash flows and (f) where the entity is in arrears or facing economic conditions that correlate with defaults.

Description of approaches followed for creating Specific and General Provisions:

Specific

Specific provisioning on loans and advances are made as follows:

- On Corporate accounts provisions are made in compliance with the above, in particular, with IAS 39 standards
- On Retail accounts provisions are made as given below:

- Substandard accounts	25%
- Doubtful accounts	50%
- Loss accounts	100%

General

General Provisions are being made in terms of Central Bank of UAE guidelines. According to the guidelines, such provisions are required to be increased progressively until 2014 to the level of 1.5% of the Credit Risk Weighted Assets (CRWA) for Loans & Advances and off Balance Sheet commitments (excluding those impaired), computed in terms of Basel II standardised approach.

United Arab Bank P.J.S.C.

BASEL II - PILLAR 3 DISCLOSURES

At 31 December 2012

C. CREDIT RISK UNDER STANDARDIZED APPROACH (continued)

7. Past due and impaired loans (continued)

b) Quantitative Disclosures

- Past due & impaired loans by industry segment as at 31 December 2012:

	Past due but not impaired				Impaired Loans	Provision & Interest in Suspense
	0-30 days Past due	30-60 days Past due	60-90 days Past due	Over 90 days Past due		
	AED'000	AED'000	AED'000	AED'000		
Agriculture, Livestock and Fishery	-	-	-	15	14	14
Extractive Industries	-	-	-	-	-	-
Manufacturing Industries	11,322	3,233	282	3,677	2,561	2,519
Electricity, Gas and Water	-	-	-	-	-	-
Construction	4,129	1	1	12	2,096	1,314
Wholesale / Retail Trade	10,744	122	47	183	84,037	36,619
Restaurants and Hotels	-	-	-	-	9,297	4,742
Transportation, Storage & Communication	1,638	-	-	34	3,252	3,252
Real Estate and Business Services	-	-	-	-	-	-
Social and Private Services	1,681	3	-	-	-	-
Financial Services Sector	-	-	-	-	-	-
Government	-	-	-	-	-	-
Household / Personal	135,655	38,158	16,214	-	74,487	29,623
Grand Total	165,169	41,517	16,544	3,921	175,744	78,083

United Arab Bank P.J.S.C.

BASEL II - PILLAR 3 DISCLOSURES

At 31 December 2012

C. CREDIT RISK UNDER STANDARDIZED APPROACH (continued)

7. Past due and impaired loans (continued)

b) Quantitative Disclosures (continued)

- Past due and impaired loans by industry segment as at 31 December 2011:

	Past due but not impaired				Impaired Loans	Provision & Interest in Suspense
	0-30 days Past due	30-60 days Past due	60-90 days Past due	Over 90 days Past due		
	AED'000	AED'000	AED'000	AED'000		
Agriculture, Livestock and Fishery	-	-	-	-	26	26
Extractive Industries	-	-	-	-	-	-
Manufacturing Industries	3,094	-	-	-	2,951	2,597
Electricity, Gas and Water	-	-	-	-	-	-
Construction	-	-	-	-	2,150	1,197
Wholesale / Retail Trade	1,133	1,358	-	-	86,575	22,927
Restaurants and Hotels	-	-	-	-	325	271
Transportation, Storage & Communication	476	-	-	-	3,477	3,477
Real Estate and Business Services	-	-	-	-	-	-
Social and Private Services	-	-	-	-	-	-
Financial Services Sector	-	-	-	-	-	-
Government	-	-	-	-	-	-
Household / Personal	133,510	48,507	8,500	-	31,987	24,761
Grand Total	138,213	49,865	8,500	-	127,491	55,256

United Arab Bank P.J.S.C.

BASEL II - PILLAR 3 DISCLOSURES

At 31 December 2012

C. CREDIT RISK UNDER STANDARDIZED APPROACH (continued)

7. Past due and impaired loans (continued)

b) Quantitative Disclosures (continued)

- Past due and impaired loans by Geographical Region as at 31 December 2012:

Provision &	Past due but not impaired				Impaired Loans	Interest in Suspense
	0-30 days Past due	30-60 days Past due	60-90 days Past due	Over 90 days Past due		
Geographic Region	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
United Arab Emirates	165,169	41,517	16,544	3,921	175,744	78,083
Total	165,169	41,517	16,544	3,921	175,744	78,083

- Past due & impaired loans by Geographical Region as at 31 December 2011:

Provision &	Past due but not impaired				Impaired Loans	Interest in Suspense
	0-30 days Past due	30-60 days Past due	60-90 days Past due	Over 90 days Past due		
Geographic Region	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
United Arab Emirates	138,213	49,865	8,500	-	127,491	55,256
Total	138,213	49,865	8,500	-	127,491	55,256

- Reconciliation of changes in Provision for Impaired Loans

For details kindly refer to Note 7 "Loans and Advances" of Notes to the Financial Statements as at 31 December 2012. Amounts of related provisions reported in the note include General Provision amounting to AED 100,103 (AED'000) reported under Tier 2 Capital in these disclosures.

United Arab Bank P.J.S.C.

BASEL II - PILLAR 3 DISCLOSURES

At 31 December 2012

C. CREDIT RISK UNDER STANDARDIZED APPROACH (continued)

8. Credit Risk Mitigation – Disclosures for Standardized Approach

a) Qualitative Disclosures

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and to take corrective action.

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. The main types of collaterals obtained are cash, securities, charges over real estate properties, inventory and trade receivables. The Bank also obtains guarantees from parent companies for loans to their subsidiaries or other group companies.

The Bank monitors the market value of collaterals, and requests additional collateral in accordance with the underlying agreement. It also monitors the market value of collaterals obtained, during its review of the adequacy of the allowance for impairment losses. It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

b) Quantitative Disclosures

	<u>2012</u> AED'000	<u>2011</u> AED'000
Exposures		
Gross Exposure prior to Credit Risk Mitigation	17,744,609	13,587,042
Credit Risk Mitigants		
- Direct deductions:		
Exposure covered by on-balance sheet netting	-	-
- Substitution by Risk Weights:		
Exposure covered by Guarantees		
from 100%	(157,106)	(307,776)
to 20%	7,034	197,179
50%	139,615	97,190
100%	7,357	10,307
150%	3,100	3,100
Exposures covered by collaterals under simple approach		
from 100%	(682,604)	(615,896)
to 0%	682,604	615,896
Net Exposures after Credit Risk Mitigation	<u>17,744,609</u>	<u>13,587,042</u>
Risk Weighted Assets	<u>11,375,263</u>	<u>9,480,711</u>

United Arab Bank P.J.S.C.

BASEL II - PILLAR 3 DISCLOSURES

At 31 December 2012

D. MARKET RISK – STANDARDISED APPROACH

1. Capital required against Market Risk and equivalent Risk Weighted Assets

	<u>2012</u>	<u>2011</u>
	<i>Capital Required</i>	<i>Capital Required</i>
	<i>AED'000</i>	<i>AED'000</i>
Interest rate risk	723	117
Equity position risk	-	-
Foreign exchange risk	223	168
Commodity risk	-	-
Options risk	-	-
Total Capital Requirement	<u>946</u>	<u>285</u>
Risk Weighted Assets	<u>7,883</u>	<u>2,375</u>

2. Interest Rate Risk

The Bank has nominal Interest Rate Risk on Trading Book, as shown above. For details, concerning Interest Rate Risk on Banking Book, kindly refer to Note 23 "Risk Management – Market Risk – Interest Rate Risk" of Notes to the Financial Statements at 31 December 2012.

3. Equity Position Risk

The Bank has no Equity Position on Trading Book, hence Capital required is nil. However, there are a few investments in banking book under available for sale category. For details please refer to Note 13 "Investments" of Notes to the Financial Statements at 31 December 2012.

4. Foreign Exchange Risk

The amount shown above, represents Foreign Exchange Risk on both banking and trading books. Since AED is pegged to USD, positions in USD and other GCC currencies pegged to USD are excluded. For more details please refer to Note 23 "Risk Management – Currency Risk" of Notes to the Financial Statements at 31 December 2012.

5. Options Risk

The Bank's exposure in Options bought and sold are perfectly matched; hence there is no capital charge on such positions.

6. Revaluations Gain / (losses) during the year

The Bank accounts for changes in fair values of Available for sale investments (both debt and equity) and cash flow hedges through Equity. Details of such charges are given in Note 19 "Cumulative Changes in fair values" of Notes to the Financial Statements at 31 December 2012.

Gains / (losses) due to changes in fair values added to / (deducted from) Tier 1 / Tier 2 Capital are as follows:

	<u>2012</u>	<u>2011</u>
	<i>AED'000</i>	<i>AED'000</i>
Amount added to / (deducted from) in Tier 1 capital	-	-
Amount added to / (deducted from) in Tier 2 capital	2,754	(15,057)
Total	<u>2,754</u>	<u>(15,057)</u>

United Arab Bank P.J.S.C.
BASEL II - PILLAR 3 DISCLOSURES
At 31 December 2012
E. OPERATIONAL RISK – BASIC INDICATOR APPROACH

Computation of Capital Charge and Risk Weighted Assets equivalent for Operational Risk is as follows:

		<i>2012</i> <i>AED'000</i>		<i>2011</i> <i>AED'000</i>
Gross Income (including Interest in suspense)	2010	488,451	2009	475,349
	2011	586,665	2010	488,451
	2012	772,173	2011	<u>586,665</u>
		<u>1,847,289</u>		<u>1,550,465</u>
3-year average		<u>615,763</u>		<u>516,822</u>
Beta factor		15%		15%
Capital charge		<u>92,364</u>		<u>77,523</u>
Risk Weighted Assets equivalent (based on Capital requirement of 12%)		<u>769,700</u>		<u>646,025</u>

