ANNUAL REPORT 2013

البنك العربي المتحد

UNITED ARAB BANK

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

His Highness Sheikh Khalifa bin Zayed Al Nahyan
President of the UAE, Supreme Commander of the UAE
Armed Forces and Ruler of Abu Dhabi

His Highness Sheikh Mohammed bin Rashid Al Maktoum
Vice President and Prime Minister of the UAE
and Ruler of Dubai

His Highness Sheikh Dr. Sultan bin Muhammad Al Qassimi
Member of the Supreme Council and Ruler of Sharjah

His Highness General Sheikh Mohammed bin Zayed Al Nahyan
Crown Prince of Abu Dhabi and Deputy Supreme Commander
of the UAE Armed Forces

LOCATIONS >

UAB Tower - Head Office
UAB Tower, Al Majaz Street,
Buhaira Corniche
P.O. Box 25022
Sharjah
Tel: +971 (06) 507 5222
Fax: +971 (06) 507 5950

UAB Tower Branch
UAB Tower, Al Majaz Street,
Buhaira Corniche
P.O. Box 25022
Sharjah
Tel: +971 (06) 507 5944
Fax: +971 (06) 507 5980

Sharjah Mareijah Branch
Mina Office Building,
Al Mina Road
P.O. Box 881
Sharjah
Tel: +971 (06) 511 8111
Fax: +971 (06) 568 8058

Sharjah Corniche Branch
Al Muhannad Tower
Buhaira Corniche
P.O. Box 60868
Sharjah
Tel: +971 (06) 519 5111
Fax: +971 (06) 554 9801

King Faisal Street Branch
Utmost Building
Abu Shagara
King Faisal Street
P.O. Box 23226
Sharjah
Tel: +971 (06) 509 4200
Fax: +971 (06) 552 1056

Sharjah Industrial Area Branch
Abdullah Rashid Al Shamsi Building
Sharjah Industrial Area - 12
P.O. Box 150730
Sharjah
Tel: +971 (06) 513 2666
Fax: +971 (06) 535 9134

Sharjah Juraina Branch
Matajer Al Juraina,
Muweileh Suburb
P.O. Box 28741
Sharjah
Tel: +971 (06) 505 9333
Fax: +971 (06) 545 8457

Sharjah Mirgab Branch
Matajer Al Mirgab,
Al Heira Suburb
P.O. Box 28497
Sharjah
Tel: +971 (06) 516 3555
Fax: +971 (06) 565 9079

Abu Dhabi Khalifa Street Branch
Sh. Faisal bin Sultan Al Qassimi Building
GIBCA, Khalifa Street
P.O. Box 3562
Abu Dhabi
Tel: +971 (02) 627 5000
Fax: +971 (02) 626 2649

Abu Dhabi Airport Road Branch
Emirates Property Investment Co. Building,
Sh. Rashid bin Saeed Al Maktoum Street
P.O. Box 30183
Abu Dhabi
Tel: +971 (02) 693 0900
Fax: +971 (02) 658 6287

Abu Dhabi Khalidiya Branch
Al Montazah Tower, Plot No. C-63
Zayed First Street, Al Khalidiya Area
P.O. Box 94002
Abu Dhabi
Tel: +971 (02) 616 1333
Fax: +971 (02) 658 0526

Abu Dhabi Marina Square Branch (Reem Island)
Paragon Bay Mall,
Al Reem Island
P.O. Box 109197
Abu Dhabi
Tel: +971 (02) 493 7444
Fax: +971 (02) 650 2259

Abu Dhabi Al Raha Branch
Shop No.3, Building-C, Al Zeina,
Al Raha Beach Area
P.O. Box 146004
Abu Dhabi
Tel: +971 (02) 691 2900
Fax: +971 (02) 676 6203

Abu Dhabi Mussafah Industrial Area Branch
Ahmad Mubarak Building,
Ground Floor & Mezzanine Floor
Musaffah Industrial Area
P.O. Box 133444
Abu Dhabi
Tel: +971 (02) 401 9200
Fax: +971 (02) 447 5962

Al Ain Branch
Sh. Faisal bin Sultan Al Qassimi Building
Sh. Zayed 1st Street
P.O. Box 16077
Al Ain
Tel: +971 (03) 766 3122
Fax: +971 (03) 766 5168

Al Ain Industrial Area Branch
Building No. 4,
Shop No. 1 to 6 and 10 & 11,
Saaneyaa
P.O. Box 16077
Al Ain
Tel: +971 (03) 701 5111
Fax: +971 (03) 722 0840

Dubai - Deira Branch
Al Salemiyah Tower,
Baniyas Street - Deira,
P.O. Box 4579
Dubai
Tel: +971 (04) 222 0181
Fax: +971 (04) 227 4309

Dubai - Jebel Ali Branch
Jebel Ali Free Zone,
Plot No.MO 0697, Gate No.5,
Behind Enoc Petrol Pump,
Jebel Ali
P.O. Box 16823
Dubai
Tel: +971 (04) 802 7400
Fax: +971 (04) 887 6121

Dubai -Sheikh Zayed Road Branch
Al Moosa Tower II,
Sheikh Zayed Road
P.O. Box 34893
Dubai
Tel: +971 (04) 707 1900
Fax: +971 (04) 332 1332

Dubai - Marina Promenade Branch
Marine Promenade Tower, Unit LS-17,
Ground Floor, Marine Drive North,
Dubai Marina
P.O. Box 38452
Dubai
Tel: +971 (04) 567 3700
Fax: +971 (04) 456 1296

Dubai - Manara Indigo Branch
Indigo Central-6, Ground Floor, Shop No 2
Al Manara Area
P.O. Box 38457
Dubai
Tel: +971 (04) 515 4700
Fax: +971 (04) 338 5294

Dubai - Oud Metha Branch
Eleganza Apartments, Showroom No.S3
Oud Metha Road
P.O. Box 120767
Dubai
Tel: +971 (04) 405 9600
Fax: +971 (04) 358 2371

Dubai – Al Mas Branch
Al Mas Tower,
Jumeirah Lakes Towers
P.O. Box 392185
Dubai
Tel: +971 (04) 381 8300
Fax: +971 (04) 399 2781

Dubai - Al Quoz Branch
Reemas Bldg, Ground Floor -
Showrooms 1 to 3,
First Floor - Offices 1,2,8,9,10 & 11,
Al Quoz First Area, Sh. Zayed Road
P.O. Box 392066
Dubai
Tel: +971 (04) 309 2666
Fax: +971 (04) 380 8970

Ras Al Khaimah - Dehan Branch
Sh. Faisal bin Sultan Al Qassimi Building,
Sh.Mohammed Salem Al Qassimi Street
Dehan Al Sharqiya
P.O. Box 38282
Ras Al Khaimah
Tel: +971 (07) 206 8111
Fax: +971 (07) 235 9875

Ras Al Khaimah - Nakheel Branch
Health Building,
Al Muntasir Street
Al Nakheel
P.O. Box 615
Ras Al Khaimah
Tel: +971 (07) 205 9222
Fax: +971 (07) 227 0969

Ajman Branch
GMC Hospital Complex,
Sharjah-Ras Al Khaimah Highway Road
P.O. Box 2700
Ajman
Tel: +971 (06) 703 9100
Fax: +971 (06) 746 5727

Fujairah Branch
Al Rostamani Tower,
Hamad bin Abdullah Street
P.O. Box 8552
Fujairah
Tel: +971 (09) 205 6333
Fax: +971 (09) 223 9982

CONTENTS

We continue posting record growth and reaffirming our position as the fastest growing bank in the Middle East.

البنك العربي المتحد
UNITED ARAB BANK

Sheikh Faisal Bin Sultan Bin Salem Al Qassimi
Chairman

MESSAGE FROM THE CHAIRMAN

On behalf of the Board of Directors, I am honored to present the United Arab Bank P.J.S.C. ('UAB') 2013 Annual Report, highlighting the Bank's activities and achievements for the year ended 31 December 2013.

The Bank continued posting record growth results in 2013, reaffirming its position as the fastest growing bank in the Middle East. Net profits grew by 35 percent in 2013 to reach AED552mn, displaying encouraging trends and supporting a positive outlook.

Our sustainable growth strategy remains focused on the quality of UAB's assets, its diversified portfolio of customers, and the offering of innovative and customer-centric products.

Our strategic alliance with our major shareholder, The Commercial Bank of Qatar, has positioned us well for future growth. This coupled with the Bank's corporate governance and prudent risk culture constitutes the vital framework that enables us to meet our goals and achieve long-term success.

I would like to thank fellow Board Members, the Executive Management team, and employees for their collective efforts in contributing to this year's accomplishments. I would also like to extend my gratitude to our valued shareholders for their support and to our customers for their trust and loyalty. Their commitment has been instrumental in leading our progression. I would also like to thank the Central Bank, and all our regulators, for their ongoing support.

Finally, on behalf of UAB shareholders and the Board of Directors, I would like to express our appreciation and gratitude to His Highness Sheikh Khalifa bin Zayed Al Nahyan, President of the UAE; His Highness Sheikh Mohammed bin Rashid Al Maktoum, Vice President and Prime Minister of the UAE; His Highness Sheikh Dr. Sultan bin Muhammad Al Qassimi, Member of the Supreme Council and Ruler of Sharjah; and His Highness General Sheikh Mohammed bin Zayed Al Nahyan, Crown Prince of Abu Dhabi and Deputy Supreme Commander of the UAE Armed Forces, for their vision, leadership, and support.

Sheikh Faisal Bin Sultan Bin Salem Al Qassimi
Chairman

The Bank has performed outstandingly throughout 2013 which has culminated in another excellent financial performance.

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

2013 represented another defining year for UAB with all key Income Statement and Balance Sheet metrics recording growth in excess of 30% versus 2012. Since we embarked on our growth strategy in 2011 I am pleased to report that the Bank has not only changed significantly, through continuous evolution and building on our traditional strengths, but has emerged a stronger, more efficient bank with an enhanced market reputation. Over the past 3 years UAB's Total Income and Net Profits have grown by a compound annual growth rate of 28% and 22% respectively, an excellent achievement and one the Bank can be extremely proud of.

In 2013, UAB strengthened its Management Team with a number of key appointments to take the Bank to the next level. This includes implementing both strategic and operational initiatives that will make us more efficient, while better positioning us to compete through future market cycles. In addition, the Bank continues full steam ahead in our expansion drive, with a growing branch network and ever-increasing presence across the Emirates to make us accessible to our customers.

On behalf of the Management Team, I would like to recognise and express our sincere appreciation for the ongoing support of the Chairman, Deputy Chairman and members of the Board of Directors. Your guidance, vision and ambition have and will continue to be the foundation of the Bank's success.

We would also like to acknowledge the benefits derived from the strategic alliance with CBQ. CBQ acquired 40% of UAB in 2007 and with a growing alliance that now includes Turkey's Alternatifbank and National Bank of Oman, the Bank will continue to benefit from a range of synergies and business opportunities.

The Bank would like to express its thanks and appreciation to the Governor and staff of the Central Bank as well as the Government of the UAE for their continued support. Your leadership and direction ensured the local economy successfully navigated its way through the challenges of the global financial crisis and is well positioned as we move forward.

Central to our success have been the relationships we continue to acquire and nurture with our customers and we wish to thank them for their trust and support. In addition, we would like to acknowledge the commitment and professionalism of our employees that enable our growth trajectory, as well as our shareholders that have played a crucial part in our achievements.

Our success in 2013 clearly demonstrates we possess and are benefitting from a growing franchise, a diversified asset portfolio, a robust risk and control framework and an optimal customer-centric strategy. As we progress into 2014 and beyond, I am confident we will continue to deliver true value for our shareholders and wider stakeholders.

Paul Trowbridge
Chief Executive Officer

BOARD OF DIRECTORS >

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

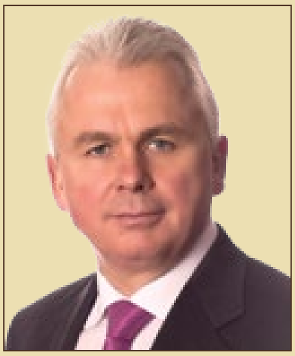
The committment of all our stakeholders has been instrumental in leading our progression.

Sheikh Faisal Bin Sultan Bin Salem Al Qassimi
Chairman

Mr. Omar Hussain Alfardan
Vice Chairman

Sheikh Abdullah Bin Ali Bin Jabor Al Thani
Director

Sheikh Mohammed Bin Faisal Al Qassimi
Director



Mr. Andrew C Stevens
Director

Mr. Ahmad Mohamed Al Midfa
Director

Mr. Mohamed Abdulbaki Mohamed
Director

Mr. Ahmed Mohamad Bakheet Khalfan
Director

Mr. Nicholas Coleman
Director

Ms. Najla Al Midfa
Director

Mr. Robert Sharpe
Director

Mr. Ahmed Salem Abdulla Salem Al Hosani
Director

EXECUTIVE TEAM

Paul Trowbridge
Chief Executive Officer

Awni Al Alami
Deputy Chief Executive Officer

EXECUTIVE TEAM

Brian West
Chief Financial Officer

Sheikh Mohamed Al Nuaimi
Executive Vice President

Howard S. Kitson
Executive Vice President
Wholesale & International Banking

Shahid Baloch
Executive Vice President
Corporate Banking

Tony B. Graham
Executive Vice President
Retail Banking

Bede Joseph Pohlen
Chief Risk Officer

Abdelhamid Ghazouani
Executive Vice President
Operations, Organisation & IT

Anthony Macrae
Executive Vice President
Business Support

UAB AT A GLANCE >

UAB's philosophy of striving for excellence creates an innovative environment where awards are simply milestones on the road to enhance our position as the Bank of Choice for our customers.

A customer-centric approach is at the centre of everything we do.

OVERVIEW

2013 has been a truly outstanding year for UAB, culminating in the Bank generating record high financial results. Across the year the Bank continued along its growth trajectory, increasing in both size and stature within the financial services community, with the Bank's customer-centric strategy yielding tangible benefits. Net Profits of AED552m for 2013 represent an increase of 35% over 2012, whilst Operating Profits recorded a similarly impressive uplift of 36% to reach AED721m. The Bank generated significant growth in business volumes with total customer loans and advances increasing by 40% to AED15.29bn at 31 December 2013 from AED10.88bn at the end of December 2012, supported by 49% growth in customer deposits to AED15.03bn over the same period.

The Bank continues to maintain its prudent and proactive approach to general provisioning, exceeding Central Bank requirements, with a loan loss coverage ratio of 117%. All key financial ratios are above minimum requirements with a 15.9% Capital Adequacy Ratio against a regulatory minimum of 12%, and a Stable Funds Ratio significantly below the maximum limit of 100%.

To ensure UAB remains the Bank of choice for its target customers, the Bank has continued to build on and develop the fundamentals to support future growth. The Bank's successful network expansion programme continued in 2013 with approximately 27 branches now fully operational across Abu Dhabi, Dubai and Northern Emirates, whilst significant enhancements were introduced across all segmental propositions and support functions to ensure the Bank can maintain its high levels of customer service.

With the success UAB has achieved in 2013 and through our close partnership with key clients and the continued support of our strategic partner, CBQ, we believe the Bank is well placed as it moves into 2014 and beyond.

AWARDS

In its continuous quest for excellence, UAB won various awards that reflected the Bank's commitment to creating a premium banking experience for 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 an innovative environment where awards are simply milestones on the road to enhance our position as the Bank of Choice for our customers.

Sheikh Faisal Bin Sultan Bin Salem Al Qassimi, Chairman of UAB, with Paul Trowbridge, CEO, receiving the Banker ME Award for Best Loyalty Programme from CPI Financial

GCC 3rd Forum for HR Officials and Labor Market – Sharjah Chamber of Commerce and Industry

Arab Achievement Award 2013

Best Loyalty Programme Award 2013
by CPI Financial

Editor's Choice Award for Contributing
to Trade Finance by Trade & Export
Middle East 2013

Editor's Choice Award for Contributing to Trade
Finance by Trade & Export Middle East 2013

Best Domestic Retail Bank Award 2013
by The Banker Middle East

Forbes awards UAB as one of the Top 500
in the Arab world Companies

Best Trade Finance Bank Award by
International Finance Magazine, UK

Best Home Finance Provider Award by
International Finance Magazine, UK

REVIEW OF PERFORMANCE

1. Wholesale Banking

Following on from the strong corporate loan growth in excess of 30% in 2012, UAB's Wholesale Banking division has continued to develop in line with improved economic sentiment within the UAE, stronger corporate credit demand, and higher levels of government investment. As a result, the corporate loan book continued its momentum, outperforming the UAE banking sector with further growth of 32% in 2013.

Wholesale Banking's emphasis remains balanced growth, with sectorial and geographic diversity. Key drivers for loan growth were the government and public sector, construction, and transportation sectors, with these sectors contributing over AED1.4bn of total loan growth. The Bank continued supporting UAB's traditional customer base in the manufacturing and trade sectors through additional lending which contributed AED0.9bn of total growth and benefited from higher trade finance volumes.

Overall the corporate loans portfolio remains geographically well diversified throughout the UAE with a special focus on Abu Dhabi and Dubai. With growth improving from key economic sectors and companies expected to capitalize on this growth, the Bank is reconfiguring its coverage model to improve focus on trade and working capital requirements within the corporate banking market.

At the announcement of the completion of a US$250 million syndicated loan with 12 multinational and regional banks

UAB's team demonstrating the online trade portal to JBF RAK LLC

Hakan Bahceci, President of the Turkish Business Council, Dubai & Northern Emirates (left) with Howard Kitson, EVP – Wholesale and International Banking

2. Retail Banking

UAB's retail franchise continued to go from strength to strength in 2013. By remaining true to its customer-centric strategy of continuously developing propositions that meet and exceed customers' financial needs and investing in convenient distribution channels, the business maintained its recent growth trajectory. In the 12 month period, customer loans increased by 44%, whilst retail's customer deposits grew by an impressive 82%, ensuring the self-funding nature of the franchise whilst providing a valuable source of funds for the Bank as a whole.

Underpinning such tangible growth and the Bank's continued dedication to its growing target customer segments, 2013 saw UAB roll out a number of specific initiatives:

- Established a strategic relationship with FC Barcelona, distinguishing UAB as the historic club's exclusive financial services partner in the UAE. This partnership has proved enormously successful in raising retail banking's profile in the market and attracting new customers to the franchise.

- Successfully restructured our front line distribution approach to drive new customer acquisitions, with a greater focus on identifying and capturing cross-sales opportunities, leading to higher revenues per customer and improved retention metrics.

- Launched four new-to-market products including the world's only FC Barcelona Signature, Platinum and Debit Cards and the exclusive VISA Infinite Card.

- Opened 7 new full-service branches in 2013, bringing UAB's total number to 27 by December 2013.

- Maintained our industry leading 55% Emiratisation profile within the retail business. UAB is enormously proud of the composition of our staff and will continue to invest and develop UAE talent to ensure the business reflects the communities which we operate in.

- Completed a seamless management transition with Tony Graham appointed in 2013 as EVP, Retail Banking, with strong sales momentum continuing in Q4 to enable the Bank to record a 30% increase on sales volumes versus 2012.

Deepening existing customer relationships through greater cross-sales and outstanding customer service will remain a key priority in 2014. Customer experience will benefit from planned investment in alternative channels, enabling customers to transact through their channel of choice while lowering the average cost of service. We will also continue to invest in our product propositions to support workplace marketing, in cooperation with our Wholesale and SME businesses, and provide our target customers clear, compelling reasons to choose UAB as their main bank.

UAB launches world's first FC Barcelona co-branded cards

From left to right, Sreeram Subramaniam, SVP - SME Banking, Ahmed bin Sulayem, Executive Chairman, DMCC, Tony Graham, EVP – Retail Banking, and Faisal Al Najjar, SVP - Products, Propositions & Alternative Channels at the opening of UAB's branch in JLT

Paul Trowbridge, CEO and members of the Retail Banking team accepting the award for Best Domestic Retail Bank from Banker Middle East

3. Small & Medium Enterprises (SME)

2013 saw SME celebrating its first anniversary, having achieved significant growth in its first 12 months of operations. The year saw SME attract 1,500 new to bank customers with deposits reaching AED1.6bn and loans & advances of AED750m, with the positive funding gaps aiding other units to lend at competitive pricing. Focused strategic sourcing from the desired segments and prudent credit under-writing ensured a steady and quality portfolio build-up acquisition, with growth supported through the establishment of the first dedicated SME centres in Dubai and Abu Dhabi.

Given the experienced leadership team and strong operational units, SME achieved impressive financial results in 2013, setting the foundation for future segment growth as well as a platform to become a key contributor to the Bank's balance sheet and profitability metrics moving forward. To support these future aspirations, the team (comprising individuals from diverse backgrounds) participated in numerous employee engagement and team building initiatives to ensure SME can attract and retain the required talent.

SME team with Brian West, Chief Financial Officer, and Sreeram Subramaniam, SVP - SME Banking

The SME team with the CEO of ATS Shipping LLC, an SME customer

4. Treasury & Capital Markets

UAB's Treasury & Capital Markets ('T&CM') function contributed significantly to the Bank's highest ever total revenue performance in 2013, generating impressive growth across all product lines.

By adding Corporate Sales and Commodities Desks, T&CM helped deepen relationships with Corporate and high-net-worth clients through the provision of a wide range of products and services, satisfying their specific needs and appetites. These products and services included FX spot, forwards, options and interest rate derivatives as well as a growing range of investment products, fixed income securities and hedging solutions.

As part of its Asset & Liability management function, T&CM has played a key role in ensuring a stable and diversified source of funding is available to support the rapid growth of UAB. In addition to supporting segmental units in attracting customer deposits, both current and savings accounts and fixed term deposits, T&CM increased overall funding through a combination of short and long term wholesale deposits as well as medium term bi-lateral and club facilities. Overall, effective funding management helped maintain the Bank's top quartile cost of funds position and attractive net interest margins.

The Bank's investment portfolio increased to AED1.6bn, mainly comprising fixed income securities, being a mix of government, semi-government and other corporate bonds and Sukuk from UAE and GCC countries. In line with the Bank's future growth strategy, plans are in place to further diversify investment activities to other assets as well as geographies as its grows in proportion to the total asset base.

5. Risk Management

Risk Management continues to be a key focus of the Bank and as a result all significant risk exposures have been effectively mitigated and managed. The Bank continuously strengthens risk management policies and processes and invests in enhanced technology tools where appropriate to upgrade its overall risk management framework.

Risk Management is headed by the Chief Risk Officer who reports to the Chief Executive Officer and submits periodic reports to the Board Risk Committee. The department is comprised of the following specialist functions: Corporate Credit Risk; Corporate Special Assets; SME Credit Risk; Retail Credit Risk; Retail Collections and Recoveries; Market Risk; Operational Risk; Fraud Risk; Risk Analytics; 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 Risk Committee ('BRC') 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 that meet regularly to ensure that the Bank adheres 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 for all key risks through a Risk Appetite Statement. The Bank's Risk Management has further enhanced processes, policies and procedures designed to provide effective oversight, identification, measurement, accountability, mitigation and reporting of risks taken, and monitors them against the tolerance levels set by the Board.

Risk Management dynamically manages risks taken to ensure that there is a well developed risk-reward assessment framework to evaluate 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 continuously balances growth vis-à-vis risk within the Board approved Risk Appetite Statement.

Given the nature of the Bank's business, the key risks 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 and limits structure.

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 committees.

5.1 Operational Risk

The Bank defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people, and system or from external events, including legal risk.

Operational Risk is relevant to every aspect of the Bank's business and covers a wide spectrum of issues. Losses arising through fraud, unauthorized activities, errors, omission, inefficiency, system failure or from external events all fall within the Operational Risk definition.

In order to mitigate such operational losses:

- The Bank has detailed policies and procedures regularly updated to enhance the internal control environment.
- Operational events are reported to the Operational Risk Management (ORM) department who conduct root cause analysis to understand and prevent future occurrence.
- Risk Self Assessments (RSA) have been rolled out across each unit of the Bank to identify key operational risks with a view to developing key controls to mitigate these risks.
- Key Indicators (KI) have been developed across the Bank to identify early warning indicators for management's appropriate actions.
- Operational Risk Assessment Process (ORAP) is in place to identify potential operational risk issues prior to launch of new products, processes and systems.
- The three lines of defense structure has been embedded in the Bank and ORM conducts periodic reviews to enhance the internal control environment.

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

Oversight of operational risk is provided by the Board Risk Committee.

5.2 Compliance

The role of Compliance is to provide assurance to the Board of Directors that the expectations of its regulator, the Central Bank of the UAE, are met and that the risk of the Bank being used to facilitate financial crime is minimised.

The Compliance department operates independently of the business units and reports through the Chief Risk Officer to the Chief Executive Officer. The department also submits periodic reports to the Board Audit Committee, who provides Board level oversight.

One of the functions of the Compliance department is to keep the management of the Bank informed of regulatory developments. This is enabled by maintaining close links with the Central Bank and providing appropriate training and advice to the relevant members of the Bank's management and employees.

In addition, the Central Bank conducts regular reviews to ensure the Bank is properly meeting its regulatory obligations. The Central Bank's observations are discussed with, and responded to, by members of the senior management team and the Board Audit Committee.

Additional resources in the form of people, systems and processes have been applied to the Bank's Compliance activities during the course of the year in order that, with the growth of the Bank and the increase in regulations applied, it continues to provide assurance that the expectations of its regulator are being satisfied.

6. Operations, Organisation & Information Technology

UAB's Operations, Organisation & IT function is continuously developing its capabilities in line with the rapid growth generated by the business activity, with the overarching objective of providing 'best in class' services to its customers in a cost-effective manner. The function has progressively implemented new operational and technological business tools throughout 2013 and implemented numerous initiatives that aided business support capabilities and most importantly enhanced the overall customer experience.

The outsourcing of the Bank's operations to Tata Consultancy Services (TCS), initiated in Q4 of 2011, was further consolidated and strengthened to achieve reduced turn-around-times and streamlined business processes, thus providing solid foundations in our journey towards an error-free operational environment. In parallel, our core banking system, Bankfusion, implemented by Misys in 2012, has proven to be robust, scalable and secure and supported the growing business needs and volumes during 2013 and beyond.

Our focus on being true business partners sees the function being actively involved in the launch of new products and services, with specific highlights being bespoke campaigns allied to our FC Barcelona alliance, embedding Direct Debit Facilities and the extension of credit cards and utility payments through multiple channels. Furthermore, the function played a key role in supporting the ongoing branch network expansion programme and ensured a smooth transition into the bank's new headquarters in Sharjah.

7. Human Resources

UAB continues to develop its human capital to support rapid business growth. This focus is supported by concerted action towards the continuous development of UAE Nationals. As recruitment and development of Emiratis is recognised as a core corporate responsibility, one of UAB's aims is to increase their proportion in its workforce. This continues to yield results with percentage of UAE Nationals at UAB rising to 44% in 2013, up from 41% in 2011.

Several development strategies have also been put into action to enhance the skills and competencies of the UAE National workforce. Through UAB's Emiratisation program, Al Tamayouz, the Bank strives to attract, retain and continuously advance the skills of local talent. At UAB, our Emiratisation strategy goes beyond recruiting UAE Nationals, as we also continuously seek to enhance their skills and create tomorrow's leaders as part of our commitment to ensuring sustainability of the UAE economy. To support this, UAB has ventured into an intensive 15 month development program delivered by the Judge Business School, University of Cambridge. This program is designed to prepare our brightest and best UAE National workforce for leadership roles to accelerate their career progression.

As an Employer of Choice, UAB is sought-after to participate in several events at various institutions of higher education. Aligned 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 across the special needs community. In 2013, UAB continued to partner with the Directorate of Human Resources, Sharjah to be a gold sponsor of its 2nd Sharjah Human Capital Conference at the American University of Sharjah.

UAB's position as an Employer of Choice was further strengthened in 2013 through a number of key HR initiatives:

- UAB aligned its Corporate Job Titles with the UAE Banking industry to ensure effective 'like for like' comparison with peers in the local market place as well as attraction and retention of top talent.

- UAB Employee Recognition Programme ("UAB Employee Awards") was launched in Q2 2013 to recognize high performing UAB talent in 6 categories, namely: Financial Contribution, Customer Centricity – External, Customer Centricity – Internal, Risk, Process and People. The awards are distributed quarterly with a key feature of the programme being nominations by other employees across the Bank.

- Employee Engagement was given a strong focus with the launch of the UAB Social Interaction Program ("Club UAB") in Q4 2013. The aim of the program is to foster cooperation and interaction among employees which should in turn drive the business forward through unhindered sharing of ideas and solutions.

UAB continues to empower its staff through comprehensive Learning and Development programs such as E-Learning, with courses on AML / Ops Risk and Fraud, Sales Performance and Activity, Customer Relationship Management and Leadership, to name a few.

The robust performance posted by UAB over the past 4 years is supported by the Bank's 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.

HH Sheikh Abdullah bin Salem Al Qassimi, Deputy Ruler of Sharjah, presenting an award to Awni Al Alami honouring UAB for its support of the second Sharjah Human Capital Conference 2013 – American University of Sharjah

Awni Al Alami, Deputy CEO, and other members of the UAB team at the opening of the second Sharjah Human Capital Conference 2013 – American University of Sharjah

Team members of UAB's stand at the second Sharjah Human Capital Conference 2013 – American University of Sharjah

Anthony Macrae, EVP - Business Support (far right) with other members of the team at UAB's stand at National Career Exhibition 2013

8. Premises

2013 witnessed further execution of the ongoing branch expansion plan together with the milestone of moving into the new UAB Head Office.

UAB Tower opened for business in May 2013 and provides 'state-of-the-art' modern office facilities which now houses all functions of the Bank's business. The facility includes full Board facilities and a Senior Management floor together with operational floors accommodated in stylish and functional layouts. Located on Buhairah Corniche in Sharjah, the tower is now the fitting home for the Bank and reflects the progressive nature and ambition shown over recent years. The move into the new environment has been warmly welcomed by shareholders, customers and visitors alike and serves to strengthen the Bank's customer appeal through more attractive and visible corporate offices. Furthermore customers are now welcomed into the new head office branch and the dedicated Sadara and Islamic banking facilities, all housed within the same building.

2013 saw the continuation of the branch expansion plan with a further eight branches opening to better serve our customers, bring the total number of branches to 27. The majority of the focus was in Dubai with five branches being opened and a further two established in Mussafah and Al Ain industrial area along with the Head Office branch being opened in UAB Tower. The new branch locations have been carefully chosen to enhance not only the reach and visibility of the Bank, but also to ensure existing and new customers are better served with facilities situated where they live and / or work. The year also saw the long established Jebel Ali branch relocation into purpose built premises within the free-zone and the relocation of the Sharjah Rolla branch to the neighbouring area of Mareijah.

In Dubai the UAB Business Centre opened its doors on Sheikh Zayed Road next to the Al Safa interchange. The Business Centre offers integrated SME, Retail and Corporate facilities and serves the commercial area of Al Quoz and the Sheikh Zayed Road corridor. The burgeoning SME segment within UAB is now housed in the Business Centre to ensure that new and existing customers are able to be served on their doorstep and provides a hub for SME outreach. This integrated approach is further evidence of UAB's proactive response to our customers needs and to providing services in preferable locations for our customers to transact with ease.

2014 will see further exciting developments in the Bank's premises and property portfolio. The branch expansion programme will continue with further focus on Dubai taking the traget number of branches up to 35 by the year end. Again the focus will be to provide branches strategically located to serve our existing customers better and entice new customers through convenience and visibility, with 2014 also seeing the continued extension of the ATM network. The ongoing investment in premises will remain focused on developing the business geographically and qualitatively and will serve to reinforce UAB's status as a respected and advancing institution which is responsive to the needs of its customer base.

UAB Tower Main Entrance


UAB Tower Lobby

UAB Tower Lobby

UAB Tower Branch

9. 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 its Program Training sessions, with the sole objective of inducting special-needs citizens into the local community.

UAB is also committed to nurturing home-grown talent as one of our core values. We therefore lead a number of initiatives to ensure we attract and retain Emirati talent.

HE Tariq Sultan bin Khadim, Chairman of Al Thiqah Club for the Handicapped, presenting a token of appreciation to Paul Trowbridge, CEO and Awni Al Alami, Deputy CEO, for UAB's support of Al Thiqah Club

UAB's annual financial contribution to Al Thiqah Club

UAB's Charity Iftar during the holy month of Ramadan 2013 at Al Thiqah Club

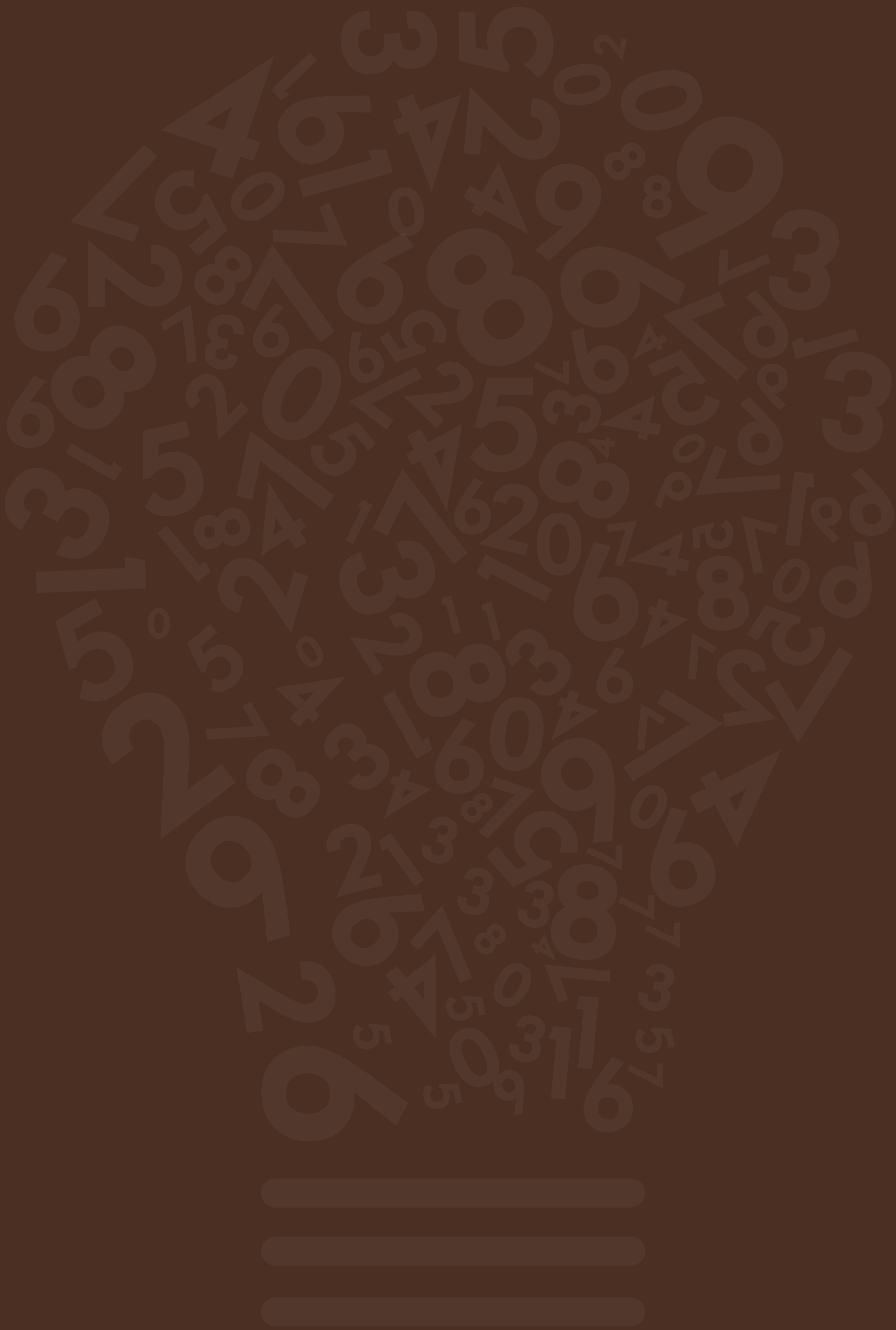
UAB employees celebrate the 42nd UAE National Day in the Head Office

Awni Al Alami, Deputy CEO (center); Sheikh Mohamed Al Nuaimi, EVP; (second from left); Anthony Macrae, EVP - Business Support, and other team members at the 42nd UAE National Day celebrations at UAB's Head Office

Senior management and staff celebrate the 42nd UAE National Day in the Head Office

CORPORATE GOVERNANCE REPORT >

Good corporate governance plays a fundamental role in the culture and business practices of UAB.



INTRODUCTION

UAB Corporate Governance Framework

Good Corporate Governance plays a fundamental role in the culture and business practices of UAB. UAB's Corporate Governance framework relates to the way the business and activities of the Bank are directed and managed taking into account all stakeholders and the role of the Bank in the community.

The Governance framework of UAB ensures adequate Board oversight over the risks inherent to our business. It focuses on the separation of the Board of Directors' and the Executive Management's duties and responsibilities, the effectiveness of the Board and Management Committees, the role of the external and internal auditors, transparency and accurate and timely disclosure of information, and cooperation with supervisory and regulatory authorities to ensure full compliance with applicable regulations and best practices.

UAB complies with each of the Central Bank, UAE Securities and Commodities Authority, and Abu Dhabi Securities Exchange regulatory requirements, and adopts industry best practices.

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 and are regularly posted on the Investor Relations section on our website (www.uab.ae).

Transparency and Disclosure

As part of our efforts to continuously enhance disclosure and transparency, delivering accurate and timely information to our stakeholders is high on the Bank's agenda. Information is distributed through a number of channels including the distribution of press releases, letters and reports. In addition, a dedicated Investor Relations section has been set up as part of the Bank's website (www.uab.ae) through which financial and non-financial reports are communicated. Financial reports include published annual reports and financial results in English and Arabic. Other important documents to shareholders such as the Memorandum and Articles of Association, shareholding structure, share price performance and analysts' reports are also available on the website. Finally, documentation relating to Corporate Governance and related policies are posted on the website and updated following any revision. These include:

- Corporate Governance Policy
- Corporate Social Responsibility Policy
- External Auditor Policy
- Succession Plan Policy
- Code of Ethics
- Whistle Blowing
- AML / KYC Questionnaire

BOARD OF DIRECTORS

Role of the Board of Directors

The Board of Directors is empowered, under the Articles of Association of the Bank, with the widest powers necessary to carry out the activities and functions required to fulfill the objectives of the Bank. The Board responsibilities include establishing the Bank's strategy and ensuring that the Bank manages risk effectively through approving and monitoring the Bank's risk appetite. The Board has overall responsibility for the management of the Bank's activities and affairs. Adopting the Bank's Corporate Governance framework falls within the responsibilities of the Board to help ensure the implementation of solid internal controls and disclosures and the establishment of adequate policies and procedures which are necessary for the Bank's sound operations and compliance with applicable regulatory and statutory requirements at all time.

Role of the Chairman

The Chairman is elected by the Board in accordance with the Articles of Association of the Bank. The position of Chairman of the Board and Bank's Chief Executive Officer at UAB is not held by the same individual.

The Chairman provides leadership for all aspects of the Board's activities and ensures that the Board meets its commitments to comply with the applicable laws and regulations and that all the resolutions adopted by the Board are effectively implemented.

The Chairman's responsibilities include:

- Providing leadership to the Board, setting its agenda, chairing its meetings and ensuring the effective implementation of the Board's decisions
- Ensuring the Board has within its membership the relevant knowledge of the banking industry together with financial and accounting expertise
- Facilitating the effective contribution of Directors and the building of constructive relations between Directors
- Promoting the highest standards of Corporate Governance and ensuring that the Board discharges its duties and complies with relevant laws and regulatory requirements
- Ensuring effective communications with shareholders
- Arranging the regular evaluation of the performance of the Board
- Building an effective Board and plan succession to all Board appointments

Directors Obligations and Duties

Board Members commit to the following obligations in carrying out their duties as Directors of the Board, in accordance with high corporate governance standards:

- Having the necessary skills, qualifications and knowledge of the Bank's affairs and business
- Acting honestly and in good faith with a view to protecting the best commercial interests of the Bank
- Observing confidentiality, conflict of interest and transparency requirements when assuming their responsibilities as Directors
- Acting in accordance with the obligations stipulated under the Articles of Association and all applicable laws and regulations
- Not being convicted of any crime or felony or a crime involving moral turpitude
- Disclosing any direct or indirect interests that they may have in connection with the Bank and which could conflict with the proper performance of their duties
- Attending regularly and participating effectively in Board meetings and general meetings of the shareholders

Board Composition and Nomination

The board is composed of 12 non-executive board members. The members were elected at the Annual General Assembly in February 2012, beginning their respective three-year term of office effective January 1, 2012. Members are eligible for re-election.

5 members represent The Commercial Bank of Qatar, the major shareholder, 2 members represent the founder of the Bank, and the rest represent the private sector and minority shareholders.

The Board collectively possesses professional knowledge, business expertise, industry knowledge and financial awareness to carry out its oversight responsibilities. All Board members are in regular attendance of the meetings.

BOARD MEMBERS PROFILE

Membership of the Board of Directors as at 31 December 2013 comprised:

Sheikh Faisal Bin Sultan Bin Salem Al Qassimi
Chairman
Appointed in 1975

Founder of United Arab Bank, Sheikh Faisal Bin Sultan Bin Salem 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 single 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. He also formerly served as the Chairman of the Board of Arab Organization of Industries and Establishment.

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 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.

External Board Appointments:

- Chairman – GIBCA Group of Companies
- Chairman – Faisal Holding LLC
- Chairman - Grand Stores
- Chairman – Hospitality Management Holdings LLC

Mr. Omar Hussain Alfardan
Vice Chairman
Appointed to the Board in 2007

Chairman – Board Executive Committee

Mr. Alfardan is serving as Vice Chairman of the Board of Directors and represents The Commercial Bank of Qatar, the largest corporate shareholder of United Arab Bank.

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

External Board Appointments:

- Chairman – National Bank of Oman, S.A.O.G.
- Board Member – The Commercial Bank of Qatar, Q.S.C.
- Board Member and Director – Alfardan subsidiaries (Alfardan Jewellery in Qatar and Saudi Arabia, Alfardan Investment and Alfardan Marine Services in Qatar)
- Board Member – United Development Company P.S.C., Qatar
- Director – Marsarabia
- Board Member – Qatar Red Crescent Society

Other External Appointments:

- President & CEO – Alfardan Group Holding, Alfardan Hotels & Resorts, Alfardan Automotive Group (Qatar and Oman) and Alfardan Properties (Qatar and Oman)
- Trustee – American University, Beirut

Sheikh Abdullah Bin Ali Bin Jabor Al Thani
Director
Appointed to the Board in 2008

Chairman - Board Risk Committee

Sheikh Abdullah 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 was re-appointed in 2011 by the AGA.

He holds a BA in Social Science from Qatar University.

External Board Appointments:

- Deputy Chairman of The Commercial Bank of Qatar
- Board Member of National Bank of Oman

Sheikh Mohammed Bin Faisal Al Qassimi
Director
Appointed to the Board in 2011

Member - Board Executive Committee

Member - Board Credit Committee

Sheikh Mohammed Bin Faisal 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.

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

Sheikh Mohammed is a member of CMA and the Society of Technical Analysts of UK.

External Board Appointments:

- Chairman - Manafa LLC

Mr. Andrew C. Stevens
Director
Appointed to the Board in 2007

Member - Board Executive Committee

Member - Board Credit Committee

Mr. Stevens is one of the five directors representing The Commercial Bank of Qatar on the UAB Board. He was previously with Standard Chartered Bank serving in Ireland, Hong Kong, Bahrain and Uganda.

Mr. Stevens graduated from Birmingham University, England with a B.Com (Hons) in Banking and Finance.

External Board Appointments:

- Vice Chairman of Alternatifbank, Turkey
- Director of National Bank of Oman
- President / Chairman of Orient 1 Limited, Bermuda
- Vice Chairman of CBQ Finance Ltd, Bermuda
- Director of QIC International LLC, Qatar

Other External Appointments:

- Group CEO of The Commercial Bank of Qatar
- Member of Visa International Senior Client Council

Mr. Ahmad Mohamed Al Midfa
Director
Appointed to the Board in 1992

Member - Board Credit Committee

Mr. Al Midfa is a prominent businessman with private investment in the real estate, industry, securities and advertising sectors. 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 represents UAE Federation of Chambers of Commerce as a Member in the Joint Chambers of: Arab-German Chamber of Commerce, Italian-Arab Chamber of Commerce, US-Arab Chamber of Commerce and Arab-Portuguese Chamber of Commerce.

External Board Appointments:

- Chairman of Sharjah Chamber of Commerce and Industry
- Chairman of Expo Center Sharjah
- Board Member of the UAE Federation of Chambers of Commerce and Industry
- Chairman of newly formed International association of Exposition Management and Arabian Gulf Chapter

Mr. Mohamed Abdulbaki Mohamed
Director
Appointed to the Board in 2012

Chairman - Board Audit Committee

Member - Board Risk Committee

Member - Board Credit Committee

Mr. Abdulbaki has extensive experience in the banking sector. He previously served as the General Manager of the Emirates Industrial Bank and Acting CEO of the Real Estate Bank. He also served as a 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.

External Board Appointments:

- Chairman and CEO of Petrolcom Oil and Gas Service
- Chairman of the Cristal Hotels and Resorts Management
- Board Director of Arab Fund of Economic and Social Development, Kuwait
- Board Director of Interplast and Cosmoplast

Other External Appointments:

- CEO – Emirates Development Bank

Mr. Ahmed Mohamad Bakheet Khalfan
Director
Appointed to the Board in 2012

Chairman - Board Credit Committee

Member - Board Audit Committee

Member - Board Risk Committee

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

Mr. Nicholas Coleman
Director
Appointed to the Board in 2011

Member - Board Credit Committee

Member - Board Audit Committee

Mr. Coleman represents The Commercial Bank of Qatar. Prior to joining CBQ in 2008, Mr. Coleman held various roles in London with Morgan Stanley, The Bank of New York, National Westminster Bank and Royal Bank of Scotland, as well as Arthur Young in Kuwait.

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

External Board Appointments:

- Director of Alternatifbank, Turkey
- Director of the three financial subsidiary companies of Alternatifbank, Turkey

Ms. Najla Al Midfa
Director
Appointed to the Board in 2012

Member - Board Executive Committee

Ms. Al Midfa is Founder of Khayarat, a social enterprise that enables young Emiratis to make informed career choices and achieve success in the private sector.

In her previous role, as Senior Manager at the Khalifa Fund for Enterprise Development, Ms. Al Midfa led a team of business counselors through the due diligence process: counseling entrepreneurs, evaluating business plans, and selecting ventures for financing. She also designed and led several youth-related initiatives, such as Khalifa Funds Young Entrepreneurs Series.

Prior to joining Khalifa Fund, Ms. Al Midfa 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. Her previous work experience also includes roles within PricewaterhouseCoopers and Shell.

External Board Appointments:

- Member of the Board of Sharjah Business Women Council
- Member of the Board of Young Arab Leaders (UAE Chapter)

Other External Appointments:

- Founding Member of the Women's Corporate Directors (GCC Chapter)
- Fellow of the Aspen Institute's Middle East Leadership Initiative
- Member of the Aspen Institute's Global Leadership Network

Mr. Robert Sharpe
Director
Appointed to the Board in 2012

Member - Board Audit Committee

Member - Board Risk Committee

Mr. Sharpe has over 30 years of 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. He represents The Commercial Bank of Qatar.

Prior to his current role, he was the Chairman of a Joint Venture between Barclays Bank and HSBC covering all their UK cash payment processes and was an Independent Director on the Board of the Barclays Bank Global Pension Fund.

External Board Appointments:

- Board Member of the National Bank of Oman
- Board Member of Alternatifbank, Turkey

Mr. Ahmed Salem Abdulla Salem Al Hosani
Director
Appointed to the Board in 2012

Member - Board Audit Committee

Mr. Al Hosani was elected to the Board of Directors of United Arab Bank at the 2012 Annual General Meeting.

He holds a Master of Science in Business Management from the University of Wales.

External Board Appointments:

- Member of the Board of Directors of Ras Al Khaimah National Insurance Company
- Member of the Board of Directors of Pharmaceutical Industries Company (Julphar)

Other External Appointments:

- Real Estate Development Manager at Al Sahel Real Estate Company

BOARD ACTIVITIES IN 2013

The Board of Directors met 6 times in 2013 and received information in between meetings on regular basis from the Board and Management Committees in relation to the Bank's business developments.

2013 Board Meetings Calendar:

January 23, 2013	Approval of 2012 financial results and invitation of Annual Shareholders Meeting
February 27, 2013	Review of YTD financial and business performance
April 24, 2013	Review of YTD financial and business performance and approval of Q1 financial results
June 12, 2013	Review of YTD financial and business performance
October 23, 2013	Review of YTD financial and business performance and approval of Q3 financial results
December 11, 2013	Review of YTD financial and business performance and 2014 budget approval

Performance Evaluation of Board and Board Committees

The Risk Committee reviews on an annual basis the performance of the Board against its terms of reference and reports accordingly to the Board of Directors.

Board of Directors

Executive Committee (EXCOB)

Credit Committee (BCC)

Chief Executive Officer (Paul Trowbridge)

Deputy CEO (Awni Al Alami)

EVP - Wholesale (Howard Kitson)

EVP - Retail Banking (Tony Graham)

Chief Risk Officer (Bede Pohlen)

EVP - Ops, Org & IT (Abdelhamid Ghazouani)

Management Committees:

Executive Management Committee (EXCOM)

Business Technology Investment Co. (BTIC)

Asset & Liability Committee (ALCO)

Premises Steering Committee (PSC)

Company Secretary
(Rima G. Boutros)

Risk Committee
(BRC)

Audit Committee
(BAC)

SVP -
Chief Audit Executive
(Faisal Hameed)

Chief Financial Officer
(Brian West)

EVP - Business Support
(Tony Macrae)

EVP
(Sh. Mohamed
Al Nuaimi)

SVP - Head of Treasury
(Sarfraz Rizvi)

VP - Corporate
Communications
(Jehad Saleh)

General Management
Credit Co. (GMCC)

Management Investment Co.
(MIC)

General Management Risk Co.
(GMRC)

BOARD COMMITTEES

The UAB Board of Directors established the following Board Committees to assist the Board in carrying out its duties and obligations and offer a more detailed review of important areas of responsibility.

BOARD EXECUTIVE COMMITTEE (“EXCOB”)

The Executive Committee acts on behalf of the Board or any of its sub-committees when they are not in session, except for those powers and actions that are restricted to the Board on the basis of legal provisions or the Bank’s Articles of Association.

The Executive Committee is responsible for the development and overseeing of the Bank’s long term strategy and its implementation, review and recommendation of the Bank’s annual budgets and business plans, review of the Bank’s financial and operating performance, and handling of other matters including (but without limitation) corporate governance, compensation, and Human Resources.

Members:

- Mr. Omar Alfardan - Chairman
- Sheikh Mohammed Bin Faisal Al Qassimi – Member
- Mr. Andrew C. Stevens - Member
- Ms. Najla Al Midfa - Member

The Executive Committee meets at least 4 times a year. In 2013, the Executive Committee held 8 meetings.

BOARD AUDIT COMMITTEE (“BAC”)

The Audit Committee monitors the integrity of the Bank’s financial statements, the soundness of internal controls, the compliance with legal and regulatory requirements, the independence and qualifications of the external auditor, and the performance, output and reports submitted by the internal audit function.

Members:

• Mr. Mohammed Abdulbaki Mohamed	Chairman
• Mr. Ahmed Bakheet Khalfan	Member
• Mr. Nicholas Coleman	Member
• Mr. Ahmed Salem Al Hosani	Member
• Mr. Robert Sharpe	Member

The Audit Committee meets at least 4 times per year. In 2013, the Audit Committee held 4 meetings and had previously met 4 times as part of the BARC (Board Audit and Risk Committee) prior to its separation into two different committees namely the Audit Committee and the Risk Committee.

The internal audit function has a direct reporting line to the Board Audit Committee.

BOARD RISK COMMITTEE ("BRC")

The Risk Committee monitors and is responsible for all aspects of enterprise risk management including, (but without limitation to) credit risk, market risk, operational risk, legal risk, regulatory risk, liquidity risk, and financial risks. The Committee is responsible for reviewing and approving the policies on all risk issues and maintaining oversight of the Bank's risks through reports received from the General Management Risk Committee.

Members:

- Sheikh Abdullah Bin Ali Bin Jabor Al Thani - Chairman
- Mr. Mohammed Abdulbaki Mohamed - Member
- Mr. Robert Sharpe - Member
- Mr. Ahmed Bakheet Khalfan - Member

The Risk Committee meets at least 4 times per year. In 2013, the Risk Committee held 2 meetings and had previously met 4 times as part of the BARC (Board Audit and Risk Committee) prior to its separation into two different committees namely the Audit Committee and the Risk Committee.

BOARD CREDIT COMMITTEE ("BCC")

The Board Credit Committee is responsible for evaluating and granting counter party credit facilities and approving the Bank's investment activities within authorized limits.

Members:

- Mr. Ahmed Bakheet Khalfan - Chairman
- Sheikh Mohammed Bin Faisal Al Qassimi - Member
- Mr. Andrew C. Stevens - Member
- Mr. Nicholas Coleman - Member
- Mr. Mohamed Abdulbaki Mohamed - Member
- Mr. Ahmed Mohamed Hamad Al Midfa - Member

The Credit Committee is held on an adhoc basis. In 2013, the Credit Committee held 13 meetings.

MANAGEMENT COMMITTEES

The Bank has 7 Management Committees:

EXECUTIVE MANAGEMENT COMMITTEE ("EXCOM")

The Executive Management Committee is responsible for recommending strategy, monitoring performance in relation to the business of UAB, and ensuring compliance with legal and regulatory requirements and internal policies.

GENERAL MANAGEMENT RISK COMMITTEE ("GMRC")

The General Management Risk Committee is the highest ruling authority at management level on all aspects of enterprise risk management including: credit risk, market risk, operational risk, legal risk, regulatory risk, liquidity risk, financial risk, and all audit matters of the Bank.

GENERAL MANAGEMENT CREDIT COMMITTEE ("GMCC")

Deriving its authority from the Board Credit Committee, the General Management Credit Committee is the highest management level authority on all counterparty risk exposures, credit product programmes and underwriting exposures on syndications and securities transactions.

BUSINESS TECHNOLOGY INVESTMENT COMMITTEE ("BTIC")

The mandate of the Business Technology Investment Committee is to align technology initiatives with UAB business strategy, by setting the strategic technology direction and monitoring progress of the efficient and effective operations of the Bank's systems.

ASSET AND LIABILITY COMMITTEE ("ALCO")

ALCO is a decision making body for developing policies relating to asset, liability and market risk management (i.e. balance sheet structure, funding, pricing, hedging, investment, and limits).

MANAGEMENT INVESTMENT COMMITTEE ("MIC")

The Management Investment Committee is mandated to manage the Bank's investments under the direct supervision of the CEO.

PREMISES STEERING COMMITTEE ("PSC")

The Premises Steering Committee is mandated to monitor the development and efficient use of the Bank's premises, grounds, and extended facilities.

INTERNAL AUDIT

UAB's Internal Audit Department (IAD) is positioned as the third line of defence within the Bank's governance framework, providing independent assurance over both the first line (business units and process owners) and the second line (independent risk, compliance and control monitoring functions).

IAD helps the Bank to achieve its objectives by providing objective and independent assurance that UAB's governance, risk management, compliance and internal control processes are designed and operating effectively and makes recommendations to enhance these where applicable.

This is achieved through a suite of audit assurance and advisory services and by reporting on the timely implementation of audit recommendations by management.

The IAD reports functionally to the Board of Directors, through the Board Audit Committee (BAC), and reports administratively to the CEO.

The IAD is represented on relevant management and risk / governance forums and also liaises with external stakeholders such as the external auditors and the Central Bank examination teams as required for sharing Internal Audit approach and results.

The independence of the IAD is further ensured by the direct approval by the BAC of the following:

- The Internal Audit Charter and Policy;
- Internal Audit resources;
- The Internal Audit Plan;
- The Internal Audit Risk Assessment methodology;
- The performance objectives and appraisal of the Chief Audit Executive;

The Internal Audit plan is developed based on using a risk assessment and additional matrix input from senior management and is approved by the BAC. It is reviewed dynamically during the year to incorporate relevant changes, as approved by the BAC.

The BAC periodically reviews the level of resources available to the IAD, to ensure alignment of resources with the strategic plans and growth targets of the Bank.

The Chief Audit Executive presents regular updates of IAD performance against plan and objectives to the BAC and management.

SHAREHOLDERS PROFILE

Meeting of the Shareholders

The Annual General Meeting (AGM) is the meeting of the UAB shareholders, the supreme governance body of the Bank. The Articles of Association of the Bank (Section V) provides the statutory framework for the calling and the conduct of the Annual General Meeting (AGM) and Extraordinary General Meeting (EGM).

The AGM is held during the first four months of the year. The usual business of the AGM covers the following:

- To receive the end of year financial statements, the Board of Directors' report and External Auditor's Report
- To consider and approve the proposal of the Board of Directors regarding the distribution of dividends
- To absolve the Board members and the external auditors from any liability for the previous year
- To consider and approve the Directors' Remuneration
- To appoint the external auditors for the next financial year
- To elect the Board of Directors

Shareholders may convene under the EGM which is called to take decisions on items other than those falling under the remit of the AGM. The Statutory framework for the calling, conduct and remit of the EGM is stipulated under the Articles of Association of the Bank.

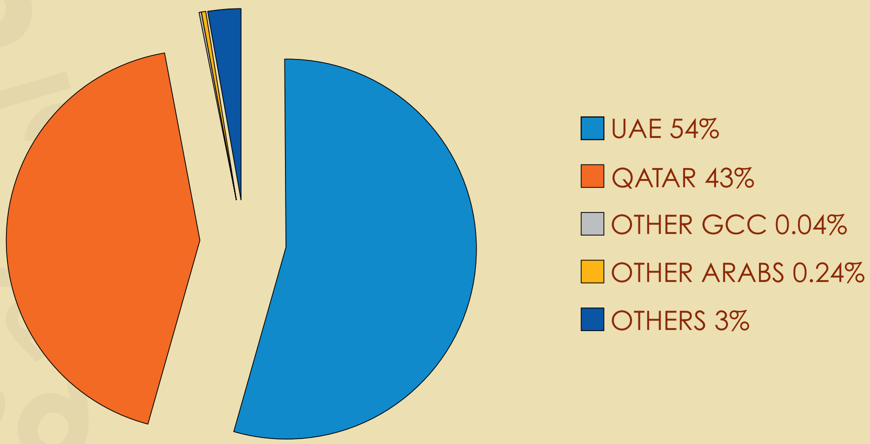
Last year's AGM took place on February 27, 2013.

Major Shareholders

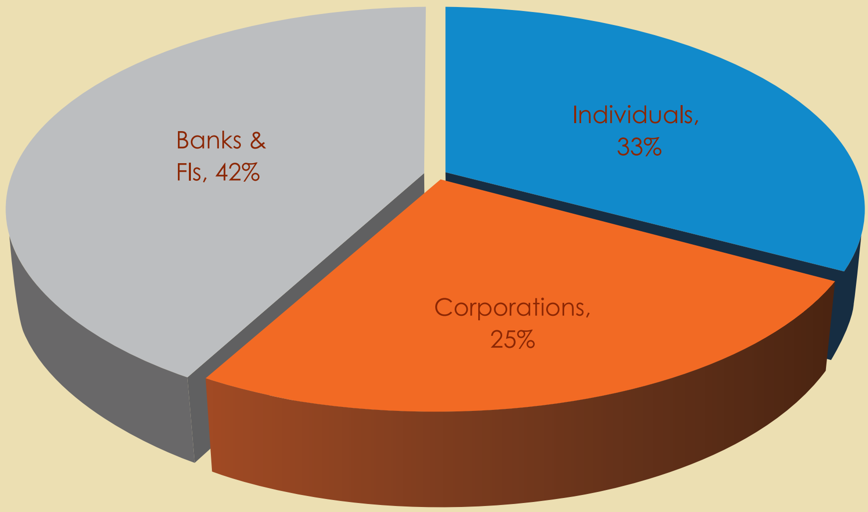
List of major Shareholders who owned 5% of total shares and above as at December 31, 2013:

• Commercial Bank of Qatar	40.00%
• Sheikh Faisal Bin Sultan Bin Salem Al Qassimi	8.31%
• GIBCA Limited Company	5.64%
• Salem Abdulla Salem Al Hossani	5.31%
• Jumaa Al Majed Abdullah Muheiri	5.24%

Shareholding by Nationality*



Shareholding by Category*



*Total might not equal 100% due to rounding

BOARD OF DIRECTORS' REPORT >

With such strong performance in 2013, the Bank is well placed to confidently move into 2014, where we anticipate continued business growth across all segments whilst continuing to introduce and implement best practice risk management techniques.

DIRECTORS REPORT
Year ended 31 December 2013

On behalf of the Board of Directors of United Arab Bank, it gives me great satisfaction to present the Annual Report for the year ended 31 December 2013.

2013 delivered signs of much needed recovery following a prolonged period of global economic uncertainty that originated with the financial crisis of 2008. Locally, the UAE's Gross Domestic Product (GDP) continued to rise, while Dubai's successful EXPO 2020 bid reflects a growing sense of optimism for the medium term.

Given this improving economic backdrop, the Bank continued its upward trajectory and further capitalised on the solid platform laid down in recent years. With the guidance of its Alliance partner, The Commercial Bank of Qatar, UAB's customer-centric strategy delivered growth across all business units and again helped UAB capture market share. This was achieved by extending our products and services and broadening our delivery channels, as well as maintaining a prudent approach to risk management and improving operational efficiency.

The continuation of our growth strategy allowed UAB to report record financial results for the year ended 31 December 2013. Net Profits of AED552mn represents an increase of 35% over 2012, with Operating Profit before Loan Loss Provisions of AED721mn, a similarly impressive 36% uplift on prior year.

Across the 12 month period, all business units, Corporate, Retail and SME, contributed to significant Balance Sheet growth. Customer Loans & Advances increased by 40% to AED15.29bn, whilst Customer Deposits generated equally impressive performance, up 49% to AED15.03bn. This growth ensures the Bank will continue to benefit from a solid and sustainable platform to support future expansion plans moving forward.

With such strong performance in 2013, the Bank is well placed to confidently move into 2014, where we anticipate continued business growth across all segments whilst continuing to introduce and implement best practice risk management techniques. The Board of Directors proposes the following appropriations of profit for the year ended 31 December 2013, subject to the approval of the Central Bank:

	(AED'000)
Opening Balance in Retained Earnings at 1 January	**545,155**
Profit for the year	552,479
Transfers from Revaluation Reserve	10,256
Dividend paid relating to 2012	(249,100)
Balance available for appropriation	**858,790**
Proposed Appropriation of Profit	
Transfer to Special Reserve	(55,248)
Transfer to Statutory Reserve	(55,248)
Directors' Remuneration	(10,800)
Closing Balance in Retained Earnings at 31 December	**737,494**

After the proposed appropriation of profit, and subject to the General Assembly's approval, total Shareholders' Funds will increase to AED2.482bn at 31 December 2013 compared with AED2.248bn at the end of 2012. The Directors propose that a cash dividend of 15% of the Paid up Capital is paid in 2014 amounting to AED149.5mn, along with a scrip dividend of 15% of the Paid up Capital, subject to the approval of the UAE Central Bank and the General Assembly.

2013 has been a truly outstanding year for the Bank. On behalf of the Board of Directors, my sincere appreciation goes to our valued shareholders and customers and to all members of management and staff for their professionalism and commitment. We also wish to acknowledge 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 ongoing support of the financial and banking sectors in the UAE. And last but not least, we would like to highlight our appreciation to the UAE Central Bank and to all our regulators for their continuous and beneficial support. UAB looks forward to further success as we move into 2014 and beyond.

Faisal Bin Sultan Bin Salem Al Qassimi
Chairman
22 January 2014

CONSOLIDATED FINANCIAL STATEMENTS

CONTENTS

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

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of United Arab Bank P.J.S.C. ("the Bank") and its subsidiary ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2013, the consolidated statement of income and consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' 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 our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider 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 at 31 December 2013, 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

As required by the UAE Federal Law No.8 of 1984 (as amended), we further confirm that we have obtained all information and explanations necessary for our audit; the consolidated financial statements comply, in all material respects, with the applicable requirements of the UAE Federal Law (8) of 1984 (as amended), Union Law no.10 of 1980 and the Articles of Association of the Bank; that proper financial records have been kept by the Bank; and the contents of the Directors' report which relate to these consolidated financial statements are in agreement with the Bank's financial records. We are not aware of any violation of the above mentioned Laws and the Articles of Association having occurred during the year ended 31 December 2013, which may have had a material adverse effect on the business of the Bank or its financial position.

Other Matter

The consolidated financial statements of the Group as at 31 December 2012 were audited by another auditor whose report dated 23 January 2013 expressed an unqualified opinion on the consolidated financial statements.

For KPMG

KPMG

Signed by:
Vijendra Nath Malhotra
Registration No.: 48B

22 January 2014

UNITED ARAB BANK P.J.S.C.
CONSOLIDATED STATEMENT OF INCOME
For the year ended 31 December 2013

	Notes	**2013 AED'000**	2012 AED'000
Interest income	4	**962,531**	720,691
Interest expense	5	**(171,972)**	(153,642)
NET INTEREST INCOME		**790,559**	567,049
Net fees and commission income		**110,272**	80,597
Net exchange income arising from dealing in foreign currencies		**57,627**	36,247
Other operating income	6	**81,037**	81,135
TOTAL OPERATING INCOME		**1,039,495**	765,028
Provision for credit losses	7	**(168,464)**	(121,605)
NET OPERATING INCOME		**871,031**	643,423
Personnel expenses		**(202,937)**	(144,646)
Depreciation on property and equipment	8	**(15,896)**	(12,418)
Other operating expenses		**(99,719)**	(76,541)
TOTAL OPERATING EXPENSES		**(318,552)**	(233,605)
PROFIT FOR THE YEAR		**552,479**	409,818
EARNINGS PER SHARE	9	**AED 0.54**	AED 0.40

The attached notes 1 to 27 form part of these consolidated financial statements.

UNITED ARAB BANK P.J.S.C.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2013

	Notes	2013 AED'000	2012 AED'000
Profit for the year		**552,479**	409,818
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Net unrealised (loss) / gain on available for sale investments	19	**(56,311)**	6,120
Reversal of (gain) / loss on sale / redemption of available for sale investments	19	**(4,456)**	15,057
Unrealised gain on cash flow hedges	19	**2,772**	-
Net loss on revaluation of property and equipment	8	**(928)**	(6,465)
		(58,923)	14,712
Total comprehensive income for the year		**493,556**	424,530

The attached notes 1 to 27 form part of these consolidated financial statements.

UNITED ARAB BANK P.J.S.C.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2013

	Notes	2013 AED'000	2012 AED'000
ASSETS			
Cash and balances with UAE Central Bank	10	**1,301,775**	1,132,160
Due from banks	11	**1,848,253**	1,332,281
Loans and advances	7	**15,285,481**	10,881,493
Investments	12	**1,615,417**	1,336,480
Investment properties	13	**73,802**	12,900
Property and equipment	8	**212,292**	171,125
Other assets	14	**1,212,736**	749,428
TOTAL ASSETS		**21,549,756**	15,615,867
LIABILITIES AND SHAREHOLDERS' FUNDS			
LIABILITIES			
Due to banks		**1,097,174**	1,771,872
Customers' deposits	15	**15,034,837**	10,094,283
Medium term borrowings	16	**1,652,445**	642,617
Other liabilities	17	**1,283,769**	859,220
TOTAL LIABILITIES		**19,068,225**	13,367,992
SHAREHOLDERS' FUNDS			
Share capital	18	**996,401**	996,401
Special reserve	18	**352,118**	296,870
Statutory reserve	18	**434,673**	379,425
General reserve	18	**9,311**	9,311
Revaluation reserve	18	**3,409**	14,593
Retained earnings		**737,494**	545,155
Cumulative changes in fair values	19	**(51,875)**	6,120
TOTAL SHAREHOLDERS' FUNDS		**2,481,531**	2,247,875
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		**21,549,756**	15,615,867

The financial statements were approved by the Board of Directors on 22 January 2014 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 27 form part of these consolidated financial statements.

UNITED ARAB BANK P.J.S.C.
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2013

	Notes	2013 AED'000	2012 AED'000
OPERATING ACTIVITIES			
Profit for the year		**552,479**	409,818
Items not involving cash flow:			
Depreciation	8	**15,896**	12,418
Provision for credit losses	7	**168,464**	121,605
Items considered separately:			
Net gain on sale of available for sale investments		**(18,856)**	(39,326)
Fair valuation gain on investment properties	13	**-**	(1,192)
Gain on sale of investment properties	13	**(2,600)**	-
Changes in operating assets and liabilities:			
Loans and advances		**(4,572,452)**	(2,946,797)
Due from UAE Central Bank		**(286,135)**	(218,631)
Cash margin held by counterparty banks against borrowings and derivative transactions	11	**68**	3,329
Other assets	14	**(463,308)**	(89,069)
Due to banks maturing after three months		**(222,372)**	688,532
Customers' deposits	15	**4,940,554**	2,270,854
Other liabilities	17	**424,549**	148,824
Net cash flows from operating activities		**536,287**	360,365
INVESTING ACTIVITIES			
Purchase of property and equipment	8	**(76,019)**	(83,853)
Purchase of investment properties	13	**(73,802)**	(11,708)
Purchase of investments		**(1,767,957)**	(2,502,304)
Proceeds from redemption / sale of investments		**1,449,881**	1,821,990
Proceeds from sale of investment properties		**15,500**	-
Proceeds from disposal of property and equipment		**18,028**	-
Net cash flows used in investing activities		**(434,369)**	(775,875)

The attached notes 1 to 27 form part of these consolidated financial statements.

UNITED ARAB BANK P.J.S.C.
CONSOLIDATED STATEMENT OF CASH FLOWS (continued)
For the year ended 31 December 2013

	Notes	**2013 AED'000**	2012 AED'000
FINANCING ACTIVITIES			
Medium term borrowings	16	**1,009,828**	642,617
Directors' remuneration		**(10,800)**	(8,400)
Cash dividends paid		**(249,100)**	(199,280)
Net cash flows from financing activities		**749,928**	434,937
INCREASE IN CASH AND CASH EQUIVALENTS		**851,846**	19,427
Cash and cash equivalents at 1 January		**1,263,050**	1,243,623
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**2,114,896**	1,263,050

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

Cash and balances with UAE Central Bank	**437,681**	554,201
Due from banks maturing within three months	**1,840,144**	1,324,104
Due to banks maturing within three months	**(162,929)**	(615,255)
	2,114,896	1,263,050

UNITED ARAB BANK P.J.S.C.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2013

	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 2013	996,401	296,870	379,425	9,311	14,593	545,155	6,120	2,247,875
Profit for the year	-	-	-	-	-	552,479	-	552,479
Other comprehensive income for the year	-	-	-	-	(928)	-	(57,995)	(58,923)
Total comprehensive income for the year	-	-	-	-	(928)	552,479	(57,995)	493,556
Depreciation transfer for land and building	-	-	-	-	(58)	58	-	-
Revaluation transfer for land and building	-	-	-	-	(10,198)	10,198	-	-
Dividend paid (note 18)	-	-	-	-	-	(249,100)	-	(249,100)
Directors' remuneration	-	-	-	-	-	(10,800)	-	(10,800)
Transfer to special reserve	-	55,248	-	-	-	(55,248)	-	-
Transfer to statutory reserve	-	-	55,248	-	-	(55,248)	-	-
At 31 December 2013	**996,401**	**352,118**	**434,673**	**9,311**	**3,409**	**737,494**	**(51,875)**	**2,481,531**

	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	21,177
Total comprehensive income for the year	-	-	-	-	(6,465)	409,818	21,177	424,530
Depreciation transfer for land and building	-	-	-	-	(613)	(613)	-	(199,280)
Dividend paid (note 18)	-	-	-	-	-	(249,100)	-	(249,100)
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 2013	996,401	296,870	379,425	9,311	14,593	545,155	6,120	2,247,875

UNITED ARAB BANK P.J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2013

1 INCORPORATION AND ACTIVITIES

United Arab Bank P.J.S.C. (the "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 out the business of commercial banking through its offices and branches in the United Arab Emirates. The Bank also carries out Islamic banking operations through Islamic banking windows at selected branches.

Investment in subsidiary
On 28 November 2011, Al Sadarah Investment Company was formed as an investment company by the Bank. Al Sadarah Investment Company ("the subsidiary") 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 Bank and the financial results of the subsidiary are fully consolidated in the Bank's consolidated financial statements for the period ended 31 December 2013. The Bank and its subsidiary are together referred to as the "Group".

The issued and fully paid up capital of the Al Sadarah Investment Company is 100 shares of AED 3,000 each, totalling AED 300,000 (31 December 2012: AED 300,000). The 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

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 measurement
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, land and buildings and investment properties. 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.

Functional and presentation currency
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.

Significant management judgements and estimates
The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

UNITED ARAB BANK P.J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2013

2 BASIS OF PREPARATION (continued)

Significant management judgements and estimates (continued)
Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation and uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described below:

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 held for 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.

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 financial statements continue to be prepared on the going concern basis.

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded in the 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 is 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

UNITED ARAB BANK P.J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2013

2 BASIS OF PREPARATION (continued)

Impairment of investments (continued)
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.

Impairment losses on loans and advances
The Group reviews its individually significant loans and advances at each statement of financial position date to assess whether a provision for impairment should be recorded in the statement of income. 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 set out below have been applied consistently to all periods presented in these financial statements and have been applied consistently by the Group except for the adoption of new IFRSs which became effective as of 1 January 2013.

Basis of consolidation
The consolidated financial statements comprise the financial statements of the Bank and its subsidiary as at 31 December 2013 (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

UNITED ARAB BANK P.J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2013

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)
Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect these returns through its power over the investee.

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.

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.

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.

UNITED ARAB BANK P.J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2013

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents
Cash and cash equivalents as referred to in the 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.

Financial instruments
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument for another entity.

Classification
The Group classifies its financial assets at initial recognition in the following categories:

- Financial assets at fair value through profit or loss: This category has two sub-categories: financial assets held for trading and those designated to be fair valued through profit or loss ("FVPL") at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorized as held for trading unless they are designated as hedges.

- Loans and advances: This category comprises of non-derivative financial assets with fixed and determinable payments that are not quoted in an active market. They arise when the Group provides money directly to the borrower with no intention of trading the receivable.

- Held-to-maturity: Investments classified as held-to-maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the intention of, and the ability to, hold to maturity.

- Available-for-sale: Investments classified as Available-for-sale are those non-derivative financial assets that are designated as available-for-sale or not classified as (a) loans and advances; (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Recognition and initial measurement
The Group initially recognises loans and advances and deposits on the date at which they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

De-recognition
Financial assets are derecognised when the contractual rights to receive cash flows from the asset expire or where the Group has transferred substantially all the risks and rewards of ownership. A financial liability is derecognised when its contractual obligations are discharged, cancelled or expire.

UNITED ARAB BANK P.J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2013

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Subsequent measurement

Subsequent to initial recognition, all financial instruments to be fair valued through profit or loss and available-for-sale assets are measured at fair value, except any instrument that does not have a reliably measurable fair value, in which case financial instruments are measured as set out in the fair value measurement principles below.

All held-to-maturity financial instruments and loans and advances are measured at amortized cost using the effective interest method less impairment losses, if any.

Gains and losses on subsequent measurement

Gains and losses arising from changes in the fair value of the investments at fair value through profit or loss are included in the consolidated statement of income in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale investments are recognised directly in equity through other comprehensive income, until the financial assets are derecognized or impaired, at which time the cumulative gain or loss previously recognized in equity is recognised in the consolidated statement of income. In cases where available-for-sale investments with a fixed maturity are reclassified to held-to-maturity investments, the fair value gains or losses up until the date of the reclassification are held in equity and amortized to the consolidated statement of income over the remaining life of the held-to-maturity investments using the effective interest rate method.

Amortized cost measurement principles

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal re-payments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts including initial transaction costs are included in the carrying amount of the related instrument.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When applicable, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Group uses valuation techniques that maximize the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability, nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference

UNITED ARAB BANK P.J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2013

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)
between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk, are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

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 statement of income 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 statement of income 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, plant and equipment up to the date of change in use.

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.

UNITED ARAB BANK P.J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2013

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)
Revaluation of land and buildings 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 statement of financial position 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

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

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 statement of income in the year the asset is derecognised.

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 statement of income net of any reimbursement.

UNITED ARAB BANK P.J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2013

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 statement of income in 'Provision for credit losses'. The premium received is recognised in the consolidated statement of income in 'Net fees and commission income' on a straight line basis over the life of the guarantee.

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 statement of income 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. In the normal course of business, the fair value of a derivative on initial recognition is the transaction price. Subsequent to their initial recognition, derivative financial instruments are stated at fair values. 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 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 statement of income.

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, as to whether the hedging instrument(s) is / are expected to be 'highly effective' in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent.

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.

UNITED ARAB BANK P.J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2013

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivatives (continued)

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 statement of income. The gains or losses on cash flow hedges recognised initially in other comprehensive income are transferred to the consolidated statement of income 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 statement of income 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 a transaction occurs, the gain or loss retained in cumulative changes in fair values is recognised in the consolidated statement of income 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 statement of income.

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 statement of income. These embedded derivatives are measured at fair value with the changes in fair value recognised in the consolidated statement of income.

Impairment and uncollectibility of financial assets

The Group assesses at each statement of financial position 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.

UNITED ARAB BANK P.J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2013

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment and uncollectibility of financial assets (continued)
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 statement of income. 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 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 'Provision for credit losses'.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate ("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

UNITED ARAB BANK P.J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2013

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment and uncollectibility of financial assets (continued)
(i) Financial assets carried at amortised cost **(continued)**
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.

(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 statement of income – is removed from other comprehensive income and recognised in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; 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 statement of income.

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 statement of income, the impairment loss is reversed through the consolidated statement of income.

(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.

UNITED ARAB BANK P.J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2013

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 statement of income.

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.

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 financial statements.

Offsetting
Financial assets and financial liabilities are only offset and the net amount reported in the 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 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 mid-market rates of exchange ruling at the balance sheet date. Any resultant gains and losses are taken to the consolidated statement of income.

UNITED ARAB BANK P.J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2013

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 statement of financial position date are disclosed as an event after the statement of financial position date.

New standards and interpretations not yet adopted
A number of new standards and interpretations are not yet effective for the year ended 31 December 2013 and have not been early adopted in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below.

IFRS No.	Title	Effective for annual period beginning on or after
IFRS 9	Financial Instruments	Date to be finalised
IAS 32 (Amendment)	Financial Instruments (Presentation)	1 January 2014

Management is currently assessing the impact of these standards and interpretations in the consolidated financial statements.

4 INTEREST INCOME

	2013	*2012*
	AED'000	*AED'000*
Interest on loans and advances to customers	**877,260**	664,097
Interest on money market and inter bank transactions	**11,639**	15,217
Interest on investments	**73,632**	41,377
	962,531	720,691

5 INTEREST EXPENSE

	2013	*2012*
	AED'000	*AED'000*
Interest on customer deposits	**139,374**	132,715
Interest on inter bank transactions	**32,598**	20,927
	171,972	153,642

UNITED ARAB BANK P.J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2013

6 OTHER OPERATING INCOME

	2013 AED'000	2012 AED'000
Charges recovered from customers	**27,492**	20,975
Other banking income	**16,865**	15,225
Income from collections	**5,267**	4,707
Others	**31,413**	40,228
	81,037	81,135

7 LOANS AND ADVANCES

	2013 AED'000	2012 AED'000
The composition of the loans and advances portfolio is as follows:		
(a) By type:		
Overdrafts	**1,553,771**	1,305,880
Loans (medium and short term)*	**11,144,822**	7,588,016
Loans against trust receipts	**1,820,145**	1,393,290
Bills discounted	**851,670**	633,676
Other cash advances	**75,821**	34,804
Bills drawn under letters of credit	**127,187**	104,014
Gross amount of loans and advances	**15,573,416**	11,059,680
Less: Provision for impairment on loans and advances	**(263,802)**	(164,056)
Interest in suspense	**(24,133)**	(14,131)
Net loans and advances	**15,285,481**	10,881,493

* Includes retail loans of AED 4,559,600,000 (2012: AED 3,160,051,000)

UNITED ARAB BANK P.J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2013

7 LOANS AND ADVANCES (continued)

	2013 AED'000	*2012 AED'000*
(b) By economic sector:		
Government and public sector	**1,472,428**	715,871
Trade	**2,251,930**	1,882,602
Personal loans (retail and business)	**6,728,166**	4,298,409
Manufacturing	**2,051,194**	1,892,247
Construction	**640,760**	591,197
Services	**1,139,027**	815,862
Financial institutions	**914,329**	565,656
Transport and communication	**323,191**	262,066
Agriculture	**9,804**	4,255
Others	**42,587**	31,515
Gross amount of loans and advances	**15,573,416**	11,059,680

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:

	2013		*2012*	
	Interest in suspense AED'000	**Impairment provisions AED'000**	*Interest in suspense AED'000*	*Impairment provisions AED'000*
Balance at 1 January	**14,131**	**164,056**	8,015	95,781
Suspended/provided during the year	**11,098**	**174,757**	9,617	125,155
Released during the year	**(1,096)**	**(6,293)**	(2,472)	(3,550)
	10,002	**168,464**	7,145	121,605
Amounts written off during the year	**-**	**(68,718)**	(1,029)	(53,330)
Balance at 31 December	**24,133**	**263,802**	14,131	164,056

At 31 December 2013, 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 246,016,000 (2012: AED 175,744,000).

UNITED ARAB BANK P.J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2013

7 LOANS AND ADVANCES (continued)

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

	2013		*2012*	
	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	**117,521**	**62,532**	84,037	36,619
Personal loans (retail and business)	**79,839**	**26,071**	74,487	29,623
Manufacturing	**3,189**	**1,767**	2,561	2,519
Construction	**31,898**	**10,097**	2,096	1,314
Services	**10,032**	**9,613**	9,297	4,742
Transport and communication	**3,526**	**3,389**	3,252	3,252
Agriculture	**11**	**11**	14	14
Total	**246,016**	**113,480**	175,744	78,083

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 2013 amounts to AED 61,490,000 (2012: AED 82,295,000). The collateral consists of cash, securities, letters of guarantee and properties.

Collateral repossessed
During the year, the Group did not repossess any material amounts of collateral.

UNITED ARAB BANK P.J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2013

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 2013	**39,363**	**103,183**	**96,449**	**238,995**
Additions	**-**	**7,776**	**68,243**	**76,019**
Transfers	**81,830**	**77,613**	**(159,443)**	**-**
Transfer to Investment Property	**(7,332)**	**-**	**-**	**(7,332)**
Loss on revaluation	**(928)**	**-**	**-**	**(928)**
Disposals	**(16,591)**	**-**	**-**	**(16,591)**
At 31 December 2013	**96,342**	**188,572**	**5,249**	**290,163**
Depreciation:				
At 1 January 2013	**7,028**	**60,842**	**-**	**67,870**
Charge for the year	**443**	**15,453**	**-**	**15,896**
Disposals	**(5,895)**	**-**	**-**	**(5,895)**
At 31 December 2013	**1,576**	**76,295**	**-**	**77,871**
Net carrying value:				
At 31 December 2013	**94,766**	**112,277**	**5,249**	**212,292**

	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

UNITED ARAB BANK P.J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2013

8 PROPERTY AND EQUIPMENT (continued)

The cost of freehold land included above is AED Nil (2012: AED 5,224,000).

During 2013, 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 68,243,000 (2012: AED 75,007,000). Upon completion of the projects, AED 159,443,000 (2012: AED 20,630,000) was transferred to 'freehold land and buildings' and 'motor vehicles, furniture, fixtures and equipment'.

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 buildings were measured using the cost model, the net carrying amount at 31 December 2013 would be AED93,884,000 (2012: AED11,963,000).

9 EARNINGS PER SHARE

Basic 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:

	2013	*2012*
Profit for the year net of directors' remuneration of AED 10,800,000 (2012: AED 8,400,000)	**AED 541,679,000**	AED 401,418,000
Weighted average number of shares of AED 1 each outstanding during the year	**996,401,280**	996,401,280
Basic earnings per share	**AED 0.54**	AED 0.40

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

UNITED ARAB BANK P.J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2013

10 CASH AND BALANCES WITH UAE CENTRAL BANK

	2013 AED'000	2012 AED'000
Cash on hand	**84,367**	64,875
Balances with UAE Central Bank:		
Clearing accounts	**353,314**	489,326
Reserve requirements	**864,094**	477,959
Certificates of deposit	**-**	100,000
	1,301,775	1,132,160

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 in 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 1,290,688,000 (2012: AED 803,839,000) placed with foreign banks outside the UAE. AED 8,109,000 (2012: AED 8,177,000) is held as margin for derivative transactions.

12 INVESTMENTS

	2013			2012		
	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

UNITED ARAB BANK P.J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2013

12 INVESTMENTS (continued)

	2013			2012		
	Quoted AED'000	Unquoted AED'000	Total AED'000	Quoted AED'000	Unquoted AED'000	Total AED'000
Available for sale						
Local	**1,488,478**	**-**	**1,488,478**	1,145,458	-	1,145,458
Overseas	**115,384**	**-**	**115,384**	168,093	-	168,093
	1,603,862	**-**	**1,603,862**	1,313,551	-	1,313,551
Total debt securities	**1,603,862**	**-**	**1,603,862**	1,326,130	-	1,326,130
Equity:						
Available for sale						
Local	**-**	**-**	**-**	-	-	-
Overseas	**11,479**	**76**	**11,555**	10,274	76	10,350
Total equities	**11,479**	**76**	**11,555**	10,274	76	10,350
Total investments	**1,615,341**	**76**	**1,615,417**	1,336,404	76	1,336,480

Included in the above are investment securities amounting to AED Nil (2012: AED 683,385,000) held under repurchase agreement with the lenders.

13 INVESTMENT PROPERTIES

Investment properties include land and buildings in the UAE, which have been acquired or transferred from property and equipment either for development in the future or for undetermined future use. During 2013, the Group acquired new investment properties with a combined value of AED 73,802,000. The Group has obtained fair values for these properties based on open market valuations carried out by independent valuers. There is no gain or loss in fair value during the year (2012: AED 1,192,000). During 2013, the Group disposed of an investment property valued at AED 12,900,000 resulting in a net gain on sale of AED 2,600,000 (2012: AED Nil) which has been included in the consolidated statement of income.

UNITED ARAB BANK P.J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2013

14 OTHER ASSETS

	2013 AED'000	2012 AED'000
Interest receivable	**88,049**	60,221
Positive fair value of derivatives (Note 21)	**83,378**	36,448
Acceptances (Note 27)	**964,395**	603,278
Prepayments and other assets	**76,914**	49,481
	1,212,736	749,428

15 CUSTOMERS' DEPOSITS

	2013 AED'000	2012 AED'000
Term and call deposits	**8,236,780**	6,442,090
Current accounts	**6,075,774**	3,258,103
Saving accounts	**722,283**	394,090
	15,034,837	10,094,283

Deposits include AED Nil (31 December 2012: AED 178,863,000) received from the Ministry of Finance, United Arab Emirates, in the last quarter of 2008. This amount was available for a period of 5 years, subject to certain conditions to be adhered to during the tenure of the deposits. The deposit carried interest at 120 basis points above the US Treasury 5 year notes or 4%, whichever is higher, payable on a quarterly basis. The deposit was repaid on 3 March 2013 in accordance with the terms of the deposit.

16 MEDIUM TERM BORROWINGS

During 2012, the Group arranged two US dollar term facilities totalling USD 175,000,000 (equivalent to AED 642,617,000), both facilities carrying a floating interest rate being a margin over LIBOR. Both facilities are repayable in full in 2015.

On 29 October 2013, the Group arranged a US dollar term facility of USD 25,000,000 (equivalent to AED 91,803,000), the facility carrying a floating rate being a margin over LIBOR and repayable in full in 2015. On 19 December 2013, the Group arranged a US dollar term facility of USD 250,000,000 (equivalent to AED 918,025,000). The facility carries a floating interest rate being a margin over LIBOR and is repayable in full in 2016.

UNITED ARAB BANK P.J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2013

17 OTHER LIABILITIES

	2013 AED'000	2012 AED'000
Interest payable	**43,183**	45,228
Staff related provisions	**55,650**	50,123
Negative fair value of derivatives (Note 21)	**82,020**	38,079
Acceptances (Note 27)	**964,395**	603,278
Others	**138,521**	122,512
	1,283,769	859,220

Staff related provisions

The aggregate employee entitlement liability comprises:

Employees' end of service benefits	**35,720**	34,036
Other liabilities	**19,930**	16,087
	55,650	50,123

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 statement of financial position in respect of end of service benefits are as follows:

	2013 AED'000	2012 AED'000
Liability as at 1 January	**34,036**	31,084
Expense recognised in the consolidated statement of income	**5,303**	6,877
End of service benefits paid	**(3,619)**	(3,925)
Liability as at 31 December	**35,720**	34,036

UNITED ARAB BANK P.J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2013

18 SHARE CAPITAL AND RESERVES

a) Share capital

The authorised, issued and fully paid up share capital of the Bank comprises 996,401,280 (2012: 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 buildings 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 149,460,192 at AED 0.15 per share of AED 1 each (2012: cash dividend of AED 249,100,320 at AED 0.25 per share of AED 1 each) and a scrip dividend amounting to AED 149,460,192 at AED 0.15 per share of AED 1 each (2012: no scrip dividend). This is subject to the approval of the regulator and the shareholders at the Annual General Assembly to be held in March 2014.

UNITED ARAB BANK P.J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2013

19 CUMULATIVE CHANGES IN FAIR VALUES

	2013 AED'000	2012 AED'000
At 1 January	**6,120**	(15,057)
Net unrealised (loss) / gain on available for sale investments	**(56,311)**	6,120
Reversal of (gain) / loss on sale / redemption of available for sale investments	**(4,456)**	15,057
Unrealised gain on cash flow hedges	**2,772**	-
At 31 December	**(51,875)**	6,120

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 are as follows:

	2013 AED'000	2012 AED'000
Key management personnel of the Group:		
Loans and advances	**16,882**	10,851
Customers' deposits	**37,151**	21,185
Shareholders:		
Investments	**-**	52,298
Due from banks	**135,350**	100,963
Due to banks	**225,499**	276,404
Medium term borrowings	**91,803**	91,803

UNITED ARAB BANK P.J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2013

20 RELATED PARTY TRANSACTIONS (continued)

	2013	2012
	AED'000	AED'000
Directors:		
Loans and advances	**65,325**	47,919
Customers' deposits	**13,870**	36,835
Commitments and contingencies	**45**	45
Other related entities:		
Loans and advances	**213,727**	45,813
Investments	**11,132**	2,471
Due from banks	**73,442**	128,523
Customers' deposits	**243,291**	256,533
Commitments and contingencies	**269,553**	274,477

Shareholders, directors, their related entities and key management personnel	**2013** **AED'000**	2012 AED'000
Accrued interest income	**95**	59
Accrued interest expense	**521**	650

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

Shareholders, directors, their related entities and key management personnel	**2013** **AED'000**	2012 AED'000
Interest income	**14,921**	5,828
Interest expense	**7,438**	8,807
Gain from sale of investments	**1,789**	3,701
Directors' remuneration	**10,800**	8,400
Purchase of investments	**17,912**	152,092
Sale of investments	**61,803**	100,496

UNITED ARAB BANK P.J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2013

20 RELATED PARTY TRANSACTIONS (continued)

Terms and conditions of transactions with related parties
The above mentioned outstanding balances arose from the ordinary course of business. The interest charged to, and by, related parties is at normal commercial rates. 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 2013, the Group has not made any provision for doubtful debts relating to amounts owed by related parties (2012: AED nil).

Compensation of key management personnel is as follows:

	2013 AED'000	*2012 AED'000*
Short term benefits	**23,153**	19,580
Employees' end of service benefits	**2,741**	884
Total compensation as at 31 December	**25,894**	20,464

	2013	*2012*
Number of key management personnel	**23**	22

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 2,215,000 (2012: AED 2,405,000). 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 2013

21 DERIVATIVES (continued)

At 31 December 2013

	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 contracts	32	(18)	1,574,510	1,390,905	183,605	-
Foreign currency options	79,419	(79,419)	7,795,903	157,210	6,682,478	956,215
Interest rate swaps	251	(1,680)	201,966	-	-	201,966
	79,702	(81,117)	9,572,379	1,548,115	6,866,083	1,158,181
Derivatives held for cash flow hedge:						
Interest rate swaps	3,676	(903)	238,687	-	-	238,687
Total	83,378	(82,020)	9,811,066	1,548,115	6,866,083	1,396,868

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 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	-	-	-	-	-	-
Total	36,448	(38,079)	5,305,644	1,232,688	3,039,260	1,033,696

UNITED ARAB BANK P.J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2013

21 DERIVATIVES (continued)

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

Forward 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.

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.

UNITED ARAB BANK P.J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2013

21 DERIVATIVES (continued)

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% (2012: 60%) 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 and guarantees 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 2013

22 CONTINGENT LIABILITIES AND COMMITMENTS (continued)

The Group has the following credit related commitments:

	2013 AED'000	2012 AED'000
Contingent liabilities		
Letters of credit	**533,224**	719,979
Guarantees (Note 27)	**2,821,154**	2,636,432
	3,354,378	3,356,411
Commitments		
Undrawn loan commitments	**2,586,948**	2,227,225

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, liquidity, 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 Committee
The Board Audit Committee (BAC) is responsible for monitoring, reviewing and reporting to the Board on the formal arrangements relating to the financial and narrative reporting of the Group, internal controls, compliance and internal / external audit processes.

UNITED ARAB BANK P.J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2013

23 RISK MANAGEMENT (continued)

Introduction (continued)

Board Risk Committee
The Board Risk Committee (BRC) 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. This includes, but is not limited to, ensuring effective control structures and monitoring of aggregate risk exposures (credit, market, liquidity, operational, legal, etc).

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 BRC.

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.

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 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 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.

UNITED ARAB BANK P.J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2013

23 RISK MANAGEMENT (continued)

Introduction (continued)

Risk measurement and reporting systems (continued)
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 / contractual obligation, 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 2013

23 RISK MANAGEMENT (continued)

Credit Risk (continued)

The table below shows the maximum exposure to credit risk for the components of the 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 2013 AED'000***	Maximum exposure *2012 AED'000*
Cash and balances with UAE Central Bank (excluding cash on hand)	*10*	**1,217,408**	1,067,285
Due from banks	11	**1,848,253**	1,332,281
Loans and advances (net of provisions)	7	**15,285,481**	10,881,493
Investments in debt securities	12	**1,603,862**	1,326,130
Other assets (excluding prepayments)	14	**1,149,900**	711,620
Total		**21,104,904**	15,318,809
Letters of credit	22	**533,224**	719,979
Guarantees	22	**2,821,154**	2,636,432
Undrawn loan commitments	22	**2,586,948**	2,227,225
Total		**5,941,326**	5,583,636
Total credit risk exposure		**27,046,230**	20,902,445

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 2013 was AED 294,991,000 (2012: AED 322,000,000) before taking account of collateral or other credit enhancements and AED 294,991,000 (2012: AED 322,000,000) net of such protection.

UNITED ARAB BANK P.J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2013

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:

	2013		2012	
	Assets AED'000	***Contingent liabilities and commitments AED'000***	*Assets AED'000*	*Contingent liabilities and commitments AED'000*
United Arab Emirates	**19,006,705**	**5,330,055**	13,995,652	5,432,572
Other Middle East countries	**935,874**	**257,282**	744,275	56,199
Europe	**498,957**	**125,672**	177,218	57,908
USA	**160,663**	**21,098**	58,560	3,331
Rest of the world	**502,705**	**207,219**	343,104	33,626
Total	**21,104,904**	**5,941,326**	15,318,809	5,583,636

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 2013 AED'000	Maximum exposure *2012 AED'000*
Financial services	**4,221,524**	3,336,316
Trade	**2,865,180**	2,221,539
Manufacturing	**2,302,514**	2,055,930
Government and public sector	**2,555,493**	1,536,784
Construction	**680,571**	641,769
Other services	**1,751,224**	1,356,163
Others	**7,016,333**	4,348,495
	21,392,839	15,496,996
Less: Impairment provision on loans and advances	**(287,935)**	(178,187)
	21,104,904	**15,318,809**

UNITED ARAB BANK P.J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2013

23 RISK MANAGEMENT (continued)

Credit Risk (continued)

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.

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 2013 AED'000	*Standard grade 2013 AED'000*	*Sub-standard grade 2013 AED'000*	*2013 AED'000*	*Total 2013 AED'000*
Balances with UAE Central Bank	**1,217,408**	**-**	**-**	**-**	**1,217,408**
Due from banks	**1,223,314**	**624,939**	**-**	**-**	**1,848,253**
Investments	**1,373,702**	**230,160**	**-**	**-**	**1,603,862**
Loans and advances (Gross)	**5,022,292**	**9,534,068**	**382,441**	**634,615**	**15,573,416**
Other assets	**499,755**	**639,919**	**10,226**	**-**	**1,149,900**
	9,336,471	**11,029,086**	**392,667**	**634,615**	**21,392,839**

UNITED ARAB BANK P.J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2013

23 RISK MANAGEMENT (continued)

Credit Risk (continued)

	Neither past due nor impaired			*Past due*	
			Sub-	*or*	
	High	*Standard*	*standard*	*individually*	
	grade	*grade*	*grade*	*impaired*	*Total*
	2012	*2012*	*2012*	*2012*	*2012*
	AED'000	*AED'000*	*AED'000*	*AED'000*	*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	261,814	470,378	17,236	-	749,428
	6,441,536	8,041,104	649,269	402,895	15,534,804

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.

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

	Less than 30 days	**31 to 60 days**	**61 to 90 days**	**More than 91 days**	**Total**
	2013	**2013**	**2013**	**2013**	**2013**
	AED'000	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Loans and advances	**195,141**	**96,205**	**63,362**	**33,891**	**388,599**
	2012	*2012*	*2012*	*2012*	*2012*
	AED'000	*AED'000*	*AED'000*	*AED'000*	*AED'000*
Loans and advances	165,169	41,517	16,544	3,921	227,151

The fair value of the collateral that the Group held at 31 December 2013 for past due but not impaired loans and advances to customers covers approximately 61% (2012: 50%) of the outstanding balance.

UNITED ARAB BANK P.J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2013

23 RISK MANAGEMENT (continued)

Credit Risk (continued)

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

	2013 **AED'000**	*2012* *AED'000*
Loans and advances	**555,710**	444,492

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:

	2013	*2012*
Advances to Stable Resources Ratio	85.6%	85.6%
Net Liquid Assets to Customer Deposits Ratio	30.6%	30.5%

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 2013

23 RISK MANAGEMENT (continued)

Liquidity risk (continued)

Maturities of assets and liabilities based on the remaining period at the statement of financial position 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 2013 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*	*Subtotal over 12 months AED'000*	*Undated AED'000*	*Total AED'000*
ASSETS									
Cash and balances with UAE Central Bank	1,301,775	-	-	1,301,775	-	-	-	-	1,301,775
Due from banks	1,848,253	-	-	1,848,253	-	-	-	-	1,848,253
Loans and advances (Gross)	3,980,037	1,104,477	1,057,569	6,142,083	5,485,085	3,946,248	9,431,333	-	15,573,416
Investments	-	37,127	140,787	177,914	839,637	553,071	1,392,708	44,795	1,615,417
Investment properties	-	-	-	-	-	-	-	73,802	73,802
Property and equipment	-	-	-	-	-	-	-	212,292	212,292
Other assets	767,475	419,688	13,957	1,201,120	7,689	3,927	11,616	-	1,212,736
Provision for impairment of loans and advances and interest in suspense	(287,935)	-	-	(287,935)	-	-	-	-	(287,935)
Sub-total	**7,609,605**	**1,561,292**	**1,212,313**	**10,383,210**	**6,332,411**	**4,503,246**	**10,835,657**	**330,889**	**21,549,756**
LIABILITIES AND SHAREHOLDERS' FUNDS									
Due to banks	162,929	-	897,745	1,060,674	36,500	-	36,500	-	1,097,174
Customers' deposits	11,198,469	1,710,040	1,633,556	14,542,065	492,772	-	492,772	-	15,034,837
Medium term borrowings	-	-	-	-	1,652,445	-	1,652,445	-	1,652,445
Other liabilities	804,142	419,679	13,957	1,237,778	9,803	468	10,271	35,720	1,283,769
Shareholders' funds	-	-	-	-	-	-	-	2,481,531	2,481,531
Sub-total	**12,165,540**	**2,129,719**	**2,545,258**	**16,840,517**	**2,191,520**	**468**	**2,191,988**	**2,517,251**	**21,549,756**
Net liquidity gap	**(4,555,935)**	**(568,427)**	**(1,332,945)**	**(6,457,307)**	**4,140,891**	**4,502,778**	**8,643,669**	**(2,186,362)**	**-**

UNITED ARAB BANK P.J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2013

23 RISK MANAGEMENT (continued)

Liquidity risk (continued)

The maturity profile of assets and liabilities at 31 December 2012 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*	*Subtotal 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	526,577	168,885	53,851	749,313	115	-	115	-	749,428
Provision for impairment of loans and advances and interest in suspense	(178,187)	-	-	(178,187)	-	-	-	-	(178,187)
Sub-total	**6,909,314**	**1,290,005**	**988,660**	**9,187,979**	**4,024,653**	**2,208,605**	**6,233,258**	**194,630**	**15,615,867**
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	640,141	168,885	16,043	825,069	115	-	115	34,036	859,220
Shareholders' funds	-	-	-	-	-	-	-	2,247,875	2,247,875
Sub-total	**8,778,398**	**1,027,712**	**1,791,516**	**11,597,626**	**1,736,330**	**-**	**1,736,330**	**2,281,911**	**15,615,867**
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 2013

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 2013 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

Financial liabilities	*On demand 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*
31 December 2013						
Due to banks	16,928	150,111	906,842	37,982	-	1,111,863
Customers' deposits	6,776,773	4,449,522	3,393,203	507,542	-	15,127,040
Medium term borrowings	-	-	-	1,707,160	-	1,707,160
Other liabilities	138,521	657,611	355,045	7,389	-	1,158,566
Financial derivatives	-	918	3,410	20,103	15,975	40,406
Total undiscounted financial liabilities	**6,932,222**	**5,258,162**	**4,658,500**	**2,280,176**	**15,975**	**19,145,035**

	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*
31 December 2012						
Due to banks	28,516	587,423	595,885	579,325	-	1,791,149
Customers' deposits	3,749,686	3,784,598	2,071,362	566,040	-	10,171,686
Medium term borrowings	-	-	-	671,535	-	671,535
Other liabilities	87,836	498,139	184,928	115	-	771,018
Financial derivatives	-	676	1,810	10,295	-	12,781
Total undiscounted financial liabilities	3,866,038	4,870,836	2,853,985	1,827,310	-	13,418,169

UNITED ARAB BANK P.J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2013

23 RISK MANAGEMENT (continued)

Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

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

	On demand 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*
31 December 2013						
Inflows	-	258	925	24,005	30,410	55,598
Outflows	-	(918)	(3,410)	(20,103)	(15,975)	(40,406)
Net	**-**	**(660)**	**(2,485)**	**3,902**	**14,435**	**15,192**
Discounted at applicable interbank rates	**-**	**(660)**	**(2,479)**	**3,660**	**13,123**	**13,644**

	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*
31 December 2012						
Inflows	-	658	1,755	10,432	-	12,845
Outflows	-	(676)	(1,810)	(10,295)	-	(12,781)
Net	-	(18)	(55)	137	-	64
Discounted at applicable interbank rates	-	(18)	(54)	129	-	57

UNITED ARAB BANK P.J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2013

23 RISK MANAGEMENT (continued)

Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

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*
31 December 2013						
Contingent liabilities	-	2,221,331	937,760	195,287	-	3,354,378
Commitments	2,586,948	-	-	-	-	2,586,948
Total	2,586,948	2,221,331	937,760	195,287	-	5,941,326
31 December 2012						
Contingent liabilities	377,705	1,836,359	888,663	253,684	-	3,356,411
Commitments	2,227,225	-	-	-	-	2,227,225
Total	2,604,930	1,836,359	888,663	253,684	-	5,583,636

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.

UNITED ARAB BANK P.J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2013

23 RISK MANAGEMENT (continued)

Interest rate risk (continued)

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

The sensitivity of the consolidated statement of income 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 2013, including the effect of hedging instruments.

	2013		*2012*	
Currency	***Change in basis points***	***Sensitivity of net interest income***	*Change in basis points*	*Sensitivity of net interest income*
All currencies	+25	4,252	+25	10,973
All currencies	-25	(4,252)	-25	(10,973)

The interest rate sensitivity set out above relates primarily to the US Dollar as the Group does not have any significant net exposure for non-trading floating rate financial assets and financial liabilities denominated in other currencies.

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 indicates the currencies to which the Group had significant exposure at 31 December 2013 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 statement of income (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 income statement, while a positive amount reflects a net potential increase.

UNITED ARAB BANK P.J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2013

23 RISK MANAGEMENT (continued)

Interest rate risk (continued)

Currency	Change in currency rate in % 2013	Effect on profit 2013 AED'000	Change in currency rate in % 2012	Effect on profit 2012 AED'000
Euro	+10	-	+10	(12)
GBP	+10	(6)	+10	(3)

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.

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 Group's funding operations, Al Sadarah Investment Company, the SME business and head office functions.

UNITED ARAB BANK P.J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2013

24 SEGMENTAL ANALYSIS (continued)

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.

Segmental information for the year ended 31 December 2013 is as follows:

	Retail banking AED'000	Corporate banking AED'000	Others AED'000	Total AED'000
Interest and other income	**345,303**	**632,314**	**233,850**	**1,211,467**
Interest and other expense	**(139,750)**	**(203,036)**	**(131,842)**	**(474,628)**
Impairment losses on loans and advances	**(96,153)**	**(67,249)**	**(5,062)**	**(168,464)**
Depreciation	**(4,285)**	**(10,457)**	**(1,154)**	**(15,896)**
Profit for the year	**105,115**	**351,572**	**95,792**	**552,479**
Capital expenditure				
- Property and equipment	**22,019**	**45,611**	**8,389**	**76,019**
At 31 December 2013				
Segment assets	**4,914,126**	**11,051,587**	**5,584,043**	**21,549,756**
Segment liabilities	**5,549,257**	**9,079,330**	**4,439,638**	**19,068,225**

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
Capital expenditure				
- Property and equipment	16,770	48,628	18,455	83,853
At 31 December 2012				
Segment assets	3,204,681	8,465,018	3,946,168	15,615,867
Segment liabilities	3,061,588	7,609,805	2,696,599	13,367,992

UNITED ARAB BANK P.J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2013

24 SEGMENTAL ANALYSIS (continued)

Secondary segment information

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

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 2013				
Financial assets				
Derivative financial instruments				
Interest rate swaps	-	3,927	-	3,927
Forward foreign exchange contracts	-	32	-	32
Currency options	-	79,419	-	79,419
	-	83,378	-	83,378
Financial investments available-for-sale				
Quoted investments				
Government debt securities	1,083,065	-	-	1,083,065
Other debt securities	520,797	-	-	520,797
Equities	11,479	-	-	11,479
Unquoted investments				
Equities	-	-	76	76
	1,615,341	-	76	1,615,417
Investment properties	-	73,802	-	73,802
	1,615,341	157,180	76	1,772,597

UNITED ARAB BANK P.J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2013

25 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

Determination of fair value and fair value hierarchy (continued)

Financial liabilities	*Level 1* *AED'000*	*Level 2* *AED'000*	*Level 3* *AED'000*	*Total* *AED'000*
Derivative financial instruments				
Interest rate swaps	**-**	**2,583**	**-**	**2,583**
Forward foreign exchange contracts	**-**	**18**	**-**	**18**
Currency options	**-**	**79,419**	**-**	**79,419**
	-	**82,020**	**-**	**82,020**
31 December 2012				
Financial assets				
Derivative financial instruments				
Interest rate swaps	-	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
Investment properties	-	12,900	-	12,900
	1,336,404	49,348	76	1,385,828

UNITED ARAB BANK P.J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2013

25 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

Determination of fair value and fair value hierarchy (continued)

Financial liabilities	*Level 1* *AED'000*	*Level 2* *AED'000*	*Level 3* *AED'000*	*Total* *AED'000*
Derivative financial instruments				
Interest rate swaps	-	2,993	-	2,993
Forward foreign exchange contracts	-	6	-	6
Currency options	-	35,080	-	35,080
	-	38,079	-	38,079

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.

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.

UNITED ARAB BANK P.J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2013

25 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

Financial instruments recorded at fair value (continued)

Movements in level 3 financial instruments measured at fair value
There was no movement between the levels of financial instruments during the year (2012: AED nil).

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 (2012: AED nil).

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 2013 and 2012 and accordingly no sensitivity analysis has been completed.

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 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.

UNITED ARAB BANK P.J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2013

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:

RISK WEIGHTED EXPOSURES

	Balance		*Risk weighted equivalents*	
Assets	***2013 AED'000***	*2012 AED'000*	***2013 AED'000***	*2012 AED'000*
Cash and claims on, guaranteed by or collateralised by securities of central governments and central banks of OECD countries	**83,113**	64,099	-	-
Claims on banks and public sector companies incorporated in OECD countries and short term claims on banks incorporated in non-OECD countries	**1,369,235**	1,574,365	**273,847**	314,873
Claims secured by mortgage of residential property	**3,068,813**	2,213,562	**3,068,813**	2,213,562
Claims on public sector entities, central governments, central bank and longer term claims on banks incorporate in non-OECD countries and all other assets, including claims on private sector entities				
Claims at 0%	**4,348,652**	3,759,577	-	-
Claims at 20%	-	-	-	-
Claims at 50%	**849,409**	156,424	**424,705**	78,212
Claims at 100%	**12,004,989**	7,947,944	**12,004,989**	7,344,666
General Provision – classified under Tier 2	**(174,455)**	(100,104)	-	-
	21,549,756	15,615,867		

UNITED ARAB BANK P.J.S.C.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2013

26 CAPITAL ADEQUACY (continued)

RISK WEIGHTED EXPOSURES (continued)

	Balance		Risk weighted equivalents	
	2013	2012	**2013**	2012
	AED'000	AED'000	**AED'000**	AED'000
Off balance sheet items				
Credit commitments and contingent items (note 22)	**5,941,326**	5,583,636	**1,875,694**	2,358,823
Derivatives (note 21)	**9,811,066**	5,305,644	**9,608**	4,551
Credit risk weighted assets and off balance sheet items			**17,657,656**	12,314,687
Total risk weighted assets			**17,657,656**	**12,314,687**
Capital Adequacy Ratio			**15.0%**	18.9%

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.

27 COMPARATIVE FIGURES

Certain comparative figures have been reclassified and restated where appropriate to conform with the presentation and accounting policies adopted in these consolidated financial statements. The balance of acceptances outstanding as at 31 December 2013 of AED 964,395,000 (31 December 2012: AED 603,278,000) has been reclassified from off balance sheet contingent amounts to on balance sheet other assets and other liabilities.

BASEL II -
PILLAR 3 DISCLOSURES

UNITED ARAB BANK P.J.S.C.
BASEL II - PILLAR 3 DISCLOSURES
At 31 December 2013

These disclosures are being made in compliance with Circular No. 27 / 2009 dated 17 November 2009 issued by the Central Bank of the UAE and are in conformity with Basel II capital adequacy calculations for 31December 2013 prepared in line with the circular. References have been made to the audited financial statements of 31 December 2013 for additional details only, where considered relevant.

These disclosures pertain to the operations of United Arab Bank (the "Bank") and its subsidiary (the "Group") as at 31 December 2013.

A. CAPITAL STRUCTURE

Category	Summarised terms & conditions and main features	2013 AED'000	2012 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 (incl. Share Premium)	Under Article 192 of UAE Commercial Companies Law No 8 of 1984	**434,673**	338,444
b. Special reserve	Under Article 82 of Union Law No. 10 of 1980	**352,118**	255,888
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	**737,494**	627,118
Tier 1 Capital - Subtotal		**2,529,997**	2,227,162
Tier 2 Capital			
General provisions	In terms of rules laid down by the Central Bank of the UAE	**174,456**	100,103
Revaluation reserve	Revaluation reserve on Bank's property assets	**3,409**	14,593
Cumulative changes in fair values	Unrealized loss on available-for-sale investments	**(51,875)**	(2,754)
Less: Deductions for inadmissible items	Revaluation reserve on Bank's property assets	**(3,409)**	(14,593)
Tier 2 Capital - Subtotal		**122,581**	102,857
Tier 3 Capital		**-**	-
Total eligible Capital after deductions - Capital Base		**2,652,578**	2,330,019

UNITED ARAB BANK P.J.S.C.
BASEL II - PILLAR 3 DISCLOSURES
At 31 December 2013

B. CAPITAL ADEQUACY

a) Qualitative Disclosures

The Bank has adopted Standardised 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 17 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 Committee (BAC) and Board Risk Committee (BRC), which approves the 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 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 which are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and to take corrective action.

- Market Risk

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

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

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

UNITED ARAB BANK P.J.S.C.
BASEL II - PILLAR 3 DISCLOSURES
At 31 December 2013

B. CAPITAL ADEQUACY (continued)

a) Qualitative Disclosures (continued)

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

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

- Operational Risk

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

The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage these 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 17November 2009 issued by the Central Bank of the UAE, the minimum capital requirement is 12% of the Risk Weighted Assets. Computations of the Group's Capital Adequacy Ratio are as follows:

Category	**2013** *AED'000*	2012 *AED'000*
Risk Weighted Assets		
1. Credit Risk - Standardised Approach	**15,629,117**	11,375,263
2. Market Risk - Standardised Approach	**3,417**	7,883
3. Operational Risk - Basic Indicator Approach	**1,003,933**	769,700
Total Risk Weighted Assets	**16,636,467**	12,152,846
Capital Base	**2,652,578**	2,330,019
Capital Ratio (%)		
a. Total for the Group	**15.9%**	19.2%
b. Tier 1 ratio only for the Group	**15.2%**	18.3%

UNITED ARAB BANK P.J.S.C.
BASEL II - PILLAR 3 DISCLOSURES
At 31 December 2013

C. CREDIT RISK UNDER STANDARDISED APPROACH

1. Details of Exposures, Risk Mitigants and Risk Weighted Assets as at 31 December 2013:

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	1,830,334	-	-	1,830,334	-	1,830,334	-
Claims On Non-Central Govt Public Sector Entities (PSEs)	793,216	-	-	793,216	-	793,216	27,038
Claims On Multi Lateral Development Banks	-	-	-	-	-	-	-
Claims On Banks	2,313,220	-	214,235	2,527,455	-	2,527,455	699,173
Claims On Securities Firms	-	-	-	-	-	-	-
Claims On Corporates	9,144,572	-	1,978,915	11,123,487	-	11,123,487	9,292,428
Claims Included In The Regulatory Retail Portfolio	2,659,314	-	-	2,659,314	-	2,659,314	2,041,034
Claims Secured By Residential Property	1,999,023	-	-	1,999,023	-	1,999,023	738,234
Claims Secured By Commercial Real Estate	1,257,979	-	-	1,257,979	-	1,257,979	1,257,979
Past Due Loans	246,016	(113,480)	-	132,536	-	132,536	145,703
Higher-Risk Categories	-	-	-	-	-	-	-
Other Assets	1,510,642	-	-	1,510,642	-	1,510,642	1,427,528
Claims On Securitized Assets	-	-	-	-	-	-	-
Credit Derivatives (Banks Selling Protection)	-	-	-	-	-	-	-
TOTAL	21,754,316	(113,480)	2,193,150	23,833,986	-	23,833,986	15,629,117

UNITED ARAB BANK P.J.S.C.
BASEL II - PILLAR 3 DISCLOSURES
At 31 December 2013

C. CREDIT RISK UNDER STANDARDISED APPROACH (continued)

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 2013

C. CREDIT RISK UNDER STANDARDISED APPROACH (continued)

2. Gross Exposure under Standardised 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 the UAE are considered.

b) Quantitative Disclosures

Gross Exposure before Credit Risk Mitigants (CRM)

Category	2013			2012		
	Rated	Unrated	Total	Rated	Unrated	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Claims On Sovereigns	1,410,038	420,296	1,830,334	2,202,664	-	2,202,664
Claims On Non-Central Govt Public Sector Entities (PSEs)	135,190	658,026	793,216	883,897	-	883,897
Claims On Multi Lateral Development Banks	-	-	-	-	-	-
Claims On Banks	2,231,401	81,819	2,313,220	1,562,279	181,561	1,743,840
Claims On Securities Firms	-	-	-	-	-	-
Claims On Corporates	623,401	8,521,171	9,144,572	65,318	8,395,909	8,461,227
Claims Included In The Regulatory Retail Portfolio	-	2,659,314	2,659,314	-	1,758,610	1,758,610
Claims Secured By Residential Property	-	1,999,023	1,999,023	-	1,383,342	1,383,342
Claims Secured By Commercial Real Estate	-	1,257,979	1,257,979	-	792,363	792,363
Past Due Loans	-	246,016	246,016		101,582	101,582
Higher-Risk Categories	-	-	-	-	-	-
Other Assets	11,132	1,499,510	1,510,642		417,084	417,084
Claims On Securitized Assets	-	-	-	-	-	-
Credit Derivatives (Banks Selling Protection)	-	-	-	-	-	-
TOTAL	**4,411,162**	**17,343,154**	**21,754,316**	4,714,158	13,030,451	17,744,609

UNITED ARAB BANK P.J.S.C.
BASEL II - PILLAR 3 DISCLOSURES
At 31 December 2013

C. CREDIT RISK UNDER STANDARDISED 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 2013.

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 2013.

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 2013.

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 2013.

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 asset 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 re-organisation; (c) default or delinquency in interest or principal payments; (d) conduct of the account is not in line with Central Bank of the 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.

UNITED ARAB BANK P.J.S.C.
BASEL II - PILLAR 3 DISCLOSURES
At 31 December 2013

C. CREDIT RISK UNDER STANDARDISED APPROACH (continued)

a) Qualitative Disclosures (continued)

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 outlined below:

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

General

General Provisions are calculated in line with the Central Bank of the 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 and 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 2013

C. CREDIT RISK UNDER STANDARDISED APPROACH (continued)

b) Quantitative Disclosures

- Past due & impaired Loans by Industry Segment as at 31 December 2013:

	Past due but not impaired				Impaired loans	Provision & Interest in Suspense
Category	0-30 days Past due	31-60 days past due	61-90 days past due	Over 91 days past due		
AED'000	*AED'000*	*AED'000*	*AED'000*	*AED'000*	*AED'000*	
Agriculture, Livestock and Fishery	-	-	-	20	11	11
Extractive Industries	-	-	-	-	-	-
Manufacturing Industries	16,116	2,146	5,332	395	3,189	1,767
Electricity, Gas and Water	89	1,000	-	-	-	-
Construction	4,802	7,930	10	16,922	31,898	10,097
Wholesale / Retail Trade	11,885	14,894	1,008	16,428	117,521	62,532
Restaurants and Hotels	-	-	-	-	10,032	9,613
Transportation, Storage & Communication	1,594	2	-	16	3,526	3,389
Real Estate and Business Services	3,240	2	-	84	-	-
Social and Private Services	-	-	-	-	-	-
Financial Services Sector	260	-	-	-	-	-
Government	-	-	-	-	-	-
Household / Personal	157,155	70,231	57,012	26	79,839	26,071
Total	195,141	96,205	63,362	33,891	246,016	113,480

UNITED ARAB BANK P.J.S.C.
BASEL II - PILLAR 3 DISCLOSURES
At 31 December 2013

C. CREDIT RISK UNDER STANDARDISED APPROACH (continued)

b) Quantitative Disclosures (continued)

- Past due & impaired Loans by Industry Segment as at 31 December 2012:

	Past due but not impaired				Impaired loans	Provision & Interest in Suspense
Category	0-30 days Past due	31-60 days past due	61-90 days past due	Over 91 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
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 2013

C. CREDIT RISK UNDER STANDARDISED APPROACH (continued)

b) Quantitative Disclosures (continued)

- Past due and impaired loans by Geographical Region as at 31 December 2013:

Category	Past due but not impaired 0-30 days past due	31-60 days past due	61-90 days past due	Over 91 days past due	Impaired loans	Provision & Interest in Suspense
	AED'000	*AED'000*	*AED'000*	*AED'000*	*AED'000*	*AED'000*
United Arab Emirates	**195,141**	**96,205**	**63,362**	**33,891**	**246,016**	**113,480**
Total	**195,141**	**96,205**	**63,362**	**33,891**	**246,016**	**113,480**

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

Category	Past due but not impaired 0-30 days past due	31-60 days past due	61-90 days past due	Over 91 days past due	Impaired loans	Provision & 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

- 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 2013. Amounts of related provisions reported in the note include General Provision amounting to AED 174,456(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 2013

C. CREDIT RISK UNDER STANDARDISED APPROACH (continued)

8. Credit Risk Mitigation – Disclosures for Standardised 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 which is 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 collateral obtained are cash, securities, charges over real estate, 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 collateral, and requests additional collateral in accordance with the underlying agreement. It also monitors the market value of collateral 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.

UNITED ARAB BANK P.J.S.C.
BASEL II - PILLAR 3 DISCLOSURES
At 31 December 2013

C. CREDIT RISK UNDER STANDARDISED APPROACH (continued)

8. Credit Risk Mitigation – Disclosures for Standardised Approach (continued)

b) Quantitative Disclosures

	2013 AED'000	2012 AED'000
Exposures		
Gross Exposure prior to Credit Risk Mitigation	**23,833,986**	17,744,609
Credit Risk Mitigants		
- Direct Deductions:		
Exposure covered by on-balance sheet netting	**-**	-
- Substitution by Risk Weights:		
Exposure covered by Guarantees		
from 100%	**(184,946)**	(157,106)
to 20%	**5,515**	7,034
50%	**171,828**	139,615
100%	**7,603**	7,357
150%		3,100
Exposures covered by collaterals under simple approach		
from 100%	**(1,384,248)**	(682,604)
to 0%	**1,384,248**	682,604
Net Exposures after Credit Risk Mitigation	**23,833,986**	**17,744,609**
Risk Weighted Assets	**15,629,117**	**11,375,263**

UNITED ARAB BANK P.J.S.C.
BASEL II - PILLAR 3 DISCLOSURES
At 31 December 2013

D. MARKET RISK UNDER STANDARDISED APPROACH

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

	2013 Capital Required AED'000	*2012 Capital Required AED'000*
Interest rate risk	**252**	723
Equity position risk	**-**	-
Foreign exchange risk	**158**	223
Commodity risk	**-**	-
Options risk	**-**	-
Total Capital Requirement	**410**	946
Risk Weighted Assets	**3,417**	7,883

2. Interest Rate Risk

The Bank has nominal Interest Rate Risk on its Trading Book, as shown above. For details, concerning Interest Rate Risk on its Banking Book, kindly refer to Note 23 "Risk Management – Market Risk – Interest Rate Risk" of Notes to the Financial Statements at 31 December 2013.

3. Equity Position Risk

The Bank has no Equity Position on its Trading Book, hence Capital required is nil. However, there are a few investments in its banking book under available for sale category. For details please refer to Note 12 "Investments" of Notes to the Financial Statements at 31 December 2013.

UNITED ARAB BANK P.J.S.C.
BASEL II - PILLAR 3 DISCLOSURES
At 31 December 2013

D. MARKET RISK UNDER STANDARDISED APPROACH (continued)

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 2013.

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 2013.

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

	2013 AED'000	*2012 AED'000*
Amount added to / (deducted from) in Tier 1 capital	**-**	-
Amount added to / (deducted from) in Tier 2 capital	**(51,875)**	2,754
Total	**(51,875)**	2,754

UNITED ARAB BANK P.J.S.C.
BASEL II - PILLAR 3 DISCLOSURES
At 31 December 2013

E. OPERATIONAL RISK – BASIC INDICATOR APPROACH

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

		2013 AED'000		*2012 AED'000*
Gross Income (including Interest in suspense)	**2011**	**586,665**	2010	488,451
	2012	**772,173**	2011	586,665
	2013	**1,050,593**	2012	772,173
		2,409,431		1,847,289
3-year average		**803,144**		615,763
Beta factor		15%		15%
Capital charge		**120,472**		92,364
Risk Weighted Assets equivalent (Capital charge divided by 12 %)		**1,003,933**		769,700