CAPITAL intelligence

BANK RATING

United Arab Bank

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Bank Rating Report

United Arab Bank

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UNITED ARAB BANK

Sharjah, United Arab Emirates
10 July 2015

RATINGS

	Current	Last Changed From	Date
Sovereign			
Long-Term:	**AA-**	A +	May 07
Short-Term:	**A1+**	A1	May 07
Outlook	**Stable**	-	
Foreign Currency			
Long-Term:	**BBB+**	BBB	May 08
Short-Term:	**A2**	A3	May 08
Financial Strength	**BBB+**	BBB	Jul 14
Support	**3**	4	May 08
Outlook			
Foreign Currency	**Stable**	-	-
Financial Strength	**Stable**	Positive	Jul 14

FINANCIAL HIGHLIGHTS

USD (mn) AED (mn)	2014 USD	2014 AED	2013 AED	2012 AED
Total Assets	6,780	24,901	20,585	15,013
Net Loans	4,885	17,941	15,285	10,881
Customer Deposits	5,097	18,718	15,035	10,094
Total Capital	793	2,912	2,482	2,248
Gross Income	374	1,373	1,039	765
Net Profit	165	605	552	410
Exchange Rate (units per USD)		*3.6725*	*3.6725*	*3.6725*

%	2014	2013	2012
NPL / Gross Loans	2.93	1.80	1.62
Loan-Loss Reserves /NPLs	97.10	102.87	99.18
Capital Adequacy Ratio	14.70	15.90	19.20
Net Loans / Stable Funds	78.12	80.48	81.34
Estimated Net Interest Margin	4.44	4.44	4.39
Cost / Income	28.67	30.64	30.54
ROAA	2.66	3.10	3.17

RATINGS DRIVERS

Supporting the Rating

- Strong profitability ratios underpinned by wide interest margins and high non-interest income.
- Sound asset quality with high loan-loss reserve coverage and low non-performing loan (NPL) ratio; however key ratios weakened in Q1 2015.
- Good, though declining, capital adequacy ratio (CAR); increased internal capital generation rate.
- Strategic shareholder Commercial Bank of Qatar (CBQ) holds 40% of shares.

Constraining the Rating

- Key loan-based liquidity ratios remain tighter than peer group average, despite the improvements.
- Relatively small balance sheet; customer concentrations in the deposit base.
- Despite improvements in the operating environment, credit risks remain elevated.

RATING RATIONALE

United Arab Bank (UAB) has been growing faster than the sector average over the last many years although the rate of growth slowed in 2014 owing to reduced loan growth, which was in turn partly due to large prepayments from certain corporates. However, other corporate loans recorded strong growth and retail loans also increased, albeit at a slower pace. UAB's investment book grew last year in line with management's strategies focusing on asset and income diversification but the portfolio is still moderately low and comprised mainly high quality exposures to debt securities. UAB has a large corporate banking portfolio and it has built a reputation for providing top quality services to medium-sized entities in the country. The Bank also benefits from its association with its largest shareholder.

UAB's asset quality ratios are good overall, although there was a large increase in NPLs (which however grew from a low base) reflecting the rapid growth in lending over the last several years. Q1 2015 saw a further increase in NPLs and in the NPL ratio. There were a few impairments in the trade, construction and services sectors and a normal amount of retail classifications in 2014. Substantial provisions (both general and specific) were made last year and the coverage ratio was maintained at a high level, although that ratio weakened a little. UAB's large capital base provides substantial additional cover and the Bank is profitable enough to provide aggressively should the need arise. Other favourable factors are a low renegotiated performing loan portfolio, low customer

concentrations in the loan book, strong credit underwriting standards and strategies focusing on product and sector diversification.

Although the Bank's CAR has fallen in recent years it remains at a level that is still considered good particularly given the high coverage ratio. With risk asset growth expected to moderate slightly in the coming years the Bank's requirement for new capital may not be as high as in the past. Nevertheless, the falling CAR could act as a brake on risk asset growth. The new Basel III guidelines (to be introduced by the UAE Central Bank) could also shave off a few basis points. However, management is committed to maintaining the CAR at a good level and may consider raising new equity if required. Cash dividends have been reduced in recent years to conserve capital.

UAB's key loan-based liquidity ratios improved in 2014 owing to the substantial growth in customer deposits; the ratios are satisfactory although they remained tighter than the peer group average. The balance sheet is funded mainly by customer deposits, with capital and a moderate amount of medium-term liabilities providing supplementary support. Short-term interbank liabilities are low. UAB's liquid assets increased last year and are at an acceptable level; the Bank also has a good level of other marketable securities against which it can raise funding. UAB also has access to funding from its largest shareholder, although it has never needed to draw upon its lines.

UAB's profitability ratios continue to be high and among the best in the industry. Strong growth in loan volumes, wide net interest margins, a rapidly growing non-interest income base and good cost management underpin its high profitability.

Capital Intelligence (CI) affirms UAB's Financial Strength Rating (FSR) at 'BBB+' with the Bank's strong profitability, good CAR and sound asset quality being major supporting factors. The Bank's relatively small balance sheet, customer concentrations in the deposit base, tighter than peer group liquidity and lurking challenges in an otherwise improving operating environment are the major constraining factors. CI however notes that asset quality ratios, while remaining good overall, weakened in 2014 and in Q1 2015 following rapid loan growth.

UAB's Foreign Currency Ratings are affirmed at 'BBB+' Long-Term and 'A2' Short-Term; the ratings reflect the Bank's ownership and management by CBQ, as well as the strength of the balance sheet. The Support Rating is unchanged at '3', signifying a high likelihood of support from shareholders and the federal government in case of need. The Outlook for all the ratings is 'Stable'.

PERFORMANCE OUTLOOK

Although the Bank's operating profit recorded a good 10% increase in Q1 2015 on the back of increases in net interest and fees and commission, net profit was flat due to higher provisions. Key asset quality indicators also showed some weakness in the first quarter although the overall picture is still good. UAB is focusing on maintaining asset quality and the efficient deployment of capital this year rather than on business growth, therefore the growth in total assets and net profit is likely to be more modest than in previous years but is expected to be around the average for the banking sector. Profitability ratios are likely to stay strong this year although there may be some decline particularly in ROAA if the Bank continues to provide aggressively as it did in Q1 2015. There could be some further increase in NPLs but management is committed to building the coverage ratio to between 100% and 120%. CAR is expected to be in the 14%-15% range.

Bank History

Table 1: Major Shareholders (Dec 2014)	
Commercial Bank of Qatar	40.0%
H E Sheikh Faisal bin Sultan Al Qassimi	8.3%
GIBCA Company Ltd	5.6%
Juma Al Majed Abdullah Muhairi	5.3%

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

In late 2007, Commercial Bank of Qatar acquired a 34.7% interest in UAB and entered into a strategic alliance with the Bank. CBQ raised its holdings to 40% at end March 2008 and has a management services agreement with UAB. CBQ, which is the second largest bank in Qatar, is a publicly-held company listed on the Doha Securities Market. CBQ has four representatives on UAB's nine-member board. CBQ did not make any changes to the management team at UAB after assuming management control in 2008. In Q1 2009, following the retirement of UAB's long-standing general manager, Mr Paul Trowbridge took charge as CEO. Mr Trowbridge, an experienced international banker with core competencies in risk management and corporate banking, had previously been the deputy CEO of National Bank of Oman (NBO).

Table 2: Commercial Bank of Qatar Key Financials	2014	2013
Total Assets (USD billion)	31.8	31.1
Total Capital (USD billion)	4.3	4.0
Net Profit (USDmn)	533	441
ROAA (%)	1.70	1.66
NPLs/Gross Loans (%)	3.79	3.65
LLRs/NPLs (%)	74.27	62.98
Capital Adequacy Ratio (%)	15.22	14.10

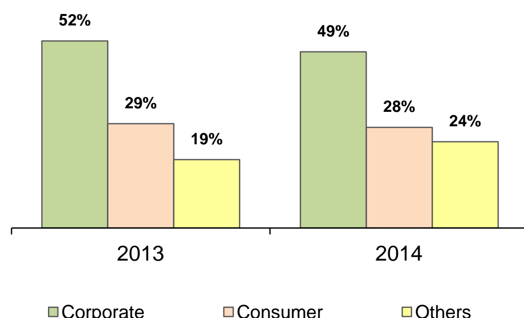
CBQ is considerably larger than UAB and is regarded as a major bank in Qatar with a diversified business base. Many of CBQ's key financial ratios had weakened in 2013 owing partly to its acquisition of a major stake in Alternatifbank AS, a Turkish bank, and an increase in non-performing loans. However, there was an improvement in some ratios last year (see Table 2).

CBQ has expanded in the GCC through the acquisition of strategic interests in regional financial institutions (National Bank of Oman, UAB and the Turkish bank to date). UAB benefits from CBQ's retail banking strengths, and although access to Qatari corporate business will increase, this is unlikely to be significant given the largely domestic flavour of UAB's corporate business. CBQ's Financial Strength Rating is currently 'A-'. (See CI Rating Report on CBQ dated March 2015.)

The Bank's other shareholders with more than 5% of equity each are UAE businessmen (Table 1). H.E. Sheikh Faisal Bin Sultan Al Qassimi, a member of the ruling family of Sharjah and an important founder shareholder, continues as chairman of UAB.

Current Business Model

Chart 1: Contribution of Major Businesses to Net Profit



Small bank with limited branch network. UAB ranks among the smaller banks in the country with total assets of around AED26 billion at end 2014. The Bank has a network of 30 branches, which are spread across the country. A number of new branches were set up in Dubai last year.

UAB is primarily a corporate banking institution offering a wide range of corporate and treasury services to mainly medium-sized and large companies in the UAE. These are chiefly well established companies with multiple sources of revenues and diversified businesses, which have experienced steady growth over several years. UAB has good trade finance skills and is well regarded in the domestic banking sector. The Bank manages to overcome the shortcomings associated with its small size by offering top quality customised services and by building strong relationships with target client groups.

The Bank's traditional customer base comprises the government and companies operating in the trade and manufacturing sectors. New customers were acquired from the education, healthcare and hospitality sectors last year. Higher focus on cash management, transactions and trade business led to increased current account balances in 2014. The FI business was upgraded last year with new leadership and strategies and this division is poised to make a good contribution to income in 2015. The Islamic division launched its corporate banking products last year and completed its first Murabaha syndication deal. The corporate banking business accounted for 49% of the Bank's total income (net interest and non-interest) in 2014, as against 52% a year ago.

Growing treasury and capital markets business. This business, along with the SME business, did very well in 2014 and together contributed 24% of total income up from 19% in the previous year. A dedicated foreign exchange trading desk and other new initiatives have helped to strengthen the Bank's relationships with companies and high net worth individuals. The treasury division sources wholesale deposits and medium-term bilateral and club facilities.

A dedicated SME division was set up in 2012 and the business is being gradually built up. A range of products is offered including trade and working capital finance as well as deposit products. The division provides some funding support to the rest of the Bank.

Growing retail banking operations. Total income from retail banking grew by a strong 28% in 2014 and accounted for 28% of total income in 2014. UAB has substantially strengthened its retail banking division in recent years. The Bank offers all the basic retail products and services including credit cards, internet banking, a mortgage product and personal loan products. It also offers priority banking services for high net-worth individuals. The loyalty programme was enhanced last year and new insurance products were added to the product range. The Bank's partnership with FC Barcelona has helped to raise brand awareness. New card products are on the anvil.

The retail division's main customer segment comprises UAE nationals and high-income earning expatriates who have been in the country for several years; home mortgages account for 41% of the retail loan book. Though the corporate and retail divisions are run as separate business units, the two work closely together and the Bank has been able to cross-sell several retail products to the employees of its corporate clients. An Islamic window offers Shari'a-compliant retail deposit products and other financing facilities (including home finance) to middle- and high-income families.

Good management, well established risk functions and systems. The top management comprises professionals with significant experience of banking in the region. The chief risk officer is new and the credit area has been strengthened with the addition of new functions. A new deputy CEO was appointed recently. The head of audit came in March 2015 and new heads of IT and operations also joined in recent months. There were no other major changes in the senior management team. The Bank's core business groups are commercial banking and retail banking, while the chief support functions are credit risk, operations and IT, business support and the CFO's office. The Bank has a management services agreement with CBQ under which fees are paid if certain conditions are met. Staffing levels are lean although the headcount has risen in recent years in line with the growth in business; total headcount at end 2014 was 463, down from 467 a year ago.

Risk functions are overseen by the board credit committee (which approves high value credit proposals) as well as by the board audit and risk committees. The risk management group is headed by a chief risk officer who reports to the CEO. In addition, there are dedicated departments for corporate credit risk, large corporates, strategic clients, financial institutions, SME and retail businesses. The division gets support from departments for risk analytics, operational risk, market risk, credit monitoring, recovery, collections, legal and compliance.

Credit assessment remains strict and decisions are largely centralised and closely monitored by the local head office and the board credit committee. The board and the board executive risk and audit committees are actively involved in setting business strategy, risk appetite and credit policy as well as in monitoring the risk governance and compliance functions.

Principal Business Strategies

There are no major changes to business strategies. The Bank intends to grow its corporate and retail banking businesses at a reasonable pace in 2015, although it is unlikely to exceed the sector average. Retail strategies focus on middle- and high-income expatriates and UAE nationals. Retail credit and small business finance are expected to account for 40% of the total portfolio over the next several years. There is less focus on mortgage loans, but other retail loans have been targeted for growth. The Islamic bank will be more active in 2015 and the SME franchise is set to grow further, particularly in Abu Dhabi. The continuing development of new products and services across all sectors will drive the growth in lending and customer deposits. UAB's focus is on maintaining asset quality and on diversifying loans and customer deposits.

The corporate banking strategy continues to focus on the Bank's traditional sectors but new customers are being targeted in some of the rapidly expanding services segments. Customer relationships are being deepened. The Bank is an active participant in syndicated debt transactions and it intends to continue to focus on this area. UAB's main corporate customers continue to be medium-sized local companies with diversified business lines. Lending policies remain very cautious. The Bank's credit risk policy emphasises growth through diversification. The Bank will continue to look for opportunities to launch products and services perhaps jointly with its regional partners. The investment book is being further diversified across regions and asset classes.

RECENT ECONOMIC AND FINANCIAL SECTOR DEVELOPMENTS

See Appendix at the end of the report.

KEY FINANCIAL ISSUES

The 2014 consolidated accounts, comprising the financial statements of the Bank and its small 100% owned subsidiary (for investments and advisory services), were audited by KPMG in accordance with the International Standards on Auditing. The financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements under UAE law. The auditor's report is unqualified. Balance sheet disclosures including Pillar III disclosures are good. New accounting standards and interpretations (IFRS 9 and IFRS 15) that were not effective as of end December 2014 have not been early adopted. The impact of these standards is currently being assessed.

Peer group/sector averages in the following analysis are taken from CI's peer group table. These ratios are the size-weighted averages of 14 banks that accounted for 70% of the total assets in the banking system at end 2014.

BALANCE SHEET

Balance sheet totals have grown substantially. Total assets continued to grow at a strong pace in 2014, well above the average for the banking sector, although the rate of growth slowed from the previous year. UAB's total assets grew by 21% in 2014 to AED25 billion on the back of a sizeable 17% increase in net loans and a 54% rise in investments. Net loans represented a sizeable portion 72% of the Bank's balance sheet at end 2014, although this came down from 74% at end 2013 owing to the growth in investments, which rose to 10% of total assets from 8% at the end of the previous year. The size-weighted peer group average of the net loans to total assets ratio was a much lower 63% at end 2014 although many of the smaller banks had higher levels of net loans. UAB's sizeable loan book contributes to its wide net interest margin and strong earnings as well as its tight net loans to customer deposits ratio.

Deposits with banks, all with tenors less than three months, formed 8% of total assets at end 2014; the portfolio grew by 5% to AED1.9 billion last year. Placements with foreign banks accounted for 71% of the total and there were no impairments at end 2014 as at the previous year-end. Other exposures on the balance sheet comprised cash and central bank balances (7%), fixed assets (2%) and other assets (1%). Ninety two per cent of total assets represented UAE exposures at end 2014 (end 2013: 90%).

Small investment portfolio. UAB's total investments rose by 54% to AED2.5 billion which represented a moderately low 10% of the balance sheet. The portfolio consists almost entirely of available-for-sale debt securities issued by governments, government-related entities and banks, including well-managed Dubai-government entities with strong operations. Market prices are available for the entire portfolio, which was at Level 1 in the fair value hierarchy. The portfolio is marked to market every month and there have been no impairments for several years.

Table 3: Sectoral Loan Distribution at end 2014

Sector	AEDmn	% of Total	%∆ over 2013	NPL Ratio* (%)
Retail Loans	5,031	27.2	13.0	**1.41
Trade	3,925	21.3	74.3	6.20
Personal Loans - Business	2,715	14.7	19.2	**
Manufacturing	2,468	13.4	20.3	0.09
Services	1,387	7.5	21.8	2.80
Financial Institutions	1,249	6.8	36.7	-
Construction	687	3.7	7.2	11.55
Government/Public Sector	502	2.7	-65.9	-
Transport and Communications	485	2.6	50.2	-
Others	17	0.1	-67.9	-
Gross Loans*	18,466	100.0	18.6	2.56

**as percentage of gross sector loans; ** includes retail and personal business loans*

Good growth in lending in 2014, although the pace of growth slowed from previous years; well diversified book. UAB's gross loans expanded by 19% in 2014, down from 41% in the previous year and 36% in 2012. One reason for the slower growth is the repayment of the government of Sharjah loan as a result of which total exposures to the government and public sector (mainly utilities companies) fell by nearly AED1 billion to AED502mn. The government portfolio fell to 3% of gross loans from nearly 10% at end 2013. Corporate loans (excluding government and public sector) rose by a strong 34% last year to AED13 billion which formed 70% of gross loans. This was mainly due to substantial growth in loans to the trading, manufacturing and services sectors (healthcare, education and hospitality), which together formed 42% of gross loans at year-end as against 35% a year ago. There were also increases in personal business loans and loans to financial institutions and the construction and transportation sectors. Retail loans also recorded a good 13% increase in 2014.

The corporate loan book is spread across a number of sectors (see Table 3). The largest exposure at end 2014 was to the trade sector (21% of gross loans), followed by personal business loans (15%) and loans to manufacturing companies (13%) services sector (8%) and financial institutions (7%).

Moderately low and declining customer concentrations compared to many peers. Customer concentrations in the loan portfolio tend to be lower than those of peers given the relatively small average size of UAB's corporate loans. Management has made substantial efforts to reduce concentration levels, which are now among the lowest in the sector. The ten largest borrowing customers accounted for 10% of gross loans at end 2014, down from 12% of gross loans at end 2013 and 14% at end 2012. There were no impaired loans among the ten largest customer accounts.

Personal business loans shown in Table 3 are short and medium-term exposures to business groups and high net worth individuals, which are largely secured. The portfolio is performing well.

Growth in home mortgages has slowed. The Bank introduced its home mortgage product in 2010 and by end 2014 home mortgages had risen to AED2.1 billion or 11% of gross loans. Only purchases of homes in completed projects in Dubai and Abu Dhabi are being financed. Mortgages are extended to mainly UAE nationals and to high-income expatriates who can demonstrate a long-term commitment to the country. Following the imposition of restrictions on mortgage lending by the central bank two years

ago (*see Appendix, New caps on mortgage lending*) and increased competitive pressures UAB had slowed the growth of mortgages; however, it has accumulated a solid book which is performing well.

Other retail loans comprised mainly personal loans against the assignment of salaries and end-of-service benefits. These are offered to primarily to employees of government institutions and corporate customers on the Bank's approved list of companies. Loans extended in recent years have been to mainly high-income expatriates and UAE nationals.

Impaired loans in the personal loan book (retail and business) are low and only 1.41% of personal loans were not performing at end 2014. The Bank also regularly writes off past due retail loans – write-offs rose to AED137mn last year from AED69mn in the previous year.

Islamic financing, mainly to individuals, is growing well and rising every year; but the portfolio remains small at just 6% of gross loans at end 2014 and consisted mainly of personal and SME financing and home mortgages.

Trade sector finance rose to a high 21% of gross loans at end 2014, from 15% a year earlier. Facilities were extended to mainly large, well-established companies engaged in wholesale trading (primarily products that have shown high demand growth in the UAE). Impaired trade sector loans increased last year mainly due to the impairment of one account against which the Bank has made provisions; 6.20% of the portfolio was not performing at end 2014 compared to 5.22% at end 2013.

Loans to manufacturing companies recorded a strong 20% increase last year. The Bank lends primarily to UAE-based entities with an annual turnover of over AED20mn and with solid businesses, which are typically spread across several economic sectors. It is one of the best performing portfolios of the Bank with negligible impairments although there was some overdue loans over 90 days in this sector which the Bank did not classify as impaired at end 2014.

Low real estate exposure. The Bank does not have exposures to real estate developers working on freehold or other properties in Dubai. However, UAB does have indirect exposures via loans secured by real estate and its home mortgage portfolio.

Loans to financial institutions represented well secured UAE exposures. The portfolio of loans to financial institutions comprised loans to investment, finance and insurance companies in addition to commercial banks.

Construction finance grew at a moderate 7% and accounted for almost 4% of gross loans at end 2014. Impairment levels have increased in the portfolio in recent years and 11.55% of the book was not performing at end 2014, up from 4.98% at end 2013 and 0.36% at end 2012. The portfolio includes loans to companies to build warehouses, factories and staff quarters and loans to contracting companies working on infrastructure projects.

Exposures to the services sector have risen with the Bank lending more to the rapidly growing education, health and hospitality sectors in the country. However, impairments have also grown in this book and 2.80% of services sector loans were not performing at end 2014.

Table 5: Loans by Maturity (%)

	< 1year	1-5 years	> 5 years	Total
2014	38	44	18	100
2013	39	35	25	100
2012	56	30	14	100
2011	57	30	13	100

Sizeable increase in medium-term lending in 2014. Loans with one-to-five-year maturities have risen over the last few years – from 30% of net loans at end 2012 to 44% at end 2014 – reflecting the growth in retail loans as well as increased participations in corporate syndications. The short-term portfolio fell slightly to 38% of net loans and long-term exposures declined substantially to 18% from 25% a year earlier (see Table 5). Medium- and long-term loans are well secured and the higher earnings partly compensate for the increased risk.

Moderate levels of related-party loans. UAB's related-party funded and off-balance sheet exposures amounted to 29% of total capital at end 2014, down from 31% of total capital at end 2013.

Funds received from its principal shareholder declined from AED225mn at end 2013 to just AED4mn last year. Related party loans represented a low 2.3% of gross loans at end 2014.

Chart 2: Asset Quality Ratios

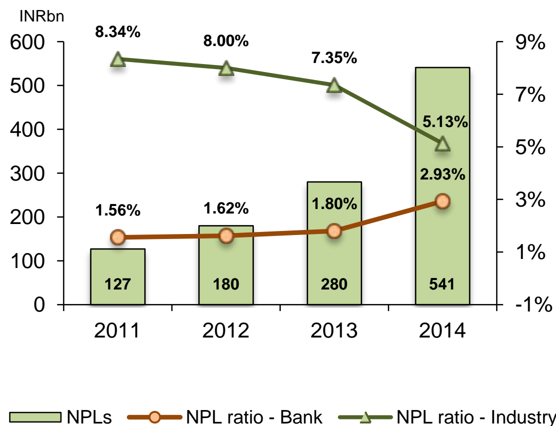
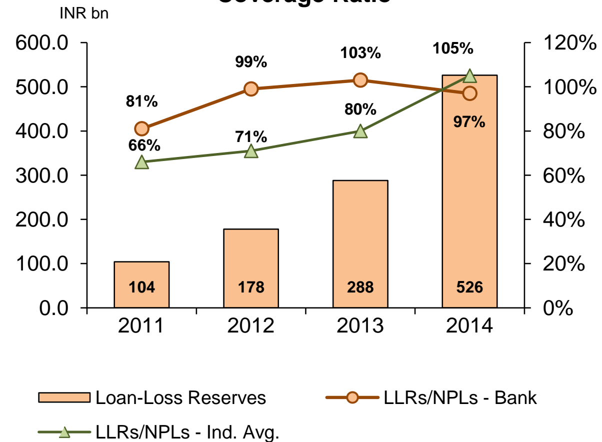


Chart 3: Loan-Loss Reserves and Coverage Ratio



Note: CI's definition of NPLs includes all loans over 90 days past due. UAB has identified certain loans as past due not impaired (PDNI) even though these are more than 90 days overdue. This is either because recovery is imminent or the loans are adequately collateralised.

Good asset quality overall; low NPL ratio despite an increase in 2014. UAB's NPLs grew by 94% in 2014 to AED541mn, due to an impairment of a trade sector account and a few problematic accounts in the construction and services sectors. There was also an increase in the Bank's PDNI>90 days portfolio which added 37 basis points to the NPL ratio. The NPL ratio rose from 1.80% at end 2013 to a still low 2.93% at end 2014. The substantial growth in lending and the seasoning of the portfolio over time have contributed to the growth in NPLs over the last few years. UAB had fared much better than many of its competitors during the post-2008 financial crisis due to nil exposures to Dubai World and real estate developers in the country as well as very low cross-border loans. This helped the Bank maintain its NPL ratio at a better than the peer group average (see Chart 2). Other favourable factors include the Bank's diversified credit portfolio and good credit risk management systems.

The Bank's portfolio of past due loans less than 90 days has been fairly small and does not threaten future asset quality. Although these loans increased in 2014 to AED551mn (from AED354mn at end 2013) they amounted to a low 3% of gross loans.

The estimated NPLs net accretion rate has been high over the last few years – 142% in 2014 and 94% in 2013. This is mainly because of new NPL classifications. It is also noted that the estimated net NPLs accretion rate is calculated on a small base.

A sizeable 51% of NPLs were trade sector loans at end 2014, while retail loans amounted to 23% of NPLs, construction sector loans 17% and the services sector 8%. In 2014, NPLs increased in the retail, trade and services sector loan portfolios.

Renegotiated performing loans declined and are fairly low. These loans fell to AED479mn at end 2014, from AED556mn at end 2013. Renegotiated loans represented a low 2.6% of gross loans at end 2014. The loans are performing adequately under the restructured terms.

High loan-loss reserve coverage ratio despite a decline at end 2014. Total loan-loss reserves rose by a substantial 83% in 2014 to AED526mn reflecting higher levels of both general and specific provisions. Specific provisions increased by 162% to AED234mn due to the increase in NPLs and the Bank also raised its general provisions by 52% to AED266mn. General provisions represented half of

total loan-loss reserves while specific provisions accounted for 45% and reserved interest formed the remaining 5%. UAB's loan-loss reserve coverage ratio fell to 97% from 103% a year ago. However, excluding PDNI>90 days (on which the Bank has made no provisions) the coverage ratio was more than 100%. UAB's coverage ratio, which had been better than the peer group average in recent years fell below the sector average in 2014 (see Chart 3).

The Bank's good capital base provides further cover. The effective NPL coverage ratio (the ratio of free capital and loan-loss reserves to NPLs) has fallen over the last several years reflecting the increase in NPLs. The ratio was a still good 5.6 times at end 2014, although down from 9.1 at end 2013. Impaired loans are further covered by collateral in the form of cash, securities, properties and letters of guarantee; the fair value of such collateral was AED72mn at end 2014 as against AED61mn at end 2013. The Bank is profitable enough to be able to provide aggressively - despite a sizeable increase in provisioning last year its ROAA remained very high.

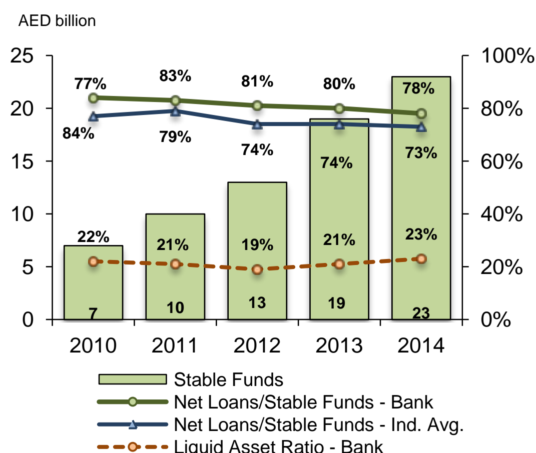
Capital adequacy ratio (CAR) is declining and is below the peer group average. The Bank's CAR has declined in recent years owing to the strong growth in risk-weighted assets – 29% in 2014, 37% in 2013 – and at 14.70% at end 2014 it was well below the 19% average for the sector. Total regulatory capital grew by a strong 19% in 2014 to AED3.2 billion largely due to higher retained earnings. Most of the Bank's capital is Tier 1, and its Tier 2 capital is very small and consists of general provisions. Tier 1 capital rose by a good 18% in 2014 reflecting the Bank's high earnings and relatively low dividend payout ratio (only 27% of the 2013 net profit was distributed as dividends in 2014, unlike 61% in the previous year). The Tier 1 ratio was also good at 13.90% at end 2014, although this was lower than at end 2013 (15.20%).

This is still a good ratio particularly in view of the high loan-loss reserve coverage maintained by the Bank; however, it does put some restraints on future asset growth particularly since the Bank may want to keep a buffer in the CAR to allow for a possible decline in the ratio when the UAE central bank introduces its Basel III guidelines. UAB has been distributing lower cash dividends in recent years in an effort to plough back its earnings into capital. Cash dividends for 2013 had been reduced to AED149mn from AED249mn in the previous year and its payout for 2014 was even lower at AED115mn. Shareholders were instead given stock dividends (AED229mn in 2014 and AED149mn in 2013). This has helped to strengthen the Bank's internal capital generation rate to 19% in 2014 from 15% in 2013 and 9% in 2012.

Falling capital to total assets ratio, with capital growing at a slower pace than assets UAB's capital rose by 17% in 2014 to AED2.9 billion; this was an improvement over the average annual rate of about 10% over the previous three years. However, asset growth was a high 21% in 2014, though down from the over 37% growth rate seen in previous periods. Consequently the Bank's capital to total assets ratio fell to 11.7% at end 2014 from 12.1% at end 2013 and nearly 14.0% at end 2012. This is below the peer group average of around 14%.

The Bank's paid-up capital base increased by 15% in 2014 to AED1.1 billion owing to the payment of stock dividends, while reserves rose by 19% to AED1.8 billion due to retained earnings net of a small negative fair value adjustment and bonus shares.

Chart 4: Liquidity



Large customer deposit base with a high proportion of demand balances. Customer deposits funded a substantial 75% of the Bank's balance sheet at end 2014. Deposit growth has been robust over many years, owing to the expansion of the branch network and the introduction of new products and, in 2014, deposit growth outpaced credit expansion. Customer funds increased by 25% in 2014 to AED19 billion; in 2013 these had risen by 49%, in 2012 by 29% and in 2011 by 61%.

The Bank had in the past maintained a tight net loans to customer deposits ratio of over 100%, however, the ratio had eased to 102% at end 2013 and it strengthened further to 96% at end 2014, which was still slightly tighter than the peer group average of 93%.

Low short-term interbank liabilities. Deposits from banks declined by a fifth last year. Including the current portion of long-term debt, short-term interbank liabilities were a low 4.5% of total assets at end 2014 (2013: 5.2%).

Moderately high medium-term funds base. UAB had diversified its funding base by raising medium-term funds in 2012 and 2013. More funds were raised in 2014 (three-year Murabaha facility), and medium-term borrowings (excluding the current portion of long-term debt) amounted to AED1.74 billion, which accounted for a moderately high 7% of the balance sheet. Refinancing risks are not significant at present given the relatively small size of the borrowings, which are maturing over the next few years, the Bank's good internal cash flows and access to funding from CBQ.

Net loans to stable funds ratio has strengthened over the last few years but remains tighter than the peer group average (see Chart 4). Since customer deposits, capital and the small amount of medium-term borrowings are the Bank's principal sources of funds, the net loans to stable funds ratio may be a more accurate measure of the Bank's liquidity. This ratio has improved in recent years reflecting the strong growth in customer deposits, and it was at a satisfactory 78% at end 2014.

Large demand balances. UAB's demand balances have grown at a robust pace over the years (30% in 2014, 86% in 2013 and 37% in 2012) reflecting the sizeable expansion in business volumes over this period. The Bank's demand balances have historically been high due to its considerable corporate banking activities. These deposits, placed mainly by the Bank's corporate customers, have tended to be relatively stable over the years since they are relationship-driven. The savings deposit base is low at just 3% of customer deposits and time deposits, a sizeable portion of which have been received from commercial entities, accounted for the remaining 55%.

Table 5: Customer Deposit Composition

	2014		2013	
	AEDbn	%	AEDbn	%
Demand	7,880	42.1	6,076	40.4
Savings	608	3.2	722	4.8
Time	10,230	54.7	8,237	54.8
Total	18,718	100.0	15,035	100.0
Growth Rate	25%		49%	

Customer concentrations are high, but are falling. There are customer concentrations in the deposit base, although UAB's concentration levels are slightly lower than those of many other UAE bank and have been declining in recent years. The ten largest depositors accounted for 22% of customer deposits at end 2014, up from 18% of customer deposits at end 2013.

Liquid asset ratio is good. The Bank's liquid asset ratio rose to 23% at end 2014, from 21% a year ago, mainly due to a 33% increase in liquid assets last year. At end 2014, liquid assets consisted mainly of deposits with banks (35%), cash and central bank balances (32%) and government securities (33%). The net liquid asset ratio (after adjusting for short-term interbank liabilities) improved last year to 18% from 15% a year ago.

The Bank has AED619mn of other marketable securities. These consisted of debt securities issued by top rated entities which can be easily liquidated or is mostly eligible for discounting through the UAE central bank window for overnight funding. The quasi-liquid asset ratio was a comfortable 25% at end 2014 (2013: 23%). In addition, the Bank has access to CBQ funding (through an interbank line and swap facility) and to the central bank's liquidity support facility that will allow it to borrow up to 120% of its cash reserves.

Table 6: Assets *Less* Liabilities as a percentage of total assets		
%	2014	2013
0-3 months	-18	-21
3-12 months	-13	-9
1-5 years	23	19
Over 5 years	9	11

Maturity gaps widened substantially in the less-than-three-month maturity bucket. UAB's maturity gaps (measured as assets less liabilities in different maturity buckets divided by total assets) show a large negative gap in the short-term reflecting largely the high level of demand balances in its customer deposit base and the fact that time deposits have mostly been placed for very short-term maturities. According to the Bank, historically, the behavioural maturity of demand balances is over two years and these have constituted stable funding for many years. In reality, therefore, maturity gaps tend to be much smaller than seen in Table 6. In addition, a high percentage of customer deposits with tenors of less than three months is rolled over on maturity.

FINANCIAL PERFORMANCE

Chart 5: Profitability

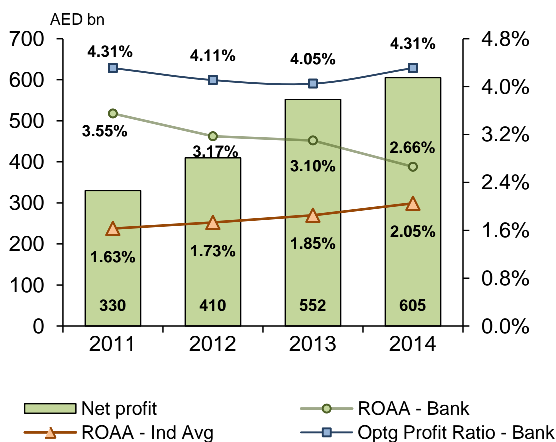
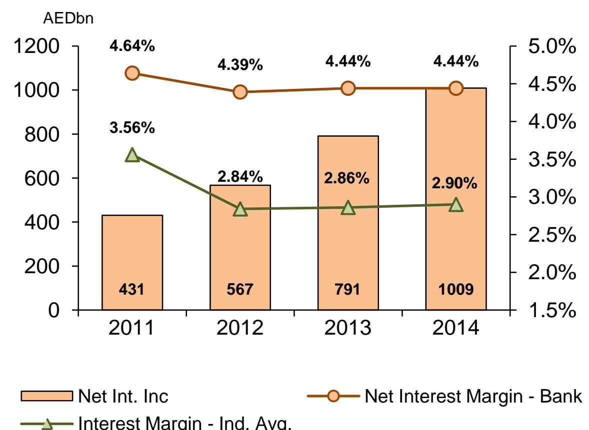


Chart 6: Net Interest Margin and Net Interest Income



Very profitable bank; although ROAA has fallen in recent years, it remains above the peer group average. The Bank reported a 10% increase in net profit in 2014 to AED605mn, as against a much more robust 35% increase recorded in the previous year. This was because of some aggressive provisioning undertaken last year (both specific and general). And although the ROAA fell last year by 44 basis points to 2.66% it was still higher than the peer group average (see Chart 5). UAB's operating profit rose by a strong 36% in 2014 as in previous years (2013: 36%, 2012: 33%) on the back of substantial increases in both net interest and non-interest income partly offset by higher operating costs. The operating profit to average total assets ratio rose by 26 basis points in 2014 to a high 4.31%, which was significantly higher than the peer group average of 2.89%. In CI's peer group of 14 banks UAB had the second highest ROAA in 2014; wide margins, a large non-interest income base and reasonably low overheads underpin the Bank's strong operating profitability.

Strong growth in net interest income reflects wide margins and substantial loan growth. The Bank's net interest income rose by a substantial 28% in 2014 to AED1 billion. Interest income grew by 28% to AED1.2 billion due to higher average loan volumes; interest from loans and advances formed more than 90% of total interest income. The interest income to average total assets ratio improved marginally to 5.43% and was well above the peer group average of 3.70%.

UAB's interest costs rose by 31% to AED224mn in 2014; 60% of the year-on-year increase in interest expense was on account of higher interest paid on interbank transactions (medium-term borrowings) and the balance 40% was due to the growth in customer deposits. The interest cost to average total assets ratio rose slightly to a still low 0.99%, which was higher than the peer group average of 0.80%.

The net interest margin (NIM) was unchanged at a high 4.44% in 2014. It has historically been wider than the peer group average (see Chart 6) reflecting the high level of net loans on the balance sheet and the Banks low funding cost (ascribed to the sizeable demand balances in its customer deposit base). Lower interest rates, competitive pressures driving down lending rates and higher costs on increased medium-term borrowings put downward pressures on the NIM. However, the substantial increase in demand balances partly offset this.

Good non-interest income base. UAB's non-interest income has grown substantially over the past few years, nearly doubling between 2012 and 2014. The Bank's historically high level of non-interest income reflects its diversified business base and growing product range. Non-interest income rose by 46% in 2014 to AED363mn owing to higher fees and commissions, foreign exchange profits and other operating income (mainly profit from the sale of investments). UAB's non-interest income rose to 1.60% of average total assets, up from 1.40% in 2013; this was better than the peer group average of 1.53%.

Operating expenses have been well managed and have grown more or less in line with income. Growth oriented strategies focusing on branch expansion, product development and new businesses are pushing up operating costs. Costs increased by 24% in 2014 to AED394mn but the cost to income ratio fell to 29% from 31% in the previous year owing to the strong growth in gross income. The ratio also continued to be lower than the peer group average of 32%. UAB's costs to average total assets ratio has fallen over the years – from 2.21% in 2010 to 1.73% in 2014; the sector average of this ratio was 1.37%.

CURRENT YEAR UPDATE (Q1 2015)

The table below highlights UAB's unaudited financials for the first quarter of 2015. The Bank has disclosed information on impaired loans in the interim financials unlike many other banks in the country. Overall, disclosure levels have been good.

Note: All ratios on average total assets for interim periods are on annualised basis. Changes in values relating to the interim income statement are over the same period in the previous year unless otherwise specified. Changes in balance sheet figures are over the end 2014 level unless otherwise specified.

AEDmn	Mar 15	Dec 14	Δ%
Total Assets	25,592	24,901	2.8
NPLs	634	541	17.1
Provisions	585	526	11.3
Net Loans	18,258	17,941	1.8
Customer Deposits	18,346	18,718	-2.0
Total Capital	2,944	2,912	1.1

%	Mar 15	Dec 14
NPLs/Gross Loans	3.36	2.93
LLRs/NPLs	92.28	97.10
Capital Adequacy Ratio	14.53	14.70
Net Loans/Stable Funds	80.72	78.12
Liquid Asset Ratio	22.77	20.56
Net Interest Margin	*4.19	4.44
Cost To Income	30.16	28.67
Optg. Profit/Average Total Assets	*3.89	4.31
ROAA	*2.56	2.66

Annualised;

AEDmn	Q1 15	Q1 14	Δ%
Net Interest Income	264	240	10.2
Non-Interest Income	88	87	1.1
Gross Income	**352**	**327**	**7.8**
Operating Expenses	106	104	2.3
Operating Profit	**246**	**223**	**10.4**
Provisions	-84	-61	37.2
Tax	-	-	-
Net Profit	**161**	**161**	**-**

Balance Sheet

- Total assets grew by a 3% in the first quarter of 2015 (12% annualised) largely because of a 2% increase in net loans and advances. Total investments rose by 7% due to increased investments in securities issued by the government sector, but total investments continued to form a low 10% of the balance sheet; 77% of investments represented debt securities issued by government/ public sector/GRE exposures.

- Asset quality ratios worsened slightly due to a 17% increase in NPLs. Although the NPL ratio increased at end Q1 2015, it was still fairly low at 3.36%. The loan-loss reserve coverage ratio dipped to a still high 92% at end Q1 2015, from 97% at end 2014. Other coverage ratios also weakened slightly but were still good; the effective NPL coverage ratio was nearly 5 times at the end of the quarter and unprovided NPLs represented 2.4 months of operating profit.

- Loan-based liquidity ratios tightened at end Q1 2015 with customer deposits falling slightly. The net loans to stable funds ratio worsened to 81% from 78% at end 2014. The liquid asset ratio remained good at 23%, but due to the increase in interbank liabilities the net liquid asset ratio slipped to 15% from 18% three months earlier.

- The Bank's capital adequacy ratio (CAR) declined very marginally to 14.5% at end Q1 2015, partly because of the payment of dividends.

Profit and Loss

- Net profit was flat in Q1 2015 due to a sizeable 37% increase in loan loss provisions. However operating profit rose by 10% due to strong 10% growth in net interest income. Non-interest income growth was low at 1% reflecting lower investment activity. But fees and commissions grew by a strong 17% and foreign exchange profits were up 7%.

- Operating costs rose by a low 2.3% and the cost to income ratio was maintained at a good 30%.

- Although the operating profit to average total assets ratio and the ROAA fell in Q1 2015 from the 2014 levels, both ratios were quite strong. The operating profitability ratio was a high 3.89% and the ROAA was also good at 2.56%.

APPENDIX

RECENT ECONOMIC AND FINANCIAL SECTOR DEVELOPMENTS

UAE's GDP is estimated to have grown by 4.3% in 2014 marginally below the 4.5% rise seen in 2013. The first nine months of 2014 saw strong growth in both the oil and non-oil economies, but the sharp fall in oil prices in the last quarter is likely to have moderated the overall growth rate. Non-oil growth was driven by trade, tourism and logistics along with a good recovery in the real estate market. Major investments continue to be made in tourism as the country intensifies its efforts to diversify away from the oil sector, which accounts for about a third of total GDP. The major emirates have seen high occupancy rates in their hotels last year. Tourist arrivals have risen; the two major airlines of Dubai and Abu Dhabi have played a major role in building the tourism sector. The real estate sector had undergone a major revival in 2013 and in the early part of 2014, but residential real estate prices appear to have moderated in recent periods as sales slowed down which was a welcome development. Dubai won the Expo 2020 mandate, which is expected to have a positive effect on the economy via the hospitality, logistics and real estate sectors.

UAE's GDP is forecast to grow at a slower rate of 3.5% (IMF) in 2015 owing to the continuing low oil price, but Dubai is expected to maintain its growth momentum and record a GDP increase of 4.5%. While Abu Dhabi's GDP is projected to rise by 3% in 2015, its non-oil economy could do much better and grow at over 5.5%. The services, construction, logistics and manufacturing sectors are doing well and will remain the main growth drivers in 2015. While lower oil prices would eventually impact government spending in the UAE specially if the prices stay low over a prolonged period, but Abu Dhabi's considerable sovereign wealth is expected to act as a buffer for some time. Abu Dhabi's fiscal breakeven price for oil is low compared to many other countries and this could help to stretch the period during which fiscal consolidation will be undertaken.

Business confidence continues to be high and Dubai particularly has benefited from the flight of wealth and people from Arab countries affected by popular uprisings. Abu Dhabi's solid economic fundamentals and very low levels of social tensions makes for social and political stability in the emirates.

Dubai's resilient trade sector. Dubai's reputation as a trading hub, its location as a convenient transit point for Africa, Asia and Europe and its excellent infrastructure continue to fuel the growth of the trading sector in the emirate. The trade sector had been registering strong annual growth rates in recent years, but the rate of growth slowed significantly in 2014. Sanctions on Iran, one of Dubai's largest trading partners, have not impacted the trade sector significantly, with other markets stepping up to fill the gap. Dubai's non-oil foreign trade is reported to have grown to AED1.33 trillion in 2014, up marginally from AED1.32 trillion in 2013.

The government of Dubai needs funding for its projects. Dubai's ambitious plans will require new funding, much of which will have to be raised via borrowings in the international markets. The government and some of its companies have raised sizeable funds in recent years as Dubai's CDS spreads have narrowed substantially from previous highs. The Dubai government raised USD750mn through a 15-year Islamic bond issuance in April 2014; its last Islamic bond offering, in January 2013, raised USD1.25 billion of 10- and 30-year money. By setting benchmark rates for longer tenor offerings, the government has paved the way for the issuance of long-dated securities by government-related entities (GREs).

Dubai's GREs continue to strengthen their credit profiles. According to the IMF, restructurings of the debt of major GREs are now complete and these entities have been making repayments, some of them ahead of maturities. Although debt levels remain high, the improved financing position of many GREs along with a lengthened maturity profile has reduced risks to a great extent. The IMF has also pointed out that with Dubai GREs announcing large projects in real estate and hospitality, it is essential that the government keep a close watch to ensure that there is adequate demand for these new properties. In March 2014 the Abu Dhabi government had rolled over its USD20 billion loan to the Dubai government for another five years at a much reduced rate of interest.

Dubai World (DW) restructures its debt again. DW had stepped up asset sales (mainly to other GREs) last year to raise cash to repay debt. In February 2015, DW received creditors' approval to once again restructure its outstanding debt. The new agreement allowed the company to repay some debt ahead of maturity (around USD2.9 billion) and to delay the repayment of the balance of USD14.6 billion to 2022 from the earlier agreed date of 2018; however, DW has agreed to give additional collateral and pay a higher rate of interest. This has allayed concerns of the banking sector of the risks inherent in the second bullet repayment under the previous restructuring arrangement.

Spending by the Abu Dhabi remains high. The government of Abu Dhabi is to spend around AED330 billion between 2013 and 2017 across on infrastructure, health, education, housing, renewable energy, transport, communications, railways and the expansion of the airport as part of the government's 'Plan Abu Dhabi 2030' document, which envisages an ambitious investment of USD400 billion till 2030 in energy and non-oil sectors. The emirate is spending on setting up new industrial clusters in previously under-developed regions and is investing in major civil projects as well as in the health and education sectors. Abu Dhabi is also in the process of setting up a new international financial free trade zone to connect the economies in the Middle East, Africa and South Asia with world markets.

The banking sector recorded stronger credit growth in 2014. The combined assets of UAE banks exceeded AED2.2 trillion at end 2014, which was a 10% increase over the previous year-end. The pace of bank lending picked up and net loans rose by 8.9% as against 7.1% in the previous year. Loan growth was driven by personal loans for business purposes, personal consumption loans, and increased credit to construction, manufacturing and trade. Personal loans for business purposes, the largest single sectoral exposure at 21% of net loans, rose by a substantial 18% in 2014.

Most banks reported improved asset quality numbers suggesting that the worst of the impact of the downturn is over. Retail loans of local banks had lower delinquencies at end 2014 compared to end 2013, and corporate NPL accretions had also slowed. The restructuring of DW debt has improved comfort levels on that front. Most banks reported a fall in the NPL ratio and higher loan-loss reserve coverage ratios. Both specific and general provisions increased last year. CI's size-weighted NPL ratio for the UAE banking sector (which is based on the financial statements of 14 local banks that accounted for 70% of total assets at end 2014) was 5.13% at end 2014 as against 7.36% a year earlier. The loan-loss reserve coverage ratio strengthened to 105% from 80% as banks continued to focus on restoring their coverage ratios, which had exceeded 100% before 2008.

The banking sector is required to classify loans that are more than 90 days overdue as sub-standard and make a minimum 25% provision. Doubtful loans (over 180 days past due) attract a 50% provision and loss loans have to be 100% provided. Personal loans, car loans and credit card outstandings have to be 100% provided after 180 days. In addition, banks have hold general provisions up to 1.5% of total risk-weighted assets.

Local banks are solidly capitalised. The capital adequacy ratio (CAR) remained strong, although the ratio for the sector as a whole dropped to 18.1% at end 2014 from 19.3% at end 2013. The ratio had declined in 2013 as well following the early repayment of subordinated loans that the banks had received from the Ministry of Finance in 2008-2009 as part of the liquidity and capital support extended by the government at that time. The Tier 1 CAR of the banking sector was also strong at 16.2% in end 2014, down slightly from 16.9% a year ago. Retained earnings of the banking sector grew at a healthy pace last year although dividend payouts, which continue to be closely watched by the central bank, have been high.

Liquidity ratios improved slightly and profitability strengthened. Liquidity ratios improved in 2014 owing to good customer deposit growth and increased capital. CI's size-weighted peer group average of the net loans to stable funds ratio eased to 73% at end 2014 from 74% a year earlier. Profitability ratios strengthened with the ROAA of the sector rising to 2.05% from 1.85% a year ago. The operating profit to average total assets ratio improved to 2.89% from 2.78% in 2013 reflecting a wider net interest margin and good growth in non-interest income.

Caps on mortgage lending. Towards the end of 2013, the central bank had issued caps on mortgage loans. Home loans to expatriates are currently limited to 75% of a property's value for a first investment of less than AED5mn and 65% for a property worth more than AED5mn. For nationals the loan to value ratios are 80% and 70%. The maximum tenor permitted on a mortgage loan is 25 years and monthly repayments cannot exceed 50% of a customer's monthly income. The total amount cannot exceed seven years annual income in the case of an expatriate and eight years in the case of a UAE national.

A discount window provides overnight funding for the banking sector. The UAE central bank opened a discount window which offers all the banks operating in the country overnight liquidity against a wide range of collateral, which includes securities and a wide range of sukuk issued by federal and local governments and their respective GREs, and top-tier banks, financial institutions and corporations.

Banking sector outlook. The good growth of the non-oil sector, particularly trading, logistics and tourism had underpinned the improved business sentiment in the country last year. The drop in real estate prices in recent quarters (which is partly seen as a correction of the previous year's steep increase) along with the fall in oil prices and the conflict in Yemen has served to dampen sentiments slightly in the current year. However, most banks expect to grow their lending books albeit at a slower pace than in 2014 and nearly all expect a further strengthening of asset quality ratios. Meanwhile Abu Dhabi continues to spend on major infrastructure related projects and there are sizeable expectations of increased business opportunities in Dubai in the years leading up to the 2020 Expo. UAE banks have absorbed most of the shocks stemming from the global financial crisis and the steep decline of the real estate sector in the country. With the improvement in profitability banks are now better placed to absorb increased provisioning that may be necessary.

UNITED ARAB BANK

AE020

PERFORMANCE RATIOS	Audited	AUD 12/2014	AUD 12/2013	AUD 12/2012	AUD 12/2011
A . SIZE FACTORS (USD 000)					
1 . Total Assets		6,780,301	5,605,272	4,087,839	2,949,515
2 . Total Capital		792,828	675,706	612,083	553,036
3 . Net Profit		164,849	150,437	111,591	89,899
B . ASSET QUALITY					
4 . Total Assets Growth Rate (YoY%)		20.96	37.12	38.59	39.91
5 . Estimated Non-Peforming Loans (NPLs) Net Accretion Rate (%)		142.32	94.04	82.75	25.77
6 . NPL Ratio (%)		2.93	1.80	1.62	1.56
7 NPAs (Including NPLs) To Total Assets (%)		2.17	1.36	1.20	1.18
8 . Loan-Loss Reserve To NPLs (%)		97.10	102.87	99.18	81.41
9 . Loan-Loss Reserve To Gross Loans (%)		2.85	1.85	1.61	1.27
10 . Unprovided Non-Performing Loans To Free Capital (%)		0.63		0.07	1.23
11 . Effective NPL Coverage Ratio (Times)		5.59	9.14	12.55	15.91
12 . Unprovided NPLs To Operating Profit (Months)		0.19		0.03	0.71
13 . Loan-Loss Provisioning Expense To Gross Loans (%)		2.03	1.08	1.10	0.86
14 . Related Party Exposure To Total Capital (%)		29.18	30.52	29.51	29.51
15 . Total Contingents To Total Assets (%)		30.04	33.55	41.21	57.24
C . CAPITAL ADEQUACY					
16 Reported Common Equity Tier 1 Ratio To Local Standards (%)					
17 . Reported Tier 1 Ratio To Local Standards (%)		13.90	15.20	18.30	19.93
18 . Reported Total Capital Adequacy Ratio To Local Standards (%)		14.70	15.90	19.20	20.30
19 . Internal Capital Generation (%)		19.17	15.31	8.64	7.94
20 . Total Capital Growth Rate (YOY %)		17.33	10.39	10.68	9.91
21 . Total Capital To Total Assets (%)		11.69	12.05	14.97	18.75
22 . Total Capital To Gross Loans (%)		15.77	15.93	20.32	24.89
23 . Free Capital (AED 000)		2,502,546	2,269,239	2,076,750	1,924,870
24 . Free Capital To Total Capital (%)		85.95	91.45	92.39	94.77
25 . Dividend Payout Ratio (%)		18.93	27.05	60.78	60.36
D . LIQUIDITY					
26 . Stable Funds (AED 000)		22,965,091	18,993,021	13,377,744	9,748,299
27 . Net Loans To Total Assets (%)		72.05	74.25	72.48	74.37
28 . Net Loans To Total Customer Deposits (%)		95.85	101.67	107.80	102.98
29 . Net Loans To Total Deposits (%)		90.43	94.97	96.28	92.67
30 . Net Loans To Stable Funds (%)		78.12	80.48	81.34	82.64
31 . Net Investments To Total Assets (%)		9.99	7.85	8.90	5.50
32 . Liquid Asset Ratio (%)		22.53	20.56	19.49	21.47
33 . Net Liquid Asset Ratio (%)		18.03	15.41	11.44	13.43
34 . Quasi-Liquid Asset Ratio (%)		25.02	23.15	25.32	24.12
35 . Short-Term Funding Coverage Ratio (%)		555.13	449.28	314.70	300.11
36 . Net FX Currency Assets (AED 000)					
37 . FX Deposits Less FX Loans (AED 000)					
38 . Net Interbank Assets (AED 000)		810,910	787,579	124,503	597,778
E . PROFITABILITY					
39 . Return on Average Assets (%)		2.66	3.10	3.17	3.55
40 . Operating Profit To Average Assets (%)		4.31	4.05	4.11	4.31
41 . Gross Income To Average Assets (%)		6.04	5.84	5.92	6.26
42 . Estimated Funding Cost (%)		0.99	0.97	1.19	0.96
43 . Estimated Interest on Average Total Assets (%)		5.43	5.41	5.58	5.61
44 . Estimated Net Interest Margin (%)		4.44	4.44	4.39	4.64
45 . Non-Interest Income To Gross Income (%)		26.49	23.95	25.88	25.82
46 . Operating Expenses To Gross Income (%)		28.67	30.64	30.54	31.09
47 Operating Expenses To Average Assets (%)		1.73	1.79	1.81	1.95
48 . Operating Profit Growth Rate (YOY %)		35.86	35.66	32.63	22.42
49 . Risk Provisioning Expense To Operating Profit (%)		38.19	23.37	22.88	17.60
50 . Return on Average Equity (%)		22.45	23.36	19.16	17.02
RATES					
. Exchange Rate (Units per USD)		3.67	3.67	3.67	3.67
. Inflation Rate (%)		3.40	1.50	0.70	0.90
. Benchmark Interest Rate (AED)		0.68	0.81	1.30	1.52

NOTES:

UNITED ARAB BANK

BALANCE SHEET - ASSETS (AED 000) External Audit	12/2014 USD 000	AUD 12/2014	AUD 12/2013	AUD 12/2012	AUD 12/2011	Growth (%) 12/2014	12/2013	12/2012	12/2011	Breakdown (%) 12/2014	12/2013	12/2012	12/2011
CASH & EQUIVALENT ASSETS:													
Cash	33,816	124,190	84,367	64,875	49,828	47.20	30.05	30.20	19.00	0.50	0.41	0.43	0.46
Central Bank	459,188	1,686,368	1,217,408	1,067,285	498,766	38.52	14.07	113.99	45.84	6.77	5.91	7.11	4.60
Treasury Bills													
Government Securities	508,438	1,867,237	1,083,065	461,032	308,585	72.40	134.92	49.40	241.92	7.50	5.26	3.07	2.85
Reverse Repos													
Other													
TOTAL CASH & EQUIVALENT ASSETS	1,001,442	3,677,795	2,384,840	1,593,192	857,179	54.22	49.69	85.86	80.80	14.77	11.59	10.61	7.91
DEPOSITS WITH BANKS:													
Short - Up to 1 Year	526,407	1,933,231	1,848,253	1,332,281	1,468,301	4.60	38.73	-9.26	21.66	7.76	8.98	8.87	13.56
Medium - Over 1 Year													
TOTAL DEPOSITS WITH BANKS	526,407	1,933,231	1,848,253	1,332,281	1,468,301	4.60	38.73	-9.26	21.66	7.76	8.98	8.87	13.56
TOTAL LIQUID ASSETS	1,527,849	5,611,026	4,233,093	2,925,473	2,325,480	32.55	44.70	25.80	38.34	22.53	20.56	19.49	21.47
OTHER MARKETABLE SECURITIES	168,630	619,293	532,352	875,448	287,078	16.33	-39.19	204.95	-17.29	2.49	2.59	5.83	2.65
LOANS AND ADVANCES:													
Short Term	1,930,469	7,089,648	6,142,416	6,152,680	8,160,097	15.42	-0.17	-24.60	43.69	28.47	29.84	40.98	75.33
Medium/Long Term (MLT)	3,097,831	11,376,786	9,431,000	4,907,000		20.63	92.19			45.69	45.81	32.69	
Other													
Leasing and Factoring													
of which : Non-Performing Loans	147,376	541,239	279,907	179,665	127,491	93.36	55.79	40.92	-32.94	2.17	1.36	1.20	1.18
GROSS LOANS AND ADVANCES	5,028,301	18,466,434	15,573,416	11,059,680	8,160,097	18.58	40.81	35.53	43.69	74.16	75.65	73.67	75.33
Loan-Loss Reserve	-143,099	-525,531	-287,935	-178,187	-103,796	82.52	61.59	71.67	-29.53	-2.11	-1.40	-1.19	-0.96
NET LOANS AND ADVANCES	4,885,202	17,940,903	15,285,481	10,881,493	8,056,301	17.37	40.47	35.07	45.64	72.05	74.25	72.48	74.37
NON-MARKETABLE SECURITIES									-100.00				
SUBSIDIARIES & AFFILATES													
NET NON-PERFORMING ASSETS (Excluding NPLs)													
FIXED ASSETS	111,400	409,115	212,292	171,125	106,155	92.71	24.06	61.20	44.92	1.64	1.03	1.14	0.98
OTHER ASSETS	87,221	320,318	322,143	159,050	57,081	-0.57	102.54	178.64	67.60	1.29	1.56	1.06	0.53
TOTAL ASSETS	6,780,301	24,900,655	20,585,361	15,012,589	10,832,095	20.96	37.12	38.59	39.91	100.00	100.00	100.00	100.00
CONTINGENT ACCOUNTS:													
Financial Guarantees / SLCs / Acceptances	1,098,580	4,034,534	3,785,549	3,239,710	3,326,368	6.58	16.85	-2.61	8.73	16.20	18.39	21.58	30.71
Irrevocable Commitments	726,340	2,667,483								10.71			
Documentary L/Cs	211,742	777,624	533,224	719,979	614,231	45.83	-25.94	17.22	13.15	3.12	2.59	4.80	5.67
Bid / Performance / Retention Bonds			2,586,948	2,227,225	2,260,065	-100.00	16.15	-1.45	-7.96		12.57	14.84	20.86
TOTAL CONTINGENT ACCOUNTS	2,036,662	7,479,641	6,905,721	6,186,914	6,200,664	8.31	11.62	-0.22	2.36	30.04	33.55	41.21	57.24

BALANCE SHEET - LIABILITIES (AED 000) External Audit	42,003 USD 000	AUD 12/2014	AUD 12/2013	AUD 12/2012	AUD 12/2011	Growth (%) 12/2014	12/2013	12/2012	12/2011	Breakdown (%) 12/2014	12/2013	12/2012	12/2011
SHORT-TERM INTERBANK LIABILITIES:													
ST Placements From Banks	230,610	846,914	1,060,674	1,207,778	870,523	-20.15	-12.18	38.74	-8.26	3.40	5.15	8.05	8.04
Current Portion of LT Bank Debt	74,992	275,407								1.11			
Repos With Banks													
Interbank Liability To Parent / Related Party													
TOTAL SHORT-TERM INTERBANK LIABILITIES	305,601	1,122,321	1,060,674	1,207,778	870,523	5.81	-12.18	38.74	-8.26	4.51	5.15	8.05	8.04
CUSTOMER DEPOSITS:													
Demand	2,145,717	7,880,146	6,075,774	3,258,103	2,377,783	29.70	86.48	37.02	18.16	31.65	29.52	21.70	21.95
Savings	165,555	608,002	722,283	394,090	93,921	-15.82	83.28	319.60	20.35	2.44	3.51	2.63	0.87
Time	2,785,609	10,230,149	8,236,780	6,442,090	4,871,406	24.20	27.86	32.24	124.67	41.08	40.01	42.91	44.97
Other					480,319			-100.00	-18.81				4.43
TOTAL CUSTOMER DEPOSITS	5,096,881	18,718,297	15,034,837	10,094,283	7,823,429	24.50	48.94	29.03	61.30	75.17	73.04	67.24	72.22
OFFICIAL DEPOSITS													
TOTAL DEPOSITS + ST INTERBANK LIABILITIES	5,402,483	19,840,618	16,095,511	11,302,061	8,693,952	23.27	42.41	30.00	49.92	79.68	78.19	75.28	80.26
NON-BANK SHORT-TERM DEBT													
MEDIUM / LONG TERM FUNDING	474,948	1,744,248	1,688,945	1,206,711		3.27	39.96			7.00	8.20	8.04	
SUBORDINATED DEBT													
HYBRID CAPITAL													
OTHER LIABILITIES	110,042	404,128	319,374	255,942	107,118	26.54	24.78	138.93	12.69	1.62	1.55	1.70	0.99
TOTAL LIABILITIES	5,987,473	21,988,994	18,103,830	12,764,714	8,801,070	21.46	41.83	45.04	49.32	88.31	87.95	85.03	81.25
CAPITAL:													
Paid Up Capital	312,011	1,145,861	996,401	996,401	996,401	15.00				4.60	4.84	6.64	9.20
Reserves	480,817	1,765,800	1,485,130	1,251,474	1,034,624	18.90	18.67	20.96	21.50	7.09	7.21	8.34	9.55
Minority Interest													
TOTAL CAPITAL	792,828	2,911,661	2,481,531	2,247,875	2,031,025	17.33	10.39	10.68	9.91	11.69	12.05	14.97	18.75
TOTAL LIABILITIES + TOTAL CAPITAL	6,780,301	24,900,655	20,585,361	15,012,589	10,832,095	20.96	37.12	38.59	39.91	100.00	100.00	100.00	100.00
REGULATORY CAPITAL	858,739	3,153,718	2,652,578			18.89				12.67	12.89		

PROFIT AND LOSS ACCOUNT (AED 000) External Audit	42,003 USD 000	AUD 42,003	AUD 41,638	AUD 41,273	AUD 40,908	Growth (%) 12/2014	12/2013	12/2012	12/2011	% of Average Total Assets 12/2014	12/2013	12/2012	12/2011
Interest Income	335,968	1,233,842	962,531	720,691	520,746	28.19	33.56	38.40	25.31	5.43	5.41	5.58	5.61
Interest Expense	-61,117	-224,453	-171,972	-153,642	-89,368	30.52	11.93	71.92	29.92	-0.99	-0.97	-1.19	-0.96
Net Interest Income	274,851	1,009,389	790,559	567,049	431,378	27.68	39.42	31.45	24.40	4.44	4.44	4.39	4.64
Net Fees and Commissions	32,968	121,074	110,272	80,597	77,742	9.80	36.82	3.67	10.85	0.53	0.62	0.62	0.84
FX Trading Income	23,746	87,207	57,627	36,247	30,983	51.33	58.98	16.99	1.38	0.38	0.32	0.28	0.33
Derivatives Income													
Gain / Loss on Securities													
Other Investment Income													
Gains/Loss on Real Estate Held For Investment													
Share of Profits From Associates													
Net Insurance Income													
Other Income	42,344	155,510	81,037	81,135	41,391	91.90	-0.12	96.02	-3.18	0.68	0.46	0.63	0.45
Total Non-Interest Income	99,058	363,791	248,936	197,979	150,116	46.14	25.74	31.88	4.65	1.60	1.40	1.53	1.62
GROSS INCOME	373,909	1,373,180	1,039,495	765,028	581,494	32.10	35.88	31.56	18.62	6.04	5.84	5.92	6.26
Operating Expenses	107,201	393,697	318,552	233,605	180,806	23.59	36.36	29.20	10.98	1.73	1.79	1.81	1.95
OPERATING PROFIT	266,707	979,483	720,943	531,423	400,688	35.86	35.66	32.63	22.42	4.31	4.05	4.11	4.31
Total Provisioning Expenses	-101,858	-374,075	-168,464	-121,605	-70,534	122.05	38.53	72.41	265.50	-1.64	-0.95	-0.94	-0.76
GROSS PROFIT / (LOSS)	164,849	605,408	552,479	409,818	330,154	9.58	34.81	24.13	7.19	2.66	3.10	3.17	3.55
Extraordinary Items													
Tax & Equivalent													
NET PROFIT (or -LOSS)	164,849	605,408	552,479	409,818	330,154	9.58	34.81	24.13	7.19	2.66	3.10	3.17	3.55
Net Changes in Fair Value	-4,089	-15,018	-57,995	21,177	15,936	-74.10	-373.86	32.89		-0.07	-0.33	0.16	0.17
Net FX Translation Gains			-928	-6,465		-100.00	-85.65				-0.01	-0.05	
Other													
COMPREHENSIVE INCOME	160,760	590,390	493,556	424,530	346,090	19.62	16.26	22.66	12.37	2.60	2.77	3.29	3.73
Proposed Cash Dividends	31,201	114,586	149,460	249,100	199,280	-23.33	-40.00	25.00	25.00	0.50	0.84	1.93	2.15

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RATIO FORMULAE

Category	Ratio	Formula
A.SIZE FACTORS (KWD 000)	1. TOTAL ASSETS	TOTAL ASSETS
	2. TOTAL CAPITAL	TOTAL CAPITAL
	3. NET PROFIT	NET PROFIT
B.ASSET QUALITY	4. TOTAL ASSETS GROWTH RATE (YOY%)	(CURRENT YEAR TOTAL ASSETS – PREVIOUS YEAR TOTAL ASSETS) X 100 / PREVIOUS YEAR TOTAL ASSETS
	5. ESTIMATED NON-PEFORMING LOANS (NPLS) NET ACCRETION RATE (%)	(NON-PERFORMING LOANS + WRITEOFFS- NON-PERFORMING LOANS(PREVIOUS YEAR)) X 100 / NON-PERFORMING LOANS(PREVIOUS YEAR)
	6. NPL RATIO (%)	NON-PERFORMING LOANS X 100 / GROSS LOANS
	7. NPAS (INCLUDING NPLS) TO TOTAL ASSETS (%)	(NON-PERFORMING ASSETS + NON-PERFORMING LOANS) X 100 / TOTAL ASSETS
	8. LOAN-LOSS RESERVE TO NPLS (%)	LOAN-LOSS RESERVE X 100 / NON-PERFORMING LOANS
	9. LOAN-LOSS RESERVE TO GROSS LOANS (%)	LOAN-LOSS RESERVE X 100 / GROSS LOANS
	10. UNPROVIDED NON-PERFORMING LOANS TO FREE CAPITAL (%)	(NON-PERFORMING LOANS - LOAN LOSS RESERVE) X 100 / FREE CAPITAL
	11. EFFECTIVE NPL COVERAGE RATIO (TIMES)	(LOAN-LOSS RESERVE + FREE CAPITAL) / NPLs
	12. UNPROVIDED NPLS TO OPERATING PROFIT (MONTHS)	(NON-PERFORMING LOANS - LOAN LOSS RESERVE) X 12 / OPERATING PROFIT
	13. LOAN-LOSS PROVISIONING EXPENSE TO GROSS LOANS (%)	PROVISIONS FOR LOANS (SPEC + GEN) X 100 / GROSS LOANS
	14. RELATED PARTY EXPOSURE TO TOTAL CAPITAL (%)	RELATED-PARTY EXPOSURE (FUNDED + UNFUNDED) X 100 / TOTAL CAPITAL
	15. TOTAL CONTINGENTS TO TOTAL ASSETS (%)	(TOTAL CONTINGENT ACCOUNTS) X 100 / TOTAL ASSETS
C.CAPITAL ADEQUACY	16. REPORTED COMMON EQUITY TIER 1 RATIO TO LOCAL STANDARDS (%)	AS REPORTED ACCORDING TO LOCAL STANDARDS
	17. REPORTED TIER 1 RATIO TO LOCAL STANDARDS (%)	AS REPORTED ACCORDING TO LOCAL STANDARDS
	18. REPORTED TOTAL CAPITAL ADEQUACY RATIO TO LOCAL STANDARDS (%)	AS REPORTED ACCORDING TO LOCAL STANDARDS
	19. INTERNAL CAPITAL GENERATION (%)	(COMPREHENSIVE INCOME – PROPOSED CASH DIVIDENDS – EXTRAORDINARY ITEMS) X 100 / PREVIOUS YEAR TOTAL CAPITAL
	20. TOTAL CAPITAL GROWTH RATE (YOY %)	(CURRENT YEAR TOTAL CAPITAL – PREVIOUS YEAR TOTAL CAPITAL) X 100 / PREVIOUS YEAR TOTAL CAPITAL
	21. TOTAL CAPITAL TO TOTAL ASSETS (%)	TOTAL CAPITAL X 100 / TOTAL ASSETS
	22. TOTAL CAPITAL TO GROSS LOANS (%)	TOTAL CAPITAL X 100 / GROSS LOANS
	23. FREE CAPITAL (KWD 000)	TOTAL CAPITAL – SUBSIDIARIES AND AFFILIATES – FIXED ASSETS
	24. FREE CAPITAL TO TOTAL CAPITAL (%)	FREE CAPITAL X 100 / TOTAL CAPITAL
	25. DIVIDEND PAYOUT RATIO (%)	PROPOSED CASH DIVIDENDS X 100 / NET PROFIT

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RATIO FORMULAE

Section	Ratio	Formula
D.LIQUIDITY	26. STABLE FUNDS (KWD 000)	TOTAL CUSTOMER DEPOSITS + MEDIUM & LONG-TERM FUNDING + SUBORDINATED DEBT + HYBRID CAPITAL + FREE CAPITAL
	27. NET LOANS TO TOTAL ASSETS (%)	NET LOANS X 100 / TOTAL ASSETS
	28. NET LOANS TO TOTAL CUSTOMER DEPOSITS (%)	NET LOANS X 100 / TOTAL CUSTOMER DEPOSITS
	29. NET LOANS TO TOTAL DEPOSITS (%)	NET LOANS X 100 / TOTAL CUST. DEP. + OFFICIAL DEP. + ST PLACEMENTS FROM BANKS + INTERBANK DEP. TO PARENT OR RELATED PARTY
	30. NET LOANS TO STABLE FUNDS (%)	NET LOANS X 100 / STABLE FUNDS
	31. NET INVESTMENTS TO TOTAL ASSETS (%)	(TREAS BILLS & GOV. SEC. + OTHER MKT SEC. + NON-MKT SEC.) X 100 / TOTAL ASSETS
	32. LIQUID ASSET RATIO (%)	TOTAL LIQUID ASSETS X 100 / TOTAL ASSETS
	33. NET LIQUID ASSET RATIO (%)	(TOTAL LIQUID ASSETS – TOTAL ST INTERBANK LIABILITIES - NON-BANK ST DEBT) X 100 / TOTAL ASSETS
	34. QUASI-LIQUID ASSET RATIO (%)	(TOTAL LIQUID ASSETS + OTHER MARKETABLE SECURITIES) X 100 / TOTAL ASSETS
	35. SHORT-TERM FUNDING COVERAGE RATIO (%)	(TOTAL LIQUID ASSETS + OTHER MARKETABLE SECURITIES) X 100 / TOTAL ST INTERBANK LIABILITIES + NON-BANK SHORT-TERM DEBT
	36. NET FX CURRENCY ASSETS (KWD 000)	FOREIGN CURRENCY ASSETS – FOREIGN CURRENCY LIABILITIES
	37. FX DEPOSITS LESS FX LOANS (KWD 000)	FOREIGN CURRENCY LOANS – FOREIGN CURRENCY DEPOSITS
	38. NET INTERBANK ASSETS (KWD 000)	TOTAL DEPOSITS WITH BANKS – TOTAL ST INTERBANK LIABILITIES
E.PROFITABILITY	39. RETURN ON AVERAGE ASSETS (%)	NET PROFIT X 100 / AVERAGE TOTAL ASSETS
	40. OPERATING PROFIT TO AVERAGE ASSETS (%)	OPERATING PROFIT X 100 / AVERAGE TOTAL ASSETS
	41. GROSS INCOME TO AVERAGE ASSETS (%)	GROSS INCOME X 100 / AVERAGE TOTAL ASSETS
	42. ESTIMATED FUNDING COST (%)	INTEREST EXPENSE X 100 / AVERAGE TOTAL ASSETS
	44.ESTIMATED INTEREST ON AVERAGE TOTAL ASSETS	INTEREST INCOME X 100 / AVERAGE TOTAL ASSETS
	44. ESTIMATED NET INTEREST MARGIN (%)	ESTIMATED INTEREST ON AVERAGE TOTAL ASSETS (%) – ESTIMATED FUNDING COST (%)
	45. NON-INTEREST INCOME TO GROSS INCOME (%)	NON-INTEREST INCOME X 100 / GROSS INCOME
	46. OPERATING EXPENSES TO GROSS INCOME (%)	OPERATING EXPENSES X 100 / GROSS INCOME
	47. OPERATING EXPENSES TO AVERAGE ASSETS (%)	OPERATING EXPENSES X 100 / AVERAGE TOTAL ASSETS
	48. OPERATING PROFIT GROWTH RATE (YOY %)	(CURRENT-YEAR OPERATING PROFIT – PREV-YEAR OPERATING PROFIT) X 100 / PREV-YEAR OPERATING PROFIT
	49. RISK PROVISIONING EXPENSE TO OPERATING PROFIT (%)	TOTAL PROVISONING EXPENSES X 100 / OPERATING PROFIT
	50. RETURN ON AVERAGE EQUITY (%)	NET PROFIT X 100 / AVERAGE TOTAL CAPITAL
E. COUNTRY SPECIFIC RATIOS	. EXCHANGE RATE (UNITS PER USD)	
	. INFLATION RATE (%)	
	. BENCHMARK INTEREST RATE (KWD)	

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RATINGS DEFINITIONS

International Issuer Credit Ratings: Foreign Currency and Local Currency

CI's international issuer credit ratings indicate the general creditworthiness of an entity (such as a bank, corporate or sovereign) and the likelihood that it will meet its financial obligations in a timely manner. Foreign currency ratings refer to an entity's ability and willingness to meet its foreign currency denominated financial obligations as they come due. Foreign currency ratings take into account the likelihood of a government imposing restrictions on the conversion of local currency to foreign currency or on the transfer of foreign currency to residents and non-residents.

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

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

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

CI may assign either a public rating or an internal 'shadow' rating to the sovereign. Shadow sovereign ratings are not intended for publication and are used to ensure that sovereign risk factors are adequately reflected in the ratings of non-sovereign issuers.

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

Long-Term Issuer Ratings

Investment Grade

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

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

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

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

Speculative Grade

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

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

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

RS Regulatory supervision (this rating is assigned to financial institutions only). The obligor is under the regulatory supervision of the authorities due to its weak financial condition. The likelihood of default is extremely high without continued external support.

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

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

Short-Term Issuer Ratings

Investment Grade

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

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

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

Speculative Grade

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

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

RS Regulatory supervision (this rating is assigned to financial institutions only). The obligor is under the regulatory supervision of the authorities due to its weak financial condition. The likelihood of default is extremely high without continued external support.

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

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

Capital Intelligence appends "+" and "-" signs to foreign and local currency **long term** ratings in the categories from "AA" to "C" to indicate that the strength of a particular rated entity is, respectively, slightly greater or less than that of similarly rated peers.

Outlook – expectations of improvement, no change or deterioration in a bank or corporate rating over the 12 months following its publication are denoted Positive, Stable or Negative. The time horizon for a sovereign rating outlook is longer, at 12-24 months.

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Financial Strength Ratings

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

The following rating scale applies to the financial strength rating.

AAA Financially in extremely strong condition with positive financial trends; significant strengths in other non-financial areas. Operating environment likely to be highly attractive and stable.

AA Financially in very strong condition and significant strengths in other non-financial areas. Operating environment likely to be very attractive and stable.

A Strong financial fundamentals and very favourable non-financial considerations. Operating environment may be unstable but institution's market position and/or financial strength more than compensate.

BBB Basically sound overall; slight weaknesses in financial or other factors could be remedied fairly easily. May be limited by unstable operating environment.

BB One or two significant weaknesses in the bank's financial makeup could cause problems. May be characterised by a limited franchise; other factors may not be sufficient to avoid a need for some degree of temporary external support in cases of extraordinary adversity. Unstable operating environment likely.

B Fundamental weaknesses are present in the bank's financial condition or trends, and other factors are unlikely to provide strong protection from unexpected adversities; in such an event, the need for external support is likely. Bank may be constrained by weak market position and/or volatile operating environment.

C In a very weak financial condition, either with immediate problems or with limited capacity to withstand adversities. May be operating in a highly volatile operating environment.

D Extremely weak financial condition and may be in an untenable position.

Capital Intelligence appends "+" and "-" signs to financial strength ratings in the categories from "AA" to "C" to indicate that the strength of a particular institution is, respectively, slightly greater or less than that of similarly rated peers.

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

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Support Ratings

CI's support ratings assess the likelihood that, in the event of difficulties, a bank would receive sufficient financial assistance from the government or private owners to enable it to continue meeting its financial obligations in a timely manner. Support ratings complement CI's financial strength ratings which, in effect, indicate the likelihood that a bank will fail due to inherent financial weaknesses and/or an unstable operating environment and therefore may require external support to avoid defaulting on its obligations. Neither financial strength ratings nor support ratings take account of transfer and convertibility risks associated with sovereign events. The overall creditworthiness of an institution and default risk is captured by CI's foreign currency ratings. Foreign currency ratings take into account all factors affecting the likelihood of repayment including inherent financial strength, external support, the operating environment, and sovereign-related risks.

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

The following rating scale applies to support ratings.

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

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

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

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

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

CAPITAL intelligence

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