ANNUAL REPORT 2012

United Arab Bank's new Head Office in
Al Buhaira Corniche, Sharjah

LOCATIONS

Head Office
UAB Tower,
Opp. Al Noor Mosque,
Al Buhaira Corniche
P.O. Box 25022
Sharjah
Tel: +971 (0) 6 573 3900
Fax: +971 (0) 6 573 3906

Corniche Branch
Al Mohannad Tower
Buhaira Corniche
P.O. Box 60868
Sharjah
Tel: +971 (0) 6 519 5111
Fax: +971 (0) 6 554 9801

Sharjah Branch
Al Burj Avenue
P.O. Box 881
Sharjah
Tel: +971 (0) 6 568 4111
Fax: +971 (0) 6 568 9473

King Faisal Street Branch
Bahwan Tower, Showroom 2 & 3
Abu Shughara Area –
King Faisal Street
P.O. Box 23226
Sharjah
Tel: +971 (0) 6 509 4200
Fax: +971 (0) 6 552 1056

Sharjah Juraina Branch
Matajer Mall
Al Juraina, Muweileh Suburb
P.O. Box 28741
Sharjah
Tel: +971 (0) 6 505 9333
Fax: +971 (0) 6 545 8457

Sharjah Mirgab Branch
Matajer Mall
Al Mirgab, Al Heira Suburb
P.O. Box 28497
Sharjah
Tel: +971 (0) 6 516 3555
Fax: +971 (0) 6 565 9079

Sharjah Industrial Branch
Mr. Abdullah Rashid Obaid
Al Shamsi Bldg,
Industrial Area 12
P.O. Box 150730
Sharjah
Tel: +971 (0) 6 513 2666
Fax: +971 (0) 6 535 9134

Deira Branch
Al Salemiyah Tower
Al Maktoum Street
P.O. Box 4579
Dubai
Tel: +971 (0) 4 222 0181
Fax: +971 (0) 4 227 4309

Jebel Ali Branch
Banking Complex,
Jebel Ali Free Zone
P.O. Box 16823
Dubai
Tel: +971 (0) 4 881 6445
Fax: +971 (0) 4 881 6845

Sh. Zayed Road Branch
Al Moosa Tower II
Sh. Zayed Road
P.O. Box 34893
Dubai
Tel: +971 (0) 4 332 2032
Fax: +971 (0) 4 332 1332

Ras Al Khaimah -
Al Nakheel Branch
Muntasir Road,
Al Nakheel
P.O. Box 615
Ras Al Khaimah
Tel: +971 (0) 7 227 9911
Fax: +971 (0) 7 227 0969

Ras Al Khaimah - Dafan Branch
Sheikh Faisal Bin Sultan Al
Qasimi Building
Sheikh Mohammed Salem
Al Qasimi Street
P.O. Box 38282
Ras Al Khaimah
Tel: +971 (0) 7 206 8111
Fax: +971 (0) 7 235 9875

Ajman Branch
GMC Hospital & Research Center
P.O. Box 2700
Ajman
Tel: +971 (0) 6 746 5335
Fax: +971 (0) 6 746 5727

Fujairah Branch
Al Rostamani Tower
Hamad Bin Abdullah Street
P.O. Box 8552
Fujairah
Tel: +971 (0) 9 205 6333
Fax: +971 (0) 9 223 9982

Abu Dhabi Branch
Gibca Building
Khalifa Street
P.O. Box 3562
Abu Dhabi
Tel: +971 (0) 2 627 5000
Fax: +971 (0) 2 627 0766

Abu Dhabi Airport Road Branch
Al Faheem Bldg.
Sheikh Rashid Bin Saeed Al Maktoom St.
(Abu Dhabi Airport Road)
P.O. Box 30183
Abu Dhabi
Tel: +971 (0) 2 693 0900
Fax: +971 (0) 2 658 6287

Khalidiya Branch
Al Montaza Tower, Plot No: C-63
Zayed 1st Street
Al Khalidiya Area
P.O. Box 30183
Abu Dhabi
Tel: +971 (0) 2 616 1333
Fax: +971 (0) 2 658 0559

Reem Island Branch
Paragon Mall
Reem Island
P.O. Box 109197
Abu Dhabi
Tel: +971 (0) 2 493 7407
Fax: +971 (0) 2 650 2259

Al Ain Branch
Sh. Faisal Bin Sultan Al Qassimi Bldg
Main Street
P.O. Box 16077
Al Ain
Tel: +971 (0) 3 766 3122
Fax: +971 (0) 3 766 5168

CONTENTS

UNITED ARAB BANK AT A GLANCE

United Arab Bank P.J.S.C. (UAB) was incorporated in 1975 as a joint venture between diverse UAE investors and the French international financial conglomerate, Société Générale (SG). In February 2005, SG sold its 20% stake in UAB to its UAE shareholders in what was reported to be one of the largest UAE share deals concluded in recent years.

UAB has a formal strategic alliance with The Commercial Bank of Qatar (CBQ). Described by investment analysts from around the region as a natural strategic fit, CBQ made an acquisition of 40% interest in UAB in December 2007, in one of the few GCC cross border agreements between two national banks – the first between banks from Qatar and the UAE.

CBQ had previously concluded a similar alliance with National Bank of Oman (NBO), setting the stage for strong growth by all the three banks across the region.

Now operating with 20 offices and branches throughout the UAE, the Bank offers its clients tailor-made financial services in both corporate and retail banking, and has mainly established itself as a leading solutions provider for a growing commercial and industrial base across the seven emirates. Through the provision of a comprehensive range of Corporate Banking, Retail Banking, Trade Finance, SME Banking and Treasury services, UAB is the Bank of choice among major corporate clientele segments in the UAE. With the launch of its "Sadara" premium banking service, Islamic Banking Services and 'UAB Rewards' loyalty programme, the Bank has grown its retail customer base, aiming to expand further. All these initiatives and a consistent year on year performance have positioned UAB as one of the fastest growing banks in the region.

The Bank is also ranked 23rd amongst the top listed companies in the UAE and is one of the top 50 banks in the GCC in terms of market capitalization. UAB is ranked 22nd in the UAE and 12th amongst the UAE banks in the Forbes list of Top 500 companies in the GCC. UAB is also winner of some of the most prestigious industry accolades which include 'Bank of the Year, 2011' from Financial Times 'The Banker' magazine, 'Best Trade Finance House Award' and 'Best Loyalty Programme in the GCC Award' from the Banker Middle East apart from winning a number of other prestigious awards from the Govt. and financial institutions.

UAB continues to work for the sustainment of its success and growth to build an increasingly aligned structure through its strategic Alliance with The Commercial Bank of Qatar, which is actively focused on optimizing potential synergies, implementing industry best practice and developing services and product offerings.

Sheikh Faisal Bin Sultan Bin Salem Al Qassimi
Chairman

Founder of United Arab Bank, Sheikh Faisal Bin Sultan Al Qassimi has served as the Chairman of the Board of Directors since the Bank's inception in 1975 and has since then remained the largest individual shareholder of the Bank.

Beyond his instrumental role at UAB, Sheikh Faisal is currently the Chairman of the Board of Directors of a number of private companies including GIBCA, Grand Stores and Coral International.

Following graduation from Jordanian Officer Cadet School and Mons Officer Cadet School in UK, he served in the U.A.E. Armed Forces in different capacities prior to retiring at the rank of Major General. In addition to that, he held different public positions including Under Secretary of the Ministry of Defense, Chief of Staff, Chairman of the Court of Crown Prince at the time – H.H. Sheikh Khalifa Bin Zayed Al Nahyan.

As an influential figure, Sheikh Faisal was decorated with several medals including the Jordanian Star 1st Class by King Hussein; 1st Class Medal of Merit by the President of Egypt; Superior Order Staff General by the King of Morocco; Nilein Medal by the President of Sudan and 1st Class Emirates Military Medal by the President of United Arab Emirates H.H. the Late Sheikh Zayed Bin Sultan Al Nahyan.

UNITED ARAB BANK WILL BE THE TRUSTED PARTNER AND THE UAE BANK OF CHOICE FOR OUR CUSTOMERS, SHAREHOLDERS, AND EMPLOYEES, LEADING THE WAY TO GREATER FINANCIAL PROSPERITY WHILE REMAINING COMMITTED TO THE HIGHEST INTEGRITY STANDARDS.

MESSAGE FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

It gives me great pride to present this 2012 Annual Report, which provides an overview of our activities and achievements over the past year.

2012 has proven to be another remarkable year for the Bank. Once again this year, the United Arab Bank P.J.S.C. (UAB) has been recognized for its growth by being ranked as the fastest growing bank in the UAE. We have proudly achieved record earnings on sound foundations and continued to develop our business by introducing new business and product ranges to our customers.

The commitment of our Board of Directors and the determination and integrity of our Management and our people were key in meeting our objectives and generating attractive growth.

To remain successful, the Board continues to focus on achieving value for all our shareholders and to deliver a strategic vision and effective leadership for the Bank.

I would like to take this opportunity to thank my colleagues on the Board for their continued confidence and support as well as the Bank's management and employees for their collective efforts which have enabled us to achieve important growth. My special thanks also goes to our customers for their trust and loyalty. I would finally like to extend my thanks to our valued shareholders for their continued confidence and support and look forward to providing further positive results in the future.

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

The Bank has performed outstandingly throughout 2012 which has culminated in another excellent financial performance. Year after year, growth in net profit is 24%, which is an excellent result and one which the Bank can be extremely proud of. UAB has grown in both size and stature and will continue to do so as we implement our strategic growth initiatives and strengthen the foundations for further success, enabling UAB to sustain its momentum into 2013. The success of 2012 is reflected in the Annual Report and provides useful insight into our achievements and activities during 2012.

In my name and on behalf of the Management, I would like to acknowledge and express our gratitude to the unwavering support of the Chairman, Deputy Chairman and members of the Board of Directors. Your leadership and guidance has been the foundation of the Bank's success and growth.

We also acknowledge the benefits derived from the strategic alliance with The Commercial Bank of Qatar ("CBQ"). CBQ acquired 40% of UAB in 2007 after concluding a similar alliance with National Bank of Oman two years previously. The alliance of the three banks provides synergies across a range of business and support areas which facilitates commercial growth.

The Bank would also like to recognize and thank the Governor and staff of the Central Bank of the UAE and the Government of the UAE for their continued support. Your guidance and direction has helped the local financial sector to grow and meet the ongoing challenges presented by the wider environment.

The Bank's success and growth is also due to our valued customers and we wish to thank them for their ongoing patronage and support. In addition, our shareholders, correspondents and other stakeholders have also played a pivotal role in UAB's success and for this we wish to thank them.

The Bank also acknowledges the dedication, loyalty and professionalism of its employees who continue to enable UAB to progress and grow from year to year, regardless of the challenges that they face.

Paul Trowbridge
Chief Executive Officer

CORPORATE GOVERNANCE FRAMEWORK

The Bank has a strong commitment to building a robust Corporate Governance framework, and to increasing the transparency and disclosures on the quality of the Bank's assets, and the manner in which the business is managed. The organization and structure of the Board of Directors, the committees through which it works and the Executive Management, with clearly differentiated roles and responsibilities, is aligned to best practices for protection of the interests of depositors, shareholders, creditors, employees and other stakeholders.

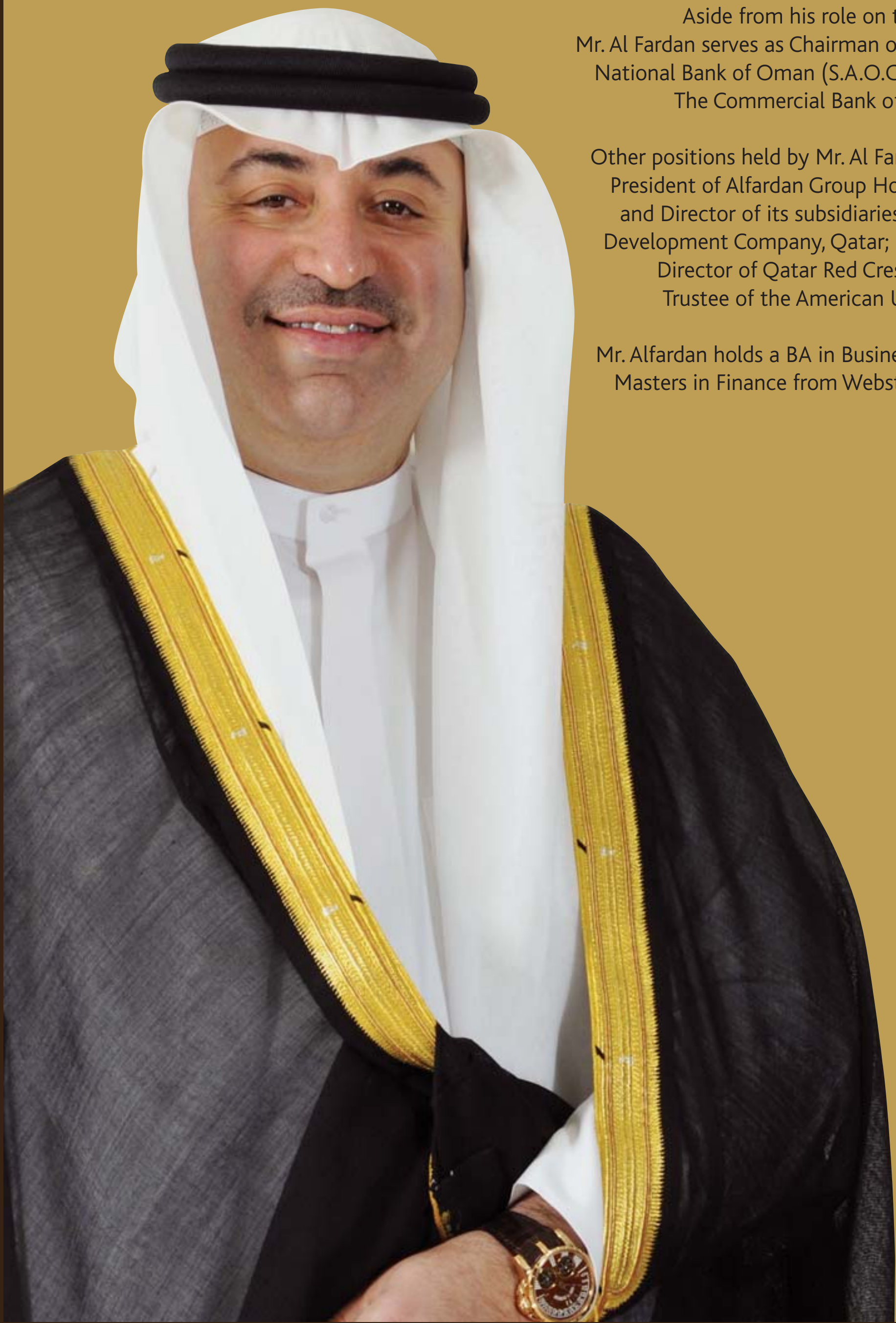
The Board currently has three committees through which it operates, each of which has met at least six times during the year.

The governance structure and policies at UAB are constantly being reviewed and enhanced to enable the Board of Directors to maintain effective and regular oversight over the risks inherent in the Bank's business. The Board approves strategic objectives, appropriate risk strategies, policies and ensures that business plans, budgets, and risk appetite are properly aligned with the size, volume and range of business activities. The Board also has the responsibility to set corporate governance values, codes of conduct, and standards of compliance with banking laws and regulatory guidelines. This is administered through the Board Audit and Risk Committee.

Board level committees meet with the Bank's management at regular intervals, to monitor and evaluate the Bank's financial performance and risk exposures, as well as new business and products. The Board has oversight responsibility for ensuring the quality and integrity of accounting, auditing, internal control and external financial reporting, as well as ethical practices, and transparency in business processes. The Board also plays an important role in the selection, compensation structures and performance evaluation of key senior management executives.

BOARD OF DIRECTORS

Our Board members bring a breadth of professional background, skills, knowledge and experience in the banking and commercial areas. They are accountable to the Shareholders for the management of the Bank and the protection of its assets.



Mr. Omar Hussain Al Fardan
Vice Chairman

Elected to the Board of Directors of United Arab Bank at the 2007 Annual General Assembly and re-elected in 2012, Mr. Al Fardan is serving as Vice Chairman of the Board of Directors and is also the Chairman of the Board Executive Committee of the Bank. He represents The Commercial Bank of Qatar, the largest corporate shareholder of United Arab Bank.

Aside from his role on the UAB Board, Mr. Al Fardan serves as Chairman of the Board of Directors of National Bank of Oman (S.A.O.G.) and Board Member of The Commercial Bank of Qatar (Q.S.C.).

Other positions held by Mr. Al Fardan include the posts of President of Alfardan Group Holding Co. S.O.C., Qatar and Director of its subsidiaries; President of Resorts Development Company, Qatar; Director of Marsarabia, Director of Qatar Red Crescent Society and Trustee of the American University, Beirut.

Mr. Alfardan holds a BA in Business Administration and a Masters in Finance from Webster University, Geneva.

Sheikh Abdullah Bin Ali Bin Jabor Al Thani
Director

A Qatari citizen, Sheikh Abdulla has served on the Board of Directors of United Arab Bank since February 2008 as a representative of The Commercial Bank of Qatar, the largest corporate shareholder of UAB. He subsequently was appointed as the Chairman of the Board Audit and Risk Committee of the Bank.

In addition to his directorship at UAB, Sheikh Abdulla serves as Deputy Chairman of The Commercial Bank of Qatar (Q.S.C.) and Board Member of National Bank of Oman (S.A.O.G.).

He holds a BA in Social Science from Qatar University.

Sheikh Mohammed Bin Faisal Al Qassimi
Director

Appointed as member to the Board of Directors of United Arab Bank in April 2011, Sheikh Mohammed Al Qassimi is also member of the Board Executive Committee and the Board Credit Committee and is a shareholder of the Bank.

Sheikh Mohamad Al Qassimi is the founder of MANAFA LLC, a holding company with diversified activities in the fields of hospitality, real estate, tourism, car rental and private equity.

Graduated from Webster University, Geneva in Business Administration and Accounting, he holds key directorship and senior positions at various business groups and associations including the Italian Chamber of Commerce in the UAE and the GCC, Faisal Holding Co LLC.

An active member of the Young Arab Leaders (YAL), he has represented the UAE on many occasions as member of its Economic Delegation. Sheikh Mohammed is a member of CMA and Society of Technical Analysts of UK.

Mr. Andrew C Stevens
Director

Mr. Stevens is one of the five directors representing The Commercial Bank of Qatar on the UAB Board. He was first elected in 2007 and was re-elected to the Board of Directors of United Arab Bank at the 2012 Annual General Assembly. Mr. Stevens is also a Member of the Board Executive Committee and Board Credit Committee of UAB.

He currently occupies the position of Group Chief Executive Officer of The Commercial Bank of Qatar (Q.S.C.) and is a Director of National Bank of Oman (S.A.O.G.). Other key senior positions assumed by Mr. Stevens include President/Chairman of Orient 1 Limited; Vice Chairman of CBQ Finance Ltd and Director of Qatar Insurance Company International LLC. He also serves on Visa's International Senior Client Council.

Mr. Stevens graduated from Birmingham University, England with a B.Com (Hons) in Banking and Finance. He was previously with Standard Chartered Bank.

England with a B.Com (Hons) in Banking and Finance.

Ahmad Mohamed Al Midfa
Director

Mr. Al Midfa has served on the Board of Directors of United Arab Bank since 1992. He is also a Member of the Board Credit Committee.

A prominent UAE businessman with private investment in the real estate industry, securities and advertising sectors. Mr. Al Midfa serves as Chairman of Sharjah Chamber of Commerce and Industry, Expo Centre Sharjah and is a Board Member of the UAE Federation of Chambers of Commerce and Industry.

He previously held several senior positions such as the Director of the Bureau of HH the Ruler of Sharjah, Director General of Sharjah Ports and Customs Department, and Second Deputy Chairman of the Federal National Council.

He is currently Chairman of the newly formed International Association of Exposition Management (IAEM) and Arabian Gulf Chapter.
He represents UAE Federation of Chambers of Commerce as a Member in the Joint Chambers of:
1) Arab – German Chamber of Commerce
2) Italian – Arab Chamber of Commerce
3) US – Arab Chamber of Commerce
4) Arab – Portuguese Chamber of Commerce
He is also a member of the Board of Trustees of Sharjah University.

Mr. Mohamed Abdulbaki Mohamed
Director

Mr. Abdulbaki was re-elected to the Board of Directors of United Arab Bank at the 2012 Annual General Assembly. In February 2012, he was appointed as Member of the Board Audit and Risk Committee and the Board Credit Committee. In addition to his directorship at UAB Board, Mr. Abdulbaki is also an individual shareholder of the Bank.

He has extensive experience in the banking sector. He serves as the General Manager of the Emirates Industrial Bank and Acting Chief Executive Officer of the Real Estate Bank.
He holds key positions in local and international companies such as the Chairman and Chief Executive Officer of Petrolcom Oil and Gas Services, Chairman of Cristal Hotels and Resorts Management, Alternate Governor of OPEC Fund For International Development, Vienna, Board Director of Arab Fund For Economic and Social Development, Kuwait and Board Director of Interplast and Cosmoplast.

He previously served as Board Member for a number of companies including Emirates National Plastics Industry, Abu Dhabi National Hotels Co., National District Cooling 'TABREED', Foodco Holding, ISO Octane Co., American Community School "ACS", and Le Chaine Des Rotissuer.

Mr. Ahmed Mohamad Bakheet Khalfan
Director

A UAE National and Businessman, Mr. Khalfan was re-elected to the Board of Directors of United Arab Bank in 2012. He is member of the Board Audit and Risk Committee and the Board Credit Committee.

He previously served as the Deputy General Manager of Emirates Industrial Bank and was Chairman of the Board of Directors of Emirates Modern Poultry Company.
He also served as Board Member for various companies in the United Arab Emirates including Emirates Rawabi, ALICO, Al Khaleej Glass, and Takaful Re.

Nicholas Coleman
Director

Mr. Coleman was appointed as Member to the Board of Directors of United Arab Bank in February 2011 representing The Commercial Bank of Qatar, the largest corporate shareholder of United Arab Bank. He also serves as Member of the Bank's Board Credit Committee and Board Audit and Risk Committee.

Beyond his directorship role with UAB, Mr. Coleman is the Executive General Manager and Group Chief Financial Officer of the Commercial Bank of Qatar (CBQ).

He is also a Director of Orient 1 Limited, Gekko LLC, Commercial Bank Investment Services and CBQ Finance Limited which are all affiliated companies of The Commercial Bank of Qatar.

Prior to moving to Qatar in 2008, Mr. Coleman held various roles with Morgan Stanley, The Bank of New York and National Westminster Bank in London, and Arthur Young in Kuwait.

Mr. Coleman graduated from London Guildhall University with a BA (Hons) in Economics, and is a Fellow of the Institute of Chartered Accountants in England and Wales.

Ms. Najla Al Midfa
Director

An Emirati National, Ms. Al Midfa was elected to the Board of Directors of United Arab Bank at the 2012 Annual General Meeting and was thereafter appointed as Member of the Board Executive Committee. She is one of the major shareholders of the Bank.

Ms. Al Midfa is an Aspen Institute Fellow and is the first woman ever to serve as member on the Board of a bank in the United Arab Emirates.
She is also a Founding Member of the Women Corporate Directors (GCC chapter), and a member of the Board of Sharjah Businesswomen Council.

Holder of an MBA from Stanford University, she currently occupies the role of Senior Manager of Entrepreneurship Development at the Khalifa Fund for Enterprise Development in Abu Dhabi. Prior to joining Khalifa Fund, Najla was a Senior Associate at McKinsey and Company's New York office, where she worked on a range of strategy-related projects, primarily serving clients across the financial institutions sector.

Mr. Robert Sharpe
Director

A British citizen, Mr. Sharpe was elected to the Board of Directors of United Arab Bank at the 2012 Annual General Meeting representing The Commercial Bank of Qatar, the largest corporate shareholder of United Arab Bank and was subsequently appointed as Member of the Board Credit Committee and the Board Audit and Risk Committee of the Bank.

Mr. Sharpe serves as Board member of the National Bank of Oman (S.A.O.G.) and is the Vice Chairman of Orient 1 Limited. He has over 30 years experience in Banking, together with considerable experience as an Independent Board Director, having served on the boards of several listed and private companies in the UK and Europe.

Before moving to Oman, he was the Chairman of a Joint Venture between Barclays and HSBC and was an independent Director on the Board of the Barclays Bank Pension Fund.

Mr. Ahmed Salem Abdulla Salem Al Hosani
Director

Mr. Al Hosani was elected to the Board of Directors of United Arab Bank at the 2012 Annual General Meeting. He also serves as Member of the Bank's Board Audit and Risk Committee.

He is currently a Real Estate Development Manager at Al Sahel Real Estate Company, a position that he has been holding since 2008.

Beyond his current position, Mr. Al Hosani is a Member of the Board of Directors of Ras Al Khaimah National Insurance Company and the Board of Directors of the Gulf Pharmaceutical Industries Company (Julphar).

He served as a Board member of the Gulf General Investment Company from 2009 to 2011.

A UAE National, Mr. Al Hosani holds a Master of Science in Business Management from the University of Wales.

BOARD COMMITTEES

The UAB Board of Directors has delegated certain matters and responsibilities to three Board Committees, which assist the Board in carrying out its functions and duties and ensure proper oversight of risk management and internal control:

BOARD COMMITTEES

- The Board Executive Committee
- The Board Credit Committee
- The Board Audit and Risk Committee

EXECUTIVE TEAM

Paul Trowbridge
Chief Executive Officer

Awni Al Alami
Deputy Chief Executive Officer

EXECUTIVE TEAM

Shahid Baloch
Executive Vice President
Group Head - Commercial Banking

Bede Joseph Pohlen
Executive Vice President
Chief Risk Officer

Brian West
Executive Vice President
Chief Finance Officer

Sheikh Mohamed Al Nuaimi
Executive Vice President

Thomas Smith
Executive Vice President
Group Head - Retail Banking

Abdelhamid Ghazouani
Executive Vice President
Group Head - Operations, Organization & IT

Anthony Macrae
Executive Vice President
Group Head - Business Support

AWARDS

In its continuous quest for excellence, UAB won various awards that reflected the Bank's commitment to creating a premium banking experience to all its customers and investors. From Retail Banking to Wealth Management, to Islamic Banking, SME Banking and Corporate Banking, UAB's philosophy of striving for excellence creates a competitive environment where awards are simply milestones on the road to creating a bank that always puts its customers first.

His Highness Sheikh Sultan Bin Mohamed Bin Sultan Al Qasimi, Crown Prince and Deputy Ruler of Sharjah honouring Paul Trowbridge, CEO at the Sharjah Industrial Conference for UAB's contribution to industry & Commerce in Sharjah.

Paul Trowbridge, CEO and Mr. Abdel Hamid Ghazouani, EVP receiving Customer Excellence Award from Misys Systems for the fastest and most secure implementation of Core Banking System.

Shahid Baloch, EVP & Group Head of Corporate Banking receiving the first 'Editor's Choice Award for contributing to Trade Finance' from Trade & Export Middle East magazine.

His Highness Dr Sheikh Sultan Bin Mohammad Al Qassimi, Member of the UAE Supreme Council and Ruler of Sharjah awarding Sheikh Mohamed Al Nuaimi, EVP for contribution to the Banking & Finance Sector in the UAE.

His Highness Sheikh Sultan Bin Mohamed Bin Sultan Al Qasimi. Crown Prince and Deputy Ruler of Sharjah honouring Sheikh Mohamed Al Nuaimi, EVP for UAB's contribution to Emiratisation and support of Human Capital at the First Sharjah Conference on Human Capital.

Paul Trowbridge, CEO with 'Forbes Top 500 Companies' Trophy. UAB is ranked 22nd in the UAE companies, 12th in the local banks in the UAE with 117th rank in the top companies in the MENA region.

Paul Trowbridge, CEO receiving Outstanding Achievement Award from Pan Arab Web Awards Academy

MANAGEMENT REVIEW

1. Overview

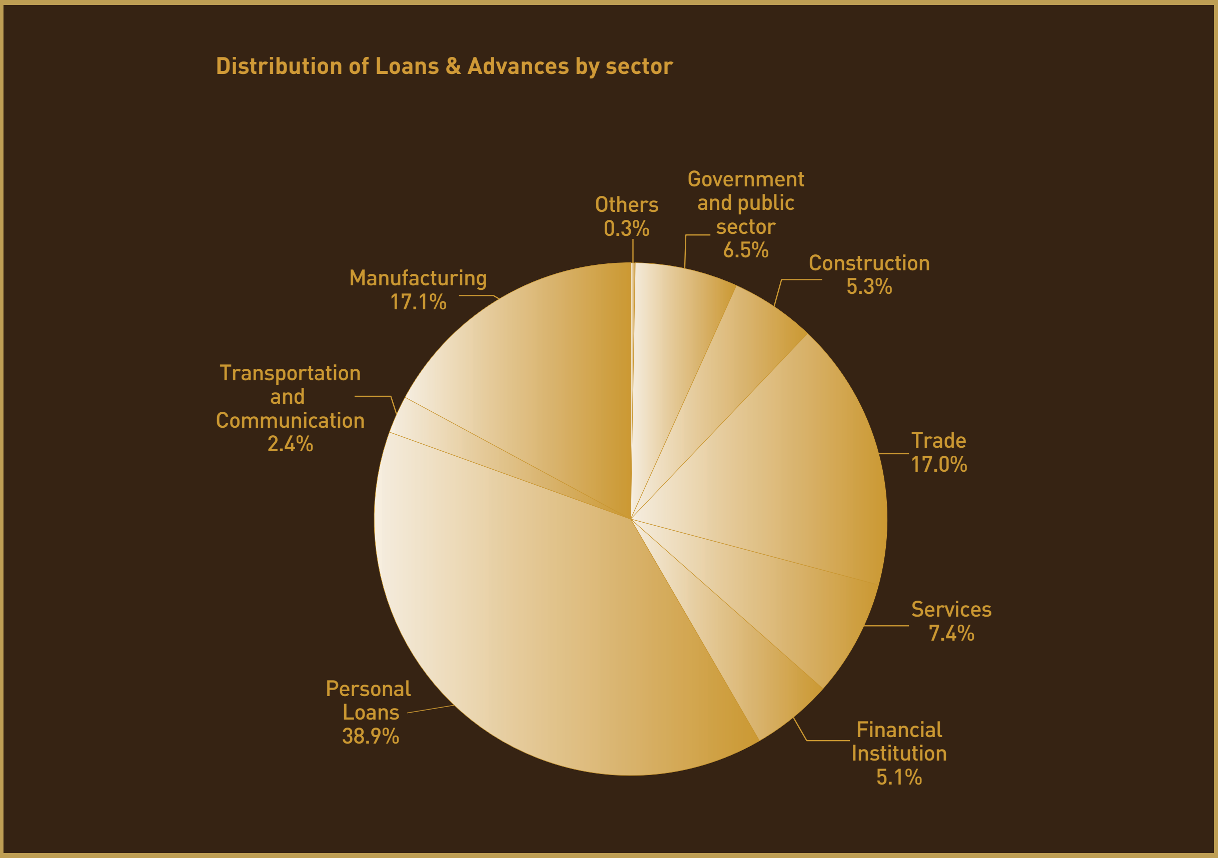
2012 has been an outstanding year for United Arab Bank (UAB) which culminated in UAB announcing another excellent financial result. UAB grew in both size and stature within the banking community achieving a net profit of AED 410 million for 2012, an increase of 24% over 2011. Operating profit reached AED 531 million in 2012, representing annual growth of 33%. The Bank achieved significant growth in business volumes with total customer loans and advances increasing by 35% to AED 10.9 billion at 31 December 2012 from AED 8.1 billion at the end of December 2011 and customer deposits growing by 29% to AED 10.1 billion over the same period.

The Bank continues to enjoy one of the highest margins in the country, along with one of the lowest levels of non-performing loans at 1.6% of total loans. The Bank maintains a prudent and proactive approach to general provisioning, in line with regulatory guidance, with a loan loss reserve coverage ratio exceeding 100% of non-performing loans. Key financial ratios are above minimum requirements with a 19% Capital Adequacy Ratio against a regulatory minimum of 12%, and a stable funds ratio which is significantly below the maximum limit of 100%.

The Bank successfully implemented its branch expansion program and a number of branches were launched in 2012 to meet the growing demand for the Bank's products and services. The Bank's presence, particularly in Abu Dhabi and the Northern Emirates has expanded and provides an excellent platform for further growth. Significant improvements were made to our support functions with a new core banking system being successfully implemented in the first half of the year and the Bank winning recognition for the implementation project. Back office functions were also outsourced to a globally recognized third party service provider ensuring processes are performed under high standards of control and efficiency.

During the year, the Bank has focused on maintaining the quality of its assets, building a diversified portfolio of customers and providing innovative, rewarding and customer centric products through its expanded branch network. As a result, both Corporate and Retail customers have benefitted, which is reflected in the excellent growth of both business segments and the launch of a new SME segment.

The success of 2012 clearly demonstrated that UAB has the right set of products, infrastructure, strategy and ambition to become a widely recognized and active banking partner across the UAE market. Through our close partnership with key customers and the continued support from our strategic partner, Commercial Bank of Qatar, we believe that the success of 2012 will continue into the future.



2. Corporate Banking Group

Following on from the strong corporate loan growth in excess of 30% in 2011, UAB's Corporate Banking segment was strategically positioned to capture improved corporate credit demand and increased Government spending, particularly on infrastructure. As a result the Corporate loan book continued its momentum into 2012 and outperformed the UAE Banking sector with further growth of 30% in 2012.

Over the previous two years, focus has mainly been on rebalancing the loans portfolio to achieve further diversification. This focus continued in 2012 with the key drivers for loan growth being the Government and public sector, services sector and the financial institutions sector, contributing over AED 1.1 million of total loan growth. The Bank continued supporting its traditional customer base in the manufacturing and trade sectors through additional lending which contributed AED 0.3 million of total growth and benefited from higher trade finance volumes.

Overall the corporate loans portfolio remains geographically well diversified throughout the UAE with special focus on Abu Dhabi. With growth beginning to emerge from key economic sectors, and companies expected to capitalize on this growth, the Bank established a dedicated large corporate unit within the Corporate Banking segment. This unit will provide a platform to better service its customers, develop strong relationships and leverage off the potential growth opportunities.

The improved economic outlook lead to several successful syndicated debt transactions to which UAB was an active participant throughout 2012 and included government related entities.

The technological enhancements made in 2012 will enable the Corporate Banking segment to capture a larger share of the Bank's customer transactional banking requirements and a strong business pipeline provides positive momentum for the Corporate Banking segment as it enters 2013.

Shahid Baloch EVP & Group Head of Corporate Banking, Mohamed Latif, Head of Corporate Banking, Dubai and Humaid Al Attar, Head of Corporate Banking Northern Emirates with Editor's Choice Award for Contributing to Trade Finance

Corporate Banking team at Abu Dhabi launch

3. Retail Banking Group

UAB's retail franchise has grown by AED 1 billion on both deposits and loans in 2012. This exceptional growth has been achieved through a combination of strong leadership, best-in-class product innovations and an uncompromising and prudent approach in terms of credit and superior value to a clearly defined segment of customers comprising of UAE Nationals and 'Committed Expatriates' who have strong emotional, financial and reputational ties to the UAE. In order to cater for the expanding needs of our retail customers, UAB launched a wide range of innovative products. Some examples are:

1. 'Al Ahlam' program which offers preferential rates on loans & deposits to UAE Nationals
2. Ultra Savings Account which offers the highest savings rate in the UAE at 2.5% rate
3. Salary Protector Account which offers free cover in the event of job loss
4. Flexi Deposit which offers a rate of up to 5.25%
5. Personal loans of up to AED 1 million for Expatriates and AED 2.5 million for Nationals
6. Auto loan bundle with an integrated best-in-class insurance cover from Zurich

In addition, UAB has been regarded as a game changer in the Mortgage market and has played a key role in the revival of the real estate market in the UAE. UAB has enjoyed consistent growth since the launch of our mortgage product in 2010 and has emerged as one of the leading home finance providers in the country.

In order to reward our customers, UAB recently launched a one of a kind Rewards program, 'UAB Rewards'. The program has been well received by our customers and has received praise for its innovative features and unique benefits.

New Retail arrivals 2012 - Front sitting - Tom Smith, Head of Retail Banking with Faisal Al Najjar and Yusra Baqi. Standing L to R - Khaled Qassem, Ahmed Yousef, Simon Taylor, Salem Al Saadi and Khalifa Bin Kalban

Emirati Retail staff with CEO and Head of Retail at new Abu Dhabi Regional office opening

3. Retail Banking Group (continued)

The UAB Retail Banking management team will continue to innovate and launch new products and promotions in 2013 through a well defined strategy. UAB Retail Banking will continue to identify customer needs and product gaps within the market and provide market leading products which offer value add to our customers and are superior to other banks.

2012 saw UAB Retail Banking expand its branch network to 18 branches, with major investment and expansion in Abu Dhabi. 2013 will witness the continuation of this exciting growth with another 10 branches planned, primarily in Dubai. In addition, we shall enhance our off-site network by another 20 new ATMs. To support our distribution network further, we will be enhancing our Online Banking offering through a new Mobile Banking service and an enlarged Mobile Sales Force, improving our capacity to bring innovative products and services closer to our targeted customer segments.

Mirdif City Center Kiosk during DSF

UAB Rewards Loyalty Program launch at Burj Al Arab

4. Small and Medium Enterprises (SME)

In line with the UAE's economic vision, the Bank launched a new SME segment in June 2012 as part of the Bank's commitment to offer our valued clients the highest standard of service and quality products through an expanded branch network.

In the initial 6 months, the Bank attracted 500 new to bank customers with deposits of over AED 250 million and funded assets exceeding AED 125 million. This is a significant achievement, making a valuable contribution to the Bank's profitability in 2012 and into the future. Strategic sourcing from the desired segments & prudent underwriting has ensured a positive and steady build up of the portfolio in 2012.

An experienced leadership team, strong operational team and exceptional service levels has delivered a good start for the SME segment which has been complimented by offering a competitive product and providing excellent value to our customers. We provide our customers with an exclusive product and service proposition designed to take care of all regular and long term banking needs of their businesses. This sets the foundation for the SME segment to play an integral role in the entrepreneurial success of our SME customers through a comprehensive range of business solutions.

The success of the SME segment in 2012 will continue into 2013 and become a key contributor to the Bank's balance sheet and profitability. While 2012 marked our arrival in the SME business with a bang; 2013 will establish the Bank as key player in the region.

100th customer of the newly launched SME Banking being honoured by Brian West, Chief Finance Officer and Sreeram, Head of SME Banking

SME Team with Brian West, Chief Finance Officer and Sreeram, Head of SME Banking

5. Treasury and Capital Markets

With total Bank assets growing by 40% in 2011, the Bank continued to show excellent growth in 2012 with total assets growing by 39%. Meeting funding needs against this level of growth was a challenge for the Treasury and Capital Market team. However, the level of funding required by the business groups was achieved while maintaining a focus on profitability despite global funding stress and a financial & debt crisis in European markets, with local markets remaining somewhat more liquid. Whilst funding needs were adequately met, Treasury ensured that external regulatory ratios and internal ratios and policies were adhered to in order to manage funding gaps and diversification parameters. Judicious use of the interbank money market lines, along with a growing deposit portfolio, was complemented by the arrangement of long term bank funding which secured funding well into the future and mitigated potential tenor mismatches.

5. Treasury and Capital Markets (continued)

Regulatory and liquidity ratios were well managed with the Loan to Stable Funds ratio at 86% at year end, well below the regulatory limit of 100%, and the Liquid Assets Ratio at 31%. Although the new regulatory Liquid Asset Ratio (LAR) is currently under review, UAB fully complied with the new proposed regulation at the end of 2012 and initiated the necessary measures to meet other regulatory liquidity ratios in 2013.

UAB's net interest margin continues to exceed the average for the UAE banking sector and is significantly above international norms. This has been achieved while ensuring that UAB's funding base continues to be well diversified across institutional, Islamic and conventional customer deposits. Further initiatives were taken to extend the average tenor of the Banks funding, without compromising on the average cost of funds.

Treasury also played an integral part in new product development and initiated and supported the implementation of new liability products in 2012, such as the Ultra Saving CASA deposit, Flexi fixed deposit, and Premium Call account in AED and USD. Treasury continues to provide FX trading/hedging opportunities to corporate clients and high net worth individuals as well as offering a range of structured deposits, FX & interest rate derivatives and investment products to meet customers' needs and risk appetites. Plans are also underway to establish a number of new trading desks in 2013 to further address increasing requirements from our customer base.

During 2012, the Bank initiated a specialized Fixed Income Desk under a new Board approved investment policy to manage the Bank's proprietary investment portfolio along with meeting client's investment appetite to trade in bonds and Sukuks. By virtue of this initiative the Bank's 'available for sale' portfolio more than doubled in 2012 to AED 1.3 billion, representing 9% of total assets. The performance of the investment portfolio exceeded management's expectations through careful execution of our plans. The Bank adopts a conservative approach to its investment strategy and the vast majority of the exposure comprises liquid papers of government, semi-government, corporate bonds and Sukuks issued within the GCC.

6. Risk Management

Risk management continues to be a key focus of the Bank and prudent risk management has ensured that all significant risk exposures have been affectively mitigated and managed. The Bank continuously strengthens risk management policies and processes, investing in technology where appropriate to upgrade its overall risk management framework.

The Risk Management Group is headed by the Chief Risk Officer who reports to the Chief Executive Officer and submits periodic reports to the Board Audit and Risk Committee. The Risk Management Group is comprised of the following specialist departments: Corporate Credit Risk; Corporate Special Assets; SME Credit Risk; Retail Credit Risk; Retail Collections and Recoveries; Market Risk; Operational Risk; Fraud Risk; Compliance and Legal.

The Board has the overall responsibility for oversight of the Bank's risk management framework and has approved a Risk Charter setting out the structure and responsibilities for the Group and the overall management of risk. The Board has established the Board Credit Committee (BCC) and Board Audit & Risk Committee (BARC) to ensure effective control over the risk policies adopted across the Bank. The Board has also approved the formation of a number of management committees including an Asset and Liability Committee (ALCO), General Management Risk Committee (GMRC), General Management Credit Committee (GMCC), and Management Investment Committee (MIC). These committees meet regularly to ensure that the Bank is adhering to the highest risk standards and are responsible for developing and monitoring the Bank's risk management policies in each of their specified areas, as set out in the Risk Charter.

The Board has articulated the Bank's risk tolerance through a Risk Appetite Statement. The Bank's Risk Management Group has further enhanced processes, policies and procedures designed to provide effective oversight, identification, measurement, accountability, mitigation and reporting of actual risks taken and monitors them against the tolerance levels set by the Board.

The Risk Management Group dynamically manages risks taken to ensure that there is a balanced risk reward approach to relationships and business opportunities. The Group uses the information gained from its understanding of the business, the regulatory environment and the strategic plan for the Bank to advise the Board of the appropriate levels of risk for inclusion in the Risk Appetite Statement. This ensures that the Bank is able to grow in a risk-controlled manner.

Given the nature of the Bank's business, the main risk groups that the Bank faces are Credit Risk, Market Risk, Operational Risk and Liquidity Risk. There is minimal Interest Rate Risk or Foreign Exchange Risk that the Bank needs to manage due to the nature of its operations.

The Bank continues to be well-positioned to manage the increased level and diversity of business risks in the local and regional markets.

Note 23 to the Financial Statements provides detailed information on the composition and quality of the Bank's risk asset portfolio, as well as on various key credit processes and the roles of the various risk-related committee

6.1 Operational Risk

The Bank defines Operational Risk as the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. The Bank has detailed policies and procedures that are regularly updated to ensure that a sound internal control environment exists throughout the Bank.

Operational "events" (be they profit-making or loss-making) are reported to the Operational Risk Management function in order that management are better able to understand the risks inherent in the business and to enable them to implement additional controls in place where necessary to prevent the "events" recurrence.

The Bank has processes in place for annual Risk Self Assessments to be performed for each unit of the Bank during which key operational risks are identified. This information is used by management to ensure that only acceptable risks remain and that adequate controls are maintained to prevent unacceptable risks.

Operational risks are considered as part of the development of new products through the Operational Risk Assessment Process (ORAP). This process enables all relevant risks to be identified and tracks their resolution during the course of the product development, thereby ensuring that only acceptable risks remain at the time of product launch.

The Bank continues to invest in risk management and mitigation strategies such as a robust control infrastructure, business continuity management or through risk transfer mechanisms such as insurance.

The Bank has a well-defined operational risk framework and an independent Operational Risk Management function reporting directly to the Chief Risk Officer.

Oversight of Operational Risk is provided by the Board Audit and Risk Committee.

6.2 Compliance

The Bank's Compliance Function is responsible for managing regulatory risk and anti-money laundering. The Bank is regulated by the Central Bank of the UAE and has a number of regulatory obligations to meet. These obligations are taken seriously by the Bank and part of the role of the Compliance Function is to keep management informed of what these obligations are and the steps that the Bank is taking to ensure that these obligations are met.

One of these is the requirement to establish processes and procedures designed to minimize the risk of the Bank's systems and accounts being used for laundering the proceeds of crime or being used to finance terrorist activities. The Bank's processes and procedures include the requirement to identify suspicious transactions and report them, where appropriate, to the Central Bank's Anti-Money Laundering and Suspicious Cases Unit.

The Bank maintains a regular dialogue with the Central Bank in order to ensure that it has a clear understanding of the Banks activities and strategic direction. This understanding helps to ensure that the Bank operates within both the letter and the spirit of its regulatory requirements and reduces the risk of inadvertently breaching its regulatory requirements. In addition, the Central Bank conducts periodic inspections of the Bank to ensure that the Bank operates in accordance with the Central Bank's rules and expectations.

During 2012, the Bank has taken on additional resources in the Compliance Function to help ensure that it continues to meet its regulatory obligations as growth continues. The Compliance Function reports to the Chief Risk Officer with oversight provided by the Board Audit and Risk Committee.

7. Operations & Information Technology

UAB Operations Organization and IT Group is growing in order to support the rapid growth seen in the Bank's business activity. This is in line with the strategic decisions regarding the operational and technology business models which have been implemented progressively throughout 2010, 2011 and 2012, with key objectives being to provide a best in class service to our customers in a cost-effective manner.

UAB Operations Organization and IT Group took the lead in major developments in 2012, which have enhanced the business support capabilities of the function. The outsourcing of the Bank's operations to Tata Consultancy Services (TCS) was initiated in Q4 of 2011, with the stabilization phase and full implementation and utilization taking place in 2012. The outsourcing program has improved Turn Around Times and has also streamlined business processes and laid the foundations towards an error free operational environment.

In 2012, a new core banking system was implemented from Misys. UAB achieved the fastest implementation in the region and received an award in this respect from Misys, which is amongst the most impressive achievements in the banking industry this year. UAB now has a robust and scalable system that supports the growing business needs and volumes as well as the integration of various channels and applications.

The new core banking system was launched simultaneously with a new E-banking solution which has changed the look and feel of our transactional website and the range of services being offered to our customers online.

Onshore and offshore operations as well as IT were also actively involved in the launch of new products and services by offering business support for leading campaigns such as the loyalty program, the launch of Ultra Saving and Salary Protector accounts and the launch of Balance Transfers. This was done whilst also delivering excellent back-end support to the rapidly growing Retail and SME segments.

Paul Trowbridge CEO with Mr. Abdel Hamid Ghazouani, EVP and Group Head of IT, Ops. & Org. and his team upon successful completion of Core Banking System in a record time.

Mr. Abdel Hamid Ghazouani, EVP and Group Head of IT, Ops. And Org. receiving the Misys Customer Excellence Award

Abdel Hamid Ghazouani, EVP and Group Head of IT, Ops. & Org. delivering a lecture at Banking Innovation Summit.

8. Human Resources

UAB is constantly seeking to identify opportunities to develop its human capital, while at the same time growing its business exponentially. This commitment is supported by concerted actions towards the continuous development of UAE Nationals.

Recruitment and development of UAE Nationals is recognized as a corporate responsibility, one which is essential to a competitive advantage in the markets which UAB operates in. With this view, UAB's Emiratization Program, Al Tamayouz, continues to build from strength to strength with the percentage of UAE National employees growing from 41% to 43% in 2012. The program empowers qualified UAE Nationals with career growth opportunities through an individualized development plan encompassing internship opportunities, student sponsorship and full-time career advancement.

UAB strives to attract, retain, and continuously develop the skills of UAE Nationals. At UAB, our Emiratization strategy goes beyond recruiting UAE Nationals. Through our commitment to ensuring sustainability of the UAE economy, UAB enhances the skills of UAE Nationals and develops tomorrow's leaders.

Viewed as an employer of choice, UAB is sought-after to participate in several events at the higher education establishments. Progressing with its drive for diverse, skilled and talented minds, UAB continues to support Career Fairs and Employment Expos at prominent Universities such as Abu Dhabi Men's and Women's College, University of Dubai and the Special Needs community. In 2012, UAB seized the opportunity to partner with the Directorate of Human Resources, Sharjah to be a platinum sponsor of its 1st International Conference on 'Human Capital and Sustainable Development' at the American University of Sharjah. At this Conference, UAB received an Award for its achievements in Emiratization.

An improvement in HR metrics, such as improved staff satisfaction and lower employee turnover, along with impressive overall business results, indicated a stable work force sustained by a sound performance management strategy, crucial to the Human Resource function. An organizational culture that recognizes the needs of current and potential target customers continues to be the primary driver of employee behavior, focused on delivery to external customers and reinforced by all levels of management and staff. Committed employees result in committed customers.

Through a comprehensive Learning and Development Program, UAB empowers its staff through diverse courses which ranged from topics such as "Breakthrough Customer Service", "Anti Fraud Awareness Training – Control Risks", "Business Etiquette" and "Future Trends in Islamic Banking Products". UAB continues to empower its staff by using in-house, external and on the job training, which is supported by mentoring and coaching from management and peers.

The robust performance posted by UAB over the past 3 years is supported by the Banks strong human capital with a clear focus on recruiting the best available local and international talent in order to meet growing business requirements and achieving sustainable success.

UAB received a tremendous response at the Sharjah career Fair

UAB's stall at First Sharjah Conference on Human Capital

9. Premises

2012 witnessed the ongoing execution of UAB's branch expansion plan, including the completion of two new branches in Abu Dhabi, with the Khalidiya premises becoming UAB's new regional office in the capital. Two new branches were launched in Sharjah's Matajer malls at Mirgab & Juraina, along with another off-site ATM at Sharjah's Chamber of Commerce & Industry. These activities all serve to strengthen the Bank's customer appeal through wider reaching and more attractive premises.

The opening of our sixth Abu Dhabi branch in the Zeina development of Al Raha Beach and our latest offsite ATM at Sharjah's EXPO centre are all close to launch. The Bank is also preparing to relocate the Jebel Ali branch to new purpose built premises and open a new head office building on Sharjah's Buhaira Corniche. Work has also begun to relocate the Sharjah Rolla branch and Manar Mall branch in Ras Al Khaimah to newer premises in an effort to better serve our customers.

2013 will continue the Bank's plans to develop the branch network, with at least ten new branches planned for launch in 2013. Two are planned for Abu Dhabi and Al Ain, with renewed focus on Dubai which will see eight new locations strategically positioned to provide maximum coverage and convenience. This methodical expansion, coupled with the increasing ATM footprint, demonstrates UAB's focus on its target market of UAE Nationals and committed expatriates.

UAB's Abu Dhabi Airport Road branch

UAB's Ajman Branch

Abu Dhabi branch being inaugurated by His Excellency Sheikh Suroor Bin Mohammad Al Nahyan, along with UAB Chairman Sheikh Faisal Bin Sultan Bin Salem Al Qassimi

Sheikh Faisal Bin Sultan Bin Salem Al Qassimi, Chairman visiting UAB's newly launched regional office at Khalidiya Abu Dhabi

The branch network will continue to develop, both geographically and qualitatively, serving to reinforce UAB's status as a respected institution which is responsive to the developing needs of our premium customers.

10. Community Services

As UAB continues to grow, the importance of giving back to the community becomes even more important. Over the years, the Bank has developed a long standing relationship with the Al Thiqah Club for the Handicapped and has been supporting and recruiting citizens with special needs for many years. UAB is also the exclusive sponsor of all the Program Training sessions, with the sole objective of inducting special-needs citizens into the local.

UAB is a regular contributor to Al Thiqah Club for the Handicapped.

Sheikh Mohamed al Nuaimi and Humaid Al Attar with Emiratisation honours

UAB's Majlis at Mirdiff City Centre

Cake cutting ceremony at the Abu Dhabi launch event

DIRECTORS' REPORT
Year ended 31 December 2012

On behalf of the Board of Directors of United Arab Bank, it gives me great pleasure to present the Annual Report for the year ended 31 December 2012.

2012 has been another difficult year for the global economy. The financial and economic crisis that began in 2008 continues to impact many countries. The Sovereign debt crisis overshadows many European economies, whilst European financial institutions are taking measures to protect capital, with a consequential impact on the availability of international funding. In the United States, the need to address the budget deficit and government debt has been compounded by political uncertainty. Unresolved decisions on US domestic taxes and public spending potentially threaten further recession across the globe. Other economies, such as India and China, are facing their own challenges after a period of exceptional growth.

These issues inevitably impact the regional and domestic economic environment. The UAE has long been a centre for international trade and commerce. The financial community plays an integral role in the availability of commercial credit. The banks, in turn, are potentially constrained by the availability of funding and capital, and their ability to effectively manage the quality of their assets.

UAB has, however, continued to capitalize on the solid foundations that were laid down in previous years. The Bank has traditionally enjoyed one of the highest interest margins in the country, along with one of the lowest level of non-performing loans. This has allowed the Bank to focus on implementing its strategy for increasing market share, with the guidance of its Alliance partner, Commercial Bank of Qatar. UAB has a clear vision of its preferred target customer segments, and is active in delivering market-leading products, backed by exceptional levels of customer service.

Implementation of strategic initiatives has allowed UAB to report excellent financial results for the twelve months ended 31 December 2012. The Net Profit of AED 410 million is another record result for UAB and represents an increase of 24% over the 2011 result of AED 330 million. The Operating Profit before loan loss provisions exceeded AED 531 million, representing a 33% increase over 2011. Growth in the number of customers has led to an increase in loans and advances of 35% to AED 10.9 billion as at 31 December 2012 with customers' deposits at AED 10.1 billion, testament to the trust placed in UAB by its retail, commercial and institutional customers.

Whilst growing the balance sheet, UAB has always been committed to ensuring the appropriate quality and mix of its assets, and 2012 has been no different. At 31 December 2012, only 1.6% of total loans are non-performing, maintaining the same level as in 2011, with the loan loss reserve coverage ratio exceeding 100% of non-performing loans. From a regulatory perspective, liquidity is effectively managed with the Advances to Stable Resources Ratio at 86%, significantly below the cap of 100%. The Capital Adequacy Ratio is robust at 19% and remains well above the minimum required by the UAE Central Bank of 12%.

UAB's strong performance in 2012 positions it to face the challenges of 2013 with confidence. The Board of Directors proposes the following appropriations of profit for the year ended 31 December 2012, subject to the approval of the Central Bank:

Opening balance in Retained Earnings at 1 January	**424,368**
Profit for the year	409,818
Transfer from Revaluation Reserve	613
Dividend paid relating to 2011	(199,280)
Balance available for appropriation	**635,519**
Proposed Appropriation of Profit	
Transfer to Special Reserve	(40,982)
Transfer to Statutory Reserve	(40,982)
Directors' Remuneration	(8,400)
Closing balance in Retained Earnings at 31 December	**545,155**

DIRECTORS' REPORT
Year ended 31 December 2012

After the proposed appropriation of profit, and subject to the General Assembly's approval, total Shareholders' Funds will increase to AED 2.248 billion at 31 December 2012 compared with AED 2.031 billion at the end of 2011. The Directors propose that a cash dividend of 25% of the Paid up Capital is paid in 2013, amounting to AED 249.1 million, subject to the approval of the UAE Central Bank and the General Assembly.

UAB's strategy, and the Alliance with Commercial Bank of Qatar, is clearly delivering benefits in respect of growth, profitability and shareholder return. We believe that the success of 2012 is due in part to the initiatives launched in previous years, such as the introduction of Islamic banking, the focus on affluent retail customers and the improvement to delivery channels and systems. UAB continues to push forward in respect of product innovation and other developments, thereby ensuring that the Bank's recent successes are sustained.

Throughout the year, our customers have been at the forefront of all we have done. We are committed to providing the best service and products for our customers. Our Corporate and Retail customers have seen the benefit of this commitment, and have served as brand ambassadors, enabling us to attract many new customers to UAB. The Bank has also launched a new SME offering for Small and Medium Enterprises, which has immediately provided value to its customers and the Bank. This focus on segmental growth, service quality and product development has positioned UAB as one of the fastest growing banks in the UAE.

UAB has led the market in providing innovative home mortgage products to home owners and committed investors. The Bank has also been active in providing solutions to those customers looking to increase their savings and manage their incomes more effectively. We believe strongly in rewarding our customers for their loyalty. As a result, an innovative customer rewards program was launched which promotes a deeper relationship between the Bank and its valuable customers.

UAB's branch expansion plans continue with the opening of branches across the UAE, particularly in Abu Dhabi, providing our customers with a more extensive physical network. In parallel, further investment has been made in our call centre and internet banking service, to ensure that our customers are able to contact the Bank at their convenience.

The cumulative effect of these initiatives is that the Bank's retail asset portfolio grew by over 46% in 2012, exceeding AED 3 billion, and the deposit portfolio grew by 61% to AED 3 billion. This growth was achieved despite a very competitive environment, and a regulatory landscape that continues to evolve.

UAB's traditional strength is its commercial and corporate business. Corporate loans grew to almost AED 8 billion in 2012, an increase of 30% over 2011. Asset quality remains a key focus and the charge for specific corporate loan losses was negligible in 2012.

Significant improvements were also made to many of our business support functions in 2012. A new core banking system went live early in 2012 with the Bank winning recognition for the implementation project. Many back office processes were outsourced to a globally recognized third party service provider, which has resulted in processing being performed under the highest standards of control and efficiency. There has also been significant evolution in our risk management practices, in line with the increase in the breadth and complexity of our businesses.

UAB remains committed to our people and continues to grow through recruitment of top Emirati and international talent. We note, with satisfaction, that 43% of our employees are UAE Nationals. The Bank provides many internal and external training initiatives, enabling our employees to develop skills and competencies that meet both personal and business needs.

2012 has been a challenging but exceptional year for the Bank. On behalf of the Board of Directors, my sincere appreciation goes to all members of management and staff for their professionalism and dedication. We also wish to recognize and thank the Commercial Bank of Qatar for their continued partnership and strategic guidance. We would also like to express a special thanks to the UAE Government for its continuous support of the financial and banking sectors in the UAE. And last but not least, we would like to address our thanks to the UAE Central Bank and to all our regulators for their continuous and valuable support. UAB looks forward to further success as we journey into 2013.

Faisal Bin Sultan Bin Salem Al Qassimi
Chairman
23 January 2013

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

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		**567,049**	431,378
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	**81,135**	41,391
TOTAL OPERATING INCOME		**765,028**	581,494
Provision for credit losses	7	**(121,605)**	(70,534)
NET OPERATING INCOME		**643,423**	510,960
Personnel expenses		**(144,646)**	(126,977)
Depreciation on property and equipment	8	**(12,418)**	(11,070)
Other operating expenses		**(76,541)**	(42,759)
TOTAL OPERATING EXPENSES		**(233,605)**	(180,806)
PROFIT FOR THE YEAR		**409,818**	330,154
BASIC AND DILUTED EARNINGS PER SHARE	9	**AED 0.40**	AED 0.33

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

United Arab Bank P.J.S.C.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2012

	Notes	**2012 AED'000**	2011 AED'000
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	**(6,465)**	-
Total comprehensive income for the year		**424,530**	346,090

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

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)

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

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		**360,365**	1,064,278
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		**1,821,990**	261,833
Net cash used in investing activities		**(775,875)**	(110,459)
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		**434,937**	(163,024)
INCREASE IN CASH AND CASH EQUIVALENTS		**19,427**	790,795
Cash and cash equivalents at 1 January		**1,243,623**	452,828
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**1,263,050**	1,243,623

Cash and cash equivalents comprise the following statement of financial position amounts with original maturities of three months or less:

		2012 AED'000	2011 AED'000
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)
		1,263,050	1,243,623

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

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

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:

Name	*Legal Status*	*Beneficial ownership*	*Country of incorporation*	*Principal activities*
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 date 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	**41,377**	20,501
	720,691	520,746

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	**20,927**	5,735
	153,642	89,368

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
	81,135	41,391

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	**10,881,493**	8,056,301

* 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	**11,059,680**	8,160,097

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	
	Interest in suspense AED'000	Impairment provisions AED'000	Interest in suspense AED'000	Impairment provisions AED'000
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	
	Gross exposure AED'000	Specific provision and interest in suspense AED'000	Gross exposure AED'000	Specific provision and interest in suspense AED'000
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

	Freehold land and buildings AED'000	*Motor vehicles, furniture, fixtures and equipment AED'000*	*Capital work-in-progress AED'000*	*Total AED'000*
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	**39,363**	**103,183**	**96,449**	**238,995**
Depreciation:				
At 1 January 2012	**6,031**	**49,421**	**-**	**55,452**
Charge for the year	**997**	**11,421**	**-**	**12,418**
At 31 December 2012	**7,028**	**60,842**	**-**	**67,870**
Net carrying value:				
At 31 December 2012	**32,335**	**42,341**	**96,449**	**171,125**

	Freehold land and buildings AED'000	*Motor vehicles, furniture, fixtures and equipment AED'000*	*Capital work-in-progress AED'000*	*Total AED'000*
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	39,844	79,691	42,072	161,607
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	6,031	49,421	-	55,452
Net carrying value:				
At 31 December 2011	33,813	30,270	42,072	106,155

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**	-
	1,132,160	548,594

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:						
Held for trading						
Local	-	-	-	-	-	-
Overseas	12,579	-	12,579	-	-	-
	12,579	-	12,579	-	-	-
Available for sale						
Local	1,145,458	-	1,145,458	578,182	-	578,182
Overseas	168,093	-	168,093	17,075	-	17,075
	1,313,551	-	1,313,551	595,257	-	595,257
Total debt securities	1,326,130	-	1,326,130	595,257	-	595,257
Equity:						
Available for sale						
Local	-	-	-	-	-	-
Overseas	10,274	76	10,350	330	76	406
Total equities	10,274	76	10,350	330	76	406
Total investments	1,336,404	76	1,336,480	595,587	76	595,663

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
	146,150	57,081

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
	10,094,283	7,823,429

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
	255,942	107,118

	2012 AED'000	2011 AED'000
Staff related provisions		
The aggregate employee entitlement liability comprises:		
Employees' end of service benefits	**34,036**	31,084
Other liabilities	**16,087**	10,870
	50,123	41,954

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	**34,036**	31,084

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	**6,120**	(15,057)

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:

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

	2012 AED'000	*2011 AED'000*
Shareholders, directors, their related entities and key management personnel		
Accrued interest income	**59**	54
Accrued interest expense	**650**	820

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*
Shareholders, directors, their related entities and key management personnel		
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
Derivatives held for trading:						
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
	36,448	(38,079)	5,305,644	1,232,688	3,039,260	1,033,696
Derivatives held for cash flow hedge:						
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
Derivatives held for trading:						
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
	4,568	(4,530)	1,319,633	870,406	252,366	196,861
Derivatives held for cash flow hedge:						
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*
Contingent liabilities		
Letters of credit	**719,979**	614,231
Guarantees and acceptances	**3,239,710**	3,326,368
	3,959,689	3,940,599
Commitments		
Undrawn loan commitments	**2,227,225**	2,260,065

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.

	Notes	***Maximum exposure 2012 AED'000***	*Maximum exposure 2011 AED'000*
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	**108,342**	44,669
Total		**14,715,531**	10,663,294
Letters of credit	22	**719,979**	614,231
Guarantees and acceptances	22	**3,239,710**	3,326,368
Undrawn loan commitments	22	**2,227,225**	2,260,065
Total		**6,186,914**	6,200,664
Total credit risk exposure		**20,902,445**	16,863,958

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	**14,715,531**	**6,186,914**	10,663,294	6,200,664

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
	14,893,718	10,767,090
Less: Impairment provision on loans and advances	**(178,187)**	(103,796)
	14,715,531	10,663,294

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.

	Neither past due nor impaired			*Past due or individually impaired*	
	High grade 2012 AED'000	*Standard grade 2012 AED'000*	*Sub-standard grade 2012 AED'000*	*2012 AED'000*	*Total 2012 AED'000*
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**
	6,199,404	**7,693,622**	**635,605**	**402,895**	**14,931,526**

	Neither past due nor impaired			*Past due or individually impaired*	
	High grade 2011 AED'000	*Standard grade 2011 AED'000*	*Sub-standard grade 2011 AED'000*	*2011 AED'000*	*Total 2011 AED'000*
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
	4,497,822	5,662,249	295,362	324,069	10,779,502

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	**444,492**	228,637

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:

	Less than 3 months AED'000	*From 3 months to 6 months AED'000*	*From 6 months to 12 months AED'000*	*Sub total less than 12 months AED'000*	*1-5 years AED'000*	*Over 5 years AED'000*	*Sub total over 12 months AED'000*	*Undated AED'000*	*Total AED'000*
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	6,491,079	1,121,120	972,617	8,584,816	4,024,538	2,208,605	6,233,143	194,630	15,012,589
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	8,360,163	858,827	1,775,473	10,994,463	1,736,215	-	1,736,215	2,281,911	15,012,589
Net liquidity gap	(1,869,084)	262,293	(802,856)	(2,409,647)	2,288,323	2,208,605	4,496,928	(2,087,281)	-

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:

	Less than 3 months AED'000	From 3 months to 6 months AED'000	From 6 months to 12 months AED'000	Sub total less than 12 months AED'000	1-5 years AED'000	Over 5 years AED'000	Sub total over 12 months AED'000	Undated AED'000	Total AED'000
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 *31 December 2012*	***On demand AED'000***	***Less than 3 months AED'000***	***3 to 12 months AED'000***	***1 to 5 years AED'000***	***Over 5 years AED'000***	***Total AED'000***
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	**3,866,038**	**4,452,601**	**2,669,057**	**1,827,195**	**-**	**12,814,891**

31 December 2011	*On demand AED'000*	*Less than 3 months AED'000*	*3 to 12 months AED'000*	*1 to 5 years AED'000*	*Over 5 years AED'000*	*Total AED'000*
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	2,659,264	3,793,366	1,683,562	704,622	-	8,840,814

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.

31 December 2012	***On demand AED'000***	***Less than 3 months AED'000***	***3 to 12 months AED'000***	***1 to 5 years AED'000***	***Over 5 years AED'000***	***Total AED'000***
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)

31 December 2011	*On demand AED'000*	*Less than 3 months AED'000*	*3 to 12 months AED'000*	*1 to 5 years AED'000*	*Over 5 years AED'000*	*Total AED'000*
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:

	On demand AED'000	***Less than 3 months AED'000***	***3 to 12 months AED'000***	***1 to 5 years AED'000***	***Over 5 years AED'000***	***Total 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	
Currency	***Change in basis points***	***Sensitivity of net interest income AED'000***	*Change in basis points*	*Sensitivity of net interest income AED'000*
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	***Change in currency rate in % 2012***	***Effect on profit 2012 AED'000***	*Change in currency rate in % 2011*	*Effect on profit 2011 AED'000*
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:

	Retail banking AED'000	*Corporate banking AED'000*	*Others AED'000*	*Total AED'000*
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	66,852	277,655	65,311	409,818
Segment assets	3,204,681	7,861,740	3,946,168	15,012,589
Segment liabilities	3,061,588	7,006,527	2,696,599	12,764,714
Other segment information				
Capital expenditure - Property and equipment	16,770	48,628	18,455	83,853

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:

	Retail banking AED'000	*Corporate banking AED'000*	*Others AED'000*	*Total 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	24,343	275,278	30,533	330,154
Segment assets	2,169,957	6,062,062	2,600,076	10,832,095
Segment liabilities	1,640,653	5,936,497	1,223,920	8,801,070
Other segment information				
Capital expenditure				
-Property and equipment	8,065	25,131	10,846	44,042

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:

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

Financial liabilities

	Level 1 AED'000	*Level 2 AED'000*	*Level 3 AED'000*	*Total AED'000*
Derivative financial instruments				
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				
Derivative financial instruments				
Interest rate swaps - trading	-	405	-	405
Interest rate swaps - hedging	-	16	-	16
Forward foreign exchange contracts	-	6	-	6
Currency options	-	4,157	-	4,157
	-	4,584	-	4,584
Financial investments available for-sale				
Quoted investments				
Government debt securities	308,585	-	-	308,585
Other debt securities	262,172	24,500	-	286,672
Equities	330	-	-	330
Unquoted investments				
Equities	-	-	76	76
	571,087	24,500	76	595,663
	571,087	29,084	76	600,247

Financial liabilities

	Level 1 AED'000	*Level 2 AED'000*	*Level 3 AED'000*	*Total AED'000*
Derivative financial instruments				
Interest rate swaps - trading	-	336	-	336
Interest rate swaps - hedging	-	832	-	832
Forward foreign exchange contracts	-	37	-	37
Currency options	-	4,157	-	4,157
	-	5,362	-	5,362

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***
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*
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

	Balance		*Risk weighted equivalent*	
	2012 AED'000	*2011 AED'000*	***2012 AED'000***	*2011 AED'000*
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.

BASEL II - PILLAR 3 DISCLOSURES

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 mange 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 ADEQUAQY (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 (Gross outstanding)*	*Specific Provision & Interest In Suspense*	*Off Balance Sheet Exposures (Net after Credit Conversion Factor - CCF)*	*Exposure before Credit Risk Mitigants*	*Credit Risk Mitigants*	*Exposure after Credit Risk Mitigants*	*Risk Weighted Assets*
	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 (Gross outstanding)*	*Specific Provision & Interest In Suspense*	*Off Balance Sheet Exposures (Net after Credit Conversion Factor - CCF)*	*Exposure before Credit Risk Mitigants*	*Credit Risk Mitigants*	*Exposure after Credit Risk Mitigants*	*Risk Weighted Assets*
	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		
	Rated AED'000	Unrated AED'000	Total AED'000	Rated AED'000	Unrated AED'000	Total 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	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*	*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 & Geographic Region	Past due but not impaired 0-30 days Past due	30-60 days Past due	60-90 days Past due	Over 90 days Past due	Impaired Loans	Interest in Suspense
	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 & Geographic Region	Past due but not impaired 0-30 days Past due	30-60 days Past due	60-90 days Past due	Over 90 days Past due	Impaired Loans	Interest in Suspense
	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

	2012 AED'000	2011 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	**17,744,609**	13,587,042
Risk Weighted Assets	**11,375,263**	9,480,711

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

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

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:

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

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:

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